



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Result update@ Dalal & Broacha

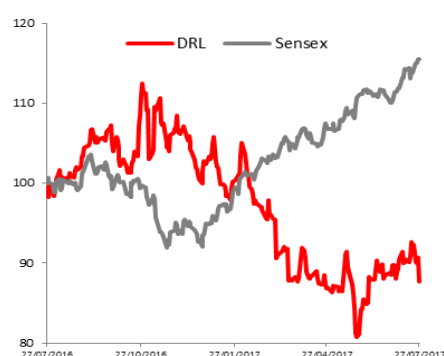
Buy on Dips

Current Price	2385
Target Price	2800
Upside/Downside	18%
52 Week Range	3395/2382

Key Share Data

Market Cap (Rs.bn)	411
Market Cap (US\$ mn)	6323
No of o/s shares (mn)	165.6
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	334
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD IN Equity

Price performance



% Shareholding

	Jun-17	Mar-17
Promoters	26.78	26.79
FII	31.64	32.4
DII	11.74	9.28
Others	29.84	31.53
Total	100	100

Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16	155,683.0	4.4	35,853.0	23.0	21,306.0	(8.8)	124.9	19.1	17.0	16.3
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	30.6	10.5	8.2
FY18E	156,346.1	10.1	27,975.1	17.9	14,079.5	9.0	84.9	28.1	10.8	9.3
FY19E	176,827.8	13.1	35,610.5	20.1	19,212.2	36.5	115.9	20.6	12.8	12.1

Dr. Reddy's Laboratories (DRL) Q1FY18 results were far below expectations.

The performance was impacted due to intense pricing pressure in US in 2 key products, impact of transition to GST in India and a weaker US\$. Although DRL launched 4 value added products during the quarter, the company expects its benefit by end Q2FY18.

EU and Russia growth offset by de-growth in India

Revenues grew 3% to Rs 33159 mn. Global Generics grew 3% to Rs 27455 mn. The growth in EU (29%), Russia (47%) due to commencement of Rituximab supplies was offset by the 3% degrowth in US and 10% de-growth in India. EBITDA degrew 62% due to 470 bps decline in gross margins to 51.2%, increase in R & D and Selling expenses. Gross margins excluding the GST impact would have been 54%. PAT declined 53% to Rs 591 mn. EPS for the quarter was at Rs 3.6.

Key takeaways from the concall

- US sales were flat due to intense pricing pressure (10-20%) in Valganciclovir, Azacitidine due to new players. Going forward, the company expects stable business from US with 10-12 new launches in FY18.
- The company has improved its focus on EU, Russia and select emerging markets.
- DRL has received the target action dates for gSuboxone and gNuvaring, both sizeable near term opportunities.
- The company has 99 ANDAs pending approval, of which 59 are Para IV with 26 first to file opportunities.
- DRL plans to invite USFDA for re-inspection of its Duvvada plant by December.

Outlook & Valuation

At Rs 2382, DRL trades at 20x FY19E EPS of Rs 115.9. The management has prioritized on improving its manufacturing standards and revitalizing growth through US, EU, Russia, and India and select emerging markets. The company will also optimize costs to improve profitability. We strongly believe in the research capabilities of DRL to create value added assets for the US markets. We believe the impact is temporary and new US launches, India GST transition should help DRL restore both growth and profitability in a quarter or two.

The worst seems to be over for DRL. We recommend investors to BUY on Dips with a target price of Rs 2800.



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Particulars	Q1FY18	Q4FY17	Q1FY17	% yoy	% qoq	FY17	FY16	% Change
Net Income from Sales & Services	33159	35542	32345	3%	-7%	140809	154708	-9%
Gross Profit	17097	18182	18178			78356	92281	
GPM (%)	51.6%	51.2%	56.2%			55.6%	59.6%	
SG&A expenses	-11763	-10973	-12284			-46372	-45702	
R&D Expenses	-5075	-4579	-4802			-19551	-17834	
EBIDTA	3782	6303	3979	-5%	-40%	25495	36252	-30%
EBIDTA (%)	11.4%	17.7%	12.3%			18.1%	23.4%	
Other Income	194	505	96			1065	874	
EBIT	453	3135	1188	-62%	-86%	13498	29619	-54%
Interest	221	-48	445			806	-2708	
Profit before tax	674	3087	1633	-59%	-78%	14304	26911	-47%
Tax	-181	-64	-444			-2614	-7127	
Profit After tax before MI	493	3023	1189	-59%	-84%	11690	19784	-41%
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	98	102	74			349	229	
Profit After Tax	591	3125	1263	-53%	-81%	12039	20013	-40%
NPM (%)	1.78%	8.79%	3.90%			8.55%	12.94%	
Equity	829	829	828			829	853	
EPS -(Rs)	3.56	18.85	7.63			72.61	117.3	



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Dr Reddy's Laboratories Limited									
P&L (Rs mn)	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E
Net Sales	155,683.0	141,961.0	156,346.1	176,827.8	Net Profit		12,921.0	14,079.5	19,212.2
Raw materials	(37,585.0)	(34,449.0)	(37,456.4)	(41,566.0)	Add: Dep. & Amort.		10,266.0	11,095.4	11,761.5
Employee costs	(31,174.0)	(31,068.0)	(34,796.2)	(40,015.6)	Cash profits		23,187.0	25,174.9	30,973.6
Other Expenses	(39,260.0)	(38,788.0)	(41,891.0)	(43,985.6)	(Inc)/Dec in				
Selling Expenses	(11,811.0)	(12,934.0)	(14,227.4)	(15,650.1)	-Sundry debtors		3,264.0	(1,805.5)	(5,285.8)
Cost of sales	(119,830.0)	(117,239.0)	(128,371.0)	(141,217.3)	-Inventories		(2,949.0)	1,302.2	(3,616.6)
Operating Profit	35,853.0	24,722.0	27,975.1	35,610.5	-Loans/advances		(188.0)	(169.6)	(186.6)
Depreciation	(9,389.0)	(10,266.0)	(11,095.4)	(11,761.5)	-Sundry creditors		1,501.0	(307.0)	1,125.9
PBIT	26,464.0	14,456.0	16,879.7	23,849.0	-Others		(55.0)	763.1	824.4
Other income	2,950.0	1,715.0	2,229.5	2,898.4	Change in working capital		1,573.0	(216.8)	(7,138.6)
Interest	(826.0)	(634.0)	(941.5)	(851.5)	CF from Oper. activities		24,760.0	24,958.1	23,835.0
Profit before tax	28,588.0	15,537.0	18,167.7	25,895.9	CF from Inv. activities		(24,051.0)	(14,262.5)	(18,000.0)
Provision for tax	(7,511.0)	(2,965.0)	(4,541.9)	(7,250.8)	CF from Fin. activities		809.0	(9,296.9)	(4,420.9)
PAT Bfr Excp Items	21,077.0	12,572.0	13,625.8	18,645.0	Cash generated/(utilised)		1,518.0	1,398.6	1,414.2
Share of Profit	229.0	349.0	453.7	567.1	Cash at start of the year		4,921.0	3,865.0	5,263.6
Net Profit	21,306	12,921	14,079	19,212	Cash at end of the year		3,865.0	5,263.6	6,677.8
Balance Sheet	FY16	FY17	FY18E	FY19E	Ratios	FY16	FY17	FY18E	FY19E
Equity capital	853.0	829.0	829.0	829.0	OPM	23.0	17.4	17.9	20.1
Reserves	124,845.0	121,792.0	130,051.4	149,263.6	NPM	13.4	9.0	8.9	10.7
Net worth	125,698.0	122,621.0	130,880.4	150,092.6	Tax rate	(26.3)	(19.1)	(25.0)	(28.0)
Def. Tax Liab.+Minority Int.	537.0	1,620.0	1,782.0	1,960.2	Growth Ratios (%)				
Secured loans	10,685.0	5,449.0	5,449.0	5,449.0	Net Sales	4.4	(8.8)	10.1	13.1
Unsecured loans	22,718.0	43,626.0	39,626.0	34,626.0	Operating Profit	6.1	(31.0)	13.2	27.3
Total debt	33,403.0	49,075.0	45,075.0	40,075.0	PAT	(8.8)	(39.4)	9.0	36.5
Other Liabilities	2,503.0	3,434.0	3,795.7	4,197.2	Per Share (Rs.)				
CAPITAL EMPLOYED	162,141.0	176,750.0	181,533.1	196,325.0	Net Earnings (EPS)	124.9	77.9	84.9	115.9
Gross block	131,518.0	145,935.0	153,935.0	163,935.0	Cash Earnings (CPS)	179.9	139.8	151.8	186.8
Accumulated depreciation	(85,388.0)	(95,654.0)	(106,749.4)	(118,510.9)	Dividend	25.0	20.0	30.0	30.0
Net block	46,130.0	50,281.0	47,185.6	45,424.1	Book Value	736.8	739.6	789.4	905.3
Capital WIP	6,626.0	6,095.0	5,000.0	5,000.0	Free Cash Flow	-	4.3	64.5	35.2
Total fixed assets	52,756.0	56,376.0	52,185.6	50,424.1	Valuation Ratios				
Intangible assets	15,946.0	41,413.0	42,770.5	42,770.5	P/E(x)	19.1	30.6	28.1	20.6
Goodwill	4,650.0	4,763.0	4,763.0	4,763.0	P/B(x)	3.2	3.2	3.0	2.6
Investments	38,331.0	21,097.0	27,097.0	35,097.0	EV/EBIDTA(x)	12.1	17.8	15.6	12.0
Other non current assets	3,347.0	5,166.0	5,166.0	5,166.0	EV/SALES(x)	2.8	3.1	2.8	2.4
Inventories	25,579.0	28,528.0	27,225.8	30,842.4	Div. Yield(%)	1.0	0.8	1.3	1.3
Sundry debtors	41,250.0	37,986.0	39,791.5	45,077.3	FCF Yield(%)	-	0.2	2.7	1.5
Cash & bank	4,921.0	3,865.0	5,263.6	6,677.8	Return Ratios (%)				
Loans & advances	1,508.0	1,696.0	1,865.6	2,052.2	ROE	17.0	10.5	10.8	12.8
Other current assets	9,648.0	10,491.0	10,491.0	10,491.0	ROCE	16.3	8.2	9.3	12.1
Sundry creditors	(9,068.0)	(10,569.0)	(10,262.0)	(11,388.0)					
Acceptances	(3,589.0)	(4,647.0)	(5,111.7)	(5,622.9)					
Provisions	(6,237.0)	(5,967.0)	(6,265.4)	(6,578.6)					
Working capital	41,206.0	41,151.0	42,766.5	51,319.2					
Deferred tax assets	5,905.0	6,784.0	6,784.6	6,785.2					
CAPITAL DEPLOYED	162,141.0	176,750.0	181,533.1	196,325.0					

Note: Annual numbers based on IND AS



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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms.Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Chemicals
Mr. Avinash Kumar	avinash.kumar@dalal-broacha.com	022 67141441	Capital Goods
Ms Richa.Singh	richa.singh@dalal-broacha.com	022 67141444	Analyst

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021

Tel: 91-22- 2282 2992, 2287 6173, (D) 6630 8667 Fax: 91-22-2287 0092

E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com