INDIA

HOLD

Dr. Reddy's Labs

CENTRUM

Pharma

Result Update **28 May 2018**

Higher price erosion in the US; maintain Hold

We maintain Hold rating for Dr. Reddy's Labs (DRL) with TP at Rs2,000 (earlier Rs2,450) based on 21x March'20E EPS of Rs95.1. DRL's Q4FY18 results were below our and consensus estimates. The drug maker reported a 2% YoY decline in revenues, 40bps reduction in margin to 15.9% and a 19% YoY decline in net profit. DRL is facing pricing pressure in the US generic market due to channel consolidation and stiff competition from new players. The company has received approval for its NDA 'Impoyz' from US FDA. Key positive risk to our assumptions includes faster approval of ANDAs by US FDA and key negative risk includes pricing pressure in the US market. We recommend a switch to Aurobindo Pharma or Pfizer.

- **Revenues likely to grow:** DRL's revenues in Q4FY18 declined by 2% YoY to Rs35.54bn from Rs36.12bn. The company's global generics business (79% of revenues) declined by 5% YoY to Rs27.84bn from Rs29.14bn. Sales in North America (41% of revenues) declined by 6%YoY due to pricing pressure and faster ANDA approval by US FDA. The generics business from emerging markets (16% of revenues) declined by 9% YoY. DRL's domestic business (17% of revenues) grew by 8% YoY and recovered after effects of GST implementation. DRL's Pharma Services and Active Ingredients (PSAI) business (18% of revenues) grew by 16% YoY to Rs6.25bn from Rs5.40bn. We expect both PSAI and global generic businesses to drive future growth.
- **EBIDTA margin declined by 40bps YoY:** DRL's EBIDTA margin declined by 40bps YoY to 15.9% from 16.3% due to an increase in material cost and personnel expenses. Material cost grew by 50bps to 28.3% from 27.8% due to a change in the product mix and pricing pressure in the US market. Personnel cost grew by 390bps to 22.5% from 18.6% due to new recruitments in quality control and manufacturing. Other expenses declined 3900bps to 33.3% from 37.2% due to absence of excise duty during the quarter. We expect the EBIDTA margin to improve, led by new launches in the US market and recovery in the domestic market.
- **Net profit set to grow:** DRL's net profit declined by 19% YoY due to lower margin, and rise in tax rate. Its tax rate grew to 15.6% from 2.9% of PBT. We expect profits to improve with the new launches in the US generics, re-stocking by trade in the domestic businesses and entry into Brazil and Columbia.
- **Recommendation and views:** We have lowered our FY19E and FY20E EPS estimates by 27% and 18% respectively. We expect DRL to perform better due to strong product pipeline for the US market and strong brands in the domestic market. We maintain Hold rating for DRL with a TP of Rs2,000 based on 21x March'20E EPS of Rs95.1, and with a upside of 1.6% from CMP.

Particulars (Rs mn)	Q4FY18	Q4FY17	*YoY Gr%*	Q3FY18	*QoQ Gr%*	Q4FY18E	*% Var.*
Total revenues	**35,539**	**36,119**	***(1.6)***	**38,341**	***(7.3)***	**41,160**	***(13.7)***
Raw material cost	10,067	10,052	*0.1*	10,367	*(2.9)*	11,200	*(10.1)*
Employee cost	8,005	6,711	*19.3*	8,181	*(2.2)*	8,200	*(2.4)*
Other expenses	11,831	13,451	*(12.0)*	11,866	*(0.3)*	12,900	*(8.3)*
EBIDTA	**5,636**	**5,905**	***(4.6)***	**7,927**	***(28.9)***	**8,860**	***(36.4)***
EBIDTA margin (%)	*15.9*	*16.3*	*-*	*20.7*	*-*	*21.5*	*-*
Depreciation	2,763	2,543	*8.7*	2715	*1.8*	2,800	*(1.3)*
Interest	178	196	*(9.2)*	172	*3.5*	140	*27.1*
Other income	449	205	*119.0*	430	*4.4*	490	*(8.4)*
PBT	3,144	3,371	*(6.7)*	5,470	*(42.5)*	6,410	*(51.0)*
Prov. For tax	492	97	*407.2*	2528	*(80.5)*	2200	*(77.6)*
Adj. PAT	**2,721**	**3,376**	***(19.4)***	**3,027**	***(10.1)***	**4,290**	***(36.6)***

Source: Company, Centrum Research Estimates

Target Price	**Rs2,000**	**Key Data**	
CMP*	Rs1,968	Bloomberg Code	DRRD IN
Upside	*1.6%*	Curr Shares O/S (mn)	165.7
Previous Target	Rs2,450	Diluted Shares O/S(mn)	165.7
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	326.4/4.8
Price Performance (%)*		52 Wk H / L (Rs)	2788/1887
		5 Year H / L (Rs)	4386.6/1887
		Daily Vol. (3M NSE Avg.)	544423

	1M	6M	1Yr
DRRD IN	*(6.2)*	*(14.1)*	*(18.5)*
Nifty	*0.0*	*3.1*	*11.5*

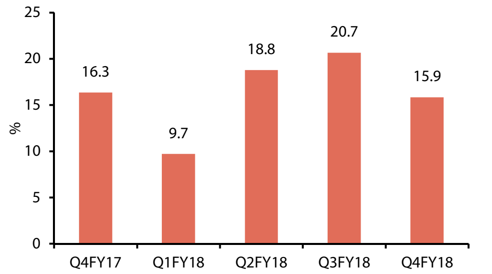
**as on 25th May 2018 Source: Bloomberg, Centrum Research*

Shareholding pattern* (%)

	Mar-18	Dec-17	Sept-17	Jun-17
Promoter	*26.8*	*26.8*	*26.8*	*26.8*
FIIs	*30.3*	*29.3*	*29.7*	*31.6*
DIIs	*14.8*	*15.3*	*13.5*	*11.8*
Others	*28.1*	*28.6*	*30.0*	*29.8*

*Source: BSE, *as on 25th May 2018*

Trend in EBIDTA margin (%)



Source: Company, Centrum Research

Earning Revision

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	*Chg (%)*	New	Old	*Chg (%)*
Sales	1,53,176	1,61,217	*(5.0)*	1,69,416	1,76,740	*(4.1)*
EBITDA	26,556	30,492	*(12.9)*	31,301	33,755	*(7.3)*
Ebitda margin (%)	*17.3*	*18.9*	*(160)bps*	*18.5*	*19.1*	*(60)bps*
Adj PAT	12,266	16,872	*(27.3)*	15,791	19,335	*(18.3)*

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs mn)	FY19E			FY20E		
	Centrum	BBG	*Var (%)*	Centrum	BBG	*Var (%)*
Sales	1,53,176	1,57,616	*(2.8)*	1,69,416	1,78,096	*(4.9)*
EBITDA	26,556	31,187	*(14.9)*	31,301	38,925	*(19.6)*
PAT	12,266	15,566	*(21.2)*	15,791	20,778	*(24.0)*

Bloomberg Consensus*				Centrum Target Price (Rs)	*Variance (%)*
BUY	SELL	HOLD	Target Price (Rs)		
20	11	14	2,283	2,000	*(12.4)*

**as on 25th May J 2018 Source: Bloomberg, Centrum Research*

Ranjit Kapadia, *ranjit kapadia@centrum.co.in;* 91 22 4215 9645

E March (Rs mn)	Revenue	*YoY (%)*	EBITDA	*EBITDA (%)*	Adjust. PAT	*YoY (%)*	DEPS Rs.	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY16	1,55,683	*3.6*	35,853	*23.0*	21,306	*(8.8)*	128.3	*17.9*	*14.2*	27.5	17.6
FY17	1,41,961	*(8.8)*	24,722	*17.4*	12,921	*(39.4)*	77.8	*10.4*	*8.2*	39.6	22.7
FY18	1,42,810	*0.6*	23,512	*16.5*	9,468	*(26.7)*	57.0	*7.6*	*5.7*	41.9	18.9
FY19E	1,53,176	*7.3*	26,556	*17.3*	12,266	*29.6*	73.9	*9.5*	*7.1*	26.6	13.9
FY20E	1,69,416	*10.6*	31,301	*18.5*	15,791	*28.7*	95.1	*11.4*	*8.7*	20.7	11.7

Source: Company, Centrum Research Estimates

Concall highlights

US market –price erosion continues

- The management indicated FY18 as challenging year with price erosion prevailed in the US generic business and unfavourable US dollar conversion.
- DRL has launched 3 products in the US generic market in Q3FY18.
- As per the management, the company has strengthened its manufacturing and quality systems.
- DRL's US generics business (41% of revenues) declined by 6% YoY during the quarter due to stiff competition and pricing pressure.
- The management has informed that cumulative 110 ANDAs are pending approvals with US FDA, of which 63 are Para IV of which 30 FTF opportunities.
- The management indicated softness in Russia and US generic business. The revenues from Russia declined by 25% in Q4FY18 due to the lower off-take by the channel.
- US FDA has asked for some additional work for its Srikakulam API facility and DRL is likely to invite US FDA in june'18 for re-inspection of its Duvadda facility.
- The management indicated over 100 ANDA pending for filing with US FDA.

Emerging markets – revenue decline

- DRL derives 16% of its revenues from the global generic business in emerging markets, which declined by 9% YoY during the quarter.
- DRL has strong presence in the emerging markets of Russia and Romania. The company has entered in Columbia and Brazil markets.

India – after effects of GST implementation

- As per the management, the re-stocking by trade in the domestic market has commenced which resulted in 8%YoY growth in Q4FY18.

Strong growth in PSAI business

- As per the management, the PSAI business' revenues grew by 16% YoY during Q4FY18 and contributed 18% to DRL revenues.

Financials

- DRL's gross profit margin of global generics business in Q4FY18 was 59.3% and that of PSAI was 24.2%. Overall, the gross margin stood at 53.5%.
- The company spent Rs4.35bn or 12.3% of its revenues on R&D during the quarter and were 12.9% for FY18.
- DRL incurred Rs1.50bn on capex in Q4 FY18 and Rs9.2bn during FY18.
- The new tax laws in the US reduced corporate tax from 35% to 21%. The impact was Rs1.30bn to DRL.
- DRL's effective tax rate for FY18 was 22.6%.

Sales composition

For Q4FY18, DRL reported 2% YoY decline in revenues to Rs35.54bn from Rs36.12bn, led by 5% decline in its global generics business and 16%YoY growth in PSAI business. Its global generics business (79% of revenues) declined by 5% YoY to Rs27.84bn from Rs29.14bn due to pricing pressure and stiff competition in the US generic market and after effects of GST implementation in the domestic market.

The global generics business in North America (41% of revenues) declined by 6% YoY to Rs14.49bn from Rs15.35bn, led by pricing pressure and increased competition. India business (17% of revenues) grew by 8% YoY to Rs6.14bn from Rs5.71bn and was affected by GST after effects. DRL's Europe business (5% of revenues) declined by 17% YoY to Rs1.70bn from Rs2.07bn. Global generics business in the emerging markets of Russia and Venezuela (16% of revenues) declined by 9% YoY to Rs5.50bn from Rs6.01bn. DRL's PSAI business (18% of revenues) grew by 16% YoY to Rs6.25bn from Rs5.40bn. Its proprietary products (3% of revenues) grew by 26% YoY to Rs1.26bn from Rs1.00bn.

Hence, the overall performance was impacted by lower growth in global generics business which was partly offset by increase in revenues of PSAI business.

The details are as follows:

Exhibit 1: Sales composition

PARTICULARS (Rs mn)	Q4FY18	Q4FY17	*YoY Gr%*	Q3FY18	QoQ	Q4FY18E	*% Var.*
SEGMENTWISE REVENUES (by Geography)							
Global Generics	**27,836**	**29,138**	***(4.5)***	**30,105**	***(7.5)***	**30,600**	***(9.0)***
N.America	14,487	15,349	*(5.6)*	16,073	*(9.9)*	16,000	*(9.5)*
Europe	1,711	2,066	*(17.2)*	2,006	*(14.7)*	2,100	*(18.5)*
India	6,138	5,711	*7.5*	6,126	*0.2*	6,400	*(4.1)*
Emerging markets	5,500	6,012	*(8.5)*	5,900	*(6.8)*	6,100	*(9.8)*
Others		-	*NA*		*NA*		*NA*
PSAI (Pharma services & active ingredients)	**6,251**	**5,401**	***15.7***	**5,436**	***15.0***	**6,630**	***(5.7)***
Proprietary products & others	**1,262**	**1,003**	***25.8***	**2,519**	***(49.9)***	**2,800**	***(54.9)***
Total	**35,349**	**35,542**	***(0.5)***	**38,060**	***(7.1)***	**40,030**	***(11.7)***

Source: Company, Centrum Research

Major brands exhibited good growth

As per AIOCD AWACS monthly data-March'18, DRL's revenues grew by 9.9% in-line with the industry growth of 9.5%. The company's top 18 brands contributed ~41% to its revenues. Eleven of its top 18 brands grew faster than the market growth rate of 9.5%. We expect these brands to drive future growth. DRL's performance in the domestic market has improved after successful GST implementation.

The table below presents the details :

Exhibit 2: Performance of major brands

Products (Rs mn)	Therapeutic Category	January'18		February'18		March'18	
		MAT (Rs mn)	*Gr. Rate %*	MAT (Rs mn)	*Gr. Rate %*	MAT (Rs mn)	*Gr. Rate %*
Pharma market		**1,00,565**	***9.5***	**97,543**	***7.1***	**1,00,292**	***9.5***
Company		**2,264**	***8.3***	**2,368**	***14.4***	**2,279**	***9.9***
Omez	Gastro-intestinal	98	*6.2*	104	*18.8*	98	*11.0*
OMEZ-D	Gastro-intestinal	80	*(3.5)*	84	*(5.8)*	83	*1.2*
Nise	NSAID	56	*4.0*	55	*27.0*	54	*21.6*
Econorm	Gastrointestinal	75	*60.0*	83	*63.8*	82	*33.3*
Razo-D	Gastro-intestinal	59	*11.8*	60	*13.6*	62	*26.8*
Stamlo	CVS	44	*(20.2)*	43	*(14.9)*	51	*18.2*
Grafeel	neutropenia, HIV	25	*(20.7)*	31	*4.2*	18	*(33.6)*
Mintop	baldness	37	*17.5*	38	*32.1*	35	*18.4*
Stamlo Beta	CVS	42	*2.0*	47	*13.1*	49	*23.0*
Reditux	anticancer	32	*(17.9)*	30	*(30.2)*	31	*(17.9)*
Razo	Gastro-intestinal	49	*0.8*	51	*10.9*	48	*2.9*
Atarax	anti-allergic	71	*34.0*	76	*40.8*	79	*49.4*
Clamp	anti-infective	51	*37.6*	58	*54.0*	50	*50.8*
Atocor	cholesterol reducer	34	*19.2*	34	*14.2*	32	*(1.1)*
Reclimet	antidiabetic	46	*22.5*	49	*44.4*	41	*17.4*
Ketorol	NSAIDs	49	*27.1*	47	*10.8*	46	*9.2*
Nootropil	nerve tonic	38	*13.5*	35	*8.6*	37	*21.3*
Glimy M	anti diabetic	37	*16.2*	35	*15.7*	30	*(2.9)*
Total		**923**		**960**		**926**	

Source: AIOCD AWACS monthly data- January-March'18

Valuation and key risks

At the CMP of Rs1,968, DRL trades at 26.6x FY19E EPS of Rs73.9 and 20.7x FY20E EPS of Rs95.1. We maintain our Hold rating for the scrip with target price of Rs2,000 based on 21x FY20E EPS of Rs95.1 with an upside of 1.6% over CMP. We have revised our FY18E and FY19E downwards by 27% and 18% respectively. The company is facing pricing pressure in the US market (41% of total revenues) which resulted in 6%YoY decline in US revenues. DRL is facing stiff competition in the US generic market. DRL's Srikakulam and Duvadda facilities continue to be under US FDA scanner. The company has witnessed partial recovery from GST impact in the domestic market and reported 8%YoY growth.

We recommend a switch to Aurobindo Pharma or Pfizer.

Exhibit 3: Earning Revision

Particulars	FY19E			FY20E		
	Current	Earlier	*Chg(%)*	Current	Earlier	*Chg(%)*
Sales	1,53,176	1,61,217	*(5.0)*	1,69,416	1,76,740	*(4.1)*
EBIDTA	26,556	30,492	*(12.9)*	31,301	33,755	*(7.3)*
EBIDTA margin (%)	*17.3*	*18.9*	*(160)bps*	*18.5*	*19.1*	*(60)bps*
Net profit	12,266	16,872	*(27.3)*	15,791	19,335	*(18.3)*

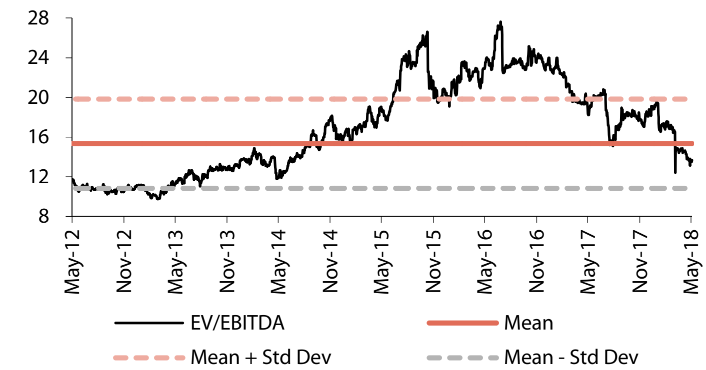
Source: Centrum Research Estimates

Exhibit 4: Sensitivity Analysis

Sensitivity to key variables – FY19E	% change	% impact on EBITDA	% impact on EPS
Sales	*1*	*5.8*	*12.5*
Material cost	*1*	*(1.6)*	*(3.5)*

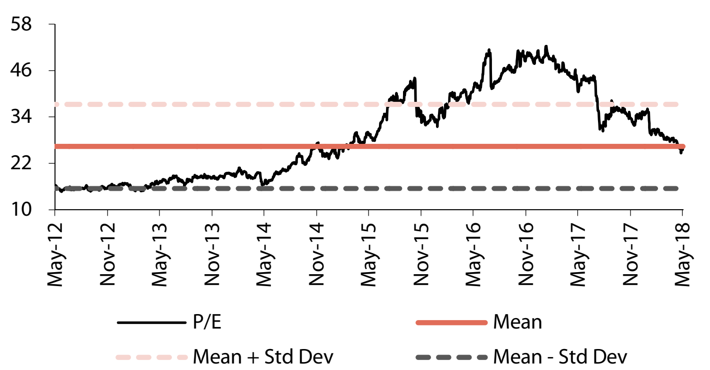
Source: Company, Centrum Research Estimates

Exhibit 5: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 7: Comparative Valuations

Sector	Mkt Cap (Rs mn)	*CAGR FY17-FY19E (%)*			*EBITDA Margin (%)*			PE (x)			EV/EBITDA (x)			*RoE (%)*			*Div Yield (%)*		
		Rev.	*EBITDA*	*PAT*	*FY17*	*FY18*	*FY19E*	FY17	FY18	FY19E	FY17	FY18	FY19E	*FY17*	*FY18*	*FY19E*	*FY17*	*FY18*	*FY19E*
Dr. Reddy's Labs	**3,26,688**	***3.9***	***3.7***	***(2.6)***	***17.4***	***16.5***	***17.3***	**39.6**	**41.9**	**26.6**	**22.7**	**18.9**	**13.9**	***10.4***	***7.6***	***9.5***	***0.8***	***1.0***	***1.5***
Aurobindo	3,48,084	*14.4*	*20.8*	*20.6*	*22.8*	*24.1*	*25.4*	19.0	14.3	10.4	13.5	10.2	7.2	*27.6*	*25.8*	*25.0*	*0.4*	*0.3*	*0.7*
Cipla	4,32,285	*9.6*	*19*	*34.6*	*16.9*	*18.6*	*20.0*	42.9	31.1	23.0	18.9	17.1	12.9	*8.6*	*10.6*	*12.5*	*0.4*	*0.6*	*0.8*
Lupin	3,37,192	*(1.8)*	*(12.3)*	*(22.2)*	*25.7*	*19.9*	*20.5*	26.8	26.6	21.8	16.8	16.2	12.0	*20.7*	*1.9*	*10.9*	*0.6*	*0.6*	*0.9*

Source: Company, Centrum Research Estimates Prices as on 25th May 2018

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 8: Quarterly Financials

PARTICULARS (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
P & L								
Total Revenues	**32,447**	**36,163**	**37,232**	**36,119**	**33,332**	**35,598**	**38,341**	**35,539**
Material cost	7,564	8,674	8,159	10,052	9,592	10,369	10,367	10,067
Personnel Expenses	8,050	8,161	8,146	6,711	8,073	7,890	8,181	8,005
Other Expenses	12,931	13,058	12,282	13,451	12,435	10,645	11,866	11,831
Total expenses	28,545	29,893	28,587	30,214	30,100	28,904	30,414	29,903
EBIDTA	*3,902*	*6,270*	*8,645*	*5,905*	*3,232*	*6,694*	*7,927*	*5,636*
Other income	670	438	403	205	380	316	430	449
EBIT	4,572	6,708	9,048	6,110	3,612	7,010	8,357	6,085
Interest	148	126	164	196	215	223	172	178
Depreciation	2436	2622	2665	2543	2592	2702	2715	2763
Profit before tax	1,988	3,960	6,219	3,371	805	4,085	5,470	3,144
Tax provision	526	956	1,385	97	237	1,123	2,528	492
Net profit before minority	**1,462**	**3,004**	**4,834**	**3,274**	**568**	**2,962**	**2,942**	**2,652**
Minority int./ share of asso.	***73***	***85***	***89***	***102***	***98***	***92***	***85***	***69***
Net profit	**1,535**	**3,089**	**4,923**	**3,376**	**666**	**3,054**	**3,027**	**2,721**
Growth (%)								
Revenues	*(13.5)*	*(10.1)*	*(6.4)*	*(4.8)*	*2.7*	*(1.6)*	*3.0*	*(1.6)*
EBIDTA	*(60.5)*	*(44.6)*	*(12.1)*	*22.6*	*(17.2)*	*6.8*	*(8.3)*	*(4.6)*
Net profit	*(76.3)*	*(60.1)*	*(17.4)*	*175.4*	*(56.6)*	*(1.1)*	*(38.5)*	*(19.4)*
Margin (%)								
EBIDTA	*12.0*	*17.3*	*23.2*	*16.3*	*9.7*	*18.8*	*20.7*	*15.9*
Profit before tax	*6.1*	*11.0*	*16.7*	*9.3*	*2.4*	*11.5*	*14.3*	*8.8*
PAT	*4.7*	*8.5*	*13.2*	*9.3*	*2.0*	*8.6*	*7.9*	*7.7*

Source: Company, Centrum Research

Exhibit 9: Key performance indicators

Key performance indicator	FY16	FY17	FY18	FY19E	FY20E
Global Generics growth%	*7.0*	*(9.9)*	*(1.2)*	*6.2*	*9.7*
PSAI growth %	*(12.1)*	*(4.9)*	*3.4*	*6.0*	*10.0*
Proprietary products growth%	*39.0*	*(3.4)*	*46.1*	*30.0*	*25.0*
Material cost %	*24.1*	*24.3*	*28.3*	*28.0*	*27.6*

Source: Centrum Research Estimates

Financials -consolidated

Exhibit 10: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	**1,55,683**	**1,41,961**	**1,42,810**	**1,53,176**	**1,69,416**
Material cost	37,585	34,449	40,395	42,835	46,700
% of revenues	*24.1*	*24.3*	*28.3*	*28.0*	*27.6*
Employee cost	31,174	31,068	32,149	34,120	37,500
% of revenues	*20.0*	*21.9*	*22.5*	*22.3*	*22.1*
Other Expenses	51,071	51,722	46,754	49,665	53,915
% of revenues	*32.8*	*36.4*	*32.7*	*32.4*	*31.8*
EBIDTA	**35,853**	**24,722**	**23,512**	**26,556**	**31,301**
EBIDTA margin (%)	*23.0*	*17.4*	*16.5*	*17.3*	*18.5*
Depreciation & Amortisation	9,389	10,266	10,772	11,540	12,110
EBIT	26,464	14,456	12,740	15,016	19,191
Interest Expenses	826	634	788	740	680
PBT from operations	25,638	13,822	11,952	14,276	18,511
Other income	2,950	1,715	1,552	1,890	2,140
PBT	28,588	15,537	13,504	16,166	20,651
Tax provision	7,511	2,965	4,380	4,300	5,310
Effective tax rate (%)	*26.3*	*19.1*	*32.4*	*26.6*	*25.7*
Net profit	21,077	12,572	9,124	11,866	15,341
Minority interest	229	349	344	400	450
Reported net profit	21,306	12,921	9,468	12,266	15,791
Adj. Net profit	**21,306**	**12,921**	**9,468**	**12,266**	**15,791**

Source: Company, Centrum Research Estimates

Exhibit 11: Key Ratios

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Growth Ratios (%)					
Revenues	*3.6*	*(8.8)*	*0.6*	*7.3*	*10.6*
EBIDTA	*2.6*	*(31.0)*	*(4.9)*	*12.9*	*17.9*
Adj. Net Profit	*(8.8)*	*(39.4)*	*(26.7)*	*29.6*	*28.7*
Margin Ratios (%)					
EBIDTA margin	*23.0*	*17.4*	*16.5*	*17.3*	*18.5*
PBT from operations margin	*16.5*	*9.7*	*8.4*	*9.3*	*10.9*
Adj. PAT margin	*13.7*	*9.1*	*6.6*	*8.0*	*9.3*
Return Ratios (%)					
RoCE	*14.2*	*8.2*	*5.7*	*7.1*	*8.7*
RoE	*17.9*	*10.4*	*7.6*	*9.5*	*11.4*
RoIC	*13.9*	*7.5*	*5.2*	*6.4*	*8.1*
Turnover ratios (days)					
Gross Block Turnover (x)	1.1	0.9	0.9	0.9	0.9
Debtors	97	98	104	105	107
Creditors	21	27	34	49	55
Inventory	60	73	74	77	76
Cash Conversion Cycle	135	144	144	133	128
Solvency Ratio					
Debt-Equity	0.3	0.4	0.4	0.4	0.3
Net Debt-Equity	0.2	0.4	0.4	0.3	0.3
Current Ratio	2.1	2.0	2.0	2.0	1.9
Interest Coverage Ratio	0.0	0.0	0.1	0.0	0.0
Gross Debt/EBIDTA	0.9	2.0	2.2	1.8	1.5
Per Share (Rs)					
FDEPS (adjusted)	128.3	77.8	57.0	73.9	95.1
CEPS	184.9	139.7	121.9	143.4	168.1
Book Value	736.8	739.6	757.3	801.5	860.9
Dividend	20.0	20.0	20.0	25.0	30.0
Dividend Payout (%)	*18.9*	*30.5*	*41.7*	*40.3*	*37.5*
Valuations (x) (Avg Mkt Cap)					
PER	27.5	39.6	41.9	26.6	20.7
P/BV	4.8	4.2	3.2	2.5	2.3
EV/EBIDTA	17.6	22.7	18.9	13.9	11.7
Dividend Yield (%)	*0.7*	*0.8*	*1.0*	*1.5*	*1.8*
5-yr Avg AOCF/EV yield(%)	*3.5*	*4.3*	*5.7*	*6.9*	*8.0*

Source: Company, Centrum Research Estimates

Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	853	829	830	830	830
Reserves & surplus	1,24,845	1,21,792	1,24,887	1,32,214	1,42,079
Total shareholders Funds	1,25,698	1,22,621	1,25,717	1,33,044	1,42,909
Total Debt	33,403	49,075	50,651	48,120	45,750
Minority interest	0	0	0	0	0
Deferred tax Liab.	(5,368)	(5,164)	(3,455)	(3,800)	(3,600)
Total Liabilities	**1,53,733**	**1,66,532**	**1,72,913**	**1,77,364**	**1,85,059**
Gross Block	1,50,196	1,59,324	1,72,574	1,78,168	1,94,214
Less: Acc. Depreciation	84,567	90,017	1,00,789	1,12,329	1,24,439
Net Block	65,629	69,307	71,785	65,839	69,775
Capital WIP	6,731	33,380	34,705	36,000	30,000
Net Fixed Assets	**72,360**	**1,02,687**	**1,06,490**	**1,01,839**	**99,775**
Investments	37,019	19,493	20,879	25,860	32,980
Inventory	25,579	28,528	29,089	32,200	35,500
Debtors	41,250	38,196	40,696	44,000	49,500
Loans & Advances	-	-	-	-	-
Cash & Bank Balance	4,921	3,865	2,638	4,740	5,974
Other assets	14,503	17,130	20,247	18,950	20,610
Total Current Assets	**86,253**	**87,719**	**92,670**	**99,890**	**1,11,584**
Trade payable	9,068	10,569	13,345	20,400	25,700
Other current Liabilities	26,594	26,831	28,577	22,575	25,300
Provisions	6,237	5,967	5,204	7,250	8,280
Net Current Assets	**44,354**	**44,352**	**45,544**	**49,665**	**52,304**
Total Assets	**1,53,733**	**1,66,532**	**1,72,913**	**1,77,364**	**1,85,059**

Source: Company, Centrum Research Estimates

Exhibit 13: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
CF before WC changes	29,340	23,391	21,949	23,461	28,101
Working Capital Changes	24,885	1,573	698	(3,316)	255
CF from Operations	**54,225**	**24,964**	**22,647**	**20,145**	**28,356**
Adj OCF (OCF-Interest)	53,399	24,330	21,859	19,405	28,356
Change in fixed assets	(22,689)	(40,593)	(14,575)	(6,889)	(10,046)
Adj. FCF (AOCF-Capex)	30,710	(16,263)	7,284	12,516	18,310
CF from Investing	**(37,230)**	**(23,067)**	**(15,961)**	**(11,870)**	**(17,166)**
CF from Financing	**(13,748)**	**(3,968)**	**(2,374)**	**(7,470)**	**(8,296)**
Net change in Cash	**3,247**	**(2,071)**	**4,312**	**806**	**2,894**

Source: Company, Centrum Research Estimates

Appendix A

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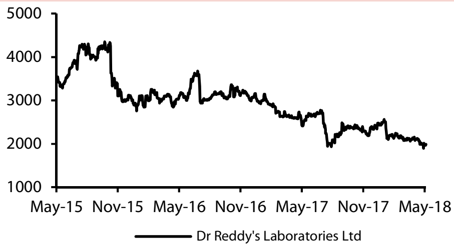
Dr. Reddy's Labs price chart



Source: Bloomberg, Centrum Research

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