



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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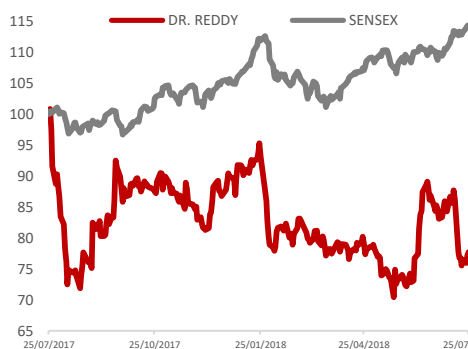
ACCUMULATE

Current Price	2135
Target Price	2500
Upside/Downside	16%
52 Week Range	2725/1888

Key Share Data

Market Cap (Rs.bn)	349.56
Market Cap (US\$ mn)	5087.10
No of o/s shares (mn)	165.91
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	1136
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



% Shareholding	Jun-18	Mar-18
Promoters	26.79	26.76
FII	27.16	30.25
DII	11.32	8.90
Others	34.73	34.60
Total	100	100

Dr. Reddy's Laboratories (DRL) Q1FY19 results were better than expectations. The results included revenues and profits from the brief launch of gSuboxone (film), which received a preliminary injunction order halting sale of the drug in the US.

gSuboxone launch in US, traction in India and Russia augments growth

- Revenues increased 12% yoy (5% qoq) to Rs 37207 mn, in line with our estimate of Rs 37793 mn, driven by Global Generics (+12% yoy, 10% qoq) to Rs 30636 mn, PSAI (+16% yoy, -13% qoq) to Rs 5409 mn and 10% growth in Proprietary Products to Rs 1162 mn.
- The Global Generics growth was mainly from Russia/CIS (+15%), India (+30% on low base) and US (+6% yoy, +10% qoq).
- Gross Profit increased 21% yoy on low base (+10% qoq) to Rs 20728 mn. Gross profit margins increased 400 bps yoy(+200 bps qoq) to 55.7%. The improvement in profitability is on account of currency benefit, leverage of overheads, gSuboxone adjusted to price erosion in base business.
- EBITDA increased 113% yoy (+40% qoq) to Rs 8071 mn. EBITDA margins were 1030 bps higher yoy on low base (+540 bps qoq) at 21.7%.
- PBT was +630% yoy (+34% qoq) at Rs 4924 mn. After lower taxes and a higher share of profit of Rs 83 mn, PAT was higher (+672% yoy, +51% qoq) at Rs 4561 mn. EPS for the quarter was at Rs 27.6.

Outlook & Valuation

DRL's Q1FY19 results have been encouraging. The gSuboxone hearing of the court of appeals holds key to retention of profits earned on gSuboxone. In view of the current opioid addiction crisis in the US, if the judgement goes in favour of DRL, the receivables will move forward. In case of an adverse judgement DRL may need to book returns and take a hit on sales and profits for sales into other regions. We remain cautious on the stock.

At Rs 2135, DRL trades at 18x FY20E EPS of Rs 116. We expect the stock to be range bound over the next 2 quarters. Any positive developments at Duvvada and Srikakulam will reduce the risk in the stock. We reduce our target to Rs 2500 and recommend investors to ACCUMALATE the stock.

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	17.1	17.0	16.3
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	27.4	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	37.4	7.5	7.0
FY19E	156,340.6	9.5	29,517.3	18.9	14,849.9	56.8	89.5	23.9	10.6	9.4
FY20E	175,038.8	12.0	36,988.8	21.1	19,255.3	29.7	116.0	18.4	12.0	11.6



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Key takeaways from the concall

1. US revenues grew +7% to \$237 mn. The growth in gSuboxone revenues was offset by price erosion in base business. DRL launched 4 new products during the quarter with 4 ANDA filings.
2. India revenues increased 30% on low base to Rs 6070 mn, mainly from launch of 5 biosimilars. The company expects India business to grow in line with industry.
3. DRL has filed an appeal to the preliminary injunction order on gSuboxone. The company has not received any date for the hearing but expects hearing around September-October.
4. DRL needs to complete certain data investigation to be submitted to USFDA for its Srikakulam plant, which the company expects to complete by September.
5. The company has invited USFDA to inspect its Duvvada facility.
6. During the quarter, receivables have increased by 20% due to increase in credit to key customers in US and on account of gSuboxone sales.
7. DRL has planned for 15-20 new launches in the US in FY19.
8. The company received a CRL on gNuvaring and will respond to the USFDA by September. The company expects to launch in CY19.
9. DRL plans to sell its antibiotics plant over the next month.

Particulars	Q1FY19	Q4FY18	Q1FY18	% yoy	% qoq	FY18	FY17	% Change
Net Income from Sales & Services	37207	35349	33159	12%	5%	142028	140809	1%
Gross Profit	20728	18895	17097			76304	78356	
GPM (%)	55.7%	53.5%	51.6%			53.7%	55.6%	
SG&A expenses	-12106	-12067	-11763			-46910	-46372	
R&D Expenses	-4157	-4348	-5075			-18265	-19551	
EBIDTA	8071.4	5777	3782	113%	40%	24080	25495	-6%
EBIDTA (%)	21.7%	16.3%	11.4%			17.0%	18.1%	
Other Income	303	167	194			788	1065	
EBIT	4768	2647	453	953%	80%	11917	13498	-12%
Interest	156	1032	221			2080	806	
Profit before tax	4924	3679	674	631%	34%	13997	14304	-2%
Tax	-446	-726	-181			-4535	-2614	
Profit After tax before MI	4478	2953	493	808%	52%	9462	11690	-19%
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	83	69	98			344	349	
Profit After Tax	4561	3022	591	672%	51%	9806	12039	-19%
NPM (%)	12.26%	8.55%	1.78%			6.90%	8.55%	
Equity	830	830	829			830	829	
EPS -(Rs)	27.51	18.23	3.56			59.07	72.61	



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Dr Reddy's Laboratories Limited											
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	155,683.0	141,961.0	142,810.0	156,340.6	175,038.8	Net Profit		12,921.0	9,468.0	14,849.9	19,255.3
Raw materials	(37,585.0)	(34,449.0)	(40,395.0)	(42,367.7)	(45,835.2)	Add: Dep. & Amort.		10,266.0	10,772.0	11,493.1	12,562.9
Employee costs	(31,174.0)	(31,068.0)	(32,149.0)	(35,363.9)	(40,668.5)	Cash profits		23,187.0	20,240.0	26,343.0	31,818.2
Other Expenses	(39,260.0)	(38,788.0)	(46,754.0)	(49,091.7)	(51,546.3)	(Inc)/Dec in					
Selling Expenses	(11,811.0)	(12,934.0)	-	-	-	-Sundry debtors		3,054.0	(2,500.0)	(2,548.6)	(5,272.0)
Cost of sales	(119,830.0)	(117,239.0)	(119,298.0)	(126,823.3)	(138,050.0)	-Inventories		(2,949.0)	(561.0)	(2,493.7)	(3,850.3)
Operating Profit	35,853.0	24,722.0	23,512.0	29,517.3	36,988.8	-Loans/advances		(188.0)	58.0	(163.8)	(180.2)
Depreciation	(9,389.0)	(10,266.0)	(10,772.0)	(11,493.1)	(12,562.9)	-Sundry creditors		1,501.0	2,776.0	(804.1)	1,026.4
PBIT	26,464.0	14,456.0	12,740.0	18,024.2	24,425.9	-Others		(55.0)	(3,064.0)	721.9	781.1
Other income	2,950.0	1,715.0	1,552.0	2,017.6	2,622.9	Change in working capital		1,363.0	(3,291.0)	(5,288.2)	(7,495.0)
Interest	(826.0)	(634.0)	(788.0)	(963.0)	(913.0)	CF from Oper. activities		24,550.0	16,949.0	21,054.8	24,323.2
Profit before tax	28,588.0	15,537.0	13,504.0	19,078.8	26,135.8	CF from Inv. activities		(20,453.0)	(14,203.0)	(18,000.0)	(30,000.0)
Provision for tax	(7,511.0)	(2,965.0)	(4,380.0)	(4,578.9)	(7,318.0)	CF from Fin. activities		809.0	(3,589.0)	(4,497.8)	555.9
PAT Bfr Excp Items	21,077.0	12,572.0	9,124.0	14,499.9	18,817.8	Cash generated/(utilised)		4,906.0	(843.0)	(1,443.0)	(5,121.0)
Share of Profit	229.0	349.0	344.0	350.0	437.5	Cash at start of the year		4,921.0	7,253.0	7,205.0	5,762.0
Net Profit	21,306	12,921	9,468	14,850	19,255	Cash at end of the year		7,253.0	7,205.0	5,762.0	641.0
Balance Sheet	FY16	FY17	FY18	FY19E	FY20E	Ratios	FY16	FY17	FY18	FY19E	FY20E
Equity capital	853.0	829.0	830.0	830.0	830.0	OPM	23.0	17.4	16.5	18.9	21.1
Reserves	124,845.0	121,792.0	124,886.0	139,735.9	158,991.1	NPM	13.4	9.0	6.6	9.4	10.8
Net worth	125,698.0	122,621.0	125,716.0	140,565.9	159,821.1	Tax rate	(26.3)	(19.1)	(32.4)	(24.0)	(28.0)
Def. Tax Liab.+Minority Int.	537.0	1,620.0	1,950.0	2,145.0	2,359.5	Growth Ratios (%)					
Secured loans	10,685.0	5,449.0	25,089.0	25,089.0	25,089.0	Net Sales	4.4	(8.8)	0.6	9.5	12.0
Unsecured loans	22,718.0	43,626.0	25,562.0	20,562.0	20,562.0	Operating Profit	6.1	(31.0)	(4.9)	25.5	25.3
Total debt	33,403.0	49,075.0	50,651.0	45,651.0	45,651.0	PAT	(8.8)	(39.4)	(26.7)	56.8	29.7
Other Liabilities	2,503.0	3,434.0	2,933.0	3,240.7	3,582.1	Per Share (Rs.)					
CAPITAL EMPLOYED	162,141.0	176,750.0	181,250.0	191,602.6	211,413.7	Net Earnings (EPS)	124.9	77.9	57.04	89.5	116.0
Gross block	131,518.0	145,935.0	156,159.0	166,159.0	186,159.0	Cash Earnings (CPS)	179.9	139.8	121.9	158.7	191.7
Accumulated depreciation	(85,388.0)	(95,654.0)	(106,426.0)	(117,919.1)	(130,482.0)	Dividend	25.0	20.0	30.0	30.0	30.0
Net block	46,130.0	50,281.0	49,733.0	48,239.9	55,677.0	Book Value	736.8	739.6	757.3	846.8	962.8
Capital WIP	6,626.0	6,095.0	7,678.0	7,678.0	7,678.0	Free Cash Flow	-	24.7	16.5	18.4	(34.2)
Total fixed assets	52,756.0	56,376.0	57,411.0	55,917.9	63,355.0	Valuation Ratios					
Intangible assets	15,946.0	41,413.0	41,643.0	41,643.0	41,643.0	P/E(x)	17.1	27.4	37.4	23.9	18.4
Goodwill	4,650.0	4,763.0	5,331.0	5,331.0	5,331.0	P/B(x)	2.9	2.9	2.8	2.5	2.2
Investments	38,331.0	21,097.0	22,983.0	30,983.0	40,983.0	EV/EBIDTA(x)	11.0	16.0	16.9	13.4	10.8
Other non current assets	3,347.0	1,568.0	1,280.0	1,280.0	1,280.0	EV/SALES(x)	2.5	2.8	2.8	2.5	2.3
Inventories	25,579.0	28,528.0	29,089.0	31,582.7	35,433.0	Div. Yield(%)	1.2	0.9	1.4	1.4	1.4
Sundry debtors	41,250.0	38,196.0	40,696.0	43,244.6	48,516.6	FCF Yield(%)	-	1.2	0.8	0.9	(1.6)
Cash & bank	4,921.0	7,253.0	7,205.0	5,762.0	641.0	Return Ratios (%)					
Loans & advances	1,508.0	1,696.0	1,638.0	1,801.8	1,982.0	ROE	17.0	10.5	7.5	10.6	12.0
Other current assets	9,648.0	10,491.0	12,762.0	12,762.0	12,762.0	ROCE	16.3	8.2	7.0	9.4	11.6
Sundry creditors	(9,068.0)	(10,569.0)	(13,345.0)	(12,540.9)	(13,567.3)						
Acceptances	(3,589.0)	(4,647.0)	(4,617.0)	(5,078.7)	(5,586.6)						
Provisions	(6,237.0)	(5,967.0)	(5,204.0)	(5,464.2)	(5,737.4)						
Working capital	41,206.0	44,749.0	47,197.0	51,042.2	53,416.2						
Deferred tax assets	5,905.0	6,784.0	5,405.0	5,405.5	5,405.5						
CAPITAL DEPLOYED	162,141.0	176,750.0	181,250.0	191,602.6	211,413.7						

Note: Annual numbers based on IND AS



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