



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

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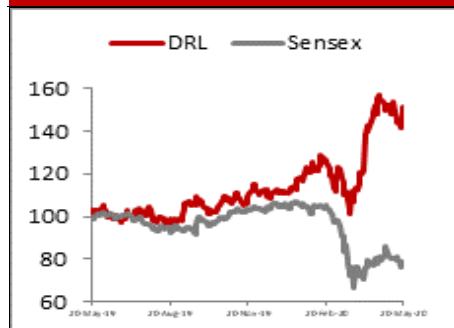
BUY

Current Price	3911
Target Price	4574
Upside/Downside	17%
52 Week Range	4099/2352

Key Share Data

Market Cap (Rs.bn)	650
Market Cap (US\$ mn)	8605
No of o/s shares (mn)	166
Face Value	5
Monthly Avg.vol (BSE+NSE) Nos'000	1295
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD:IN

Price performance



% Shareholding	Mar-20	Dec-19
Promoters	26.75	26.76
FII	30.15	30.04
DII	14.46	15.0
Others	28.74	28.79
Total	100	100

Key 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	68.6	7.5	7.0	29.5
FY19	1,54,482	8.2	31,782	20.6	19,500 106.0	117.5	33.3	13.9	11.5	21.3
FY20	1,75,170	13.4	41,945	23.9	20,340 4.3	122.4	32.0	13.0	7.5	15.8
FY21E	1,87,559	7.1	45,178	24.1	31,074 52.8	187.0	20.9	17.1	16.3	14.6
FY22E	2,03,224	8.4	53,223	26.2	37,455 20.5	225.4	17.4	17.6	17.3	12.2

Dr. Reddy's Q4FY20 results were above expectations. Sales growth across geographies, mainly driven by volumes, better realisations in key molecules, price erosion in US & EU, new launches. The quarter witnessed higher stocking due to the COVID19 crisis across geographies. US revenue growth of 13% to \$247mn came in from traction in existing products and new launches including Naloxone HCL injection, which had CGT exclusivity.

We believe Dr. Reddy's will benefit from USFDA approval to the Srikakulam plant, improving profitability from backward integration. We recommend investors to BUY Dr. Reddy's with a target price of Rs 4574.

- Sales increased 10% yoy/+1% qoq Rs 44.3 bn, driven by growth in USA (+13% Rs 18 bn , \$247 mn +17% yoy /+10% qoq cc), Europe (+80% yoy/+11% qoq Rs 3.45 bn, Russia & CIS (+19% yoy/-15% qoq Rs 5.7 bn), India (+5% yoy/-11% qoq Rs 6.8 bn) and ROW (+6% yoy/-6% qoq Rs 2.3 bn).
- Gross Profit increased 18.5% yoy to Rs 22.8 bn. Gross margins at 51.5% (+360 bps yoy/-260 bps qoq). Sequentially lower margins were due to business mix, price erosion and inventory provisions. SG & A(-1% yoy/-4% qoq Rs 12.2 bn) spend was marginally lower due to cost optimization.
- EBITDA grew +43% yoy to Rs 10 bn, lower than our estimate of Rs 11 bn. EBITDA margin of 22.6% (+430 bps yoy/-190 bps qoq). Adjusted PBT increased 81% to Rs 7038 mn. The company has utilized tax credit of Rs 500 mn during the quarter. Adjusted PAT grew 201% yoy to Rs 7643 mn. Adjusted EPS for the quarter Rs 46.

Outlook & Valuation

At Rs 3911 Dr. Reddy's trades at 17x FY22E EPS of Rs 187 and 12x EV/EBITDA for FY22E. The company has realigned itself to its research pipeline, manufacturing mix and the price erosion in the US markets in FY20.

We have valued Dr. Reddy's as a weighted average of DISCOUNTED CASH FLOW, P/E multiple of 20x FY22E EPS of Rs 225 and 15x EV/EBITDA.

We recommend investors to BUY Dr. Reddy's with a target price of Rs 4574.

**KTAs from Dr. Reddy's Q4FY20 earnings call**

- US business grew to \$247 mn due to traction from existing products, new launches and higher volumes due to stocking in view of COVID19 crisis. 5 new product launches namely Naloxone HCL injection, Naproxen and Esomeprazole DR tablets, Pyrimethamine (gDARAPRIM) and some more in Q4FY20.
- In the US, the company launched 20 new products in the US in FY20 and plans for 25 in FY21.
- Dr. Reddy's will respond to the USFDA CRL for gNuvaring and gCopaxone in a few weeks.
- Covid 19 impact includes revenues from PSAI, India and ROW sales deferred to Q1FY21.
- India growth was lower than expected due to disruptions in supply chain due to COVID19. The acquisition of Wockhardt's India business is expected to close by Q1FY21.
- In Europe, business growth was due to traction in volumes from existing and new markets and new launches.
- PSAI (+6% yoy Rs 7.2 bn), growth mainly from increased API volumes.
- Proprietary Products sales were at Rs 725 mn on high base as Q4FY19 sales included the sale of rights in US and select geographies for its neurology franchise namely ZEMBRACE, SYMTOUCH and TOSYMRA.
- The company has guided for capex spend of Rs 10000 mn in FY21. The spend will be towards capacity expansion of injectables and biosimilars, inorganic growth and digitization.
- Research & development expenses will be 9-10% of sales in FY21.
- The receivable days were marginally higher at 116 in FY20 Vs 98 in FY19, due to delays in collection. The company plans to normalize the same in FY21.
- Free cash flow for FY20 was at Rs 33000 mn. Dr. Reddy's has declared a final dividend of Rs 25 per share (500%).



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Particulars	Q4FY20	Q3FY20	Q3FY20	% yoy	% qoq	FY20	FY19	% Change
Net Income from Sales & Services	44319	43838	40166	10%	1%	174601	153851	13%
Gross Profit	22809	23722	19246	19%	-4%	94010	83430	
GPM (%)	51.5%	54.1%	47.9%			53.8%	54.2%	
SG&A expenses	-12177	-12670	-12376			-50189	-48890	3%
R&D Expenses	-4190	-3949	-3662			-15410	-15607	-1%
EBIDTA excl one offs	10015	10737	7012	43%	-7%	49891	34189	46%
EBIDTA (%)	22.6%	24.5%	17.5%			28.6%	22.2%	
Other Income	168	228	330			4290	1955	119%
Impairment	0	-13200	0			-16707	0	
EBIT	10183	-2235	3538			32701	20888	57%
Interest	435	419	349			1478	1117	
PBT excl. one offs	9748	10546	6993	39%	-8%	24498	22005	
Profit before tax	10618	-1816	3887			34179	22005	55%
Tax	500	-423	-1507			1466	-3648	
Profit After tax before MI	11118	-2239	2380			35645	18357	94%
Share of Profit	105	176	157			561	438	
Profit After Tax	11223	-2063	2537	342%	-644%	36206	18795	93%
NPM (%)	25.32%	-4.71%	6.32%			20.74%	12.22%	
Equity	830.6	830.6	830			831	830	
EPS excl exceptional	46.01	47.71	15.28			156.3	113.2	
EPS -(Rs)	46.01	-34.29	15.28			117.4	113.2	



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Dr Reddy's Laboratories Limited											
P&L (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	1,42,810	1,54,482	1,75,170	1,87,559	2,03,224	Net Profit	9,468	19,500	20,340	31,074	37,455
Raw materials	(40,395)	(44,948)	(55,070)	(62,219)	(66,521)	Add: Dep. & Amort.	10,772	11,348	11,631	12,317	12,993
Employee costs	(32,149)	(33,562)	(33,802)	(34,478)	(35,512)	Cash profits	20,240	30,848	31,971	43,390	50,447
Other Expenses	(46,754)	(44,190)	(44,353)	(45,684)	(47,968)	(Inc)/Dec in					
Cost of sales	(1,19,298)	(1,22,700)	(1,33,225)	(1,42,381)	(1,50,001)	-Sundry debtors	(2,500)	714	(12,033)	(5,333)	(4,867)
Operating Profit	23,512	31,782	41,945	45,178	53,223	-Inventories	(561)	(4,490)	(1,488)	(2,775)	(3,211)
Depreciation	(10,772)	(11,348)	(11,631)	(12,317)	(12,993)	-Loans/advances	58	(834)	(2,010)	(224)	(235)
Impairment	-	-	(17,160)	-	-	-Sundry creditors	2,776	326	1,577	1,089	1,129
PBIT	12,740	20,434	13,154	32,862	40,230	-Others	(3,064)	3,636	2,409	40	30
Other income	1,552	3,375	6,206	6,827	7,509	Change in working capital	(3,291)	(648)	(11,545)	(7,204)	(7,154)
Interest	(788)	(889)	(983)	(713)	(713)	CF from Oper. activities	16,949	30,200	20,426	36,186	43,294
Profit before tax	13,504	22,920	18,377	38,975	47,026	CF from Inv. activities	(14,203)	(10,954)	4,989	(26,220)	(26,346)
Provision for tax	(4,380)	(3,858)	1,402	(8,574)	(10,346)	CF from Fin. activities	(3,589)	(22,647)	(46,498)	(8,066)	(8,534)
PAT Bfr Excp Items	9,124	19,062	19,779	30,400	36,680	Cash generated/(utilised)	(843)	(3,401)	(21,083)	1,900	8,414
Share of Profit	344	438	561	673	774	Cash at start of the year	7,253	7,205	5,628	6,432	8,332
Net Profit	9,468	19,500	20,340	31,074	37,455	Cash at end of the year	7,205	5,628	6,432	8,332	16,746
Balance Sheet	FY18	FY19	FY20	FY21E	FY22E	Ratios	FY18	FY19	FY20	FY21E	FY22E
Equity capital	830	830	831	831	831	OPM	16.5	20.6	23.9	24.1	26.2
Reserves	1,24,886	1,39,406	1,55,157	1,80,397	2,12,017	NPM	6.6	12.4	11.2	16.0	17.8
Net worth	1,25,716	1,40,236	1,55,988	1,81,228	2,12,848	Tax rate	(32.4)	(16.8)	7.6	(22.0)	(22.0)
Def. Tax Liab.+Minority Int.	1,950	473	20	22	24	Growth Ratios (%)					
Secured loans	25,089	22,000	1,304	1,304	1,304	Net Sales	0.6	8.2	13.4	7.1	8.4
Unsecured loans	25,562	12,125	16,532	16,532	16,532	Operating Profit	(37.6)	35.2	32.0	7.7	17.8
Total debt	50,651	34,125	17,836	17,836	17,836	PAT	(63.4)	106.0	4.3	52.8	20.5
Other Liabilities	2,933	2,181	2,055	2,261	2,487	Per Share (Rs.)					
CAPITAL EMPLOYED	1,81,250	1,77,015	1,75,899	2,01,346	2,33,195	Net Earnings (EPS)	57.04	117.5	122.38	187.0	225.4
Gross block	1,56,159	1,66,901	1,77,184	1,87,184	1,97,184	Cash Earnings (CPS)	121.9	185.8	192.4	261.1	303.5
Accumulated depreciation	(1,06,426)	(1,17,774)	(1,29,405)	(1,41,722)	(1,54,714)	Dividend	30.0	30.0	30.0	30.0	30.0
Net block	49,733	49,127	47,779	45,462	42,470	Book Value	757.3	844.8	938.6	1,090.4	1,280.7
Capital WIP	7,678	4,725	4,364	4,364	4,364	Free Cash Flow	16.5	115.9	152.9	60.0	102.0
Total fixed assets	57,411	53,852	52,143	49,826	46,834	Valuation Ratios					
Intangible assets	41,643	42,734	26,798	27,897	29,105	P/E(x)	69	33	32	21	17
Goodwill	5,331	4,659	4,913	4,913	4,913	P/B(x)	5	5	4	4	3
Investments	22,983	25,871	26,778	41,778	56,778	EV/EBIDTA(x)	29	21	16	15	12
Other non current assets	1,280	1,138	1,002	1,123	1,260	EV/SALES(x)	5	4	4	4	3
Inventories	29,089	33,579	35,067	37,842	41,053	Div. Yield(%)	1	1	1	1	1
Sundry debtors	40,696	39,982	52,015	57,348	62,215	FCF Yield(%)	0	3	4	2	3
Cash & bank	7,205	5,628	6,432	8,332	16,746	Return Ratios (%)					
Loans & advances	1,638	2,472	4,482	4,706	4,941	ROE	7.5	13.9	13.0	17.1	17.6
Other current assets	12,762	10,424	10,424	11,466	12,613	ROCE	7.0	11.5	7.5	16.3	17.3
Sundry creditors	(13,345)	(13,671)	(15,248)	(16,337)	(17,466)	ROA	5.8	11.8	11.3	15.3	16.1
Acceptances	(4,617)	(5,537)	(8,114)	(8,925)	(9,818)						
Provisions	(5,204)	(5,582)	(5,414)	(5,685)	(5,969)						
Working capital	47,197	44,444	52,066	61,170	76,738						
Deferred tax assets	5,405	4,317	12,199	14,639	17,567						
CAPITAL DEPLOYED	1,81,250	1,77,015	1,75,899	2,01,346	2,33,195						

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