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Ranbaxy's performance hinges on generic Diovan

MARK TO MARKET

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We welcome your comments at **marktomarket@livemint.com**

Ranbaxy Laboratories Ltd posted a 50% increase in June quarter operating profit compared with the March quarter, but revenue growth declined as key markets, including North America, faced pressure. Though the company's regulatory issues are yet to be resolved, the prospects of lower remediation costs and sales contribution from the generic version of Diovan, a drug to treat blood pressure, could see a better performance in the next few quarterly results.

Since Ranbaxy is being merged with **Sun Pharmaceutical Industries Ltd**, due by end 2014, an investment decision on the stock does not make sense. But an improving financial profile should spell good news for Sun Pharma.

In the June quarter, Ranbaxy's sales declined by 2.6% sequentially to ₹2,372.2 crore. But the company saw input costs fall much more, declining by 5.9%. It attributed this decline to a better product mix though it did not say how. In a few markets, its sales slumped because of lower revenues from tenders, which are usually less profitable. This may have been one of the reasons.

Apart from input costs, even other expenses declined by 10.4%, mainly due to a decline in remediation expenses. The company has been incurring significant expenses to bring up its Dewas and Paonta Sahib factories up to the US Food and Drug Administration's specifications. The company had indicated in the past that it expects this number to decline, as it bas completed a substantive part of its obligations. If this figure continues to decline, its profitability can improve further.

As it is, its June quarter operating profit margin improved by 3.2 percentage points sequentially to 9.3%, though still down by 65 basis points over the year-ago quarter. One basis point is one-hundredth of a percentage point.

Ranbaxy's India business did well during the quarter, with sales rising by 12% over the year-ago period, compared with the market growth of 10%. The recent price control announcement on diabetes and cardiology drugs is expected to shave off about 1.2-1.5% of revenues, according to the management. Overseas sales, which contributed nearly three-fourths of sales, reported a 6.5% decline. This was mainly due lower sales in the US and Europe.

> **Immediate future looks positive, as India business seems to be in good shape and US market sales should see a pick-up**

Ranbaxy reported a slender profit before tax and exceptional items. It has provided ₹237.8 crore for a settlement, which was a surprise. The details of this settlement will be available once it is finalized.

The immediate future looks positive for Ranbaxy, as its India business seems to be in good shape and its US market sales should see a smart pick-up after the launch of generic Diovan with 180-day exclusive marketing rights.

The expected improvement in its performance is already reflected in the 42% increase in its share price since end May.

Company