

*January 13, 2014***Outlook**

Ranbaxy, owned by Daichi Sanyo of Japan is currently facing a host of issues with respect to its manufacturing facilities. All of Ranbaxy's Indian manufacturing facilities are currently under US FDA import alerts, and the company has been facing significant headwinds.

In our opinion, the most important factor behind which the turnaround of the company, is based on the current inspection underway at its Toansa facility in Punjab.

Toansa facility

Toansa is an API manufacturing facility. It is a captive facility which supplies a majority of the API's to other Ranbaxy manufacturing facilities. The company has just revealed today that the facility was served a Form 483 (observation letter).

Based on Ranbaxys' response to this Form 483, the US FDA will either give clearance or Establishment Inspection Report (EIR) to the facility, or place it under an import alert, or a warning letter (if FDA is only partly satisfied the company gets a last chance to rectify observations raised, and this is followed by an EIR or import alert).

If the import alert is served the facility will be unable to supply products to the USA until it is cleared again (a time consuming affair). However if the facility is cleared it can supply products and API's that will end up in medicines supplied to the USA.

Why Toansa clearance is so important

Ranbaxy has won a 180 day exclusivity from the US FDA for selling generics of 2 products, Nexium, Diovan and is likely to win it for another product, Valcyte. Due its success in beating the patent holders for these products, in this 180 day period Ranbaxy can exclusively sell generic versions in the USA. These products, especially Diovan and Nexium are blockbusters and have the potential to generate enormous sales and profits for Ranbaxy.

According to estimates, Diovan alone can achieve sales of 187 million dollars in the 6 month period for Ranbaxy. Nexium and its derivatives have annual sales of 2.6 Billion dollars. Ranbaxy has entered into an agreement with Astra Zeneca (holder of Nexium patent) for sales and distribution of Nexium products and this also will lead to a significant benefit to Ranbaxy, if they can start sales of the products.

However, issues raised by the US FDA during inspections of Ranbaxys' manufacturing facilities in India have raised a cloud around the supply and sales of these 3 products.

The likely way ahead for Ranbaxy is this. They have a manufacturing facility in New Jersey, USA, with its fully owned subsidiary, Ohm Labs. This facility got its EIR from the US FDA in October 2013, and is eligible to supply medicines in the USA, currently the only Ranbaxy facility with such a clearance.

The raw materials for this facility, are to be sourced from Ranbaxys' Toansa facility in Punjab, India. If Toansa can receive its EIR, then it clears all the hurdles and paves the way for Ranbaxy to supply products to the USA, specially generics of Diovan, Nexium and Valcyte. Alternately if Toansa receives an import alert, then it raises a big question mark on the future performance of Ranbaxy, especially in the near future.

Recommendation

This is a high risk, high reward trade. We recommend investors with a high risk appetite to buy. Alternately investors can go long, and at the same time buy puts for downside protection.

Disclaimer

This report has been prepared by the research department of PRATIBHUTI. This report is not construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of PRATIBHUTI and its affiliates. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither PRATIBHUTI and its affiliates, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Pratibhuti's prior written consent. This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Contact Details



Pratibhuti

Regd. & Adm. Off:

3rd Floor, 28 Rajabhadur Mansion,
Mumbai Samachar Marg, Fort,
Mumbai – 400 001. India.
Tel: +91 22 61485300
Fax: +91 22 2265 6905

Corporate Off:

Gr. Floor, 11, Raheja Centre,
Free Press Marg, Nariman Point,
Mumbai – 400 021. India.
Tel: +91 22 6148 5700
Fax: +91 22 6148 5750

E-mail:

onlinehelp@pratibhuti.com

Website:

www.pratibhuti.com