RESULT UPDATE

DR.REDDYS LABORATORIES

Overall weak performance

India Equity Research| Pharmaceuticals

Dr. Reddys Laboratories (DRRD) reported weak set of numbers for Q1FY18 with revenue up 3%, whereas EBITDA and adjusted PAT tumbled 19% and 53% YoY, respectively. Operating margins declined to 9% - partially (~20%) owing to channel destocking in domestic market, and major (80%) part due to the tectonic shift in US market where channel consolidation and intensifying competition is creating havoc. The company is finding it difficult to quickly adjust its cost structure to this changing reality. Regulatory issues are hampering new launches whereas erosion in base business due to intensified competition has led to major decline in profitability (which is true for all other generic companies as well). We cut our FY18/19E EPS by 21%/5% and maintain 'HOLD' with TP of INR2,520 (18x FY19E EPS).

Ailing US operations continue to hurt base business

US business (45% of total) grew by just 1% YoY and 2% QoQ (in CC) due to high competition and pricing pressure in key products. g*Vidaza* and g*Valcyte* declined sequentially by USD11mn due to price erosion. India (14% of total) was down 10% YoY impacted by channel destocking on transition to GST regime. Russia (13% of total) jumped 48% YoY as DRRD supplied *Rituximab* tenders. Gross margin plummeted by 464bps YoY and up 40bps QoQ to 51.6%.

Delays in key launches and monetisation

DRRD expects >10 US launches during FY18. While its pipeline could spring positive surprises (Para-I/II/III), approval delays could derail near-term US revenue build up, which hinges on a number of approvals with complex approval pathways (g*Lovenox*, g*Pentasa* and g*Diprivan*). In g*Copaxone*, DRRD responded to the characterisation issue in DMF in Dec 2016 and has TAD for ~Nov 2017. It has responded to the CRL for gNuvaring and has a TAD for Q4FY18. We have built in a best case scenario (H2FY19) in our estimates. But, launch delays imply ~25% downside to our FY19 estimates.

Outlook and valuations: Earnings under pressure; maintain 'HOLD'

While the Warning Letter at Miryalguda has been resolved, recent re-audit of Duvvuda's oncology facility has led to serious Form 483 observations, entailing escalation risks. Several issues pose downside risks to DRRD's earnings. At CMP, the stock trades at 18.6x FY19E EPS. We maintain **'HOLD/SP'**.

Financials (Consolidated) **(INR mn)**

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenue	33,159	32,345	2.5	35,542	(6.7)	140,809	150,302	175,729
EBITDA	3,058	3,773	(19.0)	5,834	(47.6)	24,155	25,473	38,925
EBITDA margin (%)	9.2	11.7		16.4		17.2	16.9	22.2
Adjusted profit	584	1,238	(52.8)	3,221	(81.9)	12,039	12,615	23,167
Adj. diluted EPS	3.5	7.5	(52.9)	19.4	(81.9)	72.6	76.1	139.8
P/E (x)						35.8	34.2	18.6
ROAE (%)						9.5	9.8	16.5

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: REDY.BO, B: DRRD IN)*

CMP	: INR 2,620
Target Price	: INR 2,520
52-week range (INR)	: 3,400 / 2,380
Share in issue (mn)	: 165.8
M cap (INR bn/USD mn)	: 434 / 6,773
Avg. Daily Vol.BSE/NSE('000)	: 385.3

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	26.8	26.8	26.7
MF's, FI's & BK's	10.6	8.2	6.5
FII's	32.4	36.3	37.2
Others	30.3	28.7	29.7

** Promoters pledged shares (% of share in issue) : 1.2*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Pharma Index
1 month	(1.2)	5.4	4.9
3 months	1.0	7.3	(2.2)
12 months	(12.0)	16.3	(9.0)

Deepak Malik
+91 22 6620 3147
deepak.malik@edelweissfin.com

Archana Menon
+91 22 6620 3020
archana.menon@edelweissfin.com

July 27, 2017

Q1FY18 conference call: Key highlights

Conference call highlights

Current quarter performance and mainly gross margins were impacted by:

- Pricing pressures in North America due to customer consolidation
- Selective incentivisation to dealers in domestic market due to GST transition
- Manufacturing overhead deleverage due to lower reported sales
- Adverse currency movement

Guidance

- DRRD expects gross margins to rebound to 53-54%
- R&D cost to be ~INR5bn per quarter
- Tax rate – 23-25% for FY18

Strategic focus of company

- Strengthening manufacturing system and implementing a new quality management system
- Revitalise growth by accelerating development of complex generic pipeline, registering products in several EMs
- Rationalisation in cost, network, portfolio and R&D, along with manufacturing efficiencies. Some impact to be witnessed this year.

US

- Contribution from new launches like gVytorin and gDoxil was low in the quarter
- gVidaza and gValcyte declined sequentially by USD11mn due to price erosion
- Aims to launch 2-3 products per quarter
- Pricing pressure of 10-20% in past 8 months for the top-10 continues in US as per IMS
- gDoxcil: Will book full revenues and then share with Natco
- Pricing pressure in double digit in Q1FY18
- Biosimilars: Fresenius acquired the biosimilar business from Merck and discussions are going on well
- Suboxone: Submitted responses to the CRL in June. Awaits judgement on the litigation. TAD is in Q4FY18
- Nuvaring: TAD in Q4FY18
- Dacogen: Impact of new competitor marginal
- Copaxone: Re-filing of response for 40mg in few weeks. Not filed from Duvvuda
- Top 5 products: Contribute 25% of USA revenues
- Aloxi – 505(b)(2): Challenged lower court order
- Aloxi – ANDA: verdict of Teva’s litigation expected in next 8 weeks

India

- Business is recovering, though full recovery will be slow

Proprietary business

- Focus on neurology and derma
- Out-licensed product because it is not one of the key therapeutic areas; there are couple of other assets which are not in focus areas; talks are on for partnership agreements

Facilities

- Duvvuda (injectable): Will require second inspection; has responded to the observations; not sure when FDA will be invited – optimistically, looking at year end; looking to site shift some products.
- Bachupally: Atomoxetine pending approval; has responded to FDA with last response being 15-30 days back

Financials

- Working capital increased by USD44mn due to higher receivables in US
- Capex: INR2.7bn in the quarter
- Other expenses for the quarter is a fair representation for the future

Table 1: Actual versus estimates **(INR mn)**

	Q1FY18	YoY (%)	Edel estimate	YoY (%)	Deviation from Actual (%)	Comments
Net revenue	33,159	2.5	34,520	*6.7*	*(3.9)*	
Cost of revenue	16,062	13.4	15,534	*9.6*	*3.4*	
Gross profit	17,097	(5.9)	18,986	*4.4*	*(9.9)*	
Gross margin (%)	51.6		55.0			Global Generics GM: 57.7% PSAI GM: 11.5%
S,G&A	8,964	(6.7)	8,500	*(11.5)*	*5.5*	
R&D	5,075	5.7	4,527	*(5.7)*	*12.1*	15.3% of sales
EBITDA	3,058	(19.0)	5,959	*57.9*	*(48.7)*	
EBITDA margin (%)	9.2		17.3			
Depreciation	2,008	14.1	2,000	*13.6*	*0.4*	
Amortization	791	(14.1)	1,000	*8.6*	*(20.9)*	
Total operating expenses	16,838	(1.5)	16,027	*(6.2)*	*5.1*	
EBIT	259	(76.3)	2,959	*171.0*	*(91.2)*	
Less: Interest Expense	(211.0)		(200.0)			Includes forex gain of INR10mn
Add: Other income	194.0	102.1	300.0	*212.5*	*(35.3)*	
Add: Exceptional items	10	(72.2)	-			
Profit before tax	674	(58.7)	3,459	*111.8*	*(80.5)*	
Tax rate (%)	26.9	100.9	23.0			
Less: Provision for Tax	181	(59.2)	796	*79.2*	*(77.3)*	
Less: Minority Interest	(98)	32.4	(80)	*8.1*	*22.5*	
Reported Profit	591	(53.2)	2,744	*117.2*	*(78.5)*	
Adjusted Profit	584	(52.8)	2,744	*121.7*	*(78.7)*	

Source: Company, Edelweiss research

Table 2: Revenue mix by segment – Consolidated **(INR mn)**

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	Comments
Global generics	27,455	26,638	3.1	29,138	(5.8)	
North America	14,946	15,523	(3.7)	15,349	(2.6)	Impacted by increased competition in valgancyclovir, decitabine, azacitidine and discontinuation of McNeil business. Launched 4 new products during the quarter (up 1% YoY/ 2% QoQ in CC).
Europe	2,075	1,615	28.5	2,066	0.4	Growth driven by new launches and improvement in base business
India	4,687	5,223	(10.3)	5,711	(17.9)	Decline on account of channel destocking due to GST
Russia & CIS	4,347	2,977	46.0	4,500	(3.4)	Russia: up 31% YoY in CC
Others	1,400	1,300	7.7	1,512	(7.4)	
PSAI	4,651	4,692	(0.9)	5,401	(13.9)	
Propr. products/Others	1,053	1,015	3.7	1,003	5.0	
Net Sales	**33,159**	**32,345**	**2.5**	**35,542**	**(6.7)**	

Source: Company, Edelweiss research

Chart 1: Overall revenue declined sequentially

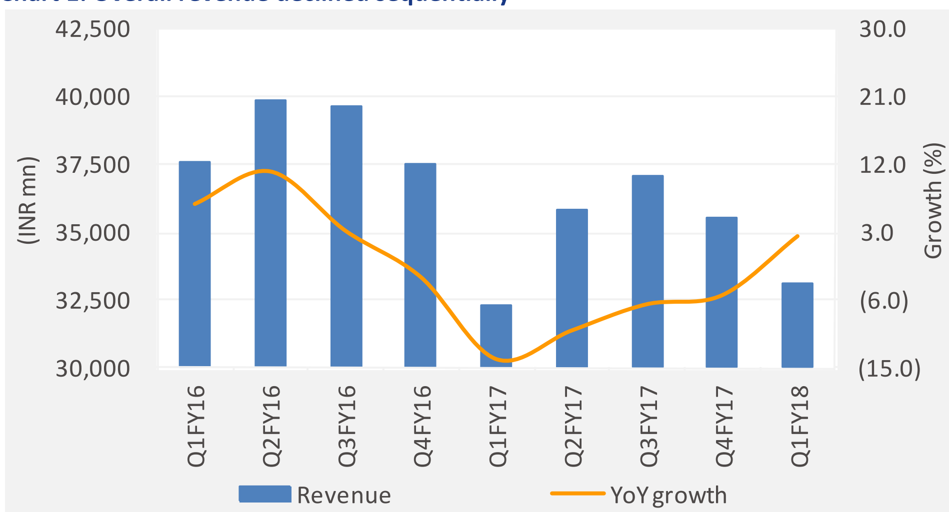
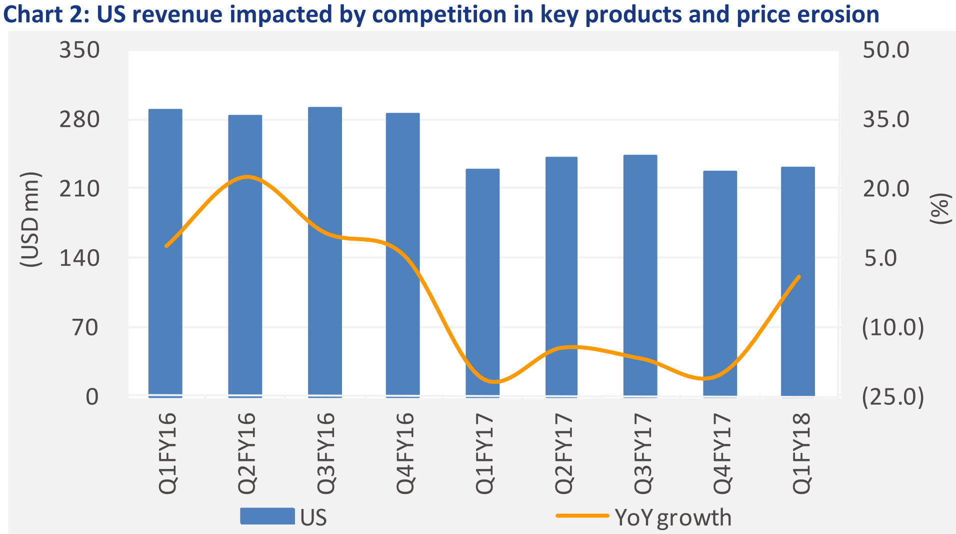
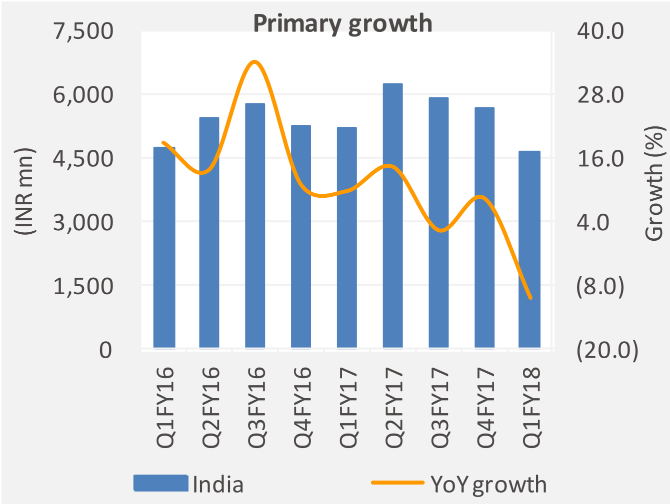


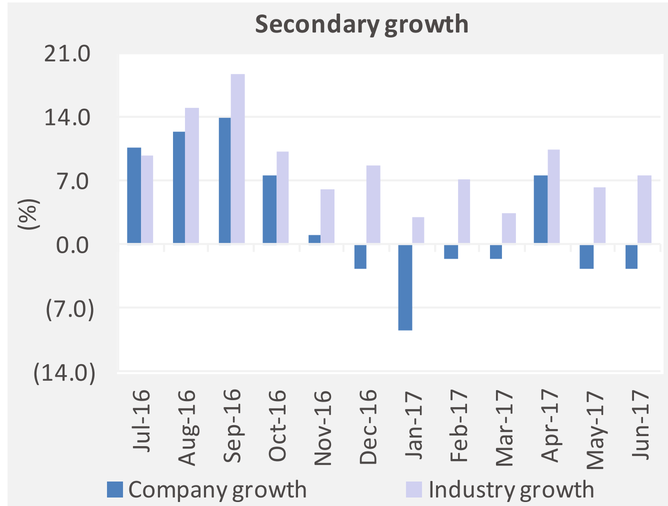
Chart 2: US revenue impacted by competition in key products and price erosion



Source: Company, Edelweiss research

Chart 3: India declined 10% YoY, impacted by channel destocking due to GST





Source: Company, Edelweiss research

Table 3: Therapy-wise breakup of sales **(INR mn)**

	Contribution (%)	MAT June'17	MAT June'16	*Growth YoY (%)*
Gastro Intestinal	21	5,551	5,443	*2.0*
Cardiac	14	3,721	3,777	*(1.5)*
Respiratory	11	2,857	2,417	*18.2*
Derma	8	2,067	1,951	*5.9*
Pain / Analgesics	7	1,942	1,872	*3.8*
Anti Diabetic	7	1,929	1,833	*5.3*
Anti-infectives	6	1,466	1,487	*(1.4)*
Oncology	5	1,265	1,623	*(22.0)*
Urology	4	1,136	1,002	*13.3*
Stomatologicals	4	939	908	*3.4*
Total Sales	**100**	**25,898**	**25,748**	***0.6***

Source: Company, Edelweiss research

Table 4: Top brands **(INR mn)**

	MAT June'17	MAT June'16	*Growth YoY (%)*
OMEZ	1,208	1,420	*(15.0)*
OMEZ-D	1,017	987	*3.0*
NISE	840	861	*(2.4)*
ATARAX	811	643	*26.1*
ECONORM	774	731	*5.9*
RAZO-D	699	567	*23.3*
STAMLO	661	749	*(11.7)*
RAZO	643	595	*8.1*
STAMLO BETA	526	494	*6.5*
CLAMP	523	498	*5.1*
Total	**7,703**	**7,545**	***2.1***

Source: Company, Edelweiss research

Gross profit margins of Global Generics (GG) and PSAI segments in Q1FY18 stood at 57.7% and 11.5%, respectively

Chart 4: Russia revenue grew 31% in CC

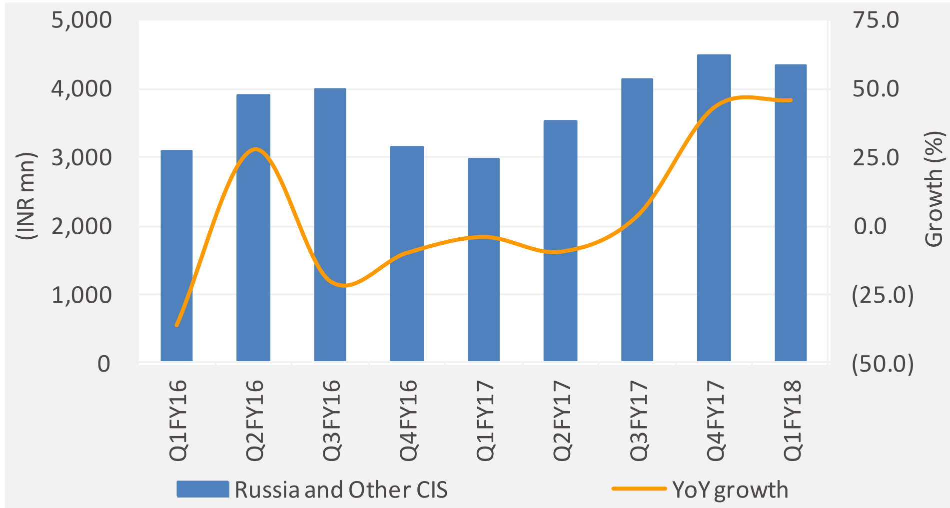


Chart 5: PSAI revenue stable

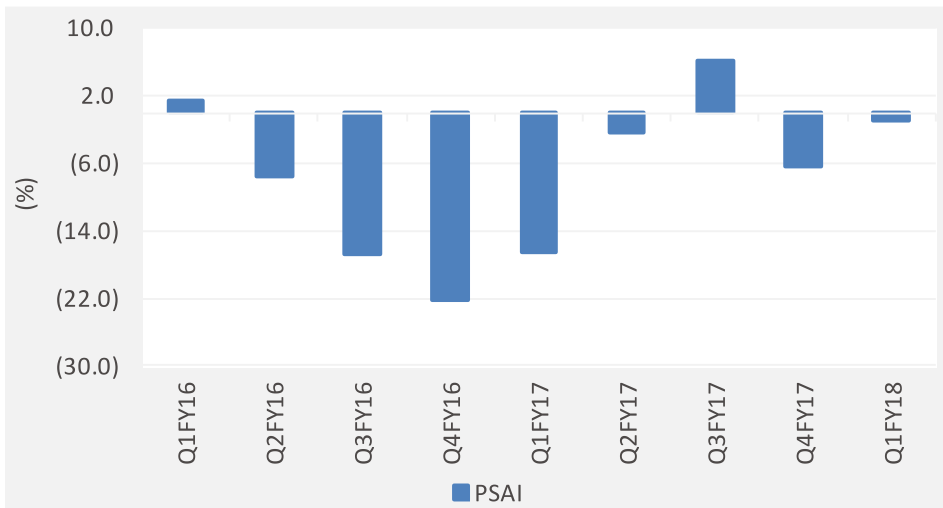
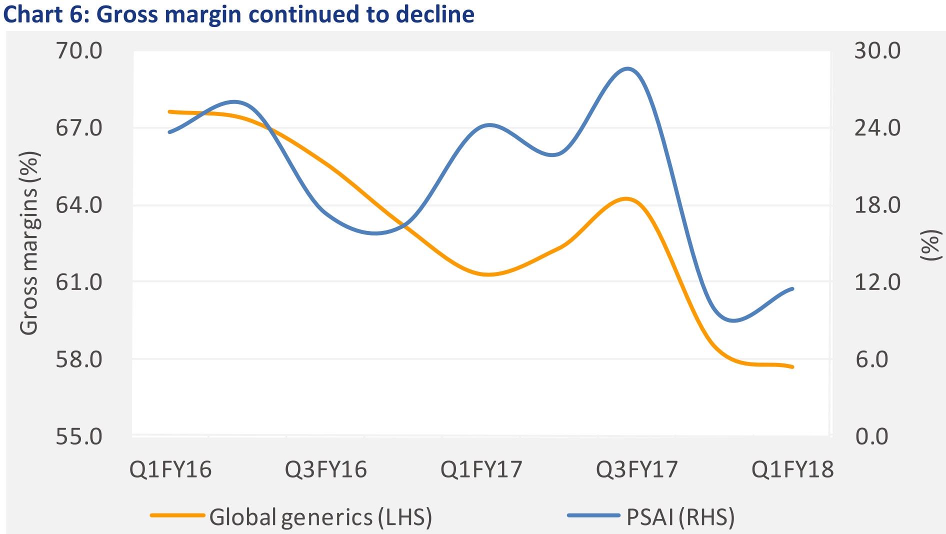
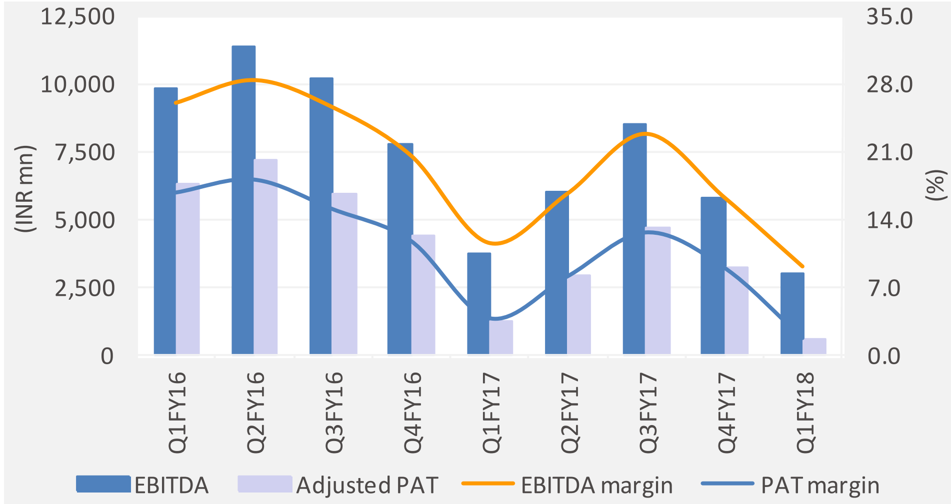


Chart 6: Gross margin continued to decline



Source: Company, Edelweiss research

Chart 7: EBITDA and PAT margins declined QoQ



Source: Company, Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	33,159	32,345	*2.5*	35,542	*(6.7)*	140,809	150,302	175,729
Cost of revenue	16,062	14,167	*13.4*	17,360	*(7.5)*	62,453	67,636	75,212
Gross profit	17,097	18,178	*(5.9)*	18,182	*(6.0)*	78,356	82,666	100,517
SG&A	8,964	9,603	*(6.7)*	7,769	*15.4*	34,650	36,902	38,747
R&D	5,075	4,802	*5.7*	4,579	*10.8*	19,551	20,291	22,845
Amortization expenses	791	921	*(14.1)*	866	*(8.7)*	-	-	-
Total expenditure	16,838	17,086	*(1.5)*	15,552	*8.3*	54,201	57,193	61,592
EBITDA	3,058	3,773	*(19.0)*	5,834	*(47.6)*	24,155	25,473	38,925
EBITDA margin	9.2	11.7		16.4		17.2	16.9	22.2
Depreciation	2,008	1,760	*14.1*	2,338	*(14.1)*	11,722	11,371	11,432
EBIT	259	1,092	*(76.3)*	2,630	*(90.2)*	12,433	14,102	27,493
Other income	194	96	*102.1*	505	*(61.6)*	1,065	931	1,194
Interest	(211)	(409)	*NA*	(89)	*NA*	(806)	(1,000)	(1,000)
Add: Exceptional items	10	36	*(72.2)*	(137)	*(107.3)*	-	-	-
Profit before tax	674	1,633	*(58.7)*	3,087	*(78.2)*	14,304	16,033	29,687
Provision for taxes	181	444	*(59.2)*	64	*182.8*	2,614	3,768	6,920
Minority interest	(98)	(74)	*NA*	(102)	*NA*	(349)	(350)	(400)
Reported net profit	591	1,263	*(53.2)*	3,125	*(81.1)*	12,039	12,615	23,167
Adjusted Profit	584	1,238	*(52.8)*	3,221	*(81.9)*	12,039	12,615	23,167
Diluted shares (mn)	166	166		166		166	166	166
Adjusted Diluted EPS	3.5	7.5	*(52.9)*	19.4	*(81.9)*	72.6	76.1	139.8
Diluted P/E (x)	-	-		-		35.8	34.2	18.6
EV/EBITDA (x)	-	-		-		19.1	18.0	11.7
ROAE (%)	-	-		-		9.5	9.8	16.5
As % of net revenues	-	-		-		-	-	1
Cost of revenue	48.4	43.8		48.8		44.4	45.0	42.8
Gross profit	51.6	56.2		51.2		55.6	55.0	57.2
SG&A	27.0	29.7		21.9		24.6	24.6	22.0
R&D	15.3	14.8		12.9		13.9	13.5	13.0
Total expenses	50.8	52.8		43.8		38.5	38.1	35.0
Operating profit	0.8	3.4		7.4		8.8	9.4	15.6
Reported net profit	1.8	3.9		8.8		8.5	8.4	13.2
Tax rate	26.9	27.2		2.1		18.3	23.5	23.3

Change in Estimates

	FY18E			FY19E			
	New	Old	% change	New	Old	% change	Comments
Net Revenue	150,302	156,429	*(3.9)*	175,729	181,939	*(3.4)*	
EBITDA	25,473	30,256	*(15.8)*	38,925	41,124	*(5.3)*	
EBITDA Margin	*16.9*	*19.3*		*22.2*	*22.6*		
Adjusted PAT	12,615	15,927	*(20.8)*	23,167	24,470	*(5.3)*	
Net Profit Margin	*8.4*	*10.2*		*13.2*	*13.4*		
Capex	12,000	12,000	*0.0*	12,000	12,000	*0.0*	

Company Description

Dr. Reddy's is one of the largest Indian generic companies in the world with presence in more than 40 countries. USA is its largest market and contributes more than 40% of its revenues. It has one of the largest portfolios among Indian generic players and has enabled it to become a prominent generic player in the US. Russia and India are the two other key geographies, where it has significant presence. Apart from strengths in developing niche generic products, vertical integration into APIs has enabled it to become a global generic powerhouse. It operates 30 facilities (10 USFDA approved) and is actively supported by an extensive R&D programme. It also has one of the deepest pipelines of bio-similars amongst leading global generic companies, addressing global brand sales of USD30bn.

Investment Theme

Dr. Reddy's stands out with its world class R&D skills in developing technically complex/niche products which attract limited competition and is well set to capture the less-explored world of higher complexity generic products in the US. It is also among the leading players globally with a strong pipeline in the high potential biosimilars space which will be a long term growth driver. We believe that higher contribution from niche pipeline in US, strong growth in Russia & bounce back in India should drive strong earnings growth.

Key Risks

- Slowdown in ANDA approvals and USFDA related regulatory risks are part of the generics business
- Delay in bounce back in the PSAI business
- Failure to get approvals for Biosimilars and niche derma pipeline

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
IPM growth (Y-o-Y) %	12.0	12.0	12.0	13.0
Company				
India sales (INR mn)	21,293	23,131	24,288	27,202
% change	19.2	8.6	5.0	12.0
US generics (USD mn)	1,139	942	1,030	1,300
Growth (YoY)%	18.7	(17.3)	9.3	26.2
Russia/ CIS growth(YoY)%	5.2	11.8	7.0	11.0
PSAI growth (YoY) %	(17.3)	(8.4)	4.2	5.0
EBITDA margins (%)	25.3	17.2	16.9	22.5
R&D (% of sales)	11.5	13.9	13.5	13.0
USD/INR (Avg)	65.0	67.5	66.0	66.0
Net debt to equity (x)	(0.1)	0.2	0.2	0.2

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	154,708	140,809	150,302	175,729
Income from operations	154,708	140,809	150,302	175,729
Materials costs	62,427	62,453	67,636	75,212
R&D Cost	17,834	19,551	20,291	22,845
Total SG&A expenses	35,359	34,650	36,902	38,747
EBITDA	39,088	24,155	25,473	38,925
Operating profit	39,088	24,155	25,473	38,925
EBIT	28,745	12,433	14,102	27,493
Add: Other income	874.00	1,065.00	930.89	1,193.66
Less: Interest Expense	2,708	(806)	(1,000)	(1,000)
Add: Exceptional items	4,133	-	-	-
Profit Before Tax	26,911	14,304	16,033	29,687
Less: Provision for Tax	7,127	2,614	3,768	6,920
Associate profit share	229	349	350	400
Reported Profit	20,013	12,039	12,615	23,167
Exceptional Items	4,133	-	-	-
Adjusted Profit	23,061	12,039	12,615	23,167
Shares o /s (mn)	171	166	166	166
Adjusted Basic EPS	135.0	72.6	76.1	139.8
Diluted shares o/s (mn)	171	166	166	166
Adjusted Diluted EPS	135.0	72.6	76.1	139.8
Adjusted Cash EPS	195.5	143.4	144.7	208.8
Dividend per share (DPS)	20.0	20.0	20.9	38.5
Dividend Payout Ratio(%)	17.0	27.5	27.5	27.5

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	74.7	82.8	83.1	77.8
Materials costs	40.4	44.4	45.0	42.8
S G & A expenses	22.9	24.6	24.6	22.0
R & D cost	11.5	13.9	13.5	13.0
Depreciation	6.7	8.3	7.6	6.5
Interest Expense	1.8	(0.6)	(0.7)	(0.6)
EBITDA margins	25.3	17.2	16.9	22.2
Net Profit margins	14.9	8.6	8.4	13.2

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	4.4	(9.0)	6.7	16.9
EBITDA	16.8	(38.2)	5.5	52.8
PBT	(3.8)	(46.8)	12.1	85.2
Adjusted Profit	3.1	(47.8)	4.8	83.6
EPS	3.1	(46.2)	4.8	83.6

Balance sheet				(INR mn)
As on 31st March	**FY16**	**FY17**	**FY18E**	**FY19E**
Share capital	853	828	828	828
Reserves & Surplus	127,483	123,216	131,667	147,186
Shareholders' funds	128,336	124,044	132,494	148,013
Short term borrowings	22,828	43,649	43,649	43,649
Long term borrowings	10,685	5,449	5,449	5,449
Total Borrowings	33,513	49,098	49,098	49,098
Long Term Liabilities	3,216	4,124	4,124	4,124
Def. Tax Liability (net)	(4,230)	(4,376)	(4,376)	(4,376)
Sources of funds	**160,835**	**172,890**	**181,340**	**196,859**
Depreciation	10,343	11,722	11,371	11,432
Net Block	53,961	57,160	57,789	58,357
Intangible Assets	24,644	48,677	48,677	48,677
Total Fixed Assets	78,605	105,837	106,466	107,034
Non current investments	3,297	6,840	3,500	3,500
Cash and Equivalents	39,955	18,136	20,686	24,868
Inventories	25,578	28,529	30,897	34,357
Sundry Debtors	41,306	38,065	40,631	47,505
Loans & Advances	12,849	15,645	16,700	19,525
Current Assets (ex cash)	79,733	82,239	88,228	101,387
Trade payable	12,300	13,417	14,530	16,158
Other Current Liab	29,518	27,934	24,509	25,272
Total Current Liab	41,818	41,351	39,040	41,430
Net Curr Assets-ex cash	37,915	40,888	49,188	59,957
Uses of funds	**160,835**	**172,890**	**181,340**	**196,859**
BVPS (INR)	751.1	748.5	799.5	893.1

Free cash flow				(INR mn)
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Reported Profit	20,013	12,039	12,615	23,167
Add: Depreciation	10,343	11,722	11,371	11,432
Interest (Net of Tax)	1,991	(659)	(765)	(767)
Others	9,940	(182)	(12,086)	(18,709)
Less: Changes in WC	1,040	1,407	(3,820)	(8,707)
Operating cash flow	41,247	21,513	14,956	23,829
Less: Capex	22,727	40,957	12,000	12,000
Free Cash Flow	**18,520**	**(19,444)**	**2,956**	**11,829**

Cash flow metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	41,247	21,513	14,956	23,829
Investing cash flow	(20,423)	(18,471)	(8,660)	(12,000)
Financing cash flow	(17,001)	(3,692)	(4,475)	(7,648)
Net cash Flow	3,823	(650)	1,820	4,182
Capex	(22,727)	(40,957)	(12,000)	(12,000)
Dividend paid	(3,740)	(3,687)	(4,164)	(7,648)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	19.2	9.5	9.8	16.5
ROACE (%)	18.8	8.1	8.5	15.2
Inventory Days	149	158	160	158
Debtors Days	97	103	96	92
Payable Days	67	75	75	74
Cash Conversion Cycle	179	186	180	175
Current Ratio	2.9	2.4	2.8	3.0
Gross Debt/EBITDA	0.9	2.0	1.9	1.3
Gross Debt/Equity	0.3	0.4	0.4	0.3
Adjusted Debt/Equity	0.3	0.4	0.4	0.3
Net Debt/Equity	(0.1)	0.2	0.2	0.2
Interest Coverage Ratio	10.6	(15.4)	(14.1)	(27.5)

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.0	0.8	0.8	0.9
Fixed Asset Turnover	2.2	1.5	1.4	1.6
Equity Turnover	1.3	1.1	1.2	1.3

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	135.0	72.6	76.1	139.8
Y-o-Y growth (%)	*3.1*	*(46.2)*	*4.8*	*83.6*
Adjusted Cash EPS (INR)	195.5	143.4	144.7	208.8
Diluted P/E (x)	19.4	35.8	34.2	18.6
P/B (x)	3.5	3.5	3.3	2.9
EV / Sales (x)	2.8	3.3	3.1	2.6
EV / EBITDA (x)	11.3	19.3	18.2	11.8
Dividend Yield (%)	0.8	0.8	0.8	1.5

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	**(USD mn)**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Dr.Reddys Laboratories	6,773	34.2	18.6	18.2	11.8	9.8	16.5
Aurobindo Pharma	6,750	20.5	18.6	13.5	11.8	20.3	18.8
Cadila Healthcare	8,627	23.7	18.0	17.5	13.4	29.0	30.1
Cipla	7,136	25.6	22.6	15.4	12.8	13.2	13.3
Lupin	7,820	23.0	18.9	13.3	11.0	15.2	16.2
Sun Pharmaceuticals Industries	21,405	23.5	18.4	14.5	11.0	14.8	16.2
Median	-	23.6	18.7	14.9	11.8	15.0	16.3
AVERAGE	-	25.1	19.2	15.4	12.0	17.1	18.5

Source: Edelweiss research

Additional Data

Directors Data

Satish Reddy	Chairman	G V Prasad	Co-Chairman & CEO
Dr. Omkar Goswami	Independent Director	Ravi Bhoothalingam	Independent Director
Anupam Puri	Independent Director	J. P. Moreau	Independent Director
Kalpana Morparia	Independent Director	Bruce LA Carter	Independent Director
Ashok Ganguly	Independent Director	Sridar Iyengar	Independent Director

Auditors - B S R & Co., Chartered Accountants, and KPMG India

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Commonwealth Bank of Australia	9.65	Franklin Resources	1.42
Blackrock	7.3	Teluk Kamang Invest	1.25
Massachusetts Mutual Life	3.26	Vanguard group	1.03
Templeton Asset Management	1.85	ICICI Prudential Life Insurance	1.02
GIC Private Ltd	1.44	Reliance Capital Trustee	0.96

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
17 Jan 2017	G V Prasad	Sell	212000.00
17 Jan 2017	K Satish Reddy	Sell	212000.00
17 Jan 2017	Dr. Reddy's Holdings Limited	Buy	424000.00
10 Oct 2016	G V Prasad	Buy	20800.00
05 Oct 2016	G V Prasad	Buy	66000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aurobindo Pharma	HOLD	SP	H	Cadila Healthcare	BUY	SO	M
Cipla	HOLD	SP	L	Divi's Laboratories	REDUCE	SU	H
Dr.Reddys Laboratories	HOLD	SP	M	Glenmark Pharmaceuticals	HOLD	SP	M
Ipca Laboratories	REDUCE	SU	M	Lupin	HOLD	SP	M
Natco Pharma	BUY	SO	M	Sun Pharmaceuticals Industries	BUY	SO	M
Torrent Pharmaceuticals	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: *research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=HEAD RESEARCH, cn=ADITYA NARAIN, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, postalCode=400005, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, st=Maharashtra
Date: 2017.07.27 22:10:15 +05'30'

Coverage group(s) of stocks by primary analyst(s): Pharmaceuticals

Aurobindo Pharma, Cadila Healthcare, Cipla, Divi's Laboratories, Dr.Reddys Laboratories, Glenmark Pharmaceuticals, Ipca Laboratories, Lupin, Natco Pharma, Sun Pharmaceuticals Industries, Torrent Pharmaceuticals

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Jul-17	**Cipla**	FY17 Annual Report Analysis; *Company Update*	575	Hold
24-Jul-17	**Divis Laboratories**	Import alert takes a toll; *Result Update*	687	Reduce
19-Jul-17	**Lupin**	FY17 Annual Report Analysis; *Company Update*	1,156	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

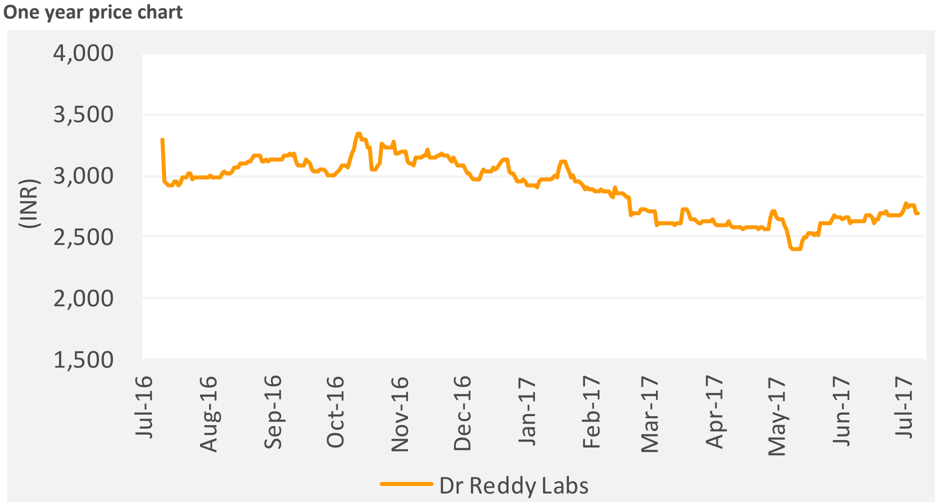
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.