Ranbaxy Laboratories Limited

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A One Plus) for the Rs. 2,000 crore Short-Term Debt (including Commercial Paper) programme and Rs. 600 crore ST working capital facilities of Ranbaxy Laboratories Limited (Ranbaxy)*.

The reaffirmation of the rating continues to factor in Ranbaxy's strong business profile characterised by its established position in the U.S. generics segment, its leading market presence in the Indian branded formulations market and a diversified presence among emerging markets across Russia & CIS, Africa, Asia Pacific and Latin America. Ranbaxy's rating also reflects its strong parentage – currently majority owned by Daiichi Sankyo (rated A1 (Stable) by Moody's), a leading branded pharmaceutical company in Japan. In India, Ranbaxy ranks among the top five players within the domestic formulations industry supported by strong presence in anti-infective, cardiovascular, pain management and dermatology therapies. Besides India, the company is also positioned among the leading players in the branded generics segment in fast-growing markets like Romania and Russia. Ranbaxy's increasing focus on strengthening branded business in developed markets, particularly U.S. is also a positive from long-term perspective as it likely to add diversity to its business profile besides providing opportunity to improve on its relatively low base business margins.

Over the past few years, Ranbaxy's financial profile, especially profitability indicators have exhibited fair amount of volatility owing to large MTM adjustments on forex-denominated loans and derivative contracts, impact of exclusivity linked products in the U.S. generics space and one-time exceptional items such as the provision of $500mn during CY 2011 in relation to the settlement with the DOJ and Rs 343 Crore during FY 2014 in relation to stock write off and other costs due to import alerts at Mohali and Toansa. Having signed the consent decree in 2011, Ranbaxy was moving closer to settling its issues pertaining to manufacturing practices and data integrity in drug applications. However, with recent import alerts at Mohali and Toansa, the overall process may be longer to ensure proper implementation of FDA guidelines. The delays in receiving in regulatory approvals for some of its key FTFs and pricing pressure in the European operations have also led lower than expected growth during the current year which coupled with remediation charges and MTM losses on forex have led to losses at net level. Nonetheless, the company's strong product pipeline comprising of certain FTFs could mitigate the impact of potentially higher operating expenditure on the regulatory front. With cash reserves of Rs. 1,550 crore as on March 2014, the company's liquidity profile remains adequate to service its debt obligations and realized losses on derivative contracts.

ICRA also takes note of the announcement by Sun Pharmaceuticals Limited (Sun Pharma) to enter into a definitive agreement to acquire 100% stake in Ranbaxy through an all stock deal. The merged entity would emerge as the leading player in the domestic formulations industry giving Sun Pharma a strong presence in therapeutic segments like anti-infectives, dermatology, and pain management. The acquisition would also help Sun Pharma further strengthen its position in the US market (aided by the strong demand for Absorica) and diversify its presence in the emerging markets. The key challenges would however remain the speedy resolution of the regulatory issues surrounding the manufacturing facilities of Ranbaxy and the scale up of the US business by new product approvals.

Overall, the key sensitivities to Ranbaxy's performance metrics in the near-term remains a) the potential launch of generic Diovan and Nexium in the US generics space and b) MTM losses on outstanding derivative contracts given the volatility in INR.

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* For complete rating scale and definitions, please refer to ICRA's website, www.icra.in or any of the ICRA Rating Publications

Company Profile

Incorporated in 1961, Ranbaxy Laboratories Limited (Ranbaxy) is one of the leading Indian pharmaceutical company offering generics in key developed markets including the U.S. and Europe and branded generics in emerging markets. Ranbaxy has one of the most diversified business profiles among leading India generic companies with strong presence in U.S. generics, India, Romania and the African region. In CY2013, U.S. was the largest market for Ranbaxy contributing 32% to company's revenues followed by India (21%), East Europe & CIS (15%), Western Europe (8%) and Africa (9%). In India, Ranbaxy is positioned as the third largest player in domestic formulations segment with an approximate market share 4.0%. Ranbaxy is particularly strong in the anti-infective, cardiovascular, pain management and dermatology segments.

Recent Results

In 15m FY2014, Ranbaxy reported an operating income of Rs. 13,269 crore as compared to Rs 12,396 during 12m CY 2012 owing to high-base effect of the prior year which included revenues from sale of Atorvastatin (on exclusivity basis). During FY 2014 the company reported a net loss of Rs. 1,073 crore as compared to a net profit of Rs. 923 crore in CY2012. During the period, the company also provided Rs. 328 crore towards MTM losses on derivative contracts, loans and other liabilities and Rs. 163 crore for impairment in its French operations and Rs. 343 Crore towards inventory write offs and other costs related to import alert at Toansa and Mohali.

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