

Ranbaxy Laboratories Ltd.

HOLD
CMP Rs449
TP Rs480

11 May 2011

Sushant Dalmia, CFA

sushant.dalmia@pinc.co.in

+91-22-6618 6462

Improvement in base business

Ranbaxy's Q1CY11 surprised on the positive front driven by better realisation in generic Aricept, higher other income and low tax rate. The base business grew in double digits but improvement in base margins is still not encouraging. We are factoring base business margins of 9.6% in CY11 and 15.2% in CY12 primarily on back of clearance of Dewas facility by H2CY11. We continue to maintain HOLD on the stock with a 15-month target price of Rs480 valuing the core business at Rs370/share (22x CY12E recurring earnings) and the FTF pipeline at Rs110/share.

Base business margins still in high single digits

Ranbaxy reported net sales of Rs21,430mn which was higher than our expectation driven by generic Aricept, Europe and Africa. We believe generic Aricept to have clocked sales of USD 75mn during the quarter. The company recorded OPM of 18.5% led by improvement in gross margins which expanded by 602bps sequentially driven by better realisation in generic Aricept. Though the base business has grown in double digits during the quarter, we estimate the base margins to have improved by 70-90bps sequentially but still in high single digit (8-9%). Ranbaxy reported net profit of Rs3,044mn driven by generic Aricept, higher other income and lower tax rate (19.3%).

OUTLOOK AND RECOMMENDATION

Ranbaxy has given Rs84,000mn revenue guidance for CY11 which implies base business growing at 14-15% and is positive. Going ahead, we expect recurring sales to clock CAGR of 15.2% over CY10-12 driven by US base business, India and Africa region. On the OPM front we expect improvement in OPM by 554bps to 15.2% in CY12 on back of clearance of Dewas facility by H2CY11. We value the core business at Rs370/share (22x CY12E recurring earnings) and the FTF pipeline at Rs110/share (factoring in Rs36/share for generic Lipitor in US) resulting in 15-months SOTP based target price of Rs480. We continue to maintain HOLD recommendation on the stock.

KEY FINANCIALS (Rs mn)

	CY08	CY09	CY10	CY11E	CY12E
Recurring sales	74,214	70,705	70,035	78,567	92,905
YoY Gr. (%)	9.4	(4.7)	(0.9)	12.2	18.3
*Recurring EBITDA	2,370	4,985	5,931	7,575	14,111
OPM (%)	3.2	7.1	8.5	9.6	15.2
*Recurring Profit	(1,811)	4,661	2,645	4,180	7,901
YoY Gr. (%)	(141.6)	(357.4)	(43.3)	58.1	89.0

KEY RATIOS

Dil. EPS (Rs)	(3.9)	9.9	5.6	8.9	16.8
ROCE (%)	3.9	8.6	11.7	8.4	16.9
RoE (%)	(5.2)	11.2	5.4	7.7	14.4
PER (x)	(88.2)	34.3	60.4	38.2	20.2
EV/ Net Sales (x)	2.3	2.5	2.4	2.1	1.9
EV/EBDITA (x)	73.2	35.8	27.9	22.7	12.2

* Excluding FTF and forex gain/(loss) on derivatives

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-10	Dec-10	March-11
Net Revenue	19,346	21,140	21,809
YoY Gr (%)	2.6	3.2	(21.0)
Op. Profit	1,386	2,980	4,032
OPM(%)	7.2	14.1	18.5
Adj.Net Profit	2,161	1,123	3,194
YoY Gr. (%)	85.3	55.0	(33.3)

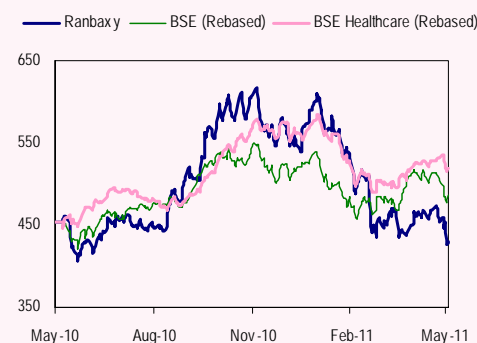
STOCK DATA

Market cap	Rs211bn
Book Value per share	Rs137
Shares O/S (F.V. Rs10)	470mn
Free Float	36 %
Avg. Trade Value (6 months)	Rs70mn
52 week High/Low	Rs625/364
Bloomberg Code	RBXY IN
Reuters Code	RANB.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(5.2)	(11.4)	(3.6)
Relative	(0.5)	(15.0)	(10.8)

RELATIVE PERFORMANCE



Key call takeaways

1) On US FDA/DOJ issue, the management has not provided any clarity on the time-line of the resolution. 2) The company remains confident of launch of generic Lipitor in November 2011 3) Ranbaxy expects Nexium formulation supply to commence in H2CY11. 4) No major regulatory approval for Mohali SEZ facility, the company expects approval to flow in CY12. 5) Current domestic field force of 4,300 MR.

Exhibit 1 - Earnings Summary (Rs mn)

Year to 31st December	Mar'10	Mar'11	% Ch YoY	Dec'10	% Ch QoQ	CY09	CY10	% Ch YoY	PINC Comments
Gross sales	24,847	21,468	(13.6)	20,760	3.4	73,440	85,507	16.4	
Excise Duty	34	38	9.4	42	(11.3)	147	152	3.4	
Net sales	24,812	21,430	(13.6)	20,718	3.4	73,292	85,355	16.5	Sales higher than expectation driven by generic Aricept in US, India and Africa
Other Operating Income	2,803	379	(86.5)	423	(10.3)	2,676	4,253	58.9	
Total Net revenues	27,615	21,809	(21.0)	21,140	3.2	75,969	89,608	18.0	
Cost of sales	7,441	7,523	1.1	8,565	(12.2)	32,080	31,528	(1.7)	
as a % of sales	30.0	35.1	512 bps	41.3	-624 bps	43.8	36.9	-683 bps	
Gross Profit	20,175	14,286	(29.2)	12,575	13.6	43,889	58,080	32.3	Higher realisation on generic Aricept leading to expansion in gross margins QoQ
Gross margins (Net sales - RM costs)	73.1	65.5	-755 bps	59.5	602 bps	57.8	64.8	704 bps	
Operating expenses	10,335	10,255	(0.8)	9,596	6.9	37,974.1	39,691.1	4.5	Employee and SG&A cost were in-line with expectation
as a % of sales	41.7	47.9	620 bps	46.3	153 bps	51.8	46.5	-531 bps	
EBITDA	9,839	4,032	(59.0)	2,980	35.3	5,915	18,389	210.9	
EBITDA Margin (%)	35.6	18.5	-1,714 bps	14.1	439 bps	7.8	20.5	1,274 bps	
Recurring EBITDA	9,839	4,032	(59.0)	2,980	35.3	5,915	18,389	210.9	
Recurring EBITDA margin (%)	35.6	18.5	-1,714 bps	14.1	439 bps	7.8	20.5	1,274 bps	
Depreciation and Amortization	1,005	736	(26.8)	1,030	(28.5)	2,676	3,717	38.9	De-grew sequentially as Q4 included one-time impairment charges on investments
Interest Cost	248	145	(41.7)	145	(0.5)	710	614	(13.6)	
Other Income	399	897	124.8	770	16.4	2,402	2,795	16.3	
PBT before exceptional items	8,985	4,048	(54.9)	2,575	57.2	4,930	16,853	241.8	
Forex (Gain)/Loss on forex loans	(5,170)	206	nm	1,944	nm	(5,166)	(4,149)	nm	
Exceptional items	(5,170)	206	nm	1,944	nm	(5,166)	(4,149)	nm	
PBT	14,155	3,842	(72.9)	632	508.4	10,097	21,002	108.0	
Tax	4,524	782	(82.7)	880	nm	6,991	5,849	nm	
Tax Rate	50.3	19.3	nm	34.2	nm	141.8	34.7	nm	
PAT	9,631	3,060	(68.2)	(248)	(1,334.0)	3,106	15,153	387.9	Driven by generic Aricept, other income and lower tax rate
Minorities	26	16	(35.6)	48	(65.4)	142	185	30.3	
Reported Net Income	9,606	3,044	(68.3)	(296)	(1,129.6)	2,964	14,968	405.0	
Adjusted Net income	5,832	3,194	(45.2)	1,123	184.4	(807)	11,940	nm	

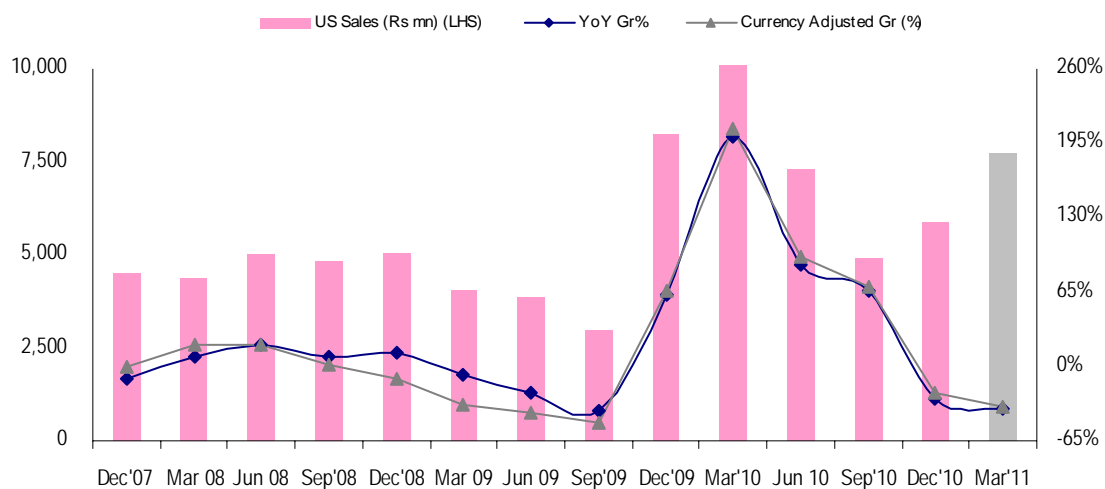
Source: PINC Research, Company

Exhibit 2 - Geographical Sales mix (USD mn)

Year to 31st December	Mar'10	Mar'11	% Ch YoY	Dec'10	% Ch QoQ	CY09	CY10	% Ch YoY	PINC Comments
India and Middle East	84	96	14.0	96	0.2	347	384	10.5	Driven by field force expansion under project Viraat and OTC segment
Europe, CIS and Africa	130	145	11.3	148	(1.8)	480	526	9.7	Romania was the key driver
Asia Pacific	15	17	17.0	33	(48.3)	104	100	(3.9)	Growth across all markets
Latin America	19	20	4.7	21	(2.4)	70	83	17.8	
North America	264	170	(35.6)	131	29.8	394	660	67.3	Generic Aricept revenue estimated at USD 75mn
Total Dosage	512	448	(12.5)	428	4.7	1,396	1,752	25.6	
API	25.0	25	-	40.0	(37.5)	122	114	(6.6)	
Total Sales	537	473	(11.9)	468	1.1	1,517	1,866	23.0	

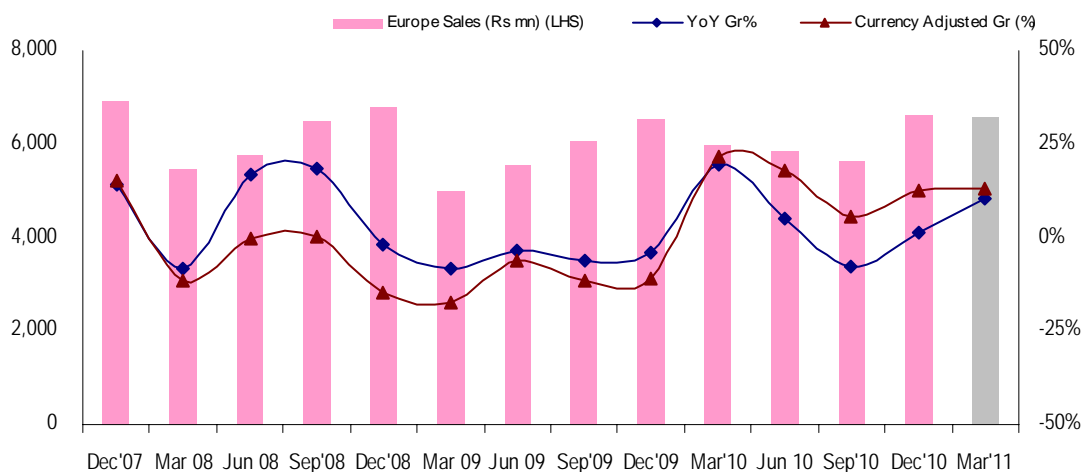
Source: PINC Research, Company

Exhibit 3 - US sales and currency adjusted growth



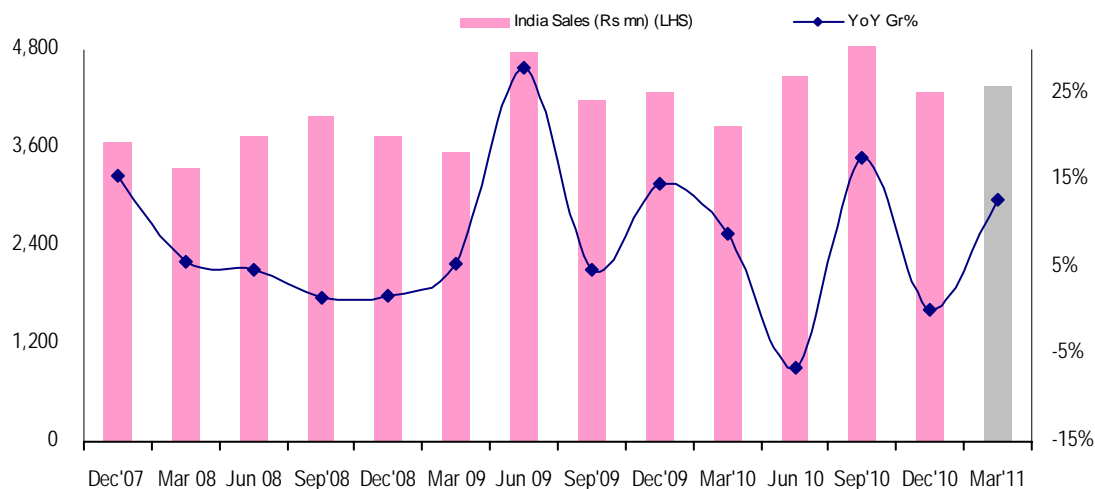
Source: PINC Research, Company

Exhibit 4 - Europe sales and currency adjusted growth



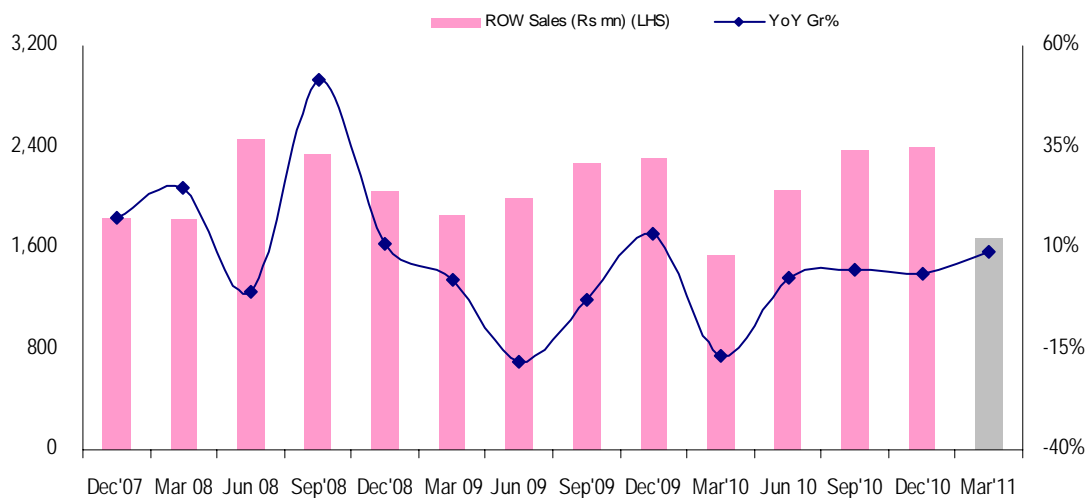
Source: PINC Research, Company

Exhibit 5 - India sales and YoY growth



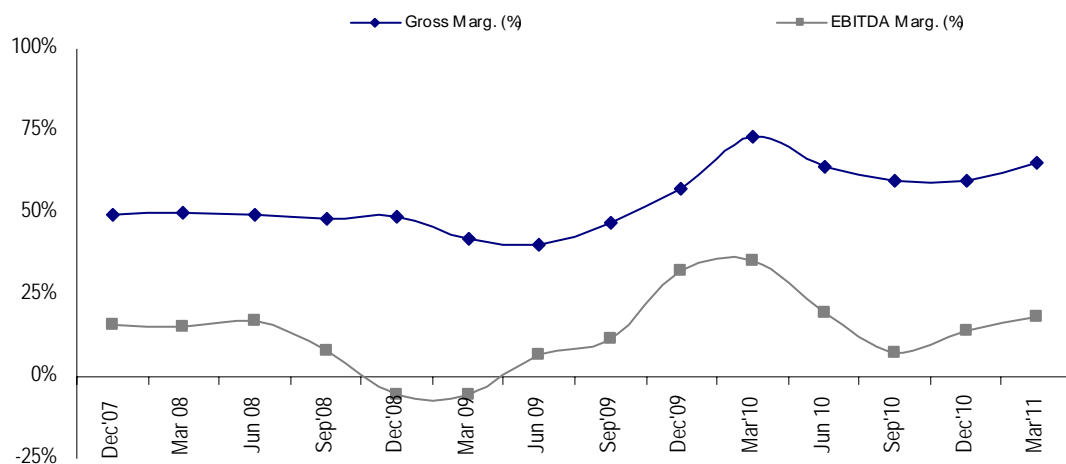
Source: PINC Research, Company

Exhibit 6 - RoW sales and YoY growth



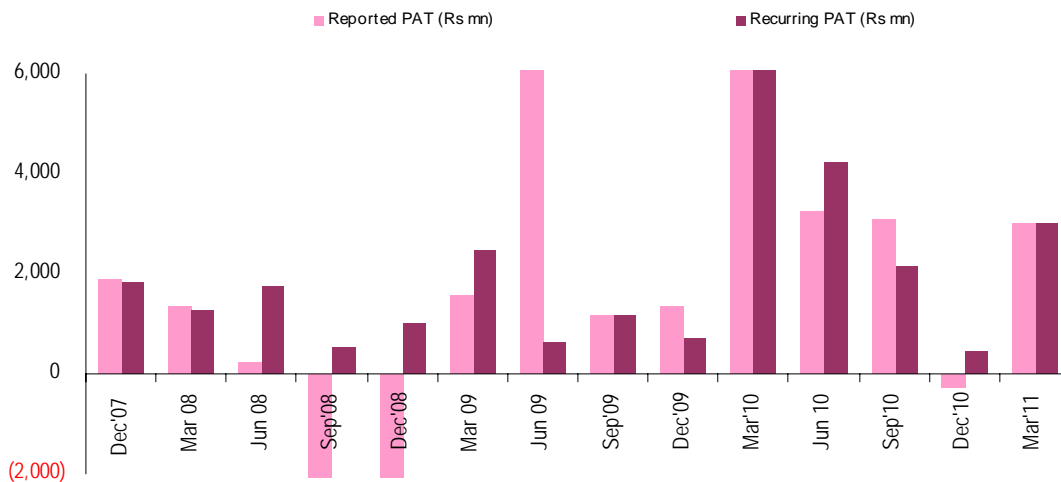
Source: PINC Research, Company

Exhibit 7 - Margin movement



Source: PINC Research, Company

Exhibit 8 - Reported and adjusted PAT



Source: PINC Research, Company

Year Ended December(Figures in Rs mn)

Income Statement	CY08	CY09	CY10	CY11E	CY12E
Recurring sales	74,214	70,705	70,035	78,567	92,905
Growth (%)	9.4	(4.7)	(0.9)	12.2	18.3
One time opportunities	-	5,268	19,573	33,368	62,629
Reported Sales	74,214	75,972	89,608	111,935	155,534
Growth (%)	9.4	2.4	17.9	24.9	39.0
*Recurring EBITDA	2,370	4,985	5,931	7,575	14,111
Growth (%)	(74.1)	110.4	19.0	27.7	86.3
Depreciation and Amortisation	2,825	2,676	5,533	3,547	3,915
Forex gain/(losses) on loans	(7,494)	1,493	1,407	2,115	998
Interest Paid	(651)	(2,225)	(4,585)	(93)	(252)
PBT (before E/o items)	(7,298)	6,027	6,390	6,237	11,446
Tax Provision	(5,650)	6,990	5,849	1,875	3,271
E/o income/(loss)	(7,702)	649	1,830	975	450
Reported Net Profit	(9,513)	2,967	14,969	19,335	40,237
* Recurring Net Profit	(1,811)	4,661	2,645	4,180	7,901
Growth (%)	(141.6)	(357.4)	(43.3)	58.1	89.0
Recurring EPS (Rs)	(3.9)	9.9	5.6	8.9	16.8
Diluted EPS Growth (%)	(141.6)	(357.4)	(43.3)	58.1	89.0

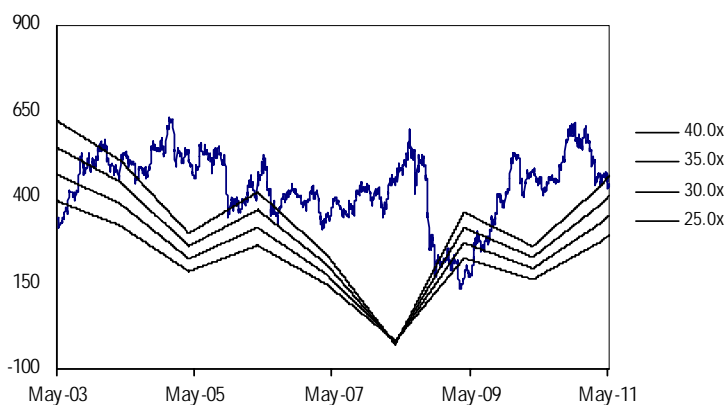
* Excluding FTF and forex gain/(loss) on derivatives

Balance Sheet	CY08	CY09	CY10	CY11E	CY12E
Equity Share Capital	2,102	2,102	2,105	2,105	2,105
Reserves & surplus	40,861	41,332	53,942	50,432	55,415
Shareholders' funds	42,962	43,434	56,047	52,537	57,520
Minorities interests	675	533	647	829	1,102
Total Debt	43,114	36,294	43,348	28,333	29,333
Capital Employed	86,751	80,261	100,042	81,700	87,956
Net fixed assets	49,607	51,136	49,297	51,793	53,870
Cash & Cash Eq.	23,956	12,413	32,644	372	372
Net Other current assets	(4,473)	6,558	12,886	13,460	17,118
Investments	5,432	5,407	4,988	15,848	16,368
Net Deferred tax Assets	12,229	4,746	227	227	227
Total Assets	86,751	80,261	100,042	81,700	87,956

Cash Flow Statement	CY08	CY09	CY10	CY11E	CY12E
Pre-tax profit	(15,000)	10,098	23,217	7,212	11,896
Depreciation	2,825	2,676	5,533	3,547	3,915
Total Tax Paid	(1,360)	(2,426)	(6,189)	(1,875)	(3,271)
Chg in working capital	(3,325)	271	2,987	(4,542)	(2,108)
Other operating activities	5,041	(12,240)	(10,162)	(1,969)	(3,523)
Cash flow from oper (a)	(11,820)	(1,622)	15,386	2,373	6,909
Capital Expenditure	(5,749)	(5,221)	(4,983)	(6,043)	(5,993)
Chg in investments	(6,603)	3,771	(22,967)	(10,860)	(520)
Other investing activities	5,406	2,101	6,243	750	675
Cash flow from inv. (b)	(6,946)	652	(21,708)	(16,153)	(5,838)
Free cash flow (a+b)	(18,766)	(970)	(6,321)	(13,780)	1,071
Equity raised/(repaid)	34,389	13	267	-	-
Debt raised/(repaid)	(4,497)	(4,460)	8,248	(15,015)	1,000
Change in Minority Int	113	-	-	(182)	(273)
Dividend (incl. Tax)	(2,620)	(6)	(9)	(3,368)	(3,368)
Other financing activities	(2,055)	(770)	(598)	(657)	(423)
Cash flow from fin. (c)	25,330	(5,223)	7,908	(19,222)	(3,065)
Net chg in cash (a+b+c)	6,564	(6,193)	1,587	(33,002)	(1,994)

Key Ratios	CY08	CY09	CY10	CY11E	CY12E
Recurring OPM (%)	3.2	7.1	8.5	9.6	15.2
Net Margin (%)	(2.4)	6.6	3.8	5.3	8.5
Div. Yield (%)	-	1.8	1.8	1.8	1.8
Net debt/Equity (x)	0.3	0.4	0.1	0.2	0.2
Net Working Capital (days)	(23)	35	72	64	69
ROCE (%)	3.9	8.6	11.7	8.4	16.9
RoE (%)	(5.2)	11.2	5.4	7.7	14.4
EV/Net Sales (x)	2.3	2.5	2.4	2.1	1.9
EV/EBITDA (x)	73.2	35.8	27.9	22.7	12.2
PER (x)	(88.2)	34.3	60.4	38.2	20.2
PCE (x)	(28.3)	33.5	9.4	21.8	15.4
Price/Book (x)	4.6	4.5	3.4	3.6	3.3

P/E Band



Key Assumptions	2008	2009	2010E	2011E	2012E
India Gr (%)	2.0	14.5	1.3	18.0	18.0
Europe, CIS and Africa Gr(%)	3.6	(6.2)	(1.3)	10.7	11.8
Asia Pac, LatAm	19	8	2.7	5	9
North America Gr(%)	5.0	(9.0)	(25.9)	49.7	49.0
API Sales Gr(%)	21.5	6.9	(15.0)	0.0	2.0
One time opportunities - Revenues (Rs mn)	0	5,268	19,573	33,368	62,629
One time opportunities - EBITDA (Rs mn)	0	2,388	12,624	8,843	23,261

T E A M

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
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RESEARCH

Vineet Hetamasaria, CFA	Head of Research , Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	tasmai.merchant@pinc.co.in	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Natural Gas, Engineering	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Natural Gas, Engineering	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Ronak Bakshi	IT Services	ronak.bakshi@pinc.co.in	91-22-6618 6411
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Sakshee Chhabra	Media	sakshee.chhabra@pinc.co.in	91-22-6618 6633
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	abhishek.kumar@pinc.co.in	91-22-6618 6398
C Krishnamurthy	Technical Analyst	krishnamurthy.c@pinc.co.in	91-22-6618 6747

SALES

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Ankur Varman	Equities	ankur.varman@pinc.co.in	91-22-6618 6380
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

DEALING

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Naresh Panjnani	Co-Head - Sales Trading	naresh.panjnani@pinc.co.in	91-22-6618 6333
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Kinjal Mehta		kinjal.mehta@pinc.co.in	91-22-6618 6333
Chandani Bhatia		chandani.bhatia@pinc.co.in	91-22-6618 6324
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325
Kamlesh Purohit		kamlesh.purohit@pinc.co.in	91-22-6618 6357

SINGAPORE DESK

Amul Shah		amul.shah@sg.pinc.co.in	65-6327 0626
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DIRECTORS

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
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