



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Result update@ Dalal & Broacha

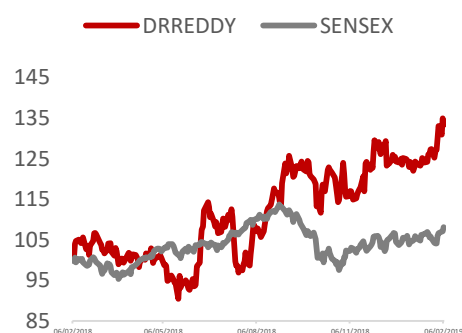
BUY

Current Price	2585
Target Price	3074
Upside/Downside	19%
52 Week Range	2875/1888

Key Share Data

Market Cap (Rs.bn)	429
Market Cap (US\$ mn)	6131
No of o/s shares (mn)	166
Face Value	5
Monthly Avg. vol (BSE+NSE) Nos'000	1490
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



We are positive on the recent developments at Dr. Reddy's. The USFDA clearance to its Duvvada plant has opened up opportunities to approvals in oncology injectables. Being a niche generics player, we expect Dr. Reddy's to benefit from the US Government's focus on affordable pricing of drugs. We recommend investors to BUY with a target price of Rs 3074, indicating an upside of 19%.

USFDA clearance to Duvvada plant

USFDA clearance to Duvvada plant opens up niche opportunities in oncology injectables. Dr. Reddy's has a portfolio of niche generics in the US. 103 ANDAs pending USFDA approval, of which 33 first to file opportunities. 20% of the filings are from Duvvada plant, which can now get approval due to the lifting of warning letter. Now only Srikakulam API plant continues under warning letter.

US business stabilising, gNUVARING and gCOPAXONE launches

US business is stabilising with niche generic launches. Growth in India, Russia & ROW to counter price erosion in the US. The company expects to launch gNuvaring (Mkt size \$800 mn) in H12019 and Copaxone (\$ 4 bn) in H22019.

Profitability improves over last few quarters

Company is doing well with margin improvement over last few quarters. EBITDA margins improved from 17% in FY18 to 22.5% in Q3FY19. The reduction in working capital cycle has resulted in improved cash flows.

Outlook & Valuation

DRL has improved performance, over the last few quarters through the US, India and Emerging markets. The relaunch of Suboxone film in the US and USFDA clearance to Duvvada plant open up new opportunities. Further the launch of gNuvaring and gCOPAXONE will add to growth going forward.

At Rs 2585, DRL trades at 20x FY20E EPS of Rs 132.6. We are positive on the stock and recommend investors to BUY 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	33.2	10.5	8.2
FY18	142,810.0	0.6	23,512.0	16.5	9,468.0	(26.7)	57.0	45.3	7.5	7.0
FY19E	157,411.0	10.2	30,288.0	19.2	17,461.2	84.4	105.2	24.6	12.2	10.2
FY20E	176,591.2	12.2	36,060.2	20.4	22,019.7	26.1	132.6	19.5	13.3	11.4



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



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