



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Event update@ Dalal & Broacha

Buy on Dips

Current Price	2768
Target Price	3074
Upside/Downside	12%
52 Week Range	2965/2065

Key Share Data

Market Cap (Rs.bn)	45
Market Cap (US\$ mn)	647
No of o/s shares (mn)	166
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	664
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



Dr. Reddy's (DRL) is the first Indian company accepted by the China Pilot programme, for supplies to public hospitals in multiple provinces in the country.

China expanded its drug procurement programme nationwide from 11 major cities earlier, in order to reduce prices. The programme included bids for 25 commonly used generic drugs. Dr. Reddy's bid for the product at a 35% discount.

The company is one of the three players, the other two being local companies in China, for the supply of Olanzapine. Olanzapine is an anti-psychotic used in the treatment of schizophrenia and bipolar disorder.

DRL is the largest player in Olanzapine in the US. The US market for Olanzapine tablets is around \$200 mn.

We spoke to the management of Dr. Reddy's.

1. We believe Olanzapine tablets will have significantly higher volumes, and will compensate the price discount.
2. Dr. Reddy's expects to commence supplies in 1-2 months.

Outlook & Valuation

We are positive on the allocation of the Chinese tender to Dr. Reddy's. We believe in the management strength as a leader in Olanzapine US market with a market share of >30%.

At Rs 2782, Dr. Reddy's trades at 19x FY21E EPS of Rs 149. We recommend investors to BUY on Dips with a target price of Rs 3074.

% Shareholding Jun-19 Mar-19

Promoters	26.77	26.77
FII	30.73	30.93
DII	13.71	9.11
Others	28.79	33.19
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	35.7	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	48.8	7.5	7.0
FY19	154,482.0	8.2	31,782.0	20.6	19,500.0	106.0	117.5	23.7	13.9	11.5
FY20E	171,142.1	10.8	36,917.1	21.6	22,149.5	13.6	133.4	20.9	13.6	12.4
FY21E	186,010.1	8.7	40,732.2	21.9	24,729.8	11.6	149.0	18.7	13.2	12.2



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