

Dr. Reddy's Q4FY21 results were below estimates. Sales degrowth in US (-3%) and sequential degrowth in India due to lower Covid sales and seasonality lowered revenues (-4% qoq). However, the profitability improved yoy and was maintained sequentially due to global generics and PSAI segments. The company has paid dividend of Rs 25 per share (500%).

- Adj. Sales came in at Rs 47.3 bn, +7% yoy/-4% qoq, 8% lower than our estimate.
- Sales growth was from India, ROW, Europe and PSAI.
- EBITDA came in at Rs 11.3 bn +13% yoy/flat qoq due to higher SG&A spend.
- EBITDA margins at 24%, +180 bps yoy/flat qoq
- Adjusted PAT came in at Rs 8.09 bn, +6% yoy.
- EPS for the quarter was at Rs 33.4.

Revenue by geographies

- **US:** Rs 17.5 bn (-3% yoy/+1% qoq), due to higher volumes in Q4FY20 due to stocking in view of the lockdown. The sequential growth was due to 6 new product launches and currency benefit, partially offset by price erosion. CC growth was at 10%.
- **India:** Rs 8.4 bn (+24% yoy/-12% qoq) due to Wockhardt acquisition. The sequential degrowth was due to lower Covid19 drug sales and seasonality.
- **Russia & CIS:** Rs 5.9 bn (+4% yoy/-11% qoq). CIS grew 7% yoy/-11% qoq to Rs 1.9 bn.
- **ROW:** Rs 2.9 bn (+26% yoy/-3% qoq), due to new launches. Sequential degrowth due to lower volumes.
- **Europe** Rs 3.96 bn (+15% yoy/-5% qoq), due to new launches and favourable forex, and foray into Austria. Sequential -5% due to lower volumes in base business and price erosion.
- **PSAI** Rs 7.9 bn (+10% yoy/+13% qoq), due to growth in services. The company filed 14 DMFs during Q4FY21.
- Proprietary Products Rs 632 mn, -13% yoy.

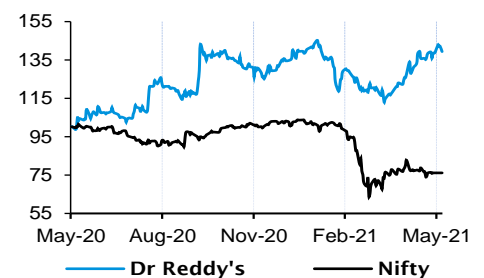
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	5776	11

Market data

Current price	Rs	5196
Market Cap (Rs.Bn)	(Rs Bn)	864
Market Cap (US\$ Mn)	(US\$ Mn)	11790
Face Value	Rs	5
52 Weeks High/Low	Rs	5515/3613
Average Daily Volume	('000)	918
BSE Code		500124
Bloomberg		DRRD:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	26.74	26.73
FII	29.03	29.13
DII	14.90	14.73
Others	29.33	29.40
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,54,482	1,75,170	1,90,475	2,21,390	2,49,568
EBITDA	31,782	41,945	45,467	54,758	64,107
Adjusted net profit	19,500	20,340	19,516	33,169	39,653
Free cash flow	23,797	31,830	14,073	27,505	26,725
EPS (Rs)	117.5	122.4	117.3	199.3	238.3
growth (%)	106	4	(4)	70	20
P/E (x)	44.2	42.4	44.3	26.1	21.8
P/B (x)	6.1	5.5	4.9	4.3	3.6
EV/EBITDA (x)	28.0	20.9	19.3	15.9	13.5
D/E	0.2	0.1	0.2	0.1	0.1
RoIC (%)	13.6	14.5	12.2	19.7	21.6
RoE (%)	13.9	13.0	11.1	16.5	16.5
Dividend yield (%)	0.6	0.9	0.9	0.9	0.9

Source: Company

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Key Highlights

1. Sputnik vaccine launch in India

- a) Dr. Reddy's launched Sputnik vaccine in India at a price point of Rs 948 + GST. The company is the sole distributor of Sputnik vaccine in India and has an agreement for the supply of 250 mn doses.
- b) The initial supplies have been imported and Dr. Reddy's is working with 6 manufacturers for local manufacturing with a likely lower price point.
- c) We believe local manufacturing will enable ramp up from H2FY22. Assuming 10% distribution margins we expect revenues from Sputnik at Rs 7370 mn in FY22 and Rs 8000 mn in FY23E.

Local manufacturing of Sputnik to commence by August

2. Dr. Reddy's has developed 2-deoxy-D- glucose with the DRDO lab and has received EUA for the hospitalized patients suffering from moderate to severe Covid patients.
3. The company awaits USFDA response to the Complete Response Letter (CRL) for gNUVARING.
4. Dr. Reddy's has 95 ANDAs pending USFDA approval, of which 47 are Para IVs and the company believes 23 have FTF status.
5. Gross margins: 53.7% (+220 bps yoy/-10 bps qoq) due to better margins in Global Generics and PSAI segments. Margin improvement from better product mix and productivity, partially offset by lower export incentives.
6. Capex Rs 2.9 bn.
7. Net Debt Rs 1.4 bn.
8. The Board has declared a dividend of Rs 25 per share (500%).

Free Cash Flow Rs 7.9 bn.

Quarterly Financials

Particulars	Q4FY21	Q3FY21	Q4FY20	% yoy	% qoq	FY21	FY20	% Change
Net Income from Sales & Services	47284	49296	44319	7%	-4%	189742	174601	9%
Gross Profit	25375	26538	22809	11%	-4%	103097	94010	
GPM (%)	53.7%	53.8%	51.5%			54.3%	53.8%	
SG&A expenses	-14279	-14387	-12177	17%	-1%	-54559	-50129	
R&D Expenses	-4094	-4108	-4190			-16541	-15410	
EBIDTA excl one offs	11330	11852	10008	13%	-4%	47565	28471	67%
EBIDTA (%)	24.0%	24.0%	27.0%			25.1%	16.3%	
Other Income	587	128	168			982	4290	-77%
Impairment	0	-5972	0			-6753	-16767	
EBIT	7589	2199	6603			26226	15994	64%
Interest	318	493	435			1653	1478	
PBT excl. one offs	7907	2692	9741	-19%	194%	27879	17472	
Profit before tax	7907	2692	7038	12%	194%	27879	17472	60%
Tax	-2536	-2645	500			-9175	1466	
Profit After tax before MI	5371	47	7538			18704	18938	-1%
Share of Profit	179	151	105			800	561	
Profit After Tax	5550	198	7643	-27%	2703%	19504	19499	0%
NPM (%)	11.74%	0.40%	17.25%			10.28%	11.17%	
Adjusted Net Profit	8086	2251	7643			19484	25904	
Equity	832	830.6	830.6			832	830.6	
Number of shares	166.4	166.12	166.12			166.4	166.12	
EPS excl exceptional	48.59	13.55	46.01			117.21	155.94	
EPS -(Rs)	33.35	1.19	46.01			115.31	117.38	
Cost Analysis	Q4FY21	Q3FY21	Q4FY20	% yoy	% qoq	FY21	FY20	% Change
Raw Materials	46.3%	46.2%	48.5%			45.7%	46.2%	
SG&A	-30.2%	-29.2%	-27.5%			-28.8%	-28.7%	
R & D	-8.7%	-8.3%	-9.5%			-8.7%	-8.8%	
% profitability	Q4FY21	Q3FY21	Q4FY20	% yoy	% qoq	FY21	FY20	% Change
Gross margin	53.7%	53.8%	51.5%			54.3%	53.8%	
EBITDA margin	24.0%	24.0%	27.0%			25.1%	16.3%	
PBT margin	16.7%	5.5%	15.9%			14.7%	10.0%	
PAT margin	11.7%	0.4%	17.2%			10.3%	11.2%	

Source: Dalal & Broacha Research, Company

We have revised our sales estimates for FY22E/FY23E by 3%/4% in view of the second wave of Covid19 in India leading to growth in Covid19 medicines and supplies of Sputnik vaccine from May'21. We have revised EBITDA/PAT estimates by -10%/-7% for FY22 and -11%/-9% for FY23.

Valuation & Outlook

We believe Dr. Reddy's will grow in India through Covid19 products (Remdesvir, Favipiravir, 2-deoxy-D-glucose) and Sputnik supplies from imports and local manufacturers in FY22 and FY23. In the US, we expect 5%/12% growth from new launches in FY22/FY23 and value-added launches like gRevlimid, gNuvaring, gKuvan.

At Rs 5129, Dr. Reddy's trades at 22x FY23E EPS of Rs 238.3. We have valued Dr. Reddy's as a weighted average (50:50) of 24x FY23E EPS of Rs 238.3 and 15x EBITDA, and arrived at a target price of Rs 5776, implying an upside of 11%.

We revise our rating from BUY to BUY on Dips.

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20E	FY21E	FY22E	FY23E
Net Sales	1,54,482	1,75,170	1,90,475	2,21,390	2,49,568	Net Profit	19,500	20,340	19,516	33,169	39,653
Other operating income						Add: Dep. & Amort.	11,348	11,631	12,288	12,938	13,913
Raw materials	(44,948)	(55,070)	(60,789)	(73,033)	(82,502)	Cash profits	30,848	31,971	31,804	46,107	53,566
Employee costs	(33,562)	(33,802)	(36,299)	(39,929)	(43,922)	(Inc)/Dec in					
Other Expenses	(44,190)	(44,353)	(47,920)	(53,670)	(59,037)	-Sundry debtors	714	(12,033)	2,256	(8,267)	(7,523)
Cost of sales	(1,22,700)	(1,33,225)	(1,45,008)	(1,66,633)	(1,85,461)	-Inventories	(4,490)	(1,488)	(10,345)	(1,513)	(6,083)
Operating Profit	31,782	41,945	45,467	54,758	64,107	-Loans/advances	(834)	(2,010)	1,406	(154)	(161)
Depreciation	(11,348)	(11,631)	(12,288)	(12,938)	(13,913)	-Sundry creditors	326	1,577	2,861	1,929	2,598
Impairment	-	(17,160)	(6,768)	-	-	-Others	3,636	2,409	(1,282)	(94)	(117)
PBIT	20,434	13,154	26,411	41,820	50,194	Change in working capita	(648)	(11,545)	(5,104)	(8,098)	(11,287)
Other income	3,375	6,206	2,914	3,205	3,526	CF from Oper. activities	30,200	20,426	26,700	38,009	42,279
Interest	(889)	(983)	(970)	(883)	(883)	CF from Inv. activities	(10,954)	4,989	(27,514)	(23,749)	(30,831)
Profit before tax	22,920	18,377	28,355	44,142	52,836	CF from Fin. activities	(22,647)	(46,498)	7,097	(10,708)	(2,355)
Provision for tax	(3,858)	1,402	(9,319)	(11,477)	(13,737)	Cash generated/(utilise	(3,401)	(21,083)	6,283	3,551	9,093
PAT Bfr Excp Items	19,062	19,779	19,036	32,665	39,099	Cash at start of the year	7,205	5,628	6,432	17,574	21,125
Share of Profit	438	561	480	504	554	Cash at end of the year	5,628	6,432	17,574	21,125	30,218
Net Profit	19,500	20,340	19,516	33,169	39,653	Ratios	FY19	FY20	FY21	FY22E	FY23E
						OPM	20.6	23.9	23.9	24.7	25.7
						NPM	12.4	11.2	10.1	14.8	15.7
						Tax rate	(16.8)	7.6	(32.9)	(26.0)	(26.0)
						Growth Ratios (%)					
						Net Sales	8.2	13.4	8.7	16.2	12.7
						Operating Profit	35.2	32.0	8.4	20.4	17.1
						PAT	106.0	4.3	(4.1)	70.0	19.5
						Per Share (Rs.)					
						Net Earnings (EPS)	117.5	122.38	117.3	199.3	238.3
						Cash Earnings (CPS)	185.8	192.4	191.1	277.1	321.9
						Dividend	30.0	45.0	45.0	45.0	46.0
						Book Value	844.8	938.6	1,060.2	1,206.9	1,445.2
						Free Cash Flow	115.9	152.9	(4.9)	85.7	68.8
						Valuation Ratios					
						P/E(x)	44	42	44	26	22
						P/B(x)	6	6	5	4	4
						EV/EBIDTA(x)	28	21	19	16	13
						EV/SALES(x)	6	5	5	4	3
						Div. Yield(%)	1	1	1	1	1
						FCF Yield(%)	2	3	(0)	2	1
						Return Ratios (%)					
						ROE	13.9	13.0	11.1	16.5	16.5
						ROCE	11.5	7.5	12.7	18.0	18.4
						ROA	11.8	11.3	9.6	14.6	14.8
						ROIC	13.6	14.5	12.2	19.7	21.6

Source: Dalal & Broacha Research, Company

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