

Business Update | Pharmaceuticals

Sentiment revival with expected Sputnik approval. Business growth to continue.

Equity Research Desk

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Growth across India, US, Russia & other markets

- The Sputnik vaccine awaits Emergency Use Authorisation (EUA) from the Indian Council of Medical Research (ICMR). The Council of Scientific and Industrial Research (CSIR) Dr. Shekhar Mande announced that the Sputnik vaccine data is encouraging.
- Dr. Reddy's has an agreement with RDIF (Russian Direct Investment Fund) for the supply of 125 mn doses, with manufacturing from Indian as well as Russian contractors. Dr. Reddy's is the sole distribution partner for Sputnik vaccines in India. The vaccine supplies will be phased out and continue for 2-3 years.
- Sputnik V is a recombinant vaccine and hence looks forward to a higher pricing from the Indian Government. It is the only vaccine in the world using two different serotypes in the first and second shot.
- Assuming a price of Rs 350 for Sputnik and 15% distributor margins- we believe the vaccine will add Rs 2500 - 2650 mn on supply of 50 mn vaccines in FY22.
- Dr. Reddy's **India business (~17-18% of sales)** continues to grow through the scale up of Wockhardt's acquired business as well as its own first to market products in the Indian market.
- 9MFY21 sales +13% Rs 25 bn, due to Wockhardt acquisition and Covid19 products namely Favipiravir and Remdesvir. We expect India business +10% CAGR to Rs 40.2 bn by FY23E.

US (~37% of sales)

- 9MFY21 sales +14% Rs 53 bn through 21 new launches, higher volumes, currency benefit offset by price erosion in some products.
- Dr. Reddy's launched complex generics and limited competition products like Vigabatrin and Fluephenazine (Refer Table 1). We believe the company will gain market share leading to growth in US.
- We expect US sales +10% CAGR Rs 86.6 bn by FY23E.
- US FDA completed the pre-approval audit of its API plant at Middleburg, New York & has issued Form 483 with 3 observations. The company is confident of resolving the same.

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1,54,482	1,75,170	1,96,150	2,16,610	2,41,897
Adjusted net profit	19,500	20,340	22,428	32,661	40,102
Free cash flow	23,797	31,830	19,588	21,140	32,104
EPS (Rs)	117.5	122.4	134.9	196.5	241.3
growth (%)	106	4	10	46	23
P/E (x)	38.3	36.8	33.3	22.9	18.6
P/B (x)	5.3	4.8	4.4	3.9	3.2
EV/EBITDA (x)	24.4	18.1	15.4	13.3	11.1
D/E	0.2	0.1	0.1	0.1	0.1
RoC (%)	13.6	14.5	14.7	19.5	22.3
RoE (%)	13.9	13.0	13.2	16.9	17.2
Dividend yield (%)	0.7	1.0	1.0	1.0	1.0

Source: Company

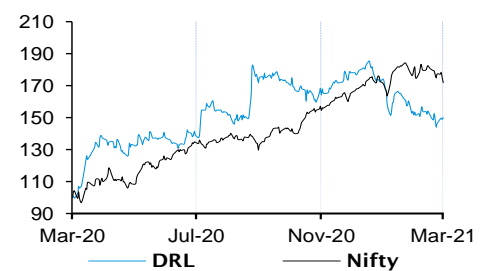
Rating	TP (Rs)	Up/Dn (%)
BUY	5613	24

Market data

Current price	Rs	4,518
Market Cap (Rs.Bn)	(Rs Bn)	751
Market Cap (US\$ Mn)	(US\$ Mn)	10233
Face Value	Rs	5
52 Weeks High/Low	Rs	5515/2822
Average Daily Volume	('000)	813
BSE Code		500124
Bloomberg		DRRD:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	26.73	26.74
FII	29.58	29.33
DII	13.92	14.64
Others	29.76	29.29
Total	100	100

Source: BSE

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Table 1: Generic approvals/launches over the last few quarters

Generic	Launch/App/Form	Market Size (USD mn)	Number of players	\$ mn/ year	Remarks
Fingolimod Hydrochloride	Mar'21 Capsule		9		
Albendazole	Jan'21 Tablets				Cipla, DRL, Strides, Zydus
Febuxostat	Jan'21 Tablets	108		8-10	
Lidocaine	Jan'21 Ointment		13		DRL, Glenmark, Alembic, Alkem, SUNP
Lanzoprazole	Feb'21 DR Orally disintegrating tablets	87			
Capecitabine	Feb'21 Tablets	90	13		Alkem, DRL, SUNP, Reliance, Shilpa
CARMUSTINE	Dec'20 Injectable		6		Emcure, DRL
Fosaprepitant Dimeglumine	Dec'20 IV Powder	136	15	8-10	Lupin, DRL, Aurobindo
Icatibant Acetate	Oct'20 Injectable	270	7	25-30	DRL & Cipla
Ephadrine Sulphate	Oct'20 Solution	75	10	10	DRL only Indian player
Cinacalcet	Oct'20 Tablets	312	7	25-30	Cipla, DRL,
Fulvestrant	June'20 Injectable	407	9	40-50	Glenmark, DRL
Methylphenidate HCL	Sept'20 XR tablets	1150	12	30-40	SUNP, DRL
Fluophenazine	Feb'21 Tablets	134	3	30-35	DRL
Vigabatrin	Feb'21 Tablets	141	3	30-35	DRL

Source: Dalal & Broacha Research, Company

Russia & CIS (13% of sales)

- Russia & CIS 9MFY21 sales -2% Rs 17 bn, due to new launches and volume growth, with currency impact due to rouble depreciation.
- The company acquired MOMATE RHINO, an OTC respiratory product from Glenmark in end November'20. Q4FY21 will be the first full quarter after the acquisition. The products are used in the treatment of seasonal and perennial allergic rhinitis. We believe Dr. Reddy's will be able to scale up the product, being the largest Indian player in Russia.

Europe (~8% of sales)

- 9MFY21 sales +39% Rs 11 bn, through new launches, higher volumes & currency benefit.
- Dr. Reddy's will benefit from market share gains from new markets of France, Italy, Spain and Austria.

Valuation & Outlook

At CMP, Dr. Reddy's trades at 19x FY23E EPS of Rs 241. We believe Dr. Reddy's will benefit from growth across key markets namely US, India, Russia +CIS and ROW. The company will also benefit from approval of Sputnik vaccine and supplies over next 2-3 years.

Dr. Reddy's has 89 ANDAs pending USFDA approval, of which 48 are Para IVs and 28 FTFs. These include high value assets like gREVLIMID, gCOPAXONE, gNUVARING and some more.

We maintain BUY with a target price of Rs 5613.

Financial

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20E	FY21E	FY22E	FY23E
Net Sales	1,54,482	1,75,170	1,96,150	2,16,610	2,41,897	Net Profit	19,500	20,340	22,428	32,661	40,102
Other operating income						Add: Dep. & Amort.	11,348	11,631	12,287	13,272	13,929
Raw materials	(44,948)	(55,070)	(64,238)	(71,072)	(79,541)	Cash profits	30,848	31,971	34,716	45,934	54,031
Employee costs	(33,562)	(33,802)	(36,506)	(37,601)	(38,729)	(Inc)/Dec in					
Other Expenses	(44,190)	(44,353)	(46,571)	(51,228)	(56,350)	-Sundry debtors	714	(12,033)	(8,065)	(6,391)	(7,921)
Cost of sales	(1,22,700)	(1,33,225)	(1,47,315)	(1,59,901)	(1,74,621)	-Inventories	(4,490)	(1,488)	(4,578)	(4,217)	(5,227)
Operating Profit	31,782	41,945	48,835	56,709	67,277	-Loans/advances	(834)	(2,010)	(224)	(235)	(247)
Depreciation	(11,348)	(11,631)	(12,287)	(13,272)	(13,929)	-Sundry creditors	326	1,577	1,619	1,794	2,224
Impairment	-	(17,160)	(6,753)	-	-	-Others	3,636	2,409	40	30	19
PBIT	20,434	13,154	29,794	43,437	53,348	Change in working capita	(648)	(11,545)	(11,208)	(9,020)	(11,152)
Other income	3,375	6,206	496	546	601	CF from Oper. activities	30,200	20,426	23,508	36,914	42,879
Interest	(889)	(983)	(892)	(892)	(803)	CF from Inv. activities	(10,954)	4,989	(6,220)	(29,346)	(26,488)
Profit before tax	22,920	18,377	29,399	43,091	53,146	CF from Fin. activities	(22,647)	(46,498)	(17,736)	(11,451)	(3,262)
Provision for tax	(3,858)	1,402	(7,644)	(11,204)	(13,818)	Cash generated/(utilise	(3,401)	(21,083)	(448)	(3,883)	13,129
PAT Bfr Excp Items	19,062	19,779	21,755	31,887	39,328	Cash at start of the year	7,205	5,628	6,432	12,737	8,854
Share of Profit	438	561	673	774	774	Cash at end of the year	5,628	6,432	12,737	8,854	21,983
Net Profit	19,500	20,340	22,428	32,661	40,102	Ratios	FY19	FY20	FY21E	FY22E	FY23E
						OPM	20.6	23.9	24.9	26.2	27.8
						NPM	12.4	11.2	11.4	15.0	16.5
						Tax rate	(16.8)	7.6	(26.0)	(26.0)	(26.0)
						Growth Ratios (%)					
						Net Sales	8.2	13.4	12.0	10.4	11.7
						Operating Profit	35.2	32.0	16.4	16.1	18.6
						PAT	106.0	4.3	10.3	45.6	22.8
						Per Share (Rs.)					
						Net Earnings (EPS)	117.5	122.38	134.9	196.5	241.3
						Cash Earnings (CPS)	185.8	192.4	208.9	276.4	325.1
						Dividend	30.0	45.0	45.0	45.0	46.0
						Book Value	844.8	938.6	1,020.9	1,164.7	1,406.0
						Free Cash Flow	115.9	152.9	104.0	45.5	98.6
						Valuation Ratios					
						P/E(x)	38	37	33	23	19
						P/B(x)	5	5	4	4	3
						EV/EBIDTA(x)	24	18	15	13	11
						EV/SALES(x)	5	4	4	3	3
						Div. Yield(%)	1	1	1	1	1
						FCF Yield(%)	3	3	2	1	2
						Return Ratios (%)					
						ROE	13.9	13.0	13.2	16.9	17.2
						ROCE	11.5	7.5	15.7	20.3	21.0
						ROA	11.8	11.3	11.7	15.2	15.8
						ROIC	13.6	14.5	14.7	19.5	22.3

Source: Dalal & Broacha Research, Company

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