



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

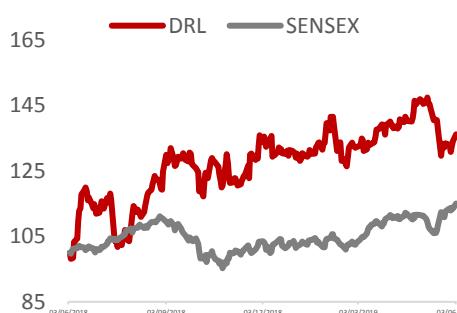
Buy on Dips

Current Price	2700
Target Price	3074
Upside/Downside	14%
52 Week Range	2965/1935

Key Share Data

Market Cap (Rs.bn)	448.08
Market Cap (US\$ mn)	6431.47
No of o/s shares (mn)	166.04
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	802
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



% Shareholding	Mar-19	Dec-18
Promoters	26.77	26.77
FII	30.93	29.69
DII	9.11	10.42
Others	33.19	33.12
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	34.4	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	46.9	7.5	7.0
FY19	154,482.0	8.2	31,782.0	20.6	19,500.0	106.0	117.5	22.8	13.9	11.5
FY20E	170,942.9	10.7	35,952.3	21.0	21,786.4	11.7	131.2	20.4	13.4	11.8
FY21E	185,791.0	8.7	39,678.4	21.4	24,897.4	14.3	150.0	17.9	13.3	11.6

Dr. Reddy's Q4FY19 results were below expectations. The Proprietary Products sales include Rs 180 crs realized from the sale of derma brand. The gross margins declined (-100 bps yoy/-148 bps qoq) in view of increased contribution of PSAI segment.

Sales disappoint, lower margins cause for concern

Sales excluding one off +9% yoy Rs 38359 mn, lower than our estimate of Rs 39290 mn. Revenue growth was driven by emerging markets (17% of sales, +27%) due to scale up of Nasivin in Russia and better volume growth on low base.

Global Generics (76% of sales, +9%) Rs 14.9 bn, PSAI (17% of sales, +8%). US Rs 14.9 bn (37% of sales, -4% cc, +3% INR), due to price erosion in base business and 5 new launches in the quarter.

India (16% of sales, +6% Rs 6.5 bn), Europe (5% of sales, +12% Rs 1.9 bn). Adjusted Gross profit +2% yoy/ -7% qoq Rs 19.2 bn, due to 16% increase in raw material costs. Gross margins down 560 bps yoy/ 600 bps qoq to 47.9%. The margins declined due to price erosion which was partially offset by new launches and favourable currency movements.

SG & A +3% Rs 12.3 bn, R & D 9.7% of sales Rs 3.7 bn.

Adjusted EBITDA +21% Rs 7012 mn, due to lower R & D expenses. EBITDA margins improved +150 bps yoy/(-500 bps qoq) to 17.5%.

In view of lower Interest and higher taxes @26.5%, PAT declined 16% yoy (48% qoq) Rs 2537 mn.

EPS for the quarter was at Rs 15.28.

Outlook & Valuation

The dip in gross margins due to increased contribution of PSAI, is a concern for Dr. Reddy's. However, in view of its pipeline of products pending launch and approval, we believe Dr. Reddy's is on the growth track. With major regulatory matters behind them, the company is well focused on business growth and improvement in profitability.

At CMP, DRL is valued at 18x FY21E of Rs 165. We recommend investors to BUY Dr. Reddy's with a target price of Rs 3074.



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Particulars	Q4FY19	Q3FY19	Q4FY18	% yoy	% qoq	FY19	FY18	% Change
Net Income from Sales & Services	40166	38500	35349	14%	4%	153851	142028	8%
Gross Profit	19246	20752	18895	2%	-7%	83430	76304	
GPM (%)	47.9%	53.9%	53.5%			54.2%	53.7%	
SG&A expenses	-12376	-12036	-12067			-48890	-46910	
R&D Expenses	-3662	-3668	-4348			-15607	-18265	
EBIDTA	7012	8653	5777	21%	-19%	35644	24080	48%
EBIDTA (%)	17.5%	22.5%	16.3%			23.2%	17.0%	
Other Income	330	681	167			1955	788	
EBIT	3538	5729	2647	34%	-38%	20888	11917	75%
Interest	349	-13	1032			2572	2080	
Profit before tax	3887	5716	3679	6%	-32%	23460	13997	68%
Tax	-1507	-953	-726			-3648	-4535	
Profit After tax before MI	2380	4763	2953	-19%	-50%	19812	9462	109%
Minority Interest (MI)	0	0	0			0	0	
Share of Profit	157	89	69			438	344	
Profit After Tax	2537	4852	3022	-16%	-48%	20250	9806	107%
NPM (%)	6.32%	12.60%	8.55%			13.16%	6.90%	
Equity	830	830	830			829	830	
EPS -(Rs)	15.28	29.23	18.23			121.99	59.07	

The above table is based on IFRS results.

KTA's from the concall:

1. Improvement in base business volumes in the US. The quarter saw the relaunch of Suboxone in the US. The pricing environment has now stabilized.
2. DRL launched 5 new products in the US during the quarter, including Propofol injection and Tadalafil.
3. The company maintains its guideline of launch of gNuvaring (CY2018 mkt size \$900 mn) in H1FY20.
4. DRL plans to launch 30+ products in the US in FY20.
5. In India, the company expects double-digit growth in FY20, with an increase in productivity.
6. The company plans to expand in China through launches. DRL has filings in China.
7. DRL plans to launch DFL02 in the US in Q2FY20.
8. Expect re-inspection of Srikakulam soon.
9. DRL has successfully completed Phase 2B study for XP23829. The company will be shortly announcing the key results and has indicated that the headline data looks impressive.
10. The company expects gross margins to improve in the coming quarters, ranging from 53% to 56%.
11. Increased R & D spends to range from \$250-300 mn in FY20, (FY19 \$226 mn).
12. The company plans to complete the trials of biosimilars for the US. Expects to file BLA in FY21.
13. The company has prioritized on achieving market leadership in its products in the US.



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