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## Result update@ Dalal & Broacha

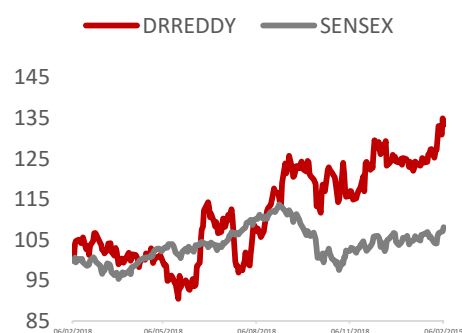
### Buy on Dips

Current Price	2791
Target Price	<b>3074</b>
Upside/Downside	10%
52 Week Range	2875/1888

### Key Share Data

Market Cap (Rs.bn)	466.80
Market Cap (US\$ mn)	6533.80
No of o/s shares (mn)	166.04
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	825.56
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

### Price performance



**Dr. Reddy's Laboratories (DRL) Q3FY19** results were better than expectations. Profits increased for the third straight quarter largely driven by traction from emerging markets, from new launches and increased volumes in existing and new geographies.

### Emerging markets, India strong, earnings grow through price control

Net sales were flat at Rs 38.5 bn. The global generics segment grew at +4% YoY/ +3% QoQ to Rs 31.3 bn. US revenues declined 8% yoy (+4% qoq) to Rs 14.8 bn. Q3FY18 recorded high sales from Sevelamer.

Major traction was seen emerging markets, PSAI and India. Sales from emerging markets Rs 7744 mn (+31% YoY/ +3% QoQ), mainly due to new launches and better demand on base business in Russia, CIS and Brazil (new market).

PSAI Rs 7232 mn (+9 % YoY/-2%QoQ). India business – Rs 6741 mn (+10 % YoY/-2%QoQ).

Gross margins were at 53.9%, -240bps YoY/-110bps QoQ. Decline in gross profit margins both year-on-year and sequentially is largely on account of price erosion in some of its key molecules in the US.

The company's EBITDA rose 6% YoY to Rs 8150 mn. The operating margin expanded 90 basis points to 21.1% (YoY), mainly due to lower R & D spend and SG & A expenses. Net profit was + 45.1 % YoY/ -3% QoQ to Rs 4852 mn. EPS for the quarter was at Rs 29.8.

### Outlook & Valuation

DRL has improved performance, over the last few quarters through the US, India and Emerging markets. The Suboxone film judgement going in favour of Dr. Reddy's will enable relaunch of the product in the US. Further the launch of gNuvaring and gCOPAXONE will add to growth going forward.

At Rs 2791, DRL trades at 17x FY21E EPS of Rs 165. We are positive on the stock and recommend investors to BUY on Dips with a target price of Rs 3074.

% Shareholding	Dec-18	Sept-18
Promoters	26.77	26.77
FII	29.69	27.82
DII	10.42	12.12
Others	33.12	34.29
Total	100	100

### 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	35.8	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	48.9	7.5	7.0
FY19E	156,492.2	9.6	29,626.4	18.9	16,084.0	69.9	96.9	28.8	11.3	9.4
FY20E	175,297.9	12.0	37,177.9	21.2	22,023.9	36.9	132.7	21.0	13.4	11.4
FY21E	198,391.6	13.2	45,430.1	22.9	27,498.4	24.9	165.7	16.9	14.4	13.0



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Particulars	Q3FY19	Q2FY19	Q3FY18	% yoy	% qoq	FY18	FY17	% Change
<b>Net Income from Sales &amp; Services</b>	<b>38500</b>	<b>37978</b>	<b>38060</b>	<b>1%</b>	<b>1%</b>	<b>142028</b>	<b>140809</b>	<b>1%</b>
<b>Gross Profit</b>	<b>20752</b>	<b>20897</b>	<b>21411</b>			<b>76304</b>	<b>78356</b>	
<b>GPM (%)</b>	<b>53.9%</b>	<b>55.0%</b>	<b>56.3%</b>			<b>53.7%</b>	<b>55.6%</b>	
SG&A expenses	-12036	-12372	-12048			-46910	-46372	
R&D Expenses	-3668	-4120	-4667			-18265	-19551	
<b>EBIDTA</b>	<b>8653</b>	<b>8646</b>	<b>8055</b>	<b>7%</b>	<b>0%</b>	<b>24080</b>	<b>25495</b>	<b>-6%</b>
<b>EBIDTA (%)</b>	<b>22.5%</b>	<b>22.8%</b>	<b>21.2%</b>			<b>17.0%</b>	<b>18.1%</b>	
Other Income	681	641	313			788	1065	
<b>EBIT</b>	<b>5729</b>	<b>5046</b>	<b>5009</b>	<b>14%</b>	<b>14%</b>	<b>11917</b>	<b>13498</b>	<b>-12%</b>
Interest	-13	625	851			2080	806	
<b>Profit before tax</b>	<b>5716</b>	<b>5671</b>	<b>5860</b>	<b>-2%</b>	<b>1%</b>	<b>13997</b>	<b>14304</b>	<b>-2%</b>
Tax	-953	-742	-2601			-4535	-2614	
Profit After tax before MI	4763	4929	3259	<b>46%</b>	<b>-3%</b>	9462	11690	<b>-19%</b>
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	89	109	85			344	349	
<b>Profit After Tax</b>	<b>4852</b>	<b>5038</b>	<b>3344</b>	<b>45%</b>	<b>-4%</b>	<b>9806</b>	<b>12039</b>	<b>-19%</b>
NPM (%)	12.60%	13.27%	8.79%			6.90%	8.55%	
Equity	830	830	829			830	829	
<b>EPS -(Rs)</b>	<b>29.23</b>	<b>30.35</b>	<b>20.17</b>			<b>59.07</b>	<b>72.61</b>	

#### KTA's from the concall:

1. During the quarter, DRL sold its API plant at Jeedimetla, Hyderabad with a gain of Rs 423 mn., which forms a part of other income.
2. The Effective tax rate for the quarter was 16.4%. The lower rate was primarily on account of reduction of the federal income tax rate from 35% to 21 % in the United States and claim of deduction of an item in the current quarter, which was previously disallowed. The company expects a lower tax rate of 15-17% going forward.
3. Plan to launch gNuvaring (mkt. size \$800 mn) in H12019 and gCOPAXONE in H22019.
4. The company received 8 observations for its Duvvada plant from the USFDA. DRL has responded to the queries.
5. DRL will launch DFN 02, recently approved by USFDA over the next 3-4 months.
6. The company has further strengthened its top management with new heads for North America, India and Russia.
7. The working capital cycle came down due to discounting of its US receivables, resulting in a positive free cash flow for the quarter.
8. DRL filed 3 ANDAs during the quarter.



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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	FY20E
Net Sales	141,961.0	142,810.0	156,492.2	175,297.9	198,391.6	Net Profit	12,921.0	9,468.0	16,084.0	22,023.9	27,498.4
Raw materials	(34,449.0)	(40,395.0)	(42,410.1)	(45,905.2)	(52,069.2)	Add: Dep. & Amort.	10,266.0	10,772.0	11,493.1	12,562.9	13,810.9
Employee costs	(31,068.0)	(32,149.0)	(35,363.9)	(40,668.5)	(46,768.8)	<b>Cash profits</b>	<b>23,187.0</b>	<b>20,240.0</b>	<b>27,577.2</b>	<b>34,586.8</b>	<b>41,309.3</b>
Other Expenses	(38,788.0)	(46,754.0)	(49,091.7)	(51,546.3)	(54,123.6)	(Inc)/Dec in					
Selling Expenses	(12,934.0)	-	-	-	-	-Sundry debtors	3,054.0	(2,500.0)	7,498.2	(4,066.7)	(5,003.8)
Cost of sales	(117,239.0)	(119,298.0)	(126,865.7)	(138,119.9)	(152,961.6)	-Inventories	(2,949.0)	(561.0)	(2,525.3)	(3,872.7)	(4,765.1)
<b>Operating Profit</b>	<b>24,722.0</b>	<b>23,512.0</b>	<b>29,626.4</b>	<b>37,177.9</b>	<b>45,430.1</b>	-Loans/advances	(188.0)	58.0	(163.8)	(180.2)	(198.2)
Depreciation	(10,266.0)	(10,772.0)	(11,493.1)	(12,562.9)	(13,810.9)	-Sundry creditors	1,501.0	2,776.0	(791.5)	1,034.5	1,824.6
PBIT	14,456.0	12,740.0	18,133.3	24,615.1	31,619.2	-Others	(55.0)	(3,064.0)	721.9	781.1	845.5
Other income	1,715.0	1,552.0	2,017.6	2,622.9	3,409.7	Change in working capital	1,363.0	(3,291.0)	4,739.5	(6,304.0)	(7,297.0)
Interest	(634.0)	(788.0)	(963.0)	(913.0)	(913.0)	<b>CF from Oper. activities</b>	<b>24,550.0</b>	<b>16,949.0</b>	<b>32,316.7</b>	<b>28,282.8</b>	<b>34,012.3</b>
Profit before tax	15,537.0	13,504.0	19,187.9	26,324.9	34,115.9	<b>CF from Inv. activities</b>	<b>(20,453.0)</b>	<b>(14,203.0)</b>	<b>(18,000.0)</b>	<b>(28,000.0)</b>	<b>(30,000.0)</b>
Provision for tax	(2,965.0)	(4,380.0)	(3,453.8)	(4,738.5)	(7,164.3)	<b>CF from Fin. activities</b>	<b>809.0</b>	<b>(3,589.0)</b>	<b>(4,497.8)</b>	<b>555.8</b>	<b>614.9</b>
<b>PAT Bfr Excp Items</b>	<b>12,572.0</b>	<b>9,124.0</b>	<b>15,734.0</b>	<b>21,586.4</b>	<b>26,951.6</b>	<b>Cash generated/(utilised)</b>	<b>4,906.0</b>	<b>(843.0)</b>	<b>9,818.9</b>	<b>838.7</b>	<b>4,627.2</b>
Share of Profit	349.0	344.0	350.0	437.5	546.9	Cash at start of the year	4,921.0	7,253.0	7,205.0	17,023.9	17,862.6
<b>Net Profit</b>	<b>12,921</b>	<b>9,468</b>	<b>16,084</b>	<b>22,024</b>	<b>27,498</b>	Cash at end of the year	7,253.0	7,205.0	17,023.9	17,862.6	22,489.8
<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	18.9	21.2	22.9
Reserves	121,792.0	124,886.0	140,970.0	162,994.0	190,492.4	NPM	9.0	6.6	10.1	12.4	13.6
<b>Net worth</b>	<b>122,621.0</b>	<b>125,716.0</b>	<b>141,800.0</b>	<b>163,824.0</b>	<b>191,322.4</b>	Tax rate	(19.1)	(32.4)	(18.0)	(18.0)	(21.0)
Def. Tax Liab.+Minority Int.	1,620.0	1,950.0	2,145.0	2,359.5	2,595.5	<b>Growth Ratios (%)</b>					
Secured loans	5,449.0	25,089.0	25,089.0	25,089.0	25,089.0	Net Sales	(8.8)	0.6	9.6	12.0	13.2
Unsecured loans	43,626.0	25,562.0	20,562.0	20,562.0	20,562.0	Operating Profit	(31.0)	(4.9)	26.0	25.5	22.2
Total debt	49,075.0	50,651.0	45,651.0	45,651.0	45,651.0	PAT	(39.4)	(26.7)	69.9	36.9	24.9
Other Liabilities	3,434.0	2,933.0	3,240.7	3,582.1	3,961.0	<b>Per Share (Rs.)</b>					
<b>CAPITAL EMPLOYED</b>	<b>176,750.0</b>	<b>181,250.0</b>	<b>192,836.7</b>	<b>215,416.5</b>	<b>243,529.9</b>	<b>Net Earnings (EPS)</b>	<b>77.9</b>	<b>57.04</b>	<b>96.9</b>	<b>132.7</b>	<b>165.7</b>
Gross block	145,935.0	156,159.0	166,159.0	186,159.0	201,159.0	<b>Cash Earnings (CPS)</b>	<b>139.8</b>	<b>121.9</b>	<b>166.1</b>	<b>208.4</b>	<b>248.9</b>
Accumulated depreciation	(95,654.0)	(106,426.0)	(117,919.1)	(130,482.0)	(144,292.9)	Dividend	20.0	30.0	30.0	30.0	30.0
Net block	50,281.0	49,733.0	48,239.9	55,677.0	56,866.1	Book Value	739.6	757.3	854.2	986.9	1,152.5
Capital WIP	6,095.0	7,678.0	7,678.0	7,678.0	7,678.0	Free Cash Flow	24.7	16.5	86.2	1.7	24.2
<b>Total fixed assets</b>	<b>56,376.0</b>	<b>57,411.0</b>	<b>55,917.9</b>	<b>63,355.0</b>	<b>64,544.1</b>	<b>Valuation Ratios</b>					
Intangible assets	41,413.0	41,643.0	41,643.0	41,643.0	41,643.0	<b>P/E(x)</b>	<b>35.8</b>	<b>48.9</b>	<b>28.8</b>	<b>21.0</b>	<b>16.9</b>
Goodwill	4,763.0	5,331.0	5,331.0	5,331.0	5,331.0	P/B(x)	3.8	3.7	3.3	2.8	2.4
Investments	21,097.0	22,983.0	30,983.0	38,983.0	53,983.0	EV/EBIDTA(x)	20.4	21.6	16.6	13.2	10.7
Other non current assets	1,568.0	1,280.0	1,280.0	1,280.0	1,280.0	EV/SALES(x)	3.6	3.5	3.1	2.8	2.5
Inventories	28,528.0	29,089.0	31,614.3	35,487.1	40,252.2	Div. Yield(%)	0.7	1.1	1.1	1.1	1.1
Sundry debtors	38,196.0	40,696.0	33,197.8	37,264.5	42,268.3	<b>FCF Yield(%)</b>	<b>0.9</b>	<b>0.6</b>	<b>3.1</b>	<b>0.1</b>	<b>0.9</b>
Cash & bank	7,253.0	7,205.0	17,023.9	17,862.6	22,489.8	<b>Return Ratios (%)</b>					
Loans & advances	1,696.0	1,638.0	1,801.8	1,982.0	2,180.2	<b>ROE</b>	<b>10.5</b>	<b>7.5</b>	<b>11.3</b>	<b>13.4</b>	<b>14.4</b>
Other current assets	10,491.0	12,762.0	12,762.0	12,762.0	12,762.0	<b>ROCE</b>	<b>8.2</b>	<b>7.0</b>	<b>9.4</b>	<b>11.4</b>	<b>13.0</b>
Sundry creditors	(10,569.0)	(13,345.0)	(12,553.5)	(13,588.0)	(15,412.6)						
Acceptances	(4,647.0)	(4,617.0)	(5,078.7)	(5,586.6)	(6,145.2)						
Provisions	(5,967.0)	(5,204.0)	(5,464.2)	(5,737.4)	(6,024.3)						
<b>Working capital</b>	<b>44,749.0</b>	<b>47,197.0</b>	<b>52,276.4</b>	<b>59,419.1</b>	<b>71,343.3</b>						
Deferred tax assets	6,784.0	5,405.0	5,405.5	5,405.5	5,405.5						
<b>CAPITAL DEPLOYED</b>	<b>176,750.0</b>	<b>181,250.0</b>	<b>192,836.7</b>	<b>215,416.5</b>	<b>243,529.9</b>						

Note: Annual numbers based on IND AS



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