



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

Q2FY21 Result update@ Dalal & Broacha

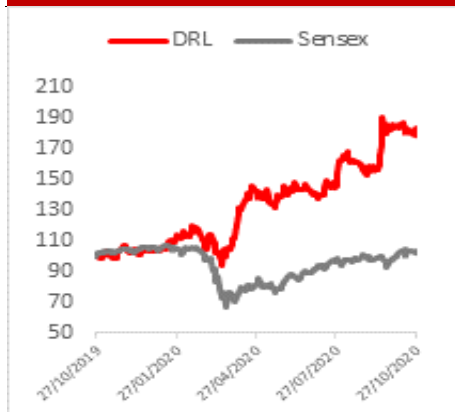
BUY on Dips

Current Price	4950
Target Price	6032
Upside/Downside	22%
52 Week Range	2498/5515

Key Share Data

Market Cap (Rs.bn)	823
Market Cap (US\$ mn)	11113
No of o/s shares (mn)	166
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	2320
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



% Shareholding

	Sep-20	Jun-20
Promoters	26.74	26.74
FII	29.58	29.33
DII	13.92	14.41
Others	29.76	29.29
Total	100	100

Financials

Year	Net Sales	% Growth	EBIDTA	OPM (%)	PAT	Growth	EPS	PE (x)	RoE (%)	RoCE (%)	EV/EBITDA
FY18	1,42,810	0.6	23,512	16.5	9,468	(63.4)	57.0	86.5	7.5	7.0	36.7
FY19	1,54,482	8.2	31,782	20.6	19,500	106.0	117.5	42.0	13.9	11.5	26.7
FY20	1,75,170	13.4	41,945	23.9	20,340	4.3	122.4	40.3	13.0	7.5	19.8
FY21E	1,94,528	11.1	50,680	26.1	28,791	41.5	173.2	28.5	16.4	19.6	16.1
FY22E	2,14,858	10.5	60,902	28.3	35,764	24.2	215.2	22.9	17.6	21.3	13.4
FY23E	2,40,059	11.7	71,801	29.9	43,450	21.5	261.4	18.9	17.6	21.7	11.2

Dr. Reddy's Q2FY21 results were better than estimates. Sequential decline in profitability led by lower export incentives, adverse forex and product mix. Regarding the Cyber attack last week, the company is yet to ascertain data breaches across the systems.

Robust revenue growth across markets, marginal decline in qoq profits

- **Adj. Sales** +20% yoy/+11% qoq Rs 48.7 bn, 3% higher than our estimate of 47.2 bn, **growth driven by US, India, EU and PSAI. Q2FY20 sales includes Rs 7.2 bn license fee on Proprietary Products.**
- **EBITDA** +18% yoy to Rs 12.7 bn, due to higher material costs.
- **EBITDA margins** at 25.9%, +350 bps yoy/-40 bps qoq.
- **PBT** +13% to Rs 8.5 bn.
- **Adjusted PAT** -8% yoy/+32% Rs 7.6 bn, vs our estimate of Rs 6.9 bn.

Key Highlights

- Volume growth across markets, new launches drive revenue growth. Recovery seen in major markets except for Russia and ROW.
- The company plans to launch more limited competition launches in the US in H2FY21.
- The quarter saw Dr. Reddy's settlement with Celgene for the launch of REVLIMID from 2022, subject to USFDA approval. We believe Dr. Reddy's can generate \$100 -200 mn depending on number of players over 1-2 years.

We have marginally revised our estimates for FY21E and FY22E in view of improved profitability. We roll over our estimates to FY23E factoring in REVLIMID launch in March' 22.

Outlook & Valuation

We have valued Dr. Reddy's on a weighted average of 15x EV/EBITDA (35%) and 22x P/E (65%) FY23E EPS of Rs 261, and arrived at a target price of Rs 6032.

At CMP, Dr. Reddy's trades at 19x FY23E EPS of Rs 261 and 11x EV/EBITDA.

We upgrade our rating from BUY on Dips to BUY.



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Key developments**1. Revenue by geographies**

a. US: Rs 18.3 bn (+29% yoy/+6% qoq), due to volume growth in base business, 9 new product launches and currency benefit, partially offset by price erosion. CC growth more than 20%.

b. India: Rs 9.1 bn (+22% yoy/+45% qoq) due to Wockhardt acquisition and the launch of Favipiravir and Remdesvir in the Indian market.

c. Russia & CIS: Rs 6 bn (+3% yoy/+28% qoq). Growth in Russia from better volumes and recovery from lower Q1 levels due to lockdown. CIS grew 19% due to higher volumes and new launches.

d. ROW: Rs 2.6 bn (+7% yoy/-20% qoq), due to new launches. Sequential degrowth due to lower volumes.

e. Europe Rs 3.8 bn (+36% yoy/+6% qoq), due to new launches and favourable forex, and foray into Austria.

f. PSIA Rs 8.5 bn (+20% yoy), due to growth in services, new launches offset by lower volumes in some products.

g. Proprietary Products Rs 622 mn, -92% yoy decline due to license income of Rs 7.2 bn from sale of rights in Neurology assets in Q2FY20.

2. Gross margins: 53.9% (+240 bps yoy/-210 bps qoq) due to better margins in Global Generics and PSIA segments.

3. R & D spend: Rs 4.3 bn – 9% of sales.

5. Capex Rs 2.5 bn.

6. Net Debt Rs 1.4 bn.

7. Free Cash Flow Rs 6 bn.

KTAs from the concall

1. Cyber attack: DRL has appointed international cyber security consultants and enabled most of the critical applications. **The company is yet to ascertain data breaches across the systems.**
2. SG & A spend sequentially increased 2.5% to Rs 13.1 bn due to Wockhardt integration expenses.
3. **The Wockhardt integration is progressing better than expectation, with synergies benefitting both topline and bottomline.**
4. **DRL launched 9 new products in the US and expects more limited competition launches in H2FY21.**
5. **Some Emerging markets (Vietnam, Jamaica & some more) currently facing challenges due to Covid19.**
6. DRL has filed for 27 products across markets including 2 ANDAs for the US.
7. **DRL will undertake Phase II trials of Sputnik vaccine on 100 candidates. On reaching positive endpoints, the company will procure 100 mn doses of the vaccine for supplies to the Indian market.**
8. The company plans to expand its trials for Remdesvir for the developed markets and obtain EUA.



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Particulars	Q2FY21	Q1FY21	Q2FY20	% yoy	% qoq	H1FY21	H1FY20	% Change
Net Income from Sales & Services	48967	44175	48010	2%	11%	93142	86445	8%
Gross Profit	26409	24755	27621	-4%	7%	51164	47480	
GPM (%)	53.9%	56.0%	57.5%			54.9%	54.9%	
SG&A expenses	-13107	-12786	-13277			-25893	-25342	2%
R&D Expenses	-4359	-3980	-3662			-8339	-7271	15%
EBIDTA excl one offs	12673	11623	14339	-12%	9%	24296	29139	-17%
EBIDTA (%)	25.9%	26.3%	29.9%			26.1%	33.7%	
Other Income	149	118	135			267	3894	-93%
Impairment	-781	0	-3500			-781	-3500	
EBIT	8311	8107	17974			16418	15261	8%
Interest	237	605	231			842	624	
PBT excl. one offs	8548	11136	14243	-40%	-23%	23721	32409	
Profit before tax	8548	8712	18205			17260	15885	9%
Tax	-998	-2996	3261			-3994	1389	
Profit After tax before MI	7550	5716	21466			13266	17274	-23%
Share of Profit	73	77	117			150	280	
Profit After Tax	7623	5793	21583	-65%	32%	13416	17554	-24%
NPM (%)	15.57%	13.11%	44.96%			14.40%	20.31%	
Equity	830.6	830.6	830			830.6	830	
Number of shares	166.12	166.12	166			166.12	166	
EPS excl exceptional	45.89	34.87	49.66			80.8	69	
EPS -(Rs)	45.89	34.87	65.82			117.4	106	

Revision of estimates

	FY21E			FY22E		
	New	Old		New	Old	
Sales	1,94,528	1,90,546	2%	2,14,858	2,10,845	2%
EBITDA	50,680	48,051	5%	60,902	58,253	5%
PAT	28,791	26,601	8%	35,764	33,692	6%

We have marginally revised our estimates for FY21E and FY22E in view of improved profitability. We roll over our estimates to FY23E factoring in REVLIMID launch in 2022.

We have valued Dr. Reddy's on a weighted average of 15x EV/EBITDA (50%) and 22x FY23E EPS of Rs 261 and arrived at a target price of Rs 60



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Dr Reddy's Laboratories Limited													
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Net Sales	1,42,810	1,54,482	1,75,170	1,94,528	2,14,858	2,40,059	Net Profit	9,468	19,500	20,340	28,791	35,764	43,450
Other operating income													
Raw materials	(40,395)	(44,948)	(55,070)	(63,687)	(70,476)	(78,916)	Add: Dep. & Amort.	10,772	11,348	11,631	12,287	13,272	13,929
Employee costs	(32,149)	(33,562)	(33,802)	(34,478)	(35,512)	(36,578)	Cash profits	20,240	30,848	31,971	41,078	49,036	57,379
Other Expenses	(46,754)	(44,190)	(44,353)	(45,684)	(47,968)	(52,765)	(Inc)/Dec in						
Cost of sales	(1,19,298)	(1,22,700)	(1,33,225)	(1,43,848)	(1,53,957)	(1,68,258)	-Sundry debtors	(2,500)	714	(12,033)	(7,549)	(6,350)	(7,893)
Operating Profit	23,512	31,782	41,945	50,680	60,902	71,801	-Inventories	(561)	(4,490)	(1,488)	(4,237)	(4,190)	(5,208)
Depreciation	(10,772)	(11,348)	(11,631)	(12,287)	(13,272)	(13,929)	-Loans/advances	58	(834)	(2,010)	(224)	(235)	(247)
Impairment	-	-	(17,160)	-	-	-	-Sundry creditors	2,776	326	1,577	1,474	1,783	2,216
PBIT	12,740	20,434	13,154	38,392	47,630	57,872	-Others	(3,064)	3,636	2,409	40	30	19
Other income	1,552	3,375	6,206	496	546	601	Change in working capital	(3,291)	(648)	(11,545)	(10,497)	(8,963)	(11,114)
Interest	(788)	(889)	(983)	(892)	(892)	(803)	CF from Oper. activities	16,949	30,200	20,426	30,581	40,074	46,265
Profit before tax	13,504	22,920	18,377	37,997	47,284	57,670	CF from Inv. activities	(14,203)	(10,954)	4,989	(6,220)	(29,346)	(26,488)
Provision for tax	(4,380)	(3,858)	1,402	(9,879)	(12,294)	(14,994)	CF from Fin. activities	(3,589)	(22,647)	(46,498)	(10,983)	(11,451)	(3,262)
PAT Bfr Excp Items	9,124	19,062	19,779	28,118	34,990	42,676	Cash generated/(utilised)	(843)	(3,401)	(21,083)	13,378	(723)	16,515
Share of Profit	344	438	561	673	774	774	Cash at start of the year	7,253	7,205	5,628	6,432	19,810	19,087
Net Profit	9,468	19,500	20,340	28,791	35,764	43,450	Cash at end of the year	7,205	5,628	6,432	19,810	19,087	35,602
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	830	830	831	831	831	831	OPM	16.5	20.6	23.9	26.1	28.3	29.9
Reserves	1,24,886	1,39,406	1,55,157	1,75,197	2,02,210	2,45,660	NPM	6.6	12.4	11.2	14.8	16.6	18.1
Net worth	1,25,716	1,40,236	1,55,988	1,76,028	2,03,041	2,46,491	Tax rate	(32.4)	(16.8)	7.6	(26.0)	(26.0)	(26.0)
Def. Tax Liab.+Minority Int.	1,950	473	20	22	24	27	Growth Ratios (%)						
Secured loans	25,089	22,000	1,304	1,304	1,304	1,304	Net Sales	0.6	8.2	13.4	11.1	10.5	11.7
Unsecured loans	25,562	12,125	16,532	16,532	16,532	16,532	Operating Profit	(37.6)	35.2	32.0	20.8	20.2	17.9
Total debt	50,651	34,125	17,836	17,836	17,836	17,836	PAT	(63.4)	106.0	4.3	41.5	24.2	21.5
Other Liabilities	2,933	2,181	2,055	2,261	2,487	2,735	Per Share (Rs.)						
CAPITAL EMPLOYED	1,81,250	1,77,015	1,75,899	1,96,146	2,23,388	2,67,089	Net Earnings (EPS)	57.04	117.5	122.38	173.2	215.2	261.4
Gross block	1,56,159	1,66,901	1,77,184	1,87,184	2,02,184	2,12,185	Cash Earnings (CPS)	121.9	185.8	192.4	247.2	295.0	345.2
Accumulated depreciation	(1,06,426)	(1,17,774)	(1,29,405)	(1,41,692)	(1,54,965)	(1,68,893)	Dividend	30.0	30.0	45.0	45.0	45.0	46.0
Net block	49,733	49,127	47,779	45,492	47,219	43,292	Book Value	757.3	844.8	938.6	1,059.1	1,221.7	1,483.1
Capital WIP	7,678	4,725	4,364	4,364	4,364	4,364	Free Cash Flow	16.5	115.9	152.9	146.6	64.5	119.0
Total fixed assets	57,411	53,852	52,143	49,856	51,583	47,656	Valuation Ratios						
Intangible assets	41,643	42,734	26,798	27,897	29,105	30,435	P/E(x)	87	42	40	28	23	19
Goodwill	5,331	4,659	4,913	4,913	4,913	4,913	P/B(x)	7	6	5	5	4	3
Investments	22,983	25,871	26,778	21,778	34,778	49,779	EV/EBIDTA(x)	37	27	20	16	13	11
Other non current assets	1,280	1,138	1,002	1,123	1,260	1,417	EV/SALES(x)	6	5	5	4	4	3
Inventories	29,089	33,579	35,067	39,304	43,495	48,703	Div. Yield(%)	1	1	1	1	1	1
Sundry debtors	40,696	39,982	52,015	59,564	65,914	73,807	FCF Yield(%)	0	2	3	3	1	2
Cash & bank	7,205	5,628	6,432	19,810	19,087	35,602	Return Ratios (%)						
Loans & advances	1,638	2,472	4,482	4,706	4,941	5,188	ROE	7.5	13.9	13.0	16.4	17.6	17.6
Other current assets	12,762	10,424	10,424	11,466	12,613	13,874	ROCE	7.0	11.5	7.5	19.6	21.3	21.7
Sundry creditors	(13,345)	(13,671)	(15,248)	(16,722)	(18,505)	(20,721)	ROA	5.8	11.8	11.3	14.5	16.0	16.4
Acceptances	(4,617)	(5,537)	(8,114)	(8,925)	(9,818)	(10,800)							
Provisions	(5,204)	(5,582)	(5,414)	(5,685)	(5,969)	(6,267)							
Working capital	47,197	44,444	52,066	75,941	84,181	1,11,810							
Deferred tax assets	5,405	4,317	12,199	14,639	17,567	21,080							
CAPITAL DEPLOYED	1,81,250	1,77,015	1,75,899	1,96,146	2,23,388	2,67,089							



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