



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Result update@ Dalal & Broacha

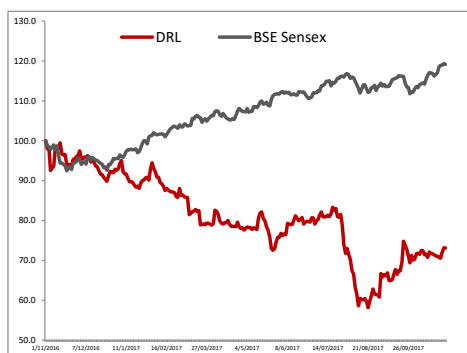
Buy on Dips

Current Price	2431
Target Price	2800
Upside/Downside	15%
52 Week Range	3357/1901

Key Share Data

Market Cap (Rs.bn)	415
Market Cap (US\$ mn)	6431
No of o/s shares (mn)	170.6
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	617
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD IN Equity

Price performance



% Shareholding	Sep-17	Jun-17
Promoters	26.77	26.78
FII	29.65	31.64
DII	13.49	11.74
Others	30.09	29.84
Total	100	100

Dr. Reddy's Labs Q2FY18 results were better than expectations. While revenues were in line with estimates, the profits surpassed estimates.

Sequential performance improves, lower overheads better margins

Revenues de-grew 1% to Rs 35460 mn, due to 1% de-growth in Global Generics to Rs 28618 mn and 2% de-growth in PSAl (CRAMS) to Rs 5654 mn. Proprietary Products grew 10% to Rs 1188 mn. Gross margins were 270 bps lower yoy (up 170 bps qoq) to 53.3%. EBITDA increased 7% to Rs 6888 mn due to overheads leverage benefit from sequential 6% lower SG & A spend. R & D spend was also sequentially lower due to deferment of certain milestone payments. After higher taxes, PAT de-grew 3% to Rs 2849 mn (increased 382% qoq)

Key takeaways from the concall

- In Global Generics, US de-grew 11% to Rs 14318 mn due to pricing pressure in key products namely Valganciclovir, Azacitidine and Esomeprazole and a few more. The company launched 4 new products during the quarter, of which revenues from one product are not a part of Q2 results as the launch was at the end of the quarter.
- India revenues grew 2% yoy and 36% qoq to Rs 6370 mn. Post GST adjustments, it works out to a 10% yoy growth. The company has plans to shift to a value accretive portfolio for India.
- In Proprietary products, ZEMBRACE improved coverage in pharmacopoeia, leading to better growth. Going forward, the company expects better coverage for its products by end FY18, which will fuel the complete potential of the products.
- DRL's focus is on strengthening its manufacturing and quality management systems.
- CAPA implementation at Bachupally and Duvvada are on track.
- During the quarter, the company received and Establishment Inspection Report (EIR) for 2 sites at Srikakulam.
- DRL expects to invite USFDA for re-inspection of Duvvada by end FY18.
- The company will complete its response to queries from USFDA for Bachupally by the end of the week.
- In the US, DRL plans to launch 15 new products over the next 18 months. Most of the new launches will be high value products.
- The company has target action dates for 4 major products like Copaxone over the next 5 months.

Outlook & Valuation

We are positive on the developments at Dr. Reddy's. Although the next two quarters will comprise some uncertainties relating to clearance to Bachupally, Duvvada and also USFDA approvals to major ANDAs, the worst seems to be over for DRL. At Rs 2431, DRL trades at 21x FY19E EPS of Rs 115.9. We recommend investors to BUY on DIPS with a target price of Rs 2800.

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	19.5	17.0	16.3
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	31.2	10.5	8.2
FY18E	156,346.1	10.1	27,975.1	17.9	14,079.5	9.0	84.9	28.6	10.8	9.3
FY19E	176,827.8	13.1	35,610.5	20.1	19,212.2	36.5	115.9	21.0	12.8	12.1



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Particulars	Q2FY18	Q1FY18	Q2FY17	% yoy	% qoq	FY17	FY16	% Change
Net Income from Sales & Services	35460	33159	35857	-1%	7%	140809	154708	-9%
Gross Profit	18901	17097	20097			78356	92281	
GPM (%)	53.3%	51.6%	56.0%			55.6%	59.6%	
SG&A expenses	-11032	-11763	-11774			-46372	-45702	
R&D Expenses	-4175	-5075	-5214			-19551	-17834	
EBIDTA	6888	3782	6420	7%	82%	25495	36252	-30%
EBIDTA (%)	19.4%	11.4%	17.9%			18.1%	23.4%	
Other Income	114	194	277			1065	874	
EBIT	3808	453	3386	12%	741%	13498	29619	-54%
Interest	-24	221	365			806	-2708	
Profit before tax	3784	674	3751	1%	461%	14304	26911	-47%
Tax	-1027	-181	-885			-2614	-7127	
Profit After tax before MI	2757	493	2866	-4%	459%	11690	19784	-41%
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	92	98	84			349	229	
Profit After Tax	2849	591	2950	-3%	382%	12039	20013	-40%
NPM (%)	8.03%	1.78%	8.23%			8.55%	12.94%	
Equity	829	829	853			829	853	
EPS -(Rs)	17.18	3.56	17.29			72.61	117.3	



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

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)	19.5	31.2	28.6	21.0
Goodwill	4,650.0	4,763.0	4,763.0	4,763.0	P/B(x)	3.3	3.3	3.1	2.7
Investments	38,331.0	21,097.0	27,097.0	35,097.0	EV/EBIDTA(x)	12.4	18.1	15.8	12.3
Other non current assets	3,347.0	5,166.0	5,166.0	5,166.0	EV/SALES(x)	2.8	3.2	2.8	2.5
Inventories	25,579.0	28,528.0	27,225.8	30,842.4	Div. Yield(%)	1.0	0.8	1.2	1.2
Sundry debtors	41,250.0	37,986.0	39,791.5	45,077.3	FCF Yield(%)	-	0.2	2.7	1.4
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



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Disclaimer

Dalal & Broacha Stock Broking Pvt. Ltd, hereinafter referred to as D& B (CIN_U67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services.

D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the	No



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

subject company in the past twelve months	
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

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. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	IT, Media, Telecom
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