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## Result update@ Dalal & Broacha

### BUY

Current Price	2652
Target Price	<b>3074</b>
Upside/Downside	16%
52 Week Range	2965/2060

### Key Share Data

Market Cap (Rs.bn)	424.9
Market Cap (US\$ mn)	6088
No of o/s shares (mn)	166.04
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	572
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

### Price performance



**Dr. REDDY's (DRL) Q1FY20** revenues were in line with estimates. Higher other income of Rs 3.8 bn includes Rs 3.5 bn relating to the agreement with Celgene relating to claims regarding to its ANDS for the generic version of REVLIMID. **However, 160 bps increases in gross margins of Global generics and growth across geographies due to new launches and better realisations augur well for the company.**

### Global Generics strong across geographies, lower PSAI impacts profitability

Sales +3% to Rs 38.4 bn. The growth in Global Generics (86% of sales, +8% to Rs 32.9 bn) was offset by degrowth in PSAI (12% of sales, -16% Rs 4.5 bn) and Proprietary Products (2% of sales, -21% Rs 914 mn).

Global generics growth was driven by US (+3% yoy Rs 16.3 bn), India (+14% to Rs 6.9 bn), Russia (+4% Rs 5.2 bn), Europe (+19% Rs 2.4 bn) and ROW (+27% on low base to Rs 2.1 bn).

Degrowth in PSAI business was due to operational issues in manufacturing a product, leading to lower volumes. The management stated that the issues will be resolved in Q2FY20. The company has a healthy order book and is confident of recovery in the following quarters.

Gross margin lower at 51.7% impacted by price erosion due to increased competition in some of the key molecules in the US and Europe, and lower sales from PSAI business. However gross margins for Global generics were at 57.6%, which indicate a 160 bps sequential improvement.

SG & A spend and R & D spend were lower 0.3% and 13.2% respectively.

EBITDA excluding other income was 3% lower at Rs 7.8 bn, EBITDA margins were at 20.6%, lower than our estimate of 21%. OPM lower 130 bps yoy (+210 bps higher qoq).

Other Income includes Rs 3.5 bn from Celgene, towards claims relating to ANDS for the generic version of REVLIMID.

Interest income was higher at Rs 393 mn (Rs 159 mn Q1FY19, o profit from investments of Rs 202 mn).

Adjusted PBT was 2% lower at Rs 4.8 bn. Adj. PAT was 31% lower at Rs 3.12 bn.

% Shareholding	Jun-19	Mar-19
Promoters	26.77	26.77
FII	30.73	30.93
DII	13.71	9.11
Others	28.79	33.19
Total	100	100

### Outlook & Valuation

Dr. Reddy's has grown across geographies through new launches and higher volumes. The sequential gross margin improvement due to better product mix, good pipeline of limited competition products for the US and traction in India and emerging markets make Dr. Reddy's a good investment.

At CMP, Dr. Reddy's trades at 17x FY21E EPS of Rs 149. We recommend investors to BUY the stock with a target price of Rs 3074.

### Key Financials

Year	Net sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	34.0	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	46.5	7.5	7.0
FY19	154,482.0	8.2	31,782.0	20.6	19,500.0	106.0	117.5	22.6	13.9	11.5
FY20E	171,142.1	10.8	36,917.1	21.6	22,149.5	13.6	133.4	19.9	13.6	12.4
FY21E	186,010.1	8.7	40,732.2	21.9	24,729.8	11.6	149.0	17.8	13.2	12.2



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Particulars	Q1FY20	Q4FY19	Q1FY19	% yoy	% qoq	FY19	FY18	% Change
<b>Net Income from Sales &amp; Services</b>	<b>38435</b>	<b>40166</b>	<b>37207</b>	<b>3%</b>	<b>-4%</b>	<b>153851</b>	<b>142028</b>	<b>8%</b>
<b>Gross Profit</b>	<b>19859</b>	<b>19246</b>	<b>20728</b>	<b>-4%</b>	<b>3%</b>	<b>83430</b>	<b>76304</b>	
<b>GPM (%)</b>	<b>51.7%</b>	<b>47.9%</b>	<b>55.7%</b>			<b>54.2%</b>	<b>53.7%</b>	
SG&A expenses	-12065	-12376	-12106			-48890	-46910	
R&D Expenses	-3609	-3662	-4157			-15607	-18265	
<b>EBIDTA</b>	<b>11343</b>	<b>7012</b>	<b>8071</b>	<b>41%</b>	<b>62%</b>	<b>35644</b>	<b>24080</b>	<b>48%</b>
<b>EBIDTA (%)</b>	<b>29.5%</b>	<b>17.5%</b>	<b>21.7%</b>			<b>23.2%</b>	<b>17.0%</b>	
Other Income	3759	330	303			1955	788	
<b>EBIT</b>	<b>7944</b>	<b>3538</b>	<b>4768</b>	<b>67%</b>	<b>125%</b>	<b>20888</b>	<b>11917</b>	<b>75%</b>
Interest	393	349	156			2572	2080	
<b>Profit before tax</b>	<b>8337</b>	<b>3887</b>	<b>4924</b>	<b>69%</b>	<b>114%</b>	<b>23460</b>	<b>13997</b>	<b>68%</b>
Tax	-1872	-1507	-446			-3648	-4535	
Profit After tax before MI	6465	2380	4478	<b>44%</b>	<b>172%</b>	19812	9462	<b>109%</b>
Share of Profit	163	157	83			438	344	
<b>Profit After Tax</b>	<b>6628</b>	<b>2537</b>	<b>4561</b>	<b>45%</b>	<b>161%</b>	<b>20250</b>	<b>9806</b>	<b>107%</b>
NPM (%)	17.24%	6.32%	12.26%			13.16%	6.90%	
Equity	830	830	830			829	830	
<b>EPS -(Rs)</b>	<b>39.93</b>	<b>15.28</b>	<b>27.51</b>			<b>121.99</b>	<b>59.07</b>	

#### KTA's from the concall:

1. US business growth was driven by new launches and volumes, which were offset by price erosion in some key molecules. The quarter saw 5 new launches (Daptomycin, Testosterone gel, Tobramycin, Vitamin K & OTC calcium carbonate) and re-launch of isotretinoin.
2. Dr. Reddy's has 107 ANDAs pending approval, of which 58 are Para IV filings and 34 are believed to have first to file status.
3. India growth- better than industry on account of new launches and traction in existing business. The company launched 8 brands during the quarter, including Cetzine, Ubil and Trisertain.
4. Russia +5% Rs 3.9 bn growth was on account of new launches and improved realisations in key molecules. CIS growth mainly from new launches.
5. ROW +27% Rs 213 mn due to new launches and volume growth in base business.
6. Europe +19% Rs 240 mn, driven by new launches and volume traction due to improvement of supplies.
7. Relating to gNuvaring (Mkt. size \$902 mn CY2018), the company has replied to the queries from USFDA and awaits approval.



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Dr Reddy's Laboratories Limited											
P&L (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	141,961.0	142,810.0	154,482.0	171,142.1	186,010.1	Net Profit	12,921.0	9,468.0	19,500.0	22,149.5	24,729.8
Raw materials	(34,449.0)	(40,395.0)	(44,948.0)	(48,697.8)	(51,198.0)	Add: Dep. & Amort.	10,266.0	10,772.0	11,348.0	12,252.2	13,306.0
Employee costs	(31,068.0)	(32,149.0)	(33,562.0)	(36,918.2)	(40,610.0)	<b>Cash profits</b>	<b>23,187.0</b>	<b>20,240.0</b>	<b>30,848.0</b>	<b>34,401.7</b>	<b>38,035.8</b>
Other Expenses	(38,788.0)	(46,754.0)	(44,190.0)	(48,609.0)	(53,469.9)	(Inc)/Dec in					
Selling Expenses	(12,934.0)	-	-	-	-	-Sundry debtors	3,054.0	(2,500.0)	714.0	(5,244.6)	(3,990.4)
Cost of sales	(117,239.0)	(119,298.0)	(122,700.0)	(134,225.0)	(145,277.9)	-Inventories	(2,949.0)	(561.0)	(4,490.0)	(2,602.3)	(3,192.3)
<b>Operating Profit</b>	<b>24,722.0</b>	<b>23,512.0</b>	<b>31,782.0</b>	<b>36,917.1</b>	<b>40,732.2</b>	-Loans/advances	(188.0)	58.0	(834.0)	(247.2)	(271.9)
Depreciation	(10,266.0)	(10,772.0)	(11,348.0)	(12,252.2)	(13,306.0)	-Sundry creditors	1,501.0	2,776.0	326.0	1,005.0	753.5
PBIT	14,456.0	12,740.0	20,434.0	24,664.8	27,426.2	-Others	(55.0)	(3,064.0)	3,636.0	832.8	902.1
Other income	1,715.0	1,552.0	3,375.0	3,712.5	4,083.8	Change in working capital	1,363.0	(3,291.0)	(648.0)	(6,256.3)	(5,798.9)
Interest	(634.0)	(788.0)	(889.0)	(682.5)	(682.5)	<b>CF from Oper. activities</b>	<b>24,550.0</b>	<b>16,949.0</b>	<b>30,200.0</b>	<b>28,145.4</b>	<b>32,236.8</b>
Profit before tax	15,537.0	13,504.0	22,920.0	27,694.8	30,827.4	<b>CF from Inv. activities</b>	<b>(20,453.0)</b>	<b>(14,203.0)</b>	<b>(10,954.0)</b>	<b>(23,000.0)</b>	<b>(30,000.0)</b>
Provision for tax	(2,965.0)	(4,380.0)	(3,858.0)	(6,092.9)	(6,782.0)	<b>CF from Fin. activities</b>	<b>809.0</b>	<b>(3,589.0)</b>	<b>(22,647.0)</b>	<b>275.6</b>	<b>305.2</b>
<b>PAT Bfr Excp Items</b>	<b>12,572.0</b>	<b>9,124.0</b>	<b>19,062.0</b>	<b>21,602.0</b>	<b>24,045.4</b>	<b>Cash generated/(utilised)</b>	<b>4,906.0</b>	<b>(843.0)</b>	<b>(3,401.0)</b>	<b>5,421.0</b>	<b>2,542.0</b>
Share of Profit	349.0	344.0	438.0	547.5	684.4	Cash at start of the year	4,921.0	7,253.0	7,205.0	5,628.0	11,049.0
<b>Net Profit</b>	<b>12,921</b>	<b>9,468</b>	<b>19,500</b>	<b>22,149</b>	<b>24,730</b>	Cash at end of the year	7,253.0	7,205.0	5,628.0	11,049.0	13,591.0
<b>Balance Sheet</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Equity capital	829.0	830.0	830.0	830.0	830.0	OPM	17.4	16.5	20.6	21.6	21.9
Reserves	121,792.0	124,886.0	139,406.0	161,555.5	186,285.2	NPM	9.0	6.6	12.4	12.7	13.0
<b>Net worth</b>	<b>122,621.0</b>	<b>125,716.0</b>	<b>140,236.0</b>	<b>162,385.5</b>	<b>187,115.2</b>	Tax rate	(19.1)	(32.4)	(16.8)	(22.0)	(22.0)
Def. Tax Liab.+Minority Int.	1,620.0	1,950.0	473.0	520.3	572.3	<b>Growth Ratios (%)</b>					
Secured loans	5,449.0	25,089.0	22,000.0	22,000.0	22,000.0	Net Sales	(8.8)	0.6	8.2	10.8	8.7
Unsecured loans	43,626.0	25,562.0	12,125.0	12,125.0	12,125.0	Operating Profit	(31.0)	(4.9)	35.2	16.2	10.3
Total debt	49,075.0	50,651.0	34,125.0	34,125.0	34,125.0	PAT	(39.4)	(26.7)	106.0	13.6	11.6
Other Liabilities	3,434.0	2,933.0	2,181.0	2,409.3	2,662.5	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>176,750.0</b>	<b>181,250.0</b>	<b>177,015.0</b>	<b>199,440.1</b>	<b>224,475.0</b>	<b>Net Earnings (EPS)</b>	<b>77.9</b>	<b>57.04</b>	<b>117.5</b>	<b>133.4</b>	<b>149.0</b>
Gross block	145,935.0	156,159.0	166,901.0	181,901.0	196,901.0	<b>Cash Earnings (CPS)</b>	<b>139.8</b>	<b>121.9</b>	<b>185.8</b>	<b>207.2</b>	<b>229.1</b>
Accumulated depreciation	(95,654.0)	(106,426.0)	(117,774.0)	(130,026.2)	(143,332.3)	Dividend	20.0	30.0	30.0	30.0	30.0
Net block	50,281.0	49,733.0	49,127.0	51,874.8	53,568.7	Book Value	739.6	757.3	844.8	978.2	1,127.2
Capital WIP	6,095.0	7,678.0	4,725.0	4,725.0	4,725.0	Free Cash Flow	24.7	16.5	115.9	31.0	13.5
<b>Total fixed assets</b>	<b>56,376.0</b>	<b>57,411.0</b>	<b>53,852.0</b>	<b>56,599.8</b>	<b>58,293.7</b>	<b>Valuation Ratios</b>					
Intangible assets	41,413.0	41,643.0	42,734.0	42,734.0	42,734.0	<b>P/E(x)</b>	<b>34.0</b>	<b>46.5</b>	<b>22.6</b>	<b>19.9</b>	<b>17.8</b>
Goodwill	4,763.0	5,331.0	4,659.0	4,659.0	4,659.0	P/B(x)	3.6	3.5	3.1	2.7	2.4
Investments	21,097.0	22,983.0	25,871.0	33,871.0	48,871.0	EV/EBIDTA(x)	19.5	20.6	14.8	12.6	11.3
Other non current assets	1,568.0	1,280.0	1,138.0	1,138.0	1,138.0	EV/SALES(x)	3.4	3.4	3.0	2.7	2.5
Inventories	28,528.0	29,089.0	33,579.0	36,181.3	39,373.6	Div. Yield(%)	0.8	1.1	1.1	1.1	1.1
Sundry debtors	38,196.0	40,696.0	39,982.0	45,226.6	49,217.0	<b>FCF Yield(%)</b>	<b>0.9</b>	<b>0.6</b>	<b>4.4</b>	<b>1.2</b>	<b>0.5</b>
Cash & bank	7,253.0	7,205.0	5,628.0	11,049.0	13,591.0	<b>Return Ratios (%)</b>					
Loans & advances	1,696.0	1,638.0	2,472.0	2,719.2	2,991.1	<b>ROE</b>	<b>10.5</b>	<b>7.5</b>	<b>13.9</b>	<b>13.6</b>	<b>13.2</b>
Other current assets	10,491.0	12,762.0	10,424.0	10,424.0	10,424.0	<b>ROCE</b>	<b>8.2</b>	<b>7.0</b>	<b>11.5</b>	<b>12.4</b>	<b>12.2</b>
Sundry creditors	(10,569.0)	(13,345.0)	(13,671.0)	(14,676.0)	(15,429.5)						
Acceptances	(4,647.0)	(4,617.0)	(5,537.0)	(6,090.7)	(6,699.8)						
Provisions	(5,967.0)	(5,204.0)	(5,582.0)	(5,861.1)	(6,154.2)						
<b>Working capital</b>	<b>44,749.0</b>	<b>47,197.0</b>	<b>44,444.0</b>	<b>56,121.3</b>	<b>64,462.3</b>						
Deferred tax assets	6,784.0	5,405.0	4,317.0	4,317.0	4,317.0						
<b>CAPITAL DEPLOYED</b>	<b>176,750.0</b>	<b>181,250.0</b>	<b>177,015.0</b>	<b>199,440.1</b>	<b>224,475.0</b>						

Note: Annual numbers based on IND AS



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