



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

## Q1FY21 Result update@ Dalal & Broacha

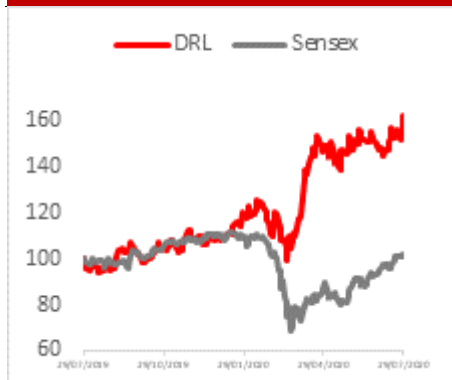
### BUY on Dips

Current Price	4515
Target Price	<b>4574</b>
Upside/Downside	2%
52 Week Range	2352/4334

### Key Share Data

Market Cap (Rs.bn)	714.79
Market Cap (US\$ mn)	9564.97
No of o/s shares (mn)	166.23
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	822.79
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

### Price performance



% Shareholding	Jun-20	Mar-20
Promoters	26.74	26.75
FII	29.33	30.15
DII	14.41	14.46
Others	29.29	28.74
<b>Total</b>	<b>100</b>	<b>100</b>

### Financials

Year	Net Sales	% Growth	EBIDTA	OPM (%)	PAT	Growth	EPS	PE (x)	RoE (%)	RoCE (%)	EV/EBITDA
FY18	1,42,810	0.6	23,512	16.5	9,468	(63.4)	57.0	79.2	7.5	7.0	<b>33.7</b>
FY19	1,54,482	8.2	31,782	20.6	19,500	106.0	117.5	38.4	13.9	11.5	24.5
FY20	1,75,170	13.4	41,945	23.9	20,340	4.3	122.4	36.9	13.0	7.5	18.2
FY21E	1,90,546	8.8	48,051	25.2	26,601	30.8	160.1	28.2	15.3	18.4	15.8
FY22E	2,10,845	10.7	58,253	27.6	33,692	26.7	202.7	22.3	16.9	20.7	13.1

Dr. Reddy's Q1FY21 results were better than estimates. Gross margins of 56%, highest in the last 9 quarters, has been a significant achievement during the quarter. Profitability improved due to better product mix and currency benefit. The management believes the higher margins will be sustainable. The company has reported low volumes due to lower number of prescriptions due to Covid19 in India, Russia, Europe. We expect sharp recovery once the lockdown starts easing off.

### Robust sales growth with sharp rise in gross margins

Sales +15% yoy Rs 44.2 bn Vs our estimate of 43.1 bn, growth driven by US, ROW, EU and PSAI.

Gross margins: 56.6% (+430 bps yoy/+450 bps qoq) due to better margins in Global Generics (61.3%) and PSAI (33.4%) segments.

EBITDA +2.5% yoy to Rs 11.6 bn, adjusted for income from settlement for Revlimid (Canada) with Celgene Rs 3500 mn in Q1FY20. SG & A spend higher due to increased freight costs due to Covid19.

PBT +5% to Rs 8.7 bn.

Adjusted PAT +85% Rs 5.8 bn, vs our estimate of Rs 5.75 bn.

### Future growth drivers

- New launches across geographies – US, EU, India and Emerging markets including China.
- Limited competition launches in the US.
- Scale of Wockhardt portfolio in India.
- Robust demand for PSAI (CRAMS).
- Strong research pipeline – 101 ANDAs pending approval.
- Sharp recovery in volumes on the easing of lockdown due to Covid19.
- Improvement in profitability will be driven by better pricing environment across markets.

Further, with **USFDA clearance to Srikakulam in May'20** we believe there will be a 240 bps increase in EBITDA margins by FY22, with more number of fully integrated products.

**At Rs 4515, Dr. Reddy's trades at 22x FY22E EPS of Rs 203.**

**We maintain BUY on Dips with a target price of Rs 4574.**



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- a. US: Rs 17.3 bn (+6% yoy/-4% qoq), due to 6 new product launches and currency benefit, partially offset by price erosion.
  - b. India: Rs 6.3 bn (-10% yoy/-8% qoq) due to lower Rx generation due to the lockdown. Launched 4 new products and completed Wockhardt acquisition.
  - c. Russia & CIS: Rs 4.7 bn (-10% yoy/-18% qoq). Decline in Russia from lower Rx generation due to Covid19. CIS grew 15% due to higher volumes and new launches.
  - d. ROW: Rs 3.82 bn (+56% yoy/+41% qoq), due to new launches and higher volumes offset by price erosion in some molecules.
  - e. Europe Rs 3.6 bn (+48% yoy/+3% qoq), due to new launches and favourable forex, offset by low volumes.
  - f. PSAI Rs 8.6 bn (+88% yoy/+19% qoq), due to higher volumes in some products.
  - g. Proprietary Products Rs 56 mn, decline due to sale of Neurology products in FY20.
2. Gross margins: 56.6% (+430 bps yoy/+450 bps qoq) due to better margins in Global Generics and PSAI segments.
  3. Covid19 Impact: Some markets saw low volumes due to lower Rx generations. Operations continue as normal, with stable pricing environment.
  4. R & D spends: Rs 4 bn – 9% of sales.
  5. Capex Rs 1.5 bn.
  6. Net Debt Rs 3.4 bn.
  7. Free Cash Flow Rs 9.3 bn (before Rs 15 bn payment to Wockhardt).

**KTAs from the concall:**

1. The company expects the higher freight costs to normalize in the current quarter.
2. In Global Generics, the quarter saw growth from new launches and forex benefit, partially offset by lower volumes in US, India, Russia and UK.
3. In India, the company's rank improved to 12<sup>th</sup> in the market, due to the Wockhardt acquisition. The management believes the Wockhardt business can scale up further through better reach going forward.
4. In Europe, Germany (>60% of Europe) grew with higher volumes and forex benefit. The company entered new markets of France, Italy and Spain.
5. The company plans to launch 10-25 new products in multiple markets, namely US, Europe and other emerging markets.
6. The company will be launching Remdesvir in a few weeks in India and in other Emerging markets.
7. In PSAI, the company filed 16 DMFs, including 1 in the US. PSAI growth to continue going forward, with a healthy order book and increasing demand for services.
8. Data from the clinical trial for AVIGAN, a potential treatment for Covid19 will be available by November'20.
9. Continuing ETR -25-27% for FY21 due to MAT credit available.



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Particulars	Q1FY21	Q4FY20	Q1FY20	% yoy	% qoq	FY20	FY19	% Change
<b>Net Income from Sales &amp; Services</b>	<b>44175</b>	<b>44319</b>	<b>38435</b>	<b>15%</b>	<b>0%</b>	<b>174601</b>	<b>153851</b>	<b>13%</b>
<b>Gross Profit</b>	<b>24755</b>	<b>22809</b>	<b>19859</b>	<b>19%</b>	<b>15%</b>	<b>94010</b>	<b>83430</b>	
<b>GPM (%)</b>	<b>56.0%</b>	<b>51.5%</b>	<b>51.7%</b>			<b>53.8%</b>	<b>54.2%</b>	
SG&A expenses	-12786	-12177	-12065			<b>-50189</b>	-48890	<b>3%</b>
R&D Expenses	-3980	-4190	-3609			<b>-15410</b>	-15607	<b>-1%</b>
<b>EBIDTA excl one offs</b>	<b>11623</b>	<b>10015</b>	<b>14800</b>	<b>43%</b>	<b>-32%</b>	<b>49891</b>	<b>34189</b>	<b>46%</b>
<b>EBIDTA (%)</b>	<b>26.3%</b>	<b>22.6%</b>	<b>38.5%</b>			<b>28.6%</b>	<b>22.2%</b>	
Other Income	118	168	3759			<b>4290</b>	1955	<b>119%</b>
Impairment	0	0	3457			<b>-16707</b>	0	
<b>EBIT</b>	<b>11741</b>	<b>10183</b>	<b>22016</b>			<b>32701</b>	<b>20888</b>	<b>57%</b>
Interest	605	435	393			<b>1478</b>	1117	
PBT excl. one offs	11136	9748	18166	<b>39%</b>	<b>-46%</b>	24498	22005	
<b>Profit before tax</b>	<b>12346</b>	<b>10618</b>	<b>22409</b>			<b>34179</b>	<b>22005</b>	<b>55%</b>
Tax	-2996	500	-1872			<b>1466</b>	-3648	
Profit After tax before MI	9350	11118	20537			35645	18357	<b>94%</b>
Share of Profit	77	105	163			<b>561</b>	438	
<b>Profit After Tax</b>	<b>9427</b>	<b>11223</b>	<b>20700</b>	<b>342%</b>	<b>-46%</b>	<b>36206</b>	<b>18795</b>	<b>93%</b>
NPM (%)	21.34%	25.32%	53.86%			20.74%	12.22%	
Equity	830.6	830.6	830			831	830	
EPS excl exceptional	<b>34.87</b>	<b>46.01</b>	<b>18.84</b>			<b>156.3</b>	<b>113.2</b>	
<b>EPS -(Rs)</b>	<b>34.87</b>	<b>46.01</b>	<b>39.93</b>			<b>117.4</b>	<b>113.2</b>	



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Dr Reddy's Laboratories Limited											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	1,42,810	1,54,482	1,75,170	1,90,546	2,10,845	Net Profit	9,468	19,500	20,340	26,601	33,692
Raw materials	(40,395)	(44,948)	(55,070)	(62,333)	(69,112)	Add: Dep. & Amort.	10,772	11,348	11,631	12,317	12,993
Employee costs	(32,149)	(33,562)	(33,802)	(34,478)	(35,512)	<b>Cash profits</b>	<b>20,240</b>	<b>30,848</b>	<b>31,971</b>	<b>38,918</b>	<b>46,685</b>
Other Expenses	(46,754)	(44,190)	(44,353)	(45,684)	(47,968)	(Inc)/Dec in					
Cost of sales	(1,19,298)	(1,22,700)	(1,33,225)	(1,42,494)	(1,52,592)	-Sundry debtors	(2,500)	714	(12,033)	(6,283)	(6,340)
<b>Operating Profit</b>	<b>23,512</b>	<b>31,782</b>	<b>41,945</b>	<b>48,051</b>	<b>58,253</b>	-Inventories	(561)	(4,490)	(1,488)	(3,402)	(4,184)
Depreciation	(10,772)	(11,348)	(11,631)	(12,317)	(12,993)	-Loans/advances	58	(834)	(2,010)	(224)	(235)
Impairment	-	-	(17,160)	-	-	-Sundry creditors	2,776	326	1,577	1,118	1,780
PBIT	12,740	20,434	13,154	35,735	45,260	-Others	(3,064)	3,636	2,409	40	30
Other income	1,552	3,375	6,206	496	546	Change in working capital	(3,291)	(648)	(11,545)	(8,750)	(8,949)
Interest	(788)	(889)	(983)	(713)	(713)	<b>CF from Oper. activities</b>	<b>16,949</b>	<b>30,200</b>	<b>20,426</b>	<b>30,167</b>	<b>37,735</b>
Profit before tax	13,504	22,920	18,377	35,518	45,093	<b>CF from Inv. activities</b>	<b>(14,203)</b>	<b>(10,954)</b>	<b>4,989</b>	<b>(18,220)</b>	<b>(26,346)</b>
Provision for tax	(4,380)	(3,858)	1,402	(9,590)	(12,175)	<b>CF from Fin. activities</b>	<b>(3,589)</b>	<b>(22,647)</b>	<b>(46,498)</b>	<b>(10,983)</b>	<b>(11,451)</b>
<b>PAT Bfr Excp Items</b>	<b>9,124</b>	<b>19,062</b>	<b>19,779</b>	<b>25,928</b>	<b>32,918</b>	<b>Cash generated/(utilised)</b>	<b>(843)</b>	<b>(3,401)</b>	<b>(21,083)</b>	<b>964</b>	<b>(61)</b>
Share of Profit	344	438	561	673	774	Cash at start of the year	7,253	7,205	5,628	6,432	7,396
<b>Net Profit</b>	<b>9,468</b>	<b>19,500</b>	<b>20,340</b>	<b>26,601</b>	<b>33,692</b>	Cash at end of the year	7,205	5,628	6,432	7,396	7,335
<b>Balance Sheet</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>Ratios</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
Equity capital	830	830	831	831	831	OPM	16.5	20.6	23.9	25.2	27.6
Reserves	1,24,886	1,39,406	1,55,157	1,73,007	1,97,948	NPM	6.6	12.4	11.2	13.9	15.9
<b>Net worth</b>	<b>1,25,716</b>	<b>1,40,236</b>	<b>1,55,988</b>	<b>1,73,838</b>	<b>1,98,779</b>	Tax rate	(32.4)	(16.8)	7.6	(27.0)	(27.0)
Def. Tax Liab.+Minority Int.	1,950	473	20	22	24	<b>Growth Ratios (%)</b>					
Secured loans	25,089	22,000	1,304	1,304	1,304	Net Sales	0.6	8.2	13.4	8.8	10.7
Unsecured loans	25,562	12,125	16,532	16,532	16,532	Operating Profit	(37.6)	35.2	32.0	14.6	21.2
Total debt	50,651	34,125	17,836	17,836	17,836	PAT	(63.4)	106.0	4.3	30.8	26.7
Other Liabilities	2,933	2,181	2,055	2,261	2,487	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>1,81,250</b>	<b>1,77,015</b>	<b>1,75,899</b>	<b>1,93,956</b>	<b>2,19,126</b>	<b>Net Earnings (EPS)</b>	<b>57.04</b>	<b>117.5</b>	<b>122.38</b>	<b>160.1</b>	<b>202.7</b>
Gross block	1,56,159	1,66,901	1,77,184	1,87,184	1,97,184	<b>Cash Earnings (CPS)</b>	<b>121.9</b>	<b>185.8</b>	<b>192.4</b>	<b>234.2</b>	<b>280.9</b>
Accumulated depreciation	(1,06,426)	(1,17,774)	(1,29,405)	(1,41,722)	(1,54,714)	Dividend	30.0	30.0	45.0	45.0	45.0
Net block	49,733	49,127	47,779	45,462	42,470	Book Value	757.3	844.8	938.6	1,046.0	1,196.0
Capital WIP	7,678	4,725	4,364	4,364	4,364	Free Cash Flow	16.5	115.9	152.9	71.9	68.5
<b>Total fixed assets</b>	<b>57,411</b>	<b>53,852</b>	<b>52,143</b>	<b>49,826</b>	<b>46,834</b>	<b>Valuation Ratios</b>					
Intangible assets	41,643	42,734	26,798	27,897	29,105	<b>P/E(x)</b>	<b>79</b>	<b>38</b>	<b>37</b>	<b>28</b>	<b>22</b>
Goodwill	5,331	4,659	4,913	4,913	4,913	P/B(x)	6	5	5	4	4
Investments	22,983	25,871	26,778	33,778	48,778	EV/EBIDTA(x)	34	24	18	16	13
Other non current assets	1,280	1,138	1,002	1,123	1,260	EV/SALES(x)	6	5	4	4	4
Inventories	29,089	33,579	35,067	38,469	42,652	Div. Yield(%)	1	1	1	1	1
Sundry debtors	40,696	39,982	52,015	58,298	64,638	<b>FCF Yield(%)</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>
Cash & bank	7,205	5,628	6,432	7,396	7,335	<b>Return Ratios (%)</b>					
Loans & advances	1,638	2,472	4,482	4,706	4,941	<b>ROE</b>	<b>7.5</b>	<b>13.9</b>	<b>13.0</b>	<b>15.3</b>	<b>16.9</b>
Other current assets	12,762	10,424	10,424	11,466	12,613	<b>ROCE</b>	<b>7.0</b>	<b>11.5</b>	<b>7.5</b>	<b>18.4</b>	<b>20.7</b>
Sundry creditors	(13,345)	(13,671)	(15,248)	(16,366)	(18,146)	<b>ROA</b>	<b>5.8</b>	<b>11.8</b>	<b>11.3</b>	<b>13.6</b>	<b>15.4</b>
Acceptances	(4,617)	(5,537)	(8,114)	(8,925)	(9,818)						
Provisions	(5,204)	(5,582)	(5,414)	(5,685)	(5,969)						
<b>Working capital</b>	<b>47,197</b>	<b>44,444</b>	<b>52,066</b>	<b>61,780</b>	<b>70,668</b>						
Deferred tax assets	5,405	4,317	12,199	14,639	17,567						
<b>CAPITAL DEPLOYED</b>	<b>1,81,250</b>	<b>1,77,015</b>	<b>1,75,899</b>	<b>1,93,956</b>	<b>2,19,126</b>						



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