

RANBAXY - Moderate Improvement In Base Business

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Abstracts

We reiterate our Market Perform rating on Ranbaxy after Q3 CY11 result that was largely in line with our estimates excluding the forex losses. Forex losses were partly compensated by the robust increase in interest and other income.

Q3 CY11 reflected purely the base business reporting a 7% growth in sales, with 110 bps improvement in EBITDA margin to 8.3%. Given the low base of EBITDA margin, the improvement was expected to be slightly higher especially as Ranbaxy has shut down most of its loss making businesses. The management remained tentative about the revival of profitability in the base business. No update on the USFDA resolution and timely launch of generic Lipitor was provided. However, the management's tone exuded confidence about a possible timely launch.

We change our estimates to reflect the forex losses and other income and revise our EPS down by 7%. We estimate the base business EPS for CY12 at Rs.11.25 (excl. forex gains). Our target price of Rs.512 is arrived by applying a 20x to CY12 base business earnings and valuing the remaining FTFs (Lipitor, Caduet, Nexium Actos, Valcyte and Diovan) at Rs. 287 per share.

Contents

COMPANIES MENTIONED

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