

Ranbaxy Laboratories - Buy

Investment overview

- Ranbaxy is India's largest pharmaceutical company, manufacturing & marketing a wide range of quality, affordable generic medicines and having a wide global presence.
- The company has maintained growth for the last 12 months in-line with industry growth led by volume uptake and new product launches.
- Lipitor launch is going to be a key growth driver for the company as it is expected to contribute \$500-600 mn in revenues.
- Company's European business grew 15% YoY driven by robust performance from its Romania operations.

Business Overview

Ranbaxy Laboratories (Ranbaxy), India's largest pharmaceutical company, is an integrated, research based, international pharmaceutical company, producing a wide range of quality, affordable generic medicines. In June 2008, Ranbaxy entered into an alliance with one of the largest Japanese innovator companies, Daiichi Sankyo Company Ltd., to create an innovator and generic pharmaceutical powerhouse. The combined entity now ranks among the top 20 pharmaceutical companies, globally.

The Company has a balanced mix of revenues from emerging and developed markets that contribute 50% and 44% respectively. Ranbaxy's global footprint extends to 46 countries.

Ranbaxy's API business over the years has grown consistently. In a macro environment of extra ordinary competition and challenges, the API division has moved from strength to strength. It supplies "World Class APIs" to leading generic companies in more than 50 countries, which give the API business a truly global complexion.

Ranbaxy has world-class manufacturing facilities in 7 countries namely Ireland, India, Malaysia, Nigeria, Romania, South Africa and USA. Its overseas facilities are designed to cater to the requirements of the local regulatory bodies of that country while the Indian facilities meet the requirements of all International Regulatory Agencies.

Ranbaxy is among the few Indian pharmaceutical companies in India to have started its research program in the late 70's, in support of its global ambitions. A first-of-its-kind world class R&D centre was commissioned in 1994. Today, the Company has multi-disciplinary R&D centers at Gurgaon.

Financial Health

On an Indian GAAP basis, Ranbaxy reported a second-quarter consolidated net profit of Rs 243.24 crore, down by 25.32% from Rs 325.71 crore in the corresponding quarter last year. Its net revenue and to Rs 2,054.49 crore, marginally down by 1.89% from Rs 2,094.15 crore and other operating income amounted to Rs 38.63 crore, lower by 25.24% to Rs 51.67 core respectively in the year-ago quarter.

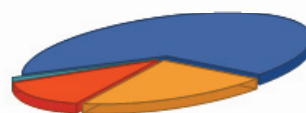
Total revenue, including exports, for the quarter was Rs 2,059.28 crore, while last year it was Rs 2,095.28 crore in the second-quarter of 2010. For the quarter, Emerging markets and Development markets accounted for 57 percent and 34 percent respectively, to total revenue, while API and others accounted for the rest of the revenue, it said.

Ranbaxy's stand-alone net profit stood at Rs 150.38 crore, compared with a net loss of Rs.0.08 crore in the second-quarter of last year. Total revenue was up by 8.14% to Rs 1,326.76 crore, whereas it was Rs 1,226.86 crore in the year-ago quarter. The international revenues of the company declined by 6.5% to

Stock Data As on 30 September 2011

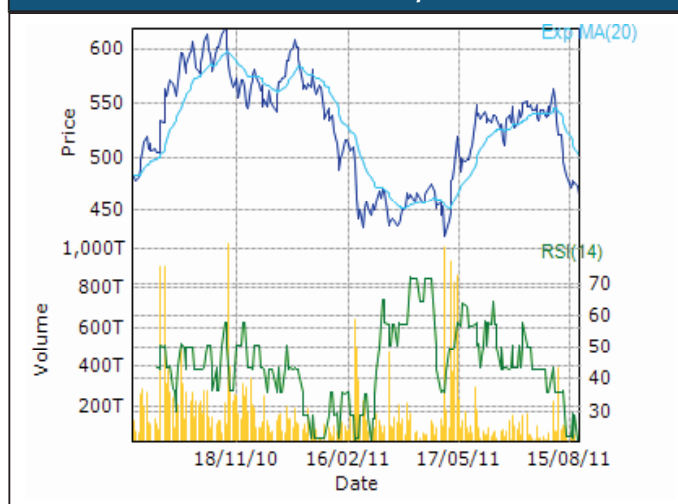
Current Mkt Price (Rs)	513.90
52 Week High	624.90
52 Week Low	414.00
Mkt Cap (Rs. in Cr.)	21661.00
Return in last one Month (%)	8.61

Share Holding



63.77 Foreign Promotor	20.71 Total Institutions
13.81 Total Non-Institutions	1.7 Depository Receipt

Performance in last one year



Y-o-Y Performance

Particulars	Dec 2010	Dec 2009	Change(%)
Net Sales	5669.54	4780.29	18.60
Other Income	1001.78	604.74	65.65
Total Expenditure	4823.53	4135.44	16.64
Operating Profit	1847.79	1249.59	47.87
Interest	54.19	39.47	37.32
Profits After Tax	1148.73	571.98	100.83
Reserve & Surplus	0.00	0.00	31.20
Reported EPS(Rs)	27.28	13.61	100.54
Core EBITDA Margin (%)	14.88	13.44	10.67

Rs 1,558 crore from Rs 1,665 crore in corresponding previous quarter.

Industry Scenario

The Indian pharmaceutical industry ranks third worldwide by volume of production and accounts for around 10% of world's total pharmaceutical output in terms of volume. However, the country's pharma industry stands at 14th by value and ranks fourth in terms of generic production globally. The Indian pharma industry has established its presence and determination to flourish in the changing environment. Domestic pharma companies export their products to more than 200 countries around the globe including highly regulated markets of USA, West Europe, Japan and Australia.

The government had announced slew of measures in 2009 in recognition to the contribution of the Indian pharmaceutical industry in total exports of the country. First, additional resources have been made available under the Market Development Assistance Scheme and Market Access Initiative Scheme. Secondly, incentive available under Focus Market Scheme (FMS) was raised from 2.5% to 3%. Moreover, incentive under Focus Product Scheme (FPS) was raised from 1.25% to 2%. Lastly, zero duty was introduced under EPCG (Export Promotion Capital Goods) scheme for assisting technological upgradation for pharma industry.

Different regions of the world will influence the pharmaceutical industry trends in different ways in the future. Asia-Pacific is most likely to emerge as the fastest growing pharmaceutical market over the recent past. Positive aspects like low cost of manufacturing drugs and favourable regulatory environment will weigh in favour of the Asian markets. Sale of pharmaceutical products are rising at a faster rate in India, China, Malaysia, Indonesia and South Korea due to the rising disposable income, several health insurance schemes and cut-throat competition among top pharma companies in the region.

However the domestic industry is apprehensive about the proposed cap on Foreign Direct Investment (FDI) upto 49 per cent in pharma sector as it may change the business dynamics of the Indian industry. If the FDI cap comes into force it will not only limit the FDI in the pharmaceutical sector by 49 per cent but it will also be routed through the government. It is believed that the government is considering this to put a break on uncontrolled M&A's of the Indian pharma companies by the MNC's, which could lead to rise in drug prices. But the overall scenario still remains robust for the industry and the global rating agency Fitch in its latest report has said that continued demand for generics from the US market will ensure stable outlook for Indian Generics Pharmaceuticals.

Latest development

The company's over-the-counter (OTC) business division, Ranbaxy Global Consumer Healthcare (RGCH), has introduced 'Volini Duo', a bi-layered Acetaminophen tablet specifically formulated to give dual pain relief,

Ranbaxy Laboratories will be introducing olmesartan medoxomil, a high blood pressure treatment discovered by Japanese parent Daiichi Sankyo Co. Ltd, in Mexico before the end of 2011. Ranbaxy and Daiichi Sankyo, which last year agreed to sell innovative products developed by Daiichi Sankyo in Mexico, now plan to sell generic medicines in the Latin American country as well.

Investment Rationale

- Ranbaxy Laboratories' second quarter profits dipped 25 per cent primarily due to decrease in international sales and rising costs. The company's international revenues declined by 6.5 per cent to Rs 1,558 crore from Rs 1,665 crore in

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Jun 2011	Jun 2010	Change(%)
Net Sales	1282.02	1123.20	14.14
Expenditure	1231.85	1163.66	5.86
Other Income	44.74	111.30	-59.80
EBITDA	94.91	70.82	34.00
Interest	14.83	9.46	56.80
Net Profit	150.37	-0.77	-
EBITDA Margin (%)	0.07	0.06	17.40
NPM (%)	0.12	0.00	-
EPS	3.57	-	0.00

Profit & Loss			
(Rs. in Million)			
Particulars	Dec 2010	Dec 2009	Change(%)
Net Sales	5669.54	4780.29	18.60
Total Income	6671.33	5385.03	23.89
Total Expenditure	4823.53	4135.44	16.64
Operating Profit	1847.79	1249.59	47.87
Profits After Tax	1148.73	571.98	100.83

Balance Sheet			
(Rs. in Million)			
Particulars	Dec 2010	Dec 2009	Change(%)
Share Capital	210.52	210.21	0.15
Reserve & Surplus	4910.68	3742.78	31.20
Total Liabilities	9393.11	7482.99	25.53
Investments	3804.44	3833.69	-0.76
Current Liabilities	2491.08	2655.84	-6.20
Net Current Assets	3546.37	1221.07	190.43
Total Assests	9393.11	7482.99	25.53

Key Ratios		
Particulars	Dec 2010	Dec 2009
Reported EPS (Rs)	27.28	13.61
Core EBITDA Margin (%)	14.88	13.44
EBIT Margin (%)	28.47	22.96
ROA (%)	13.61	7.68
ROE (%)	25.32	15.28
ROCE (%)	19.19	14.79
Price/Book (x)	4.92	5.50
Net Sales Growth (%)	18.60	6.93
EBIT Growth (%)	47.04	-174.76
PAT Growth (%)	100.83	-154.75
Total Debt/Mcap (%)	0.17	0.15

Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Ranbaxy	201012	56695.43	8460.10	11487.26	20.26	27.28	52.70
Sun Pharma	201103	31047.00	13226.40	13838.00	44.57	13.36	32.40
Dr. Reddy's lab	201103	51874.00	10907.00	8934.00	17.22	52.80	22.22
Cipla	201103	61351.60	10924.00	9603.90	15.65	11.96	23.40

same quarter last year. Overall revenues slipped 1.8 per cent to Rs 2,059 crore, while emerging markets contributed 57 per cent of total sales. Developed markets contributed 34 per cent to total sales for the company. API and others accounted for the rest of the revenue for the quarter. Its stand-alone research and development expenses for the quarter stood at Rs.121.46 crore, while it was at Rs.116.70 crore a year-ago. During the second quarter the company's hedged positions on foreign currency billings helped it record an exceptional gain of Rs 112 crore versus a year-earlier loss of Rs 234 crore as the Indian rupee rose against the US dollar in the quarter.

- Ranbaxy has entered into an agreement with US-headquartered Gilead Sciences to manufacture and market three new generic HIV/AIDS drugs in India and developing countries. As per the agreement, Ranbaxy will receive complete technology transfer of the Gilead manufacturing process and will pay a royalty on sale of finished products. The pact will extend the company's existing relationship with Gilead for anti-retrovirals and it will have the rights to manufacture and market generic equivalents of new products Elvitegravir, Cobicistat and Quad, Ranbaxy said. It is estimated that globally, more than 1.6 million patients are using a Tenofovir-based regime. Ranbaxy already produces Tenofovir 300 mg tablets and is a major supplier to the South African government for this drug, hence this latest agreement will boost its prospect in other markets too.
- Ranbaxy Laboratories' OTC business division Ranbaxy Global Consumer Healthcare (RGCH) has introduced an over-the-counter two-in-one painkiller, 'Volini Duo', marking its entry into the OTC oral pain relief category. RGCH was established in October, 2002, with the objective to promote OTC healthcare brands with consumers. The division has over 15 products in its basket, including Revital, Volini (pain relieving gel & spray), Chericof (cough syrup) and Pepfiz (digestive). The new product has been developed by scientists at the company's Gurgaon R&D centre using matrix technology, which enables the regulated release of the medicine in the gastrointestinal tract. The launch of the product marks the entry of Ranbaxy into the OTC oral pain reliever category. The OTC oral analgesics market in India is estimated to be worth around Rs 700 crore and growing at a rate of 10.5 per cent annually, hence it presents a wide scope for growth.
- Recently there was some speculation that the company was close to resolving its three-year-old dispute with the US drug authorities. It is estimated that Ranbaxy may pay \$300-400 million as part of the deal. In September 2008, the US FDA banned import of 30 medicines and halted approvals for

new drugs made from the Dewas and Paonta Sahib plants, saying the drug maker fabricated data to get marketing approval to sell its medicines in the US. This had severely impacted the company's US revenues, which account for about a quarter of its total sales. An early resolution holds the key to Ranbaxy's ability to launch atorvastatin, the generic version of Pfizer's anti-cholesterol drug, Lipitor. The settlement would allow it to sell atorvastatin with a six-month exclusivity period beginning November. Ranbaxy holds a FTF, or first-to-file, status on Lipitor, implying that as it is the first player to successfully challenge the patent, it gets a 180-day period of exclusivity on the product in the US, during which no other player can introduce its generic version. And it is being estimated that the company can garner as much as \$500-600 million sales during its 180-day period starting November 30, 2011, when the patent on Lipitor held by Pfizer expires.

- Ranbaxy Laboratories has closed a unit in the US as part of a rationalisation process. The plant was under scrutiny by US authorities for violation of regulatory norms. However the management has stated that the liquid-manufacturing plant in Gloversville, NY, had been shut as it was operating at 'sub-optimal level'. The plant closure is not expected to impact the company's revenues as only one item of several manufactured at the plant had been manufactured for commercialisation since March, 2010. In December 2009, the US Food and Drug Administration (FDA) had issued a warning to the plant for violation of manufacturing norms and halted approval of new drugs. Some of the products manufactured at the Gloversville plant would be produced at other locations and the company will focus on other solid dosage form manufacturing facilities.
- At the CMP of Rs 472, Ranbaxy is trading at a P/E multiple of 52.70x and 43.10x FY11 (E), we recommend 'BUY' in the scrip with a price target of Rs 550. The company's market share has improved and was faster than IPM growth aided by Project Viraat and CHC business. Project Viraat is Ranbaxy's initiative for the India market that has gained ground with a growth rate of 18 per cent. Market share of the company in India also improved to 4.79 per cent from 4.63 per cent. The company expects to launch about 60 products on an average annually, including those in-licensed from multinational firms. The company's concentration on lifestyle category is likely to help it in registering considerable growth in the domestic market. While it is planning to strengthen manufacturing in Africa region countries, for a greater co-operation it has started taking joint initiatives with its parent company Daiichi Sankyo and will sell innovative products developed by it.

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