

Ranbaxy

Performance Highlights

Y/E Dec. (₹ cr)	4QCY12	3QCY12	% chg qoq	4QCY11	% chg yoy
Net Sales	2,671	2,651	0.7	3,752	(28.8)
Other Income	117	106	10.8	117	(0.2)
Operating profit	86	310	(72.2)	815	(89.4)
Forex loss/ (gain) & Exceptional items	366	(462)	-	3,577	-
Adjusted Net Profit	(25)	319	-	668	-

Source: Company, Angel Research

Ranbaxy Laboratories (Ranbaxy) reported a lower than expected performance in its 4QCY2012 results. While the company's top-line de-grew 28.8% during the quarter, the OPM came much below expectation at 3.2% (vs an expected 9.3%). The adjusted net loss came in at ₹25cr. The operating performance of the company continues to be impacted and there is no clarity on the consent decree. While the valuations have become attractive on EV/sales basis, we would wait for a few more quarters before we review the stock. **So, as of now we remain Neutral on the stock.**

Lower-than-expected performance: Ranbaxy reported net sales of ₹2,671cr, down 28.8% yoy, and above our estimate of ₹2,525cr. The gross margin declined by 15.3% to 56.8%, which along with a lower rise in staff expenditure, led the OPM to come at 3.2%, much lower than 21.7% in 4QCY2011. This was lower than our expectation of 9.3%. This led to the company posting an adjusted net loss of ₹25cr.

Outlook and valuation: The stock is trading at attractive valuations of EV/sales of 1.2x CY2014E. While the valuation is very attractive in comparison to its peers, given the low profitability in the core business and uncertainty on the USFDA front, **we maintain our Neutral rating on the stock.**

Key financials (Consolidated)

Y E Dec. (₹ cr)	CY2011	CY2012	CY2013E	CY2014E
Net sales	10,061	12,253	11,400	12,060
% chg	17.9	21.8	(7.0)	5.8
Reported profit	1,127	1,319	912	952
% chg	(44.7)	17.0	(30.8)	4.4
EPS (₹)	26.7	31.2	21.6	22.5
EBITDA margin (%)	15.1	14.1	12.5	12.5
P/E (x)	15.0	12.8	18.5	17.7
RoE (%)	26.6	37.9	20.6	18.5
RoCE (%)	12.9	21.4	13.4	12.9
P/BV (x)	6.1	4.3	3.7	3.2
EV/Sales (x)	1.5	1.1	1.3	1.2
EV/EBITDA (x)	15.7	16.0	12.1	11.8

Source: Company, Angel Research

NEUTRAL

CMP	₹400
Target Price	-
Investment Period	-

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	16,903
Net Debt (₹ cr)	(1,287)
Beta	0.7
52 Week High / Low	578/395
Avg. Daily Volume	111,429
Face Value (₹)	5
BSE Sensex	19,152
Nifty	5,797
Reuters Code	RANB.BO
Bloomberg Code	RBXY@IN

Shareholding Pattern (%)	
Promoters	63.5
MF / Banks / Indian Fls	13.4
FII / NRIs / OCBs	13.3
Indian Public / Others	9.8

Abs. (%)	3m	1yr	3yr
Sensex	1.6	9.8	16.6
Ranbaxy	(20.5)	(5.8)	(14.4)

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Exhibit 1: 4QCY2012 performance (Consolidated)

Y/E Dec (₹ cr)	4QCY2012	3QCY2012	% chg qoq	4QCY2011	% chg yoy	CY2012	CY2011	% chg yoy
Net Sales	2,671	2,651	1	3,752	(28.8)	12,253	9,970	23
Other Income	117	106	11	117	(0.2)	480	404	19
Total Income	2,788	2,852	(2)	3,869	(27.9)	12,733	10,374	23
Gross profit	1,516	1,631	(7)	2,705	(43.9)	8,193	6,636	23
Gorss margins	56.8	61.5		72.1		66.9	66.6	
Operating profit	86	310	(72)	815	(89.4)	1731	1440	20
Operating Margin	3.2	11.7		21.7		14.1	14.4	
Interest	136	(16)	-	91	-	304	306	
Depreciation & Amortisation	80	82	(1)	168	(52.1)	320	394	(19)
PBT & Exceptional Items	(13)	349	(104)	673	-	1587	1144	39
Provision for Taxation	34	54		75	(54.4)	294	197	49
Minority & Share of Associate	6	3		4.7		28.2	16.3	-
Net Profit	(53)	292	-	594	-	1265	930	36
Forex loss/ (gain) & Exceptional items	366	(462)		3,577		342	3,831	
Reported Net Profit	(419)	754		(2,983)		923	(2,900)	-
Adjusted Net Profit	(25)	319	-	668	-	1,319	1,127	17
EPS (₹)	-	7.5		15.8		31.2	26.7	

Source: Company, Angel Research

Exhibit 2: 4QCY2012 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	2671	2525	6
Operating profit	86	235	(63)
Interest	136	48	183
Tax	34	48	(29)
Adj. net profit	(25)	274	-

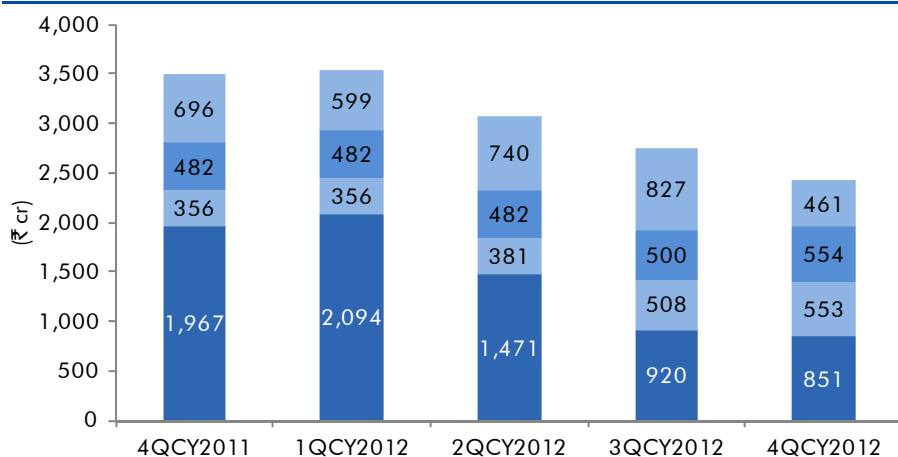
Source: Company, Angel Research

Top-line performance above expectation: Ranbaxy reported net sales of ₹2,671cr, down 28.8% yoy, but above our expectation of ₹2,525cr.

Emerging markets contributed ₹1,363cr, accounting for ~51% of total sales. Developed markets recorded ₹1,094cr of sales, contributing 41% to the total sales for the company.

The growth was mainly driven by the US, with the geography registering a growth of 31% to end the period at ₹851cr. Amongst other geographies, sales in West Europe were flat at ₹221cr. Sales in India came in at ₹541cr, a growth of 12% yoy. The East and Europe & CIS region reported sales of ₹383cr for the quarter, registering a 17% yoy growth.

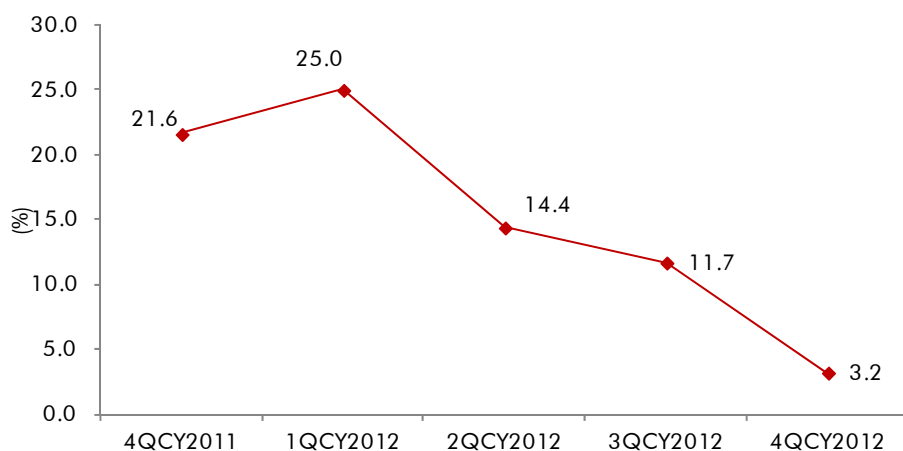
Exhibit 3: Formulations sales trend



Source: Company, Angel Research

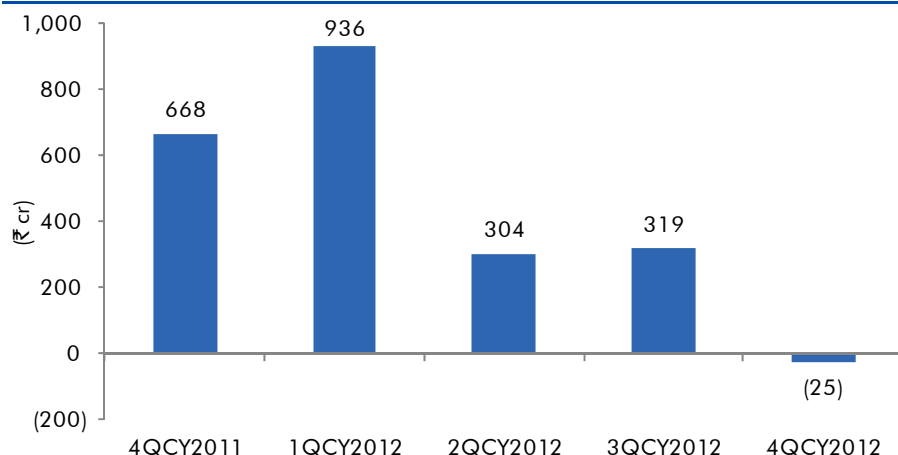
OPM contracts to 3.2%: The gross margin declined by 15.3% to 56.8%, which along with a lower rise in staff expenditure aided the OPM to come at 3.2%, much lower than 21.7% in 4QCY2011. This was also lower than our expectation of 9.3% for the quarter.

Exhibit 4: OPM trend



Source: Company, Angel Research

Adj. net profit below expectation: The OPM contraction, along with the contractual obligations and forex losses during the quarter led the company to post a reported loss of ₹419cr. However, adjusted for the forex and exceptional items, the adjusted net loss came in at ₹25cr (vs a profit of ₹688cr in 4QCY2011).

Exhibit 5: Net profit trend


Source: Company, Angel Research

Concall takeaways

- The company expects to achieve sales of over ₹1,200cr in 2013 (inclusive of the exclusivity of Diovan), while also growing its base business by over 10%.
- Company expects to have EBDITA margins close to other pharma companies in the next 3-4 years.
- The company filed 5 FTFs in the current year with a market potential of US\$4.3bn.
- The current MR strength stands at 7500.
- The company is focusing on the chronic segment.
- The company has hired consultants for plant assessments. As per the current assessment, the company itself is not clear when the resolution is expected.
- The company has derivatives exposure of US\$1.07bn as of 4QCY2012.
- It has a debt of US\$885mn, with cash of US\$840mn.

Investment arguments

- **US Consent Decree: Road cleared but timelines uncertain:** Post the USFDA's adverse action in early CY2009 (AIP invoked on Poanta Sahib facility and import alert issued for Dewas facility), Ranbaxy's US sales had been impacted but for the FTF products. Ranbaxy has signed a consent decree with the USFDA regarding the ongoing Current Good Manufacturing Practices (CGMP) issues. We note that the consent decree lays out a plan of action as agreed by the two parties to resolve the outstanding issues. However, the timeline regarding the resolution is still unclear. As per Ranbaxy's Management, the company has taken corrective actions, as per suggestions by a consultant, and has been working closely with the USFDA to resolve the issues. Though the move is positive, the timelines for the same are not clear. We have therefore not factored the same in our estimates.

- **India back in focus:** Ranbaxy's domestic formulation business has been reporting below-industry average growth rate of 7–8% since the past few years. The company has now renewed its focus on one of the fastest growing pharmaceutical markets by completely rolling out *Project Viraat* in 2010 with a view of establishing a leadership position in the next two to three years. Under the project, Ranbaxy increased its field force significantly, launched new products and penetrated rural areas. Going forward, with this, the company plans to achieve 15–20% growth on the domestic front.
- **Looking for profitable growth:** Ranbaxy's OPM collapsed from 12.6% in CY2006 to 6.1% in CY2009 on USFDA issues, high operating leverage, and realized losses in forex hedges. However, the company is now targeting to achieve profitable growth by closing down low-margin facilities in various emerging markets, reducing its work force in Europe and transferring its new drug discovery research division to Daiichi. Further, a resolution of the USFDA issue would help reduce costs incurred on remedial measures. Going forward, Ranbaxy aims to achieve EBDITA margins close to other companies in next three-four years.

Outlook and valuation

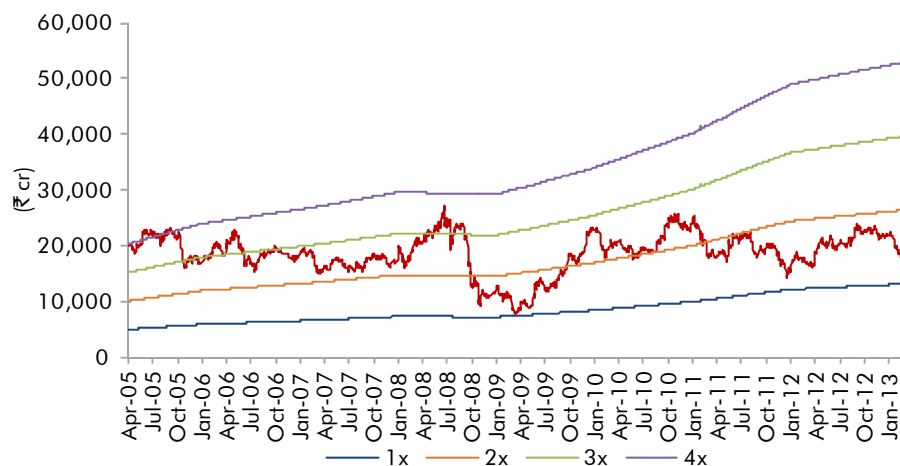
The stock is trading at EV/sales of 1.2x CY2014E. While the valuation is attractive in comparison to its peers, given the low profitability in the core business and uncertainty on the USFDA front, **we maintain our Neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2013E	CY2014E
Domestic sales growth	11.0	11.0
Export sales growth	(12.0)	4.0
Operating margins	12.5	12.5
Debt:Equity	(0.5)	(0.6)

Source: Company, Angel Research

Exhibit 7: One-year forward EV/Sales



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP	Tgt Price	Upside	FY2014E		FY12-14E		FY2014E	
		(₹)	(₹)	%	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	ROE (%)
Alembic Pharma.	Buy	83	91	9.6	8.8	1.0	5.6	17.1	29.4	30.2
Aurobindo Pharma	Accumulate	172	208	20.9	12.3	1.3	8.5	69.7	10.7	17.8
Cadila Healthcare	Accumulate	761	817	7.3	19.3	2.4	13.1	11.5	17.2	24.8
Cipla	Buy	364	419	15.0	16.7	3.0	11.9	23.2	19.1	17.6
Dr Reddy's	Neutral	1,755	-	-	18.9	2.8	13.3	2.3	15.1	20.8
Dishman Pharma	Buy	70	155	118.3	4.5	1.0	4.8	48.2	10.4	11.6
GSK Pharma*	Neutral	2,090	-	-	26.8	4.5	14.9	5.8	38.9	31.6
Indoco Remedies	Buy	65	78	18.2	8.3	1.0	6.4	24.8	14.6	15.6
Ipca labs	Accumulate	493	559	13.6	13.2	1.9	9.1	30.6	25.7	26.4
Lupin	Accumulate	598	655	9.7	19.0	2.7	12.4	27.2	24.9	25.2
Ranbaxy*	Neutral	400	-	-	18.5	1.2	9.7	(15.0)	12.9	18.5
Sanofi India*	Neutral	2,366	-	-	25.6	2.9	17.4	2.7	12.5	14.8
Sun Pharma	Neutral	799	-	-	26.8	5.4	12.7	0.1	27.6	19.2

Source: Company, Angel Research; Note: * December year ending

Company Background

Ranbaxy Laboratories (Ranbaxy), India's largest pharmaceutical company, is an integrated, research-based, international pharmaceutical company. The company is currently present in 23 of the top 25 pharmaceutical markets of the world. Ranbaxy has a global footprint in 46 countries, manufacturing facilities in seven countries and serves customers in over 125 countries. The company generates a balanced mix of revenue from emerging and developed markets, which contribute 50% and 44%, respectively.

Profit & Loss Statement (Consolidated)

Y/E Dec (₹ cr)	CY2009	CY2010	CY2011	CY2012	CY2013E	CY2014E
Gross sales	7,344	8,551	10,081	12,274	11,424	12,084
Less: Excise duty	15	15	19	21	24	24
Net Sales	7,329	8,535	10,061	12,253	11,400	12,060
Other operating income	268	425	126	207	207	207
Total operating income	7,597	8,961	10,187	12,460	11,607	12,267
% chg	2.5	18.0	13.7	22.3	(6.8)	5.7
Total Expenditure	6,885	7,096	8,542	10,522	9,975	10,553
Net Raw Materials	3,208	3,153	3,353	4,060	4,321	4,571
Other Mfg costs	513	578	863	818	798	844
Personnel	1,417	1,506	1,639	1,928	2,006	2,123
Other	1,746	1,858	2,688	3,716	2,850	3,015
EBITDA	445	1,440	1,519	1,731	1,425	1,508
% chg	12.8	223.7	5.5	13.9	(17.7)	5.8
(% of Net Sales)	6.1	16.9	15.1	14.1	12.5	12.5
Depreciation & Amortisation	268	553	394	320	381	411
EBIT	177	887	1,125	1,411	1,044	1,096
% chg	58.4	400.4	26.9	25.4	(26.0)	5.0
(% of Net Sales)	2.4	10.4	11.2	11.5	9.2	9.1
Interest & other Charges	71	61	611	304	304	304
Other Income	443	661	446	273	273	273
(% of PBT)	54.2	34.6	41.1	17.2	22.4	21.5
Share in profit of Associates						
Recurring PBT	817	1,911	1,086	1,587	1,220	1,273
% chg	(307.5)	134.0	(43.2)	46.2	(23.1)	4.3
Extraordinary Expense/(Inc.)	(193)	411	3,772	342.0	-	-
PBT (reported)	1,010	2,322	(2,686)	1,245	1,220	1,273
Tax	699	585	197	294	293	305
(% of PBT)	69.2	25.2	(7.3)	23.6	24.0	24.0
PAT (reported)	311	1,737	(2,883)	951	927	967
Add: Share of earnings of assoc.	-	-	-	19	-	-
Less: Minority interest (MI)	14	240	16	10	15	15
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	296	1,497	(2,900)	923	912	952
ADJ. PAT	144	1,086	1,127	1,319	912	952
% chg	(218.5)	654.7	(44.7)	17.0	(30.8)	4.4
(% of Net Sales)	4.0	17.5	(28.8)	7.5	8.0	7.9
Basic EPS (₹)	7.1	35.5	26.7	31.2	21.6	22.5
Fully Diluted EPS (₹)	7.1	35.5	26.7	31.2	21.6	22.5
% chg	-	404.1	(60.0)	16.8	(30.8)	4.4

Balance sheet (Consolidated)

Y/E Dec. (₹ cr)	CY2009	CY2010	CY2011	CY2012	CY2013E	CY2014E
SOURCES OF FUNDS						
Equity Share Capital	210	211	211	211	211	211
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	4,133	5,394	2,658	3,873	4,569	5,306
Shareholders Funds	4,343	5,605	2,869	4,084	4,781	5,517
Minority Interest	53.3	64.7	81.0	89.0	89.0	89.0
Long Term Loans	-	-	975	1,971	1,971	1,971
Other Long term liabilities	-	-	1,610	1,051	1,051	1,051
Long term Provisions	3,630	4,335	246	291	291	291
Deferred Tax Liability	(474)	(23)	(38)	(36)	(36)	(36)
Total Liabilities	7,552	9,982	5,744	7,451	8,147	8,884
APPLICATION OF FUNDS						
Gross Block	4,125	4,804	5,623	6,100	6,600	7,100
Less: Acc. Depreciation	1,727	2,157	2,468	2,788	3,169	3,580
Net Block	2,398	2,647	3,155	3,312	3,431	3,520
Capital Work-in-Progress	623	382	264	264	264	264
Goodwill	2,093	1,901	1,638	1,639	1,639	1,639
Investments	541	498	98	79	79	79
Long term loan & Advances			1,005	1,081	1,081	1,081
Current Assets	6,009	8,693	9,514	10,040	11,029	12,219
Cash	1,242	3,264	3,068	4,600	2,661	3,367
Loans & Advances	1,086	1,631	1,773	2,157	2,006	2,123
Other	3,681	3,798	4,673	6,837	6,361	6,729
Current liabilities	4,111	4,140	9,930	8,965	9,377	9,919
Net Current Assets	1,897	4,553	(417)	1,075	1,652	2,300
Total Assets	7,552	9,982	5,744	7,451	8,147	8,884

Cash flow statement (Consolidated)

Y/E Dec (₹ cr)	CY2009	CY2010	CY2011	CY2012	CY2013E	CY2014E
Profit before tax	1,010	2,322	(2,686)	1,245	1,220	1,273
Depreciation	268	553	394	320	381	411
Change in Working Capital	(1,130)	(633)	3,768	(3,513)	1,037	58
Less: Other income	443	661	446	273	273	273
Direct taxes paid	(243)	(619)	(196)	(294)	(293)	(305)
Cash Flow from Operations	(538)	962	834	(2,515)	2,072	1,164
Inc./ (Dec.) in Fixed Assets	(235)	(438)	(701)	(477)	(500)	(500)
Inc./ (Dec.) in Investments	(2)	(42)	(400)	(19)	-	-
Other income	443	661	446	273	273	273
Cash Flow from Investing	206	180	(655)	(223)	(227)	(227)
Issue of Equity	1	27	0	0	-	-
Inc./ (Dec.) in loans	(655)	705	(4,088)	482	-	-
Dividend Paid (Incl. Tax)	-	(98)	-	-	(216)	(216)
Others	(168)	247	3,713	3,788	(3,569)	(15)
Cash Flow from Financing	(822)	880	(375)	4,270	(3,785)	(231)
Inc./ (Dec.) in Cash	(1,154)	2,023	(196)	1,532	(1,939)	706
Opening Cash balances	2,396	1,242	3,264	3,068	4,600	2,661
Closing Cash balances	1,242	3,264	3,068	4,600	2,661	3,367

Key ratios

Y/E Dec.	CY2009	CY2010	CY2011	CY2012	CY2013E	CY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	59.1	14.4	15.6	13.4	19.3	18.5
P/CEPS	31.1	10.5	11.6	10.8	13.6	12.9
P/BV	4.0	3.1	6.1	4.3	3.7	3.2
Dividend yield (%)	0.0	0.5	1.4	2.5	0.0	0.0
EV/Sales	2.7	2.7	1.5	1.1	1.3	1.2
EV/EBITDA	44.8	15.7	9.7	7.7	10.7	9.7
EV / Total Assets	2.6	2.3	2.6	1.8	1.9	1.6
Per Share Data (₹)						
EPS (Basic)	7.1	35.5	26.7	31.2	21.6	22.5
EPS (fully diluted)	7.1	35.5	26.7	31.2	21.6	22.5
Cash EPS	13.4	13.4	36.0	38.8	30.6	32.2
DPS	-	2.0	-	-	5.1	5.1
Book Value	103.3	133.1	68.0	96.6	113.0	130.5
Dupont Analysis						
EBIT margin	2.4	10.4	11.2	11.5	9.2	9.1
Tax retention ratio	-	74.8	107.3	76.4	76.0	76.0
Asset turnover (x)	1.3	1.4	1.8	4.5	2.8	2.2
RoIC (Post-tax)	-	10.7	22.1	39.7	19.4	15.4
Cost of Debt (Post Tax)	-	1.2	28.6	86.3	79.3	79.3
Leverage (x)	0.5	0.2	(1.0)	(1.1)	(0.5)	(0.6)
Operating RoE	-	12.5	25.7	88.9	49.1	51.0
Returns (%)						
RoCE (Pre-tax)	2.4	10.1	12.9	21.4	13.4	12.9
Angel RoIC (Pre-tax)	5.8	22.1	35.4	164.0	46.1	30.5
RoE	3.3	21.8	26.6	37.9	20.6	18.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	2.0	2.0	2.1	1.8	1.8
Inventory / Sales (days)	91	82	80	72	104	97
Receivables (days)	76	70	81	76	104	97
Payables (days)	67	86	61	33	35	33
WC cycle (ex-cash) (days)	4	40	7	(103)	(71)	(31)
Solvency ratios (x)						
Net debt to equity	0.5	0.2	(1.0)	(1.1)	(0.5)	(0.6)
Net debt to EBITDA	5.4	0.7	(1.9)	(2.5)	(1.7)	(2.0)
Interest Coverage (EBIT / Int.)	2.5	14.4	1.8	4.6	3.4	3.6

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Disclosure of Interest Statement

Ranbaxy

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)