



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Result update@ Dalal & Broacha

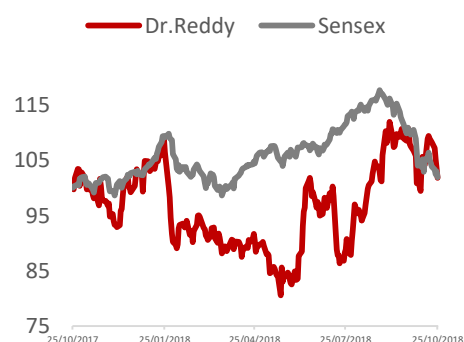
ACCUMULATE

Current Price	2448
Target Price	2708
Upside/Downside	11%
52 Week Range	2687/1888

Key Share Data

Market Cap (Rs.bn)	399.01
Market Cap (US\$ mn)	5431.63
No of o/s shares (mn)	166.04
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	884.35
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



Dr. Reddy's Laboratories (DRL) Q2FY19 results were better than expectations. Revenues increased 7% to Rs 37978 mn due to growth in Global Generics (+7%), PSAI (+7%) and Proprietary Products (+4%).

In the Global Generics segment, US revenues were flat at Rs 14265 mn. The company launched 4 new products during Q2FY19. DRL faced 7-8% price erosion in the US. The contributors to growth were Russia (+27%), ROW(+63% on low base) and India(+8%). Growth was mainly through better volumes, new launches and new markets.

Gross profit increased 11% to Rs 20897 mn. GPM was 170 bps higher at 55%. EBITDA increased 26% to Rs 8646 mn. EBITDA margins were 340 bps higher at 22.8% due to lower material costs and R & D expenses.

PBT increased 50% to Rs 5671 mn due to lower interest and higher other income. PAT increased 77% to Rs 5038 mn, due to lower taxes. EPS for the quarter was at Rs 30.3

Duvvada facility receives 8 observations

DRL's Duvvada facility received 8 observations from the USFDA. The nature of the observations is not known and will take some time for the management to revert on the same. For the Srikulam facility, the management indicated during its concall that the response to USFDA queries will take a couple of months.

Outlook & Valuation

DRL is currently going through number of issues, litigations, sale of plants, cost controls and a few more. At Rs 2448, DRL trades at 21x FY20E EPS of Rs 117. The stock has run up in the last few months. We recommend investors to ACCUMULATE with a target price of Rs 2708.

% Shareholding	Sep-18	Jun-18
Promoters	26.77	26.76
FII	26.82	27.16
DII	12.12	11.32
Others	34.29	34.73
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	19.7	17.0	16.3
FY17	141,961.0	(8.8)	24,722.0	17.4	12,921.0	(39.4)	77.9	31.6	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	43.2	7.5	7.0
FY19E	156,492.2	9.6	29,626.4	18.9	14,932.8	57.7	90.0	27.4	10.6	9.5
FY20E	175,297.9	12.0	37,177.9	21.2	19,391.4	29.9	116.8	21.1	12.1	11.6



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

Particulars	Q2FY19	Q1FY19	Q2FY18	% yoy	% qoq	FY18	FY17	% Change
Net Income from Sales & Services	37978	37207	35349	7%	2%	142028	140809	1%
Gross Profit	20897	20728	18895			76304	78356	
GPM (%)	55.0%	55.7%	53.5%			53.7%	55.6%	
SG&A expenses	-12372	-12106	-12067			-46910	-46372	
R&D Expenses	-4120	-4157	-4348			-18265	-19551	
EBIDTA	8646	8071	5777	50%	7%	24080	25495	-6%
EBIDTA (%)	22.8%	21.7%	16.3%			17.0%	18.1%	
Other Income	641	303	167			788	1065	
EBIT	5046	4768	2647	91%	6%	11917	13498	-12%
Interest	625	156	1032			2080	806	
Profit before tax	5671	4924	3679	54%	15%	13997	14304	-2%
Tax	-742	-446	-726			-4535	-2614	
Profit After tax before MI	4929	4478	2953	67%	10%	9462	11690	-19%
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	109	83	69			344	349	
Profit After Tax	5038	4561	3022	67%	10%	9806	12039	-19%
NPM (%)	13.27%	12.26%	8.55%			6.90%	8.55%	
Equity	830	830	830			830	#REF!	
EPS -(Rs)	30.35	27.51	18.23			59.07	72.61	

KTAs from concall:

1. The company will launch 10-15 more products in the US in H2FY19, including some limited competition launches.
2. DRL expects USFDA approval to gNuvaring and launch by H1CY2019. (Mkt. size \$900 mn)
3. In India, the company expects to grow in line with the industry.
4. DRL's appeal in the Court of appeals is pending judgement, expected before December end.
5. The company has 110 ANDAs pending approval, of which 15-20 ANDAs are from the impacted facilities at Duvvada and Srikakulam.

The company's plant at Duvvada is currently undergoing USFDA inspection.

The USFDA has raised certain queries on DRL's Srikakulam plant, which will be replied to in a couple of months.



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

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	156,492.2	175,297.9	Net Profit	12,921.0	9,468.0	14,932.8	19,391.4	
Raw materials	(37,585.0)	(34,449.0)	(40,395.0)	(42,410.1)	(45,905.2)	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	26,425.9	31,954.3	
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)	(2,591.9)	(5,302.7)	
Cost of sales	(119,830.0)	(117,239.0)	(119,298.0)	(126,865.7)	(138,119.9)	-Inventories	(2,949.0)	(561.0)	(2,525.3)	(3,872.7)	
Operating Profit	35,853.0	24,722.0	23,512.0	29,626.4	37,177.9	-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	(791.5)	1,034.5	
PBIT	26,464.0	14,456.0	12,740.0	18,133.3	24,615.1	-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)	(5,350.6)	(7,540.0)	
Interest	(826.0)	(634.0)	(788.0)	(963.0)	(913.0)	CF from Oper. activities	24,550.0	16,949.0	21,075.3	24,414.3	
Profit before tax	28,588.0	15,537.0	13,504.0	19,187.9	26,324.9	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)	(4,605.1)	(7,371.0)	CF from Fin. activities	809.0	(3,589.0)	(4,497.8)	555.8	
PAT Bfr Excp Items	21,077.0	12,572.0	9,124.0	14,582.8	18,953.9	Cash generated/(utilised)	4,906.0	(843.0)	(1,422.5)	(5,029.9)	
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	5,782.5	
Net Profit	21,306	12,921	9,468	14,933	19,391	Cash at end of the year	7,253.0	7,205.0	5,782.5	752.7	
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	21.2
Reserves	124,845.0	121,792.0	124,886.0	139,818.8	159,210.2	NPM	13.4	9.0	6.6	9.4	10.9
Net worth	125,698.0	122,621.0	125,716.0	140,648.8	160,040.2	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	9.6	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)	26.0	25.5
Total debt	33,403.0	49,075.0	50,651.0	45,651.0	45,651.0	PAT	(8.8)	(39.4)	(26.7)	57.7	29.9
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	191,685.5	211,632.8	Net Earnings (EPS)	124.9	77.9	57.04	90.0	116.8
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	159.2	192.5
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	847.3	964.1
Capital WIP	6,626.0	6,095.0	7,678.0	7,678.0	7,678.0	Free Cash Flow	-	24.7	16.5	18.5	(33.6)
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)	19.7	31.6	43.2	27.4	21.1
Goodwill	4,650.0	4,763.0	5,331.0	5,331.0	5,331.0	P/B(x)	3.3	3.3	3.2	2.9	2.6
Investments	38,331.0	21,097.0	22,983.0	30,983.0	40,983.0	EV/EBIDTA(x)	12.5	18.2	19.2	15.1	12.2
Other non current assets	3,347.0	1,568.0	1,280.0	1,280.0	1,280.0	EV/SALES(x)	2.9	3.2	3.2	2.9	2.6
Inventories	25,579.0	28,528.0	29,089.0	31,614.3	35,487.1	Div. Yield(%)	1.0	0.8	1.2	1.2	1.2
Sundry debtors	41,250.0	38,196.0	40,696.0	43,287.9	48,590.6	FCF Yield(%)	-	1.0	0.7	0.8	(1.4)
Cash & bank	4,921.0	7,253.0	7,205.0	5,782.5	752.7	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	12.1
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	9.5	11.6
Sundry creditors	(9,068.0)	(10,569.0)	(13,345.0)	(12,553.5)	(13,588.0)						
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	51,125.1	53,635.3						
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	191,685.5	211,632.8						

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
Ms. Abhilasha Satale	Abhilasha.satale@dalal-broacha.com	02267141439	Mid-Cap
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



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Result update@ Dalal & Broacha

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