



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Result update@ Dalal & Broacha

Buy on Dips

Current Price	3188
Target Price	3572
Upside/Downside	12%
52 Week Range	3249/2065

Key Share Data

Market Cap (Rs.bn)	54
Market Cap (US\$ mn)	756
No of o/s shares (mn)	166
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	687
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



% Shareholding

	Dec-19	Sep-19
Promoters	26.76	26.76
FII	30.04	30.05
DII	15.0	14.76
Others	28.79	33.19
Total	100	100

Key Financials

Year	Net Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)	EV/EBITDA
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(63.4)	57.0	55.9	7.5	7.0	24.4
FY19	154,482.0	8.2	31,782.0	20.6	19,500.0	106.0	117.5	27.1	13.9	11.5	17.5
FY20E	182,081.1	17.9	46,604.3	25.6	19,075.0	(2.2)	114.8	27.8	12.4	9.7	11.7
FY21E	182,628.8	0.3	42,474.2	23.3	26,140.5	37.0	157.3	20.3	15.0	14.9	12.8
FY22E	195,406.2	7.0	48,073.0	24.6	30,238.0	15.7	181.9	17.5	15.3	15.5	11.3

Dr. Reddy's Q3FY20 results were above expectations. Sales growth across geographies, mainly driven by volume growth and new launches. US revenue growth of 9% to \$226 mn has come in after 5 quarters of de-growth. The company took an impairment of Rs 13.2 bn of which Rs 11.1 bn was towards gNuvaring. The improvement in manufacturing leverage and focus on profitability and operational efficiencies will enable earnings growth going forward. We expect Dr. Reddy's to benefit from its research pipeline. We recommend investors to BUY on Dips with a target price of Rs 3572.

Sales increased 14% yoy/-9% qoq Rs 43.8 bn, driven by growth in Russia & CIS (21% yoy Rs 6.7 bn), USA (12% Rs 16 bn, \$226 bn +9% yoy cc) and Europe (52% Rs 3.09 bn).

Global Generics segment grew 15% yoy/9% qoq to Rs 35.9 bn. Growth across geographies driven by Russia & CIS, USA, Europe. India (+13 % yoy/+2% qoq Rs 7.6 bn), and ROW (+11% yoy/+18% qoq Rs 2.5 bn).

US business grew due to the re-launch of 22 products, 5 new launches and higher volumes. PSAI (+16% yoy Rs6.9 bn), growth mainly from increased API volumes. Proprietary Products -17% yoy to Rs 1 bn. Q2FY20 PP sales of Rs 8 bn includes license fee of Rs 7.2 bn for sale of US and select territory rights of 3 Neurology brands to Upsher Smith. Excluding the license fee, revenue was at Rs 886 mn.

Gross Profit +14% yoy/+13% qoq excluding one-off to Rs 23.7 bn. Gross margins at 54.1% (+20 bps yoy/+260 bps qoq, excl one off). EBITDA increased 24% yoy/ flat qoq to Rs 10.7 mn, higher than our estimate of Rs 9.7 bn. EBITDA margin was at 24.5% (+200 bps yoy/-190 bps qoq).

Adjusted PBT was at Rs 7750 mn (+36% yoy/+59% qoq). Adjusted PAT grew to Rs 7926 mn (+63% yoy/+103% qoq). Adjusted EPS for the quarter Rs 47.7.

Outlook & Valuation

At Rs 3188 Dr. Reddy's trades at 18x FY22E EPS of Rs 182 and 11x EV/EBITDA for FY22E. The company has realigned itself to its research pipeline, manufacturing mix and the price erosion in the US markets in FY20. We believe the company will benefit from the new product launches and operational efficiencies going forward. We have revised and rolled forward our estimates to FY22.

We have valued Dr. Reddy's as a weighted average of DISCOUNTED CASH FLOW, P/E multiple of 20x FY22E EPS of Rs 182 and 12x EV/EBITDA.

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KTAs from Dr. Reddy's Q3FY20 earnings call

1. US revenues were at \$225 mn due to increase in market share of Suboxone film, re-launch of 22 products and 4 discontinued products. The management will focus on anchor products going forward. The company plans to expand its product basket in the US from 120 to 350 over the next few years.
2. Russia & CIS grew 21% to Rs 6700 mn during the quarter. Russia sales at Rs 4900 mn include the tender supplies of Rituximab, which is lumpy by nature.
3. Europe revenues increased 52% to Rs 3093 mn, due to volume growth in existing products, new launches and entry into new markets, namely France, Italy and Spain.
4. The company has benefitted through manufacturing leverage, leading to profitability improvement across businesses. The company expects margin improvement through more cost controls.
5. Dr. Reddy's has received a complete response letter (CRL) for gNuvaring and gCOPAXONE. The company will submit a response to the USFDA in a few months.
6. The company will conduct trials for gRevlimid in H2CY2020.
7. Dr. Reddy's has become net debt negative with a net cash balance of Rs 4131 mn.
8. Dr. Reddy's has 101 ANDAs pending approval, of which 32 are first-to-file.



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Particulars	Q3FY20	Q2FY20	Q3FY19	% yoy	% qoq
Net Income from Sales & Services	43838	48010	38500	14%	-9%
License Fee on sale of PP		7200			
Gross Profit	23722	27621	20752	14%	-14%
GPM (%)	54.1%	57.5%	53.9%		
SG&A expenses	-12670	-13277	-12036		
R&D Expenses	-3949	-3662	-3668		
EBIDTA excl one offs	-2463	10778	8653		
EBIDTA (%)	-5.6%	26.4%	22.5%		
Other Income	228	135	681		
Impairment	-13200	-3500	0		
EBIT	10965	7317	5729		
Interest	419	231	-13		
PBT excl. one offs	-2654	10682	9347	-128%	-125%
Profit before tax	11384	7548	5716		
Tax	-423	3261	-953		
Profit After tax before MI	10961	10809	4763		
Share of Profit	176	117	89		
Profit After Tax	11137	10926	4852		
NPM (%)	25.40%	22.76%	12.60%		
Equity	830.6	830	830		
EPS excl exceptional	47.71	49.66	29.23		
EPS -(Rs)	-34.29	65.82	29.23		

Revision of Estimates

We have revised our estimates in view of the one offs , impairments in Q2FY20 and Q3FY20 and the changing market dynamics in view of product launches in the US as well as other markets.

	FY20E			FY21E		
	New	Old		New	Old	
Sales	182,081	171,142	6%	182,629	186,010	-2%
EBITDA	46,604	36,917	26%	42,474	40,732	4%
PAT	19,075	22,150	14%	26,140	24,730	6%



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Dr Reddy's Laboratories Limited											
P&L (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	142,810.0	154,482.0	182,081.1	182,628.8	195,406.2	Net Profit	9,468.0	19,500.0	19,075.0	26,140.5	30,238.0
Raw materials	(40,395.0)	(44,948.0)	(53,059.6)	(53,616.6)	(56,468.3)	Add: Dep. & Amort.	10,772.0	11,348.0	11,901.0	12,427.9	13,130.4
Employee costs	(32,149.0)	(33,562.0)	(35,575.7)	(37,354.5)	(39,222.2)	Cash profits	20,240.0	30,848.0	30,975.9	38,568.3	43,368.4
Other Expenses	(46,754.0)	(44,190.0)	(46,841.4)	(49,183.5)	(51,642.6)	(Inc)/Dec in					
Cost of sales	(119,298.0)	(122,700.0)	(135,476.7)	(140,154.6)	(147,333.2)	-Sundry debtors	(2,500.0)	714.0	(6,911.2)	(1,269.1)	(3,407.0)
Operating Profit	23,512.0	31,782.0	46,604.3	42,474.2	48,073.0	-Inventories	(561.0)	(4,490.0)	(7,687.0)	(1,116.8)	(2,998.2)
Depreciation	(10,772.0)	(11,348.0)	(11,901.0)	(12,427.9)	(13,130.4)	-Loans/advances	58.0	(834.0)	(123.6)	(129.8)	(136.3)
Impairment	-	-	(17,160.0)	-	-	-Sundry creditors	2,776.0	326.0	865.9	152.6	781.3
PBIT	12,740.0	20,434.0	17,543.4	30,046.3	34,942.6	-Others	(3,064.0)	3,636.0	(209.6)	(244.5)	(283.6)
Other income	1,552.0	3,375.0	3,712.5	4,083.8	4,492.1	Change in working capital	(3,291.0)	(648.0)	(14,065.5)	(2,607.6)	(6,043.8)
Interest	(788.0)	(889.0)	(728.1)	(603.1)	(603.1)	CF from Oper. activities	16,949.0	30,200.0	16,910.4	35,960.8	37,324.6
Profit before tax	13,504.0	22,920.0	20,527.7	33,527.0	38,831.6	CF from Inv. activities	(14,203.0)	(10,954.0)	1,109.5	(27,885.2)	(28,183.5)
Provision for tax	(4,380.0)	(3,858.0)	(2,052.8)	(8,046.5)	(9,319.6)	CF from Fin. activities	(3,589.0)	(22,647.0)	(33,580.9)	(6,565.0)	(6,739.2)
PAT Bfr Excp Items	9,124.0	19,062.0	18,475.0	25,480.5	29,512.0	Cash generated/(utilised)	(843.0)	(3,401.0)	(15,560.9)	1,510.6	2,401.9
Share of Profit	344.0	438.0	600.0	660.0	726.0	Cash at start of the year	7,253.0	7,205.0	5,628.0	7,227.1	8,737.7
Net Profit	9,468	19,500	19,075	26,140	30,238	Cash at end of the year	7,205.0	5,628.0	7,227.1	8,737.7	11,139.6
Balance Sheet	FY18	FY19	FY20E	FY21E	FY22E	Ratios	FY18	FY19	FY20E	FY21E	FY22E
Equity capital	830	830	831	831	831	OPM	16.5	20.6	25.6	23.3	24.6
Reserves	124,886	139,406	152,647	172,953	197,357	NPM	6.6	12.4	10.3	14.0	15.1
Net worth	125,716	140,236	153,478	173,784	198,188	Tax rate	(32.4)	(16.8)	(10.0)	(24.0)	(24.0)
Def. Tax Liab.+Minority Int.	1,950	473	520	572	630	Growth Ratios (%)					
Secured loans	25,089	22,000	17,000	17,000	17,000	Net Sales	0.6	8.2	17.9	0.3	7.0
Unsecured loans	25,562	12,125	7,125	7,125	7,125	Operating Profit	(37.6)	35.2	46.6	(8.9)	13.2
Total debt	50,651	34,125	24,125	24,125	24,125	PAT	(63.4)	106.0	(2.2)	37.0	15.7
Other Liabilities	2,933	2,181	2,409	2,662	2,943	Per Share (Rs.)					
CAPITAL EMPLOYED	181,250	177,015	180,532	201,144	225,886	Net Earnings (EPS)	57.04	117.5	114.77	157.3	181.9
Gross block	156,159	166,901	171,901	181,901	191,901	Cash Earnings (CPS)	121.9	185.8	186.4	232.1	260.9
Accumulated depreciation	(106,426)	(117,774)	(129,675)	(142,103)	(155,233)	Dividend	30.0	30.0	30.0	30.0	30.0
Net block	49,733	49,127	42,226	39,798	36,668	Book Value	757.3	844.8	923.5	1,045.6	1,192.5
Capital WIP	7,678	4,725	3,000	3,000	3,000	Free Cash Flow	16.5	115.9	108.4	48.6	55.0
Total fixed assets	57,411	53,852	45,226	42,798	39,668	Valuation Ratios					
Intangible assets	41,643	42,734	45,195	47,902	50,880	P/E(x)	55.9	27.1	27.8	20.3	17.5
Goodwill	5,331	4,659	4,659	4,659	4,659	P/B(x)	4.2	3.8	3.5	3.0	2.7
Investments	22,983	25,871	18,871	33,871	48,871	EV/EBIDTA(x)	24.4	17.5	11.7	12.8	11.3
Other non current assets	1,280	1,138	1,293	1,471	1,676	EV/SALES(x)	4.0	3.6	3.0	3.0	2.8
Inventories	29,089	33,579	41,266	42,383	45,381	Div. Yield(%)	0.9	0.9	0.9	0.9	0.9
Sundry debtors	40,696	39,982	46,893	48,162	51,569	FCF Yield(%)	0.5	3.6	3.4	1.5	1.7
Cash & bank	7,205	5,628	7,227	8,738	11,140	Return Ratios (%)					
Loans & advances	1,638	2,472	2,596	2,725	2,862	ROE	7.5	13.9	12.4	15.0	15.3
Other current assets	12,762	10,424	11,466	12,613	13,874	ROCE	7.0	11.5	9.7	14.9	15.5
Sundry creditors	(13,345)	(13,671)	(14,537)	(14,689)	(15,471)	ROA	5.8	11.8	11.5	14.2	14.7
Acceptances	(4,617)	(5,537)	(6,091)	(6,700)	(7,370)						
Provisions	(5,204)	(5,582)	(5,861)	(6,154)	(6,462)						
Working capital	47,197	44,444	60,109	64,227	72,672						
Deferred tax assets	5,405	4,317	5,180	6,216	7,460						
CAPITAL DEPLOYED	181,250	177,015	180,532	201,144	225,886						



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