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Ranbaxy: More approvals to follow?

The recent one revives hope of more exclusive launches from its rich product line, which if followed by resolution of the US drug regulator issues could trigger a re-rating

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The Ranbaxy stock has surged 10 per cent over the past couple of trading sessions, after getting approval from the US drug regulator to launch the generic version of Diovan, a multi-billion dollar drug used in controlling blood pressure.

It comes after a series of bad news from the company and has rekindled investor hope. The approval for this much delayed launch, once expected in late 2012, not only gets the cash registers ringing but offers hope that the other high-ticket generic versions in Ranbaxy's portfolio could soon get launch approval.

Analysts estimate sales from the Diovan generic in the first six months of the launch to be $200 million. The margins for the product would have been higher but for sourcing of the active pharmaceutical ingredient or API from third parties, and a relatively higher cost associated with manufacturing at the company's US-based Ohm Labs plant.

While some of this had been factored in, what the Street would be keeping an eye on are the other big launches, such as of acid reflux medication Nexium. Analysts estimate exclusivity sales for the generic version of the $2-billion Nexium drug to yield sales of about $250 million for Ranbaxy. Anti-viral Valcyte is the third drug which can offer exclusivity gains, with sales of $35 million for the company; Valcyte's annual sales are estimated at about $425 million currently. While Nexium is likely to be launched in the near term, Valcyte could be launched over the next one year.

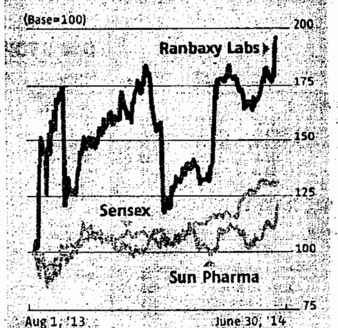
Though the Diovan approval is a major positive, there is yet no clarity on a solution to the company's manufacturing problems (especially the Dewas and Ponta Sahib plants) with the the US Food and Drug Administration. Any resolution of these issues will be a huge trigger for the stock.

The exclusivity sales and other launches are also important, as the company is being acquired by Sun Pharma, with the approval for the new merged entity expected by the end of this year. HDFC Securities' analysts say given the lack of large opportunities in the US and Sun's subsidiary, Taro, likely to witness market share loss and price erosion, one should expect Sun to focus on integrating Ranbaxy, improving cost efficiencies and resolving manufacturing issues at the facilities.

The Sun Pharma stock has also been locked in step with the movement in Ranbaxy's scrip, gaining 7.5 per cent over the past two trading sessions. While opportunities abound and some gains are likely after integration of the two entities, investors with a longer term horizon can look at the two scrips.

At ₹515, the Ranbaxy stock trades at a price to earnings multiple of 19. At ₹686, Sun is trading at 25 times, based on their FY15 estimated earnings. The one-year target prices of analysts polled by Bloomberg in June are ₹533 and ₹700, respectively.

RECOVERY HOPES

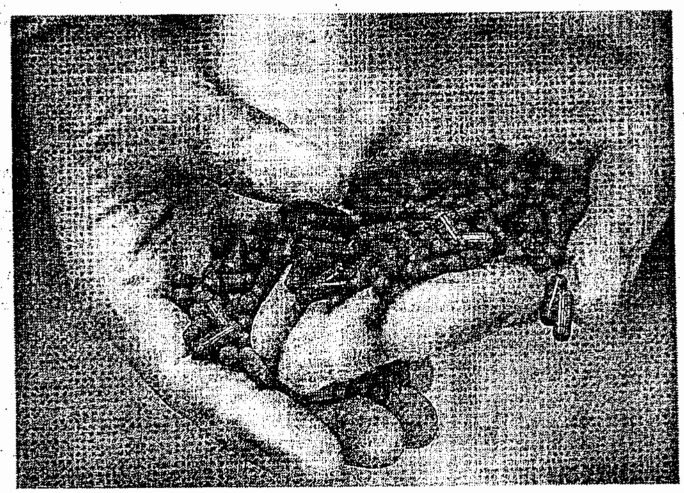


Data compiled by BS Research Bureau

EXCLUSIVITY GAINS

In ₹ crore	CY12	FY14	*FY15E
Net sales	12,459	13,268	11,454
% chg y-o-y	22.6	6.5	-13.7
Ebitda	1,937	973	1,896
% chg y-o-y	14.5	-49.8	94.9
Adj net profit	1,307	61	1,158
% chg y-o-y	-13.1	-95.3	1798.4

E: Estimates; *15-month period ended March 2014
Source: Anand Rathi Research



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Company