October 29, 2018

Rating matrix		
Rating	:	Buy
Target	:	₹ 2700
Target Period	:	15-18 months
Potential Upside	:	12%

What's Changed?	
Target	Changed from ₹ 2170 to ₹ 2700
EPS FY19E	Changed from ₹ 94.2 to ₹ 97.1
EPS FY20E	Changed from ₹ 120.5 to ₹ 135
Rating	Changed from Hold to Buy

Quarterly Performance

	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	3,817.5	3,559.8	7.2	3,736.5	2.2
EBITDA	759.3	669.4	13.4	768.8	-1.2
EBITDA (%)	19.9	18.8	108.6	20.6	-68.5
Adjusted PAT	518.3	305.4	69.7	476.1	8.9

Key Financials

(₹crore)	FY17	FY18	FY19E	FY20E
Revenues	14196.1	14281.0	15399.7	16962.6
EBITDA	2472.2	2351.2	2933.0	3583.3
Adjusted PAT	1292.1	946.8	1609.7	2237.7
EPS (Adjusted)	78.0	57.0	97.1	135.0

Valuation summary

	FY17	FY18	FY19E	FY20E
PE (x)	30.8	42.1	24.7	17.8
Target PE (x)	34.6	47.3	27.8	20.0
EV to EBITDA (x)	17.4	18.2	14.0	11.1
Price to book (x)	3.2	3.1	2.8	2.4
RoNW (%)	10.5	7.2	11.2	13.7
RoCE (%)	7.3	6.1	8.9	11.9

Stock data

Particular	Amount
Market Capitalisation	₹ 39887 crore
Debt (FY18)	₹ 5065 crore
Cash & cash equivalents (FY18)	₹ 264 crore
EV	₹ 44689 crore
52 week H/L (₹)	2687/1887
Equity capital	₹ 83.0 crore
Face value	₹ 5

Price performance (%)

	1M	3M	6M	1Y
Dr Reddy's Labs	-0.2	21.2	21.5	6.4
Sun Pharma	-7.6	3.7	10.2	5.1
Lupin	-0.9	10.2	12.1	-10.2

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Dr Reddy's Laboratories (DRREDD) ₹ 2403

Cost rationalisation to the fore in tough times

- Revenues, EBITDA were broadly in line while net profit was higher mainly due to lower tax rate and higher other income. Adjusted for these, net profit was also almost in line with our estimates
- Revenues grew 7.2% YoY to ₹ 3817.5 crore (I-direct estimate: ₹ 3857.7 crore) as 26.8% YoY growth in Russia & other CIS to ₹ 520 crore and 63.7% YoY growth in RoW sales to ₹ 229.2 crore were largely offset by muted growth in the US to ₹ 1426.5 crore
- EBITDA margins improved 109 bps to 19.9% (I-direct estimate: 18.9%) mainly due to 158 bps improvement in gross margins, lower R&D spend and fixed cost. EBITDA grew 13.4% YoY to ₹ 759.3 crore against I-direct estimate of ₹ 730 crore
- Net profit grew 69.7% YoY to ₹ 518.3 crore (I-direct estimate: ₹ 361.1 crore) mainly due to lower tax rate and other income

US business going through rough patch but promising launches ahead

US business grew 12% to ₹ 5982 crore in FY13-18 mainly driven by new launches. US remains a key driver for the company, contributing ~42% to total revenues. Current US pending pipeline comprises 110 pending approvals (63 Para IV filings and 30 FTFs) including three NDAs under 505 (b)(2) route. Of late, however, the company has been facing headwinds in US compounded by warning letter for its Srikakulam API & other facilities besides price erosion in key products and loss of market share. We expect US sales to grow at a CAGR of 6% to ₹ 6720 crore in FY18-20E.

Russia CIS provides strong growth, India to provide more stability

Global Generics (ex US, Europe) is likely to grow at a steady CAGR of 16% in FY18-20E driven by growth in India and Russia. These two markets are more or less identical in nature (branded generics and OTC) with similar growth potential and similar kinds of risks. DRL is well versed with the dynamics of Russia by virtue of being an early mover. We expect strong growth in these markets on the back of a stabilising currency, geographical expansion, robust biological portfolio and ramp up in institutional business. For India, growth is expected to be largely from launches in the oncology, biosimilars space, UCB like acquisitions besides an improvement in productivity.

Portfolio realignment eminent

Growth in FY18-20E is likely to emanate from more productive and sustainable segments such as the US, India and biosimilar in emerging markets. Similarly, in terms of product offering, we envisage more launches in the fields of injectables, OTC, complex/limited competition products, proprietary products and biosimilars.

Growth normalisation, margin improvement to support positive vibes

Despite pricing pressure in the US the company is able to maintain its margins due to effective cost rationalisation. We expect EBITDA margins to improve in FY19-20 due to key launches in the US (gSuboxone, gNuvaring, gCopaxone in the next 18 months), control on overheads and likely reduction in the regulatory spend. The management has guided for 10-15 product launches in the US in H2FY19. It believes, this can mitigate the continuing pricing pressure. Key growth drivers in the near term would be key launches in the US and clearance of Duvvada and Srikakulam API plants besides strong growth Global Generics (ex US, Europe). We arrive at our new target price of ₹ 2700 based on 20x FY20E EPS of ~₹ 135.

Variance analysis

	Q2FY19	Q2FY19E	Q2FY18	Q1FY19	YoY (%)	QoQ (%)	Comments
Revenue	3,817.5	3,857.7	3,559.8	3,736.5	7.2	2.2	YoY growth was mainly due to strong growth in Russia & other CIS and RoW markets
Raw Material Expenses	1,051.7	1,091.2	1,036.9	1,004.9	1.4	4.7	
Gross Profit	2,765.8	2,766.5	2,522.9	2,731.6	9.6	1.3	YoY gross margins improve 158 bps mainly due to currency tailwinds and strong PSAI margins
Employee expenses	872.2	829.4	789.0	837.1	10.5	4.2	
Other expenses	1,134.3	1,207.1	1,064.5	1,125.7	6.6	0.8	
EBITDA	759.3	730.0	669.4	768.8	13.4	-1.2	
EBITDA (%)	19.9	18.9	18.8	20.6	108.6	-68.5	YoY growth due to improvement in gross margins, lower R&D spend and fixed cost
Other Income	128.2	63.7	31.6	50.4	305.7	154.4	Included gain of ₹ 46 crore on account of sale of rights relating to Cloderm brand and profit on sale of antibiotic manufacturing facility in Bristol, US
Interest	20.8	20.3	22.3	19.5	-6.7	6.7	
Depreciation	278.6	278.7	270.2	278.7	3.1	0.0	
PBT	588.1	494.7	408.5	521.0	44.0	12.9	
Tax	80.7	133.6	112.3	53.2	-28.1	51.7	Lower rate is primarily on account of profit mix and favourable resolutions of certain tax related litigations pertaining to earlier years
Net Profit	518.3	361.1	305.4	476.1	69.7	8.9	
Adjusted PAT	518.3	361.1	305.4	476.1	69.7	8.9	Delta vis-à-vis EBITDA and I-direct estimates mainly due to lower tax rate and higher other income besides beat in EBITDA
Key Metrics							
US	1,426.5	1,565.6	1,431.8	1,590.3	-0.4	-10.3	Miss vis-à-vis I-direct estimates due to higher-than-expected price erosion in base business
Europe	191.5	218.2	242.4	201.6	-21.0	-5.0	YoY de-growth and miss vis-à-vis I-direct estimates primarily on account of higher price erosion in some of the key molecules
India	686.4	700.7	637.0	607.4	7.8	13.0	Strong YoY growth mainly due to new launches and improvement in base business
Russia & Other CIS	520.0	475.6	410.0	500.0	26.8	4.0	YoY constant currency growth was 14%. Growth primarily driven by new launches, volume traction in some key molecules and seasonality benefit. Beat vis-à-vis I-direct estimates mainly due to strong growth across Russia and other CIS markets
RoW	229.2	168.0	140.0	164.3	63.7	39.5	YoY growth was primarily driven by new markets and volume traction in base business
PSAI	602.9	576.7	565.4	540.9	6.6	11.5	

Source: Company, ICICI Direct Research

Change in estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	15,649.4	15,399.7	-1.6	16,340.0	16,962.6	3.8	
EBITDA	2,962.7	2,933.0	-1.0	3,013.1	3,583.3	18.9	
EBITDA Margin (%)	18.9	19.0	15 bps	18.4	21.1	272 bps	Increased mainly due to expected launch of gNuvaring in 1HFY19
Adjusted PAT	1,561.4	1,609.7	3.1	1,997.4	2,237.7	12.0	
EPS (₹)	94.2	97.1	3.1	120.5	135.0	12.0	Change mainly in sync with EBITDA

Source: Company, ICICI Direct Research

Assumptions

			Current		Earlier		
(₹ crore)	FY17	FY18	FY19E	FY20E	FY19E	FY20E	
US	6,360.1	5,982.4	6,122.3	6,719.8	6,406.3	6,766.6	
Europe	760.5	821.6	790.5	869.5	840.8	924.8	Changed mainly due to lower-than-expected growth in Q2FY19
India	2,313.2	2,332.1	2,655.1	2,973.7	2,681.7	3,003.5	
Russia & Other CIS	1,520.0	1,650.0	1,979.6	2,177.6	1,851.5	2,036.7	
RoW	587.1	614.7	846.5	1,006.3	740.3	851.3	Changed mainly consistent higher-than-expected growth from past few quarters and better-than-expected geographical expansion
PSAI	2,127.7	2,199.2	2,370.9	2,489.5	2,361.7	2,479.8	

Source: Company, ICICI Direct Research

Company Analysis

Established in 1984, Dr Reddy's Laboratories (DRL) is one of India's pedigreed players having a firm footing in the US and other export markets with deep rooted product and market knowledge across therapies. Like Cipla, DRL also recognised the importance of having good manufacturing practices (GMP) accreditation in the eighties and eventually got USFDA approval (first of its kind approval for a formulation facility in India) in 1987. The company owns 22 manufacturing facilities and four developing centres across the globe. The facilities have been approved by various agencies such as the USFDA, WHO-Geneva, UKMHRA, TGA-Australia, MCC-South Africa, DMA Denmark, Brail Anvisa, among others. Over the years, along with generics, the company also established itself in the field of discovery of new chemical entities (NCEs) but with little success.

DRL's business can be classified into three broad segments- 1) Global Generics (GG), 2) Pharmaceutical services and active ingredients (PSAI) and 3) Proprietary Products (PP). Global Generics (80% of revenues) includes branded and unbranded prescription and over-the-counter (OTC) products business. It also includes the operations of the biologics business. This segment comprises formulation sales to regulated markets of the US, Europe and emerging markets such as Russia/CIS, India and RoW.

Pharmaceutical services and active ingredients (16% of revenues) consist of the active pharmaceutical ingredients (API) business and custom pharmaceutical services (CPS) business. Proprietary products (PP, 4% of revenues) consists of NCEs, differentiated formulations and dermatology focused specialty business operated through Promius Pharma.

DRL is one of the few Indian companies to foray into new drug discovery & development (NDDS) and new chemical entity (NCE) research. The company started research operations in 1992 through a non profit organisation, Dr Reddy's Research Foundation, which was later merged into the company. Despite being an early entrant, the company is yet to taste success in it. DRL is also the first Indian company to out-license molecules to big pharma companies.

DRL has spent ~13% of the turnover on R&D in FY18 and is likely to be in ~11% going ahead. Beside ANDAs, it has also filed three new drug applications (NDAs) in the 505(b)(2) route that are awaiting approval.

The company has launched ZEMBRACE SymTouch under 505(b)(2) route in the US. Zembrace SymTouch is a prefilled, low-dose, ready-to-use Sumatriptan. As ZEMBRACE SymTouch is a subcutaneous injection, it may lead to rapid relief of migraine.

It also has Sernivo, a prescription topical steroid spray, used for mild to moderate plaque psoriasis.

The company entered into a license agreement with XenoPort for exclusive US rights for XP23829 on milestone and double digit royalty basis. DRL plans to develop XP23829 as a potential treatment for moderate-to-severe chronic plaque psoriasis and may potentially develop XP23829 for relapsing forms of multiple sclerosis (MS). In September 2015, XenoPort announced results of a Phase II clinical trial of XP23829 as a potential treatment for moderate-to-severe chronic plaque-type psoriasis.

The company also entered into a licensing agreement with Eisai for exclusive worldwide development and commercialisation rights (excluding Japan and Asia) for investigational anticancer agent E7777. A Phase II clinical study of the agent in patients with cutaneous T-cell lymphoma or peripheral T-cell lymphoma is currently under way in Japan. Preparations are simultaneously in progress for a Phase III clinical study of the agent in patients with cutaneous T-cell lymphoma in the US.

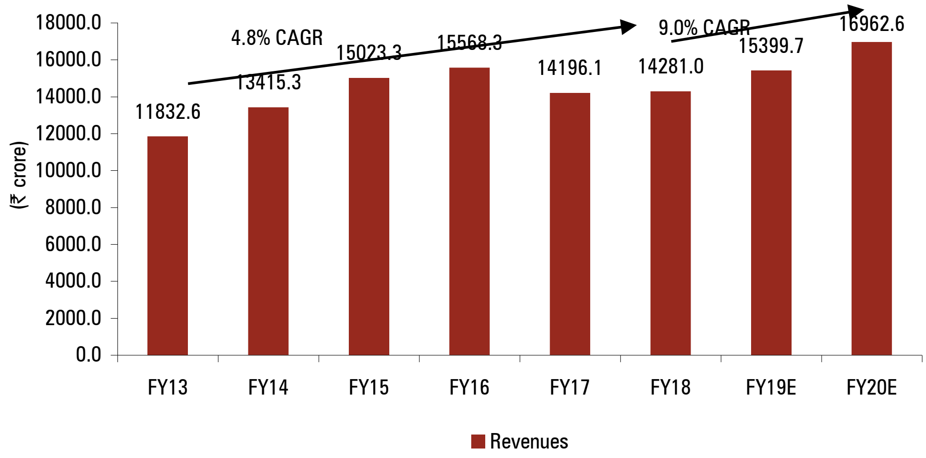
To strengthen its domestic portfolio, in FY16, the company acquired a select domestic portfolio from UCB in the areas of dermatology, respiratory and paediatrics diseases. The revenues of the acquired business are ~₹ 150 crore in 2014. This acquisition has enhanced DRL's presence in the fast growing chronic segments.

In FY15, the company acquired Habitrol brand, an OTC nicotine replacement therapy transdermal patch, from Novartis Consumer Health Inc as mandated under the competition laws.

In November 2015, the company received a warning letter from the USFDA for three of its manufacturing facilities. These include two API facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana and one oncology formulation facility at Duvvada, Vishakhapatnam.

We expect revenues to grow at a CAGR of 9% to ₹ 16963 crore in FY18-20E. The US is likely to grow at a CAGR of 6% to ₹ 6720 crore 10-15 product launches in the US in H2FY19. It believes it can mitigate the continuing pricing pressure. India is showing promising growth as well with a recalibrated approach and the recent acquisition (UCB's India business) bodes well for the future. Russia, RoW and PSAI segments have also shown strong growth on the back of geographical expansion, robust biological portfolio and ramp up in institutional business.

Exhibit 1: Revenues to grow at CAGR of 9% in FY18-20E



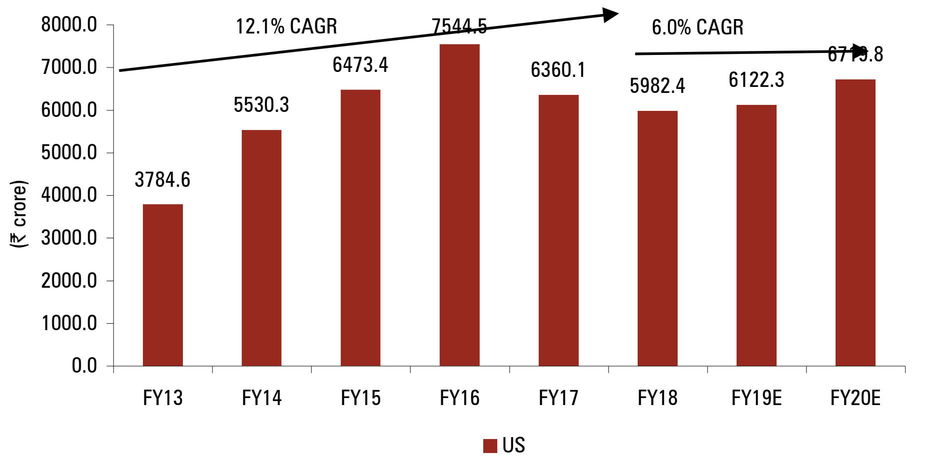
Source: Company, ICICI Direct Research

Exhibit 2: Geography wise revenue break up

(₹ crore)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
US	3784.6	5530.3	6473.4	7544.5	6360.1	5982.4	6122.3	6719.8
Europe	771.6	697.0	718.1	773.2	760.5	821.6	790.5	869.5
India	1456.0	1571.3	1787.0	2129.2	2313.2	2332.1	2655.1	2973.7
Russia & Other CIS	1690.8	1981.9	1771.4	1419.1	1520.0	1650.0	1979.6	2177.6
RoW	553.3	735.9	1305.7	940.2	587.1	614.7	846.5	1006.3
PSAI	3070.2	2397.4	2545.7	2238.0	2127.7	2199.2	2370.9	2489.5

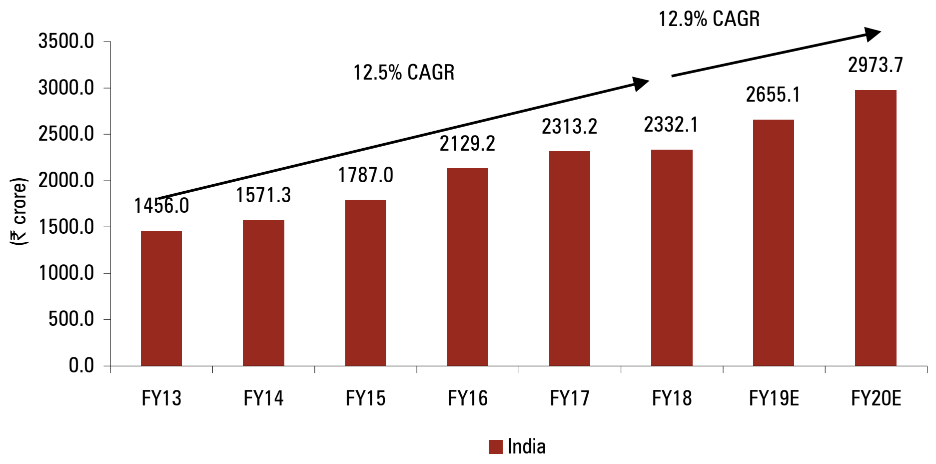
Source: Company, ICICI Direct Research

Exhibit 3: US sales to be driven by new launches



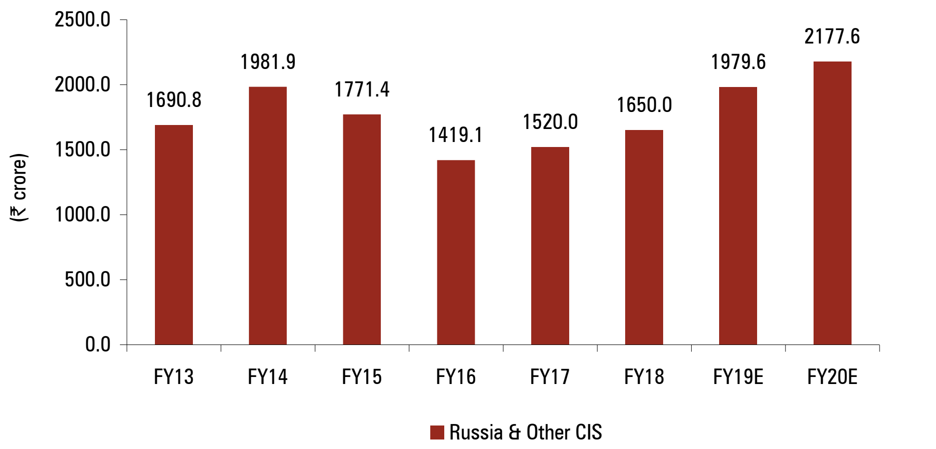
Source: Company, ICICI Direct Research

Exhibit 4: New launches, improved MR productivity to drive domestic growth



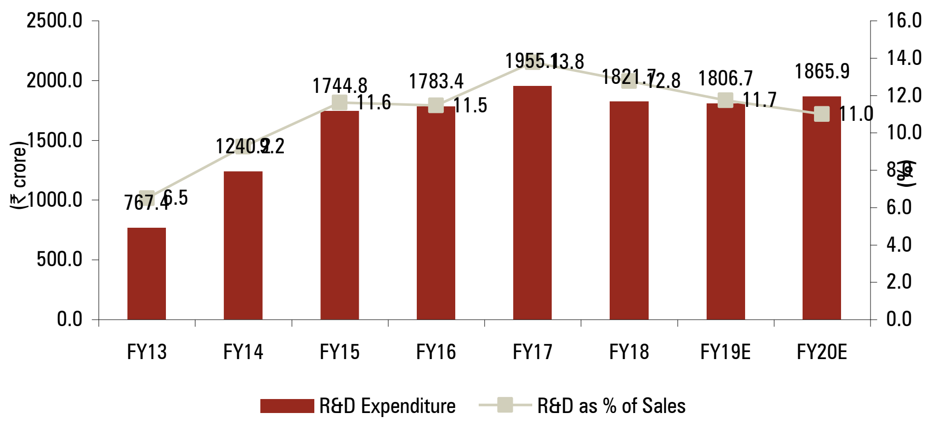
Source: Company, ICICI Direct Research

Exhibit 5: Russia & CIS to witness tempered growth due to regional issues



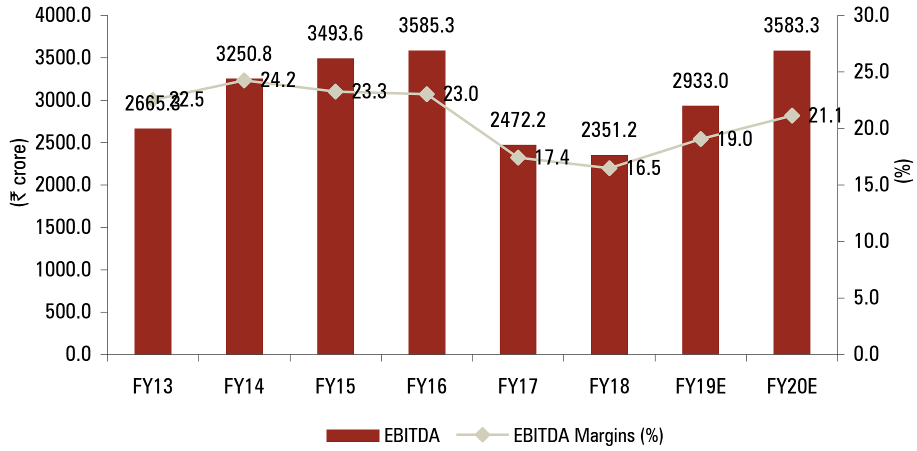
Source: Company, ICICI Direct Research

Exhibit 6: R&D trend



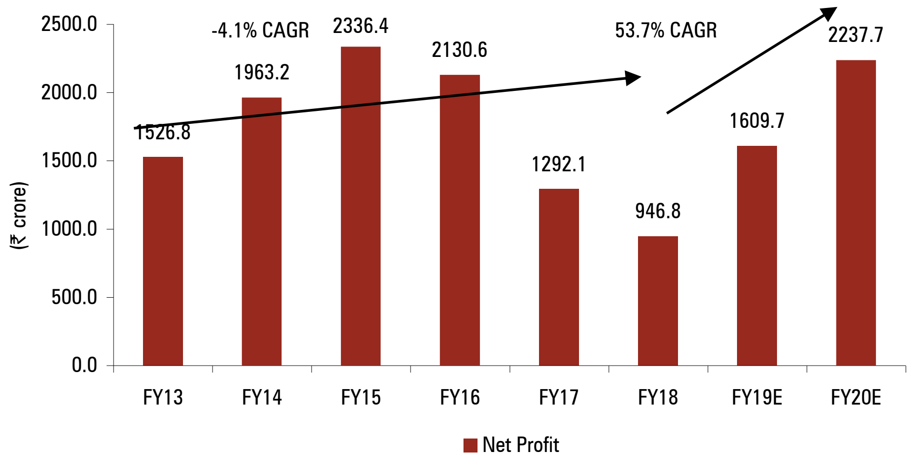
Source: Company, ICICI Direct Research

Exhibit 7: Higher R&D, slow US approvals likely to weigh on EBITDA margins



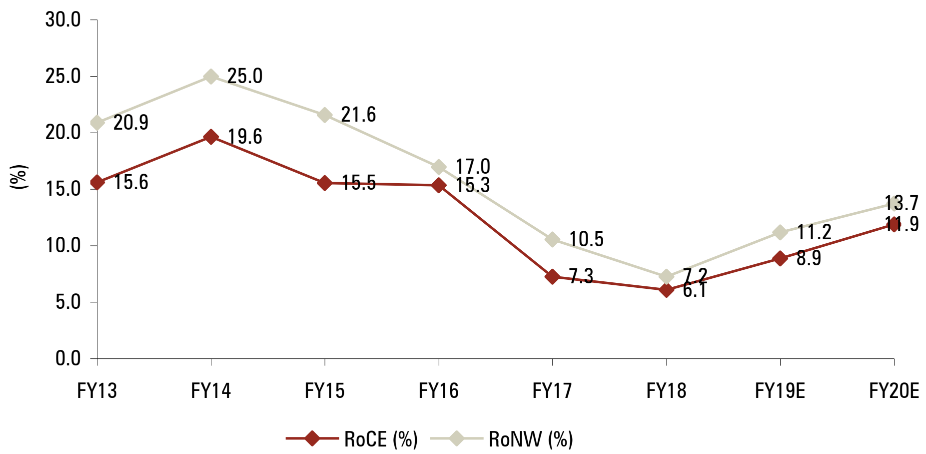
Source: Company, ICICI Direct Research

Exhibit 8: Net profit to grow at CAGR of 54% in FY18-20E on low base



Source: Company, ICICI Direct Research

Exhibit 9: Trends in return ratios



Source: Company, ICICI Direct Research

Exhibit 10: Trends in quarterly financials

₹ Crore	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)
Total Operating Income	4020.7	3979.7	3795.0	3244.7	3616.3	3723.2	3611.9	3333.2	3559.8	3834.1	3553.9	3736.5	3817.5	7.2	2.2
Raw Material Expenses	928.1	980.3	964.9	756.4	867.4	815.9	1005.2	959.2	1036.9	1036.7	1006.7	1004.9	1051.7	1.4	4.7
% of Revenues	23.1	24.6	25.4	23.3	24.0	21.9	27.8	28.8	29.1	27.0	28.3	26.9	27.5	-158 bps	66 bps
Gross Profit	3092.6	2999.4	2830.1	2488.3	2748.9	2907.3	2606.7	2374.0	2522.9	2797.4	2547.2	2731.6	2765.8	9.6	1.3
Gross Profit Margins (%)	76.9	75.4	74.6	76.7	76.0	78.1	72.2	71.2	70.9	73.0	71.7	73.1	72.5	158 bps	-66 bps
Employee expenses	787.0	789.3	790.9	805.0	816.1	814.6	671.1	807.3	789.0	818.1	800.5	837.1	872.2	10.5	4.2
% of Revenues	19.6	19.8	20.8	24.8	22.6	21.9	18.6	24.2	22.2	21.3	22.5	22.4	22.8	68 bps	44 bps
Other expenses	1173.1	1226.1	1557.5	1293.1	1305.8	1228.2	1345.1	1243.5	1064.5	1186.6	1183.1	1125.7	1134.3	6.6	0.8
% of Revenues	29.2	30.8	41.0	39.9	36.1	33.0	37.2	37.3	29.9	30.9	33.3	30.1	29.7	-19 bps	-41 bps
Total Expenditure	2888.2	2995.7	3313.3	2854.5	2989.3	2858.7	3021.4	3010.0	2890.4	3041.4	2990.3	2967.7	3058.2	5.8	3.0
% of Revenues	71.8	75.3	87.3	88.0	82.7	76.8	83.7	90.3	81.2	79.3	84.1	79.4	80.1	-109 bps	69 bps
EBITDA	1132.5	984.0	481.7	390.2	627.0	864.5	590.5	323.2	669.4	792.7	563.6	768.8	759.3	13.4	-1.2
EBITDA Margins (%)	28.2	24.7	12.7	12.0	17.3	23.2	16.3	9.7	18.8	20.7	15.9	20.6	19.9	109 bps	-69 bps
Total Depreciation	NA	235.4	276.7	243.6	262.2	266.5	254.3	259.2	270.2	271.5	276.3	278.7	278.6	3.1	0.0
EBITDA	NA	748.6	205.0	146.6	364.8	598.0	336.2	64.0	399.2	521.2	287.3	490.1	480.7	20.4	-1.9
Interest	21.5	16.0	17.0	14.8	12.6	16.4	19.6	21.5	22.3	17.2	17.8	19.5	20.8	-6.7	6.7
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA
EBT	NA	732.6	188.0	131.8	352.2	581.6	316.6	42.5	376.9	504.0	269.5	470.6	459.9	22.0	-2.3
Total Tax	190.9	153.3	156.3	52.6	95.6	138.5	9.7	23.7	112.3	252.8	49.2	53.2	80.7	-28.1	51.7
Tax %	NA	20.9	83.1	39.9	27.1	23.8	3.1	55.8	29.8	50.2	18.3	11.3	17.5		
Net Profit	774.7	579.3	31.7	79.2	256.6	443.1	306.9	18.8	264.6	251.2	220.3	417.4	379.2	43.3	-9.2
Adjusted PAT	774.7	647.5	122.6	153.5	308.9	492.3	337.6	66.6	305.4	302.7	272.1	476.1	518.3	69.7	8.9

Source: Company, ICICI Direct Research

SWOT Analysis

Strengths- Seasoned player in the US generic space with proven track record. Strong US pipeline with many FTF/limited competition products. Largest Indian player in Russia/CIS

Weakness- PSAI and European businesses remain a drag on margins and growth. Higher R&D spends for the future to put pressure on the current margins. The Russian and RoW region has also become volatile and unpredictable due to currency volatility and geo-political unrest

Opportunities- The US generics space with scope for complex/limited competition products. The biosimilars space across the globe. Indian franchise is still pretty small for a player of DRL's calibre

Threats- Industry specific- Pricing pressure due to client consolidation in the US, pricing probe for the industry by the Department of Justice (DoJ) in the US, proposed tightening by the new regime by adapting to the bidding process, Currency volatility in ROW markets and Russia
Threats- Company specific- Pending Srikakulam and Duvvada warning letter resolution

Conference call Highlights

- The management expects the ruling from the District Court order pertaining to gSuboxone within 90 days post the hearing on October 4, 2018
- The management expects to launch Nuvaring (birth control device) in H1CY19 launch and gCopaxone (multiple sclerosis) in H2CY19
- The management has maintained it has not witnessed a major shift in price erosion trends relative to earlier quarters while the overall base business has been fairly steady

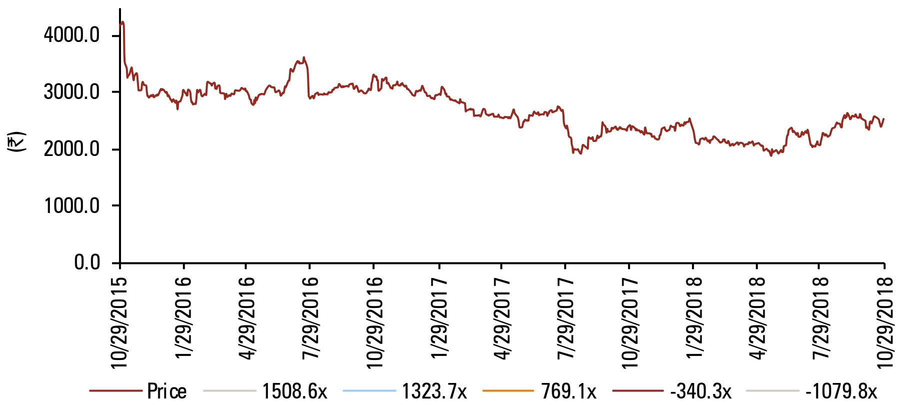
- Regarding Srikakulam, the company has provided a response to the USFDA. As part of the review of response, it has received certain follow-on queries, which it plans to respond back to within the coming month
- The management has guided for higher R&D spend in H2. Overall, it should be within the level as on FY18
- In line with its endeavour for cost rationalisation, the company sold the anti-infectives facility in Bristol, US and also entered into an agreement to divest the API manufacturing facility in Jeedimetla, Hyderabad
- Foreign currency cash flow hedges for the next six months in the form of derivatives of ~US$240 million largely hedged around the range of ₹ 67.4-71.4/ US$. The company also has balance sheet hedges of US$272 million
- In coming years, the company plans to focus on five key spaces, viz. US, India, Russia, China and PSAI

Exhibit 11: Facilities

Location	Segment	Regulatory Approvals
API Hyderabad Plant 1	API	USFDA
API Hyderabad Plant 2	API	USFDA
API Hyderabad Plant 3	API	USFDA
API Hyderabad Plant 4	API	USFDA
Nalgonda	API	USFDA
Srikakulam	API	USFDA
Formulations Hyderabad Plant 1	Formulations	
Formulations Hyderabad Plant 2	Formulations	
Formulations Hyderabad Plant 3	Formulations	USFDA
Yanam Plant	Formulations	
Formulations Baddi Plant 1	Formulations	
Formulations Baddi Plant 2	Formulations	
Formulations vizag SEZ Plant 1	Formulations	
Formulations vizag SEZ Plant 2	Formulations	USFDA
Srikakulam Plant (SEZ)	Formulations	USFDA
Biologics	Formulations	
Integrated Product Development Facility	R&D	
Aurigene Discovery Technologies Ltd.	R&D	
Aditi Hyderabad	R&D	
Technology Development Center 1	R&D	
Technology Development Center 2	R&D	
Kunshan Rotam Reddy Pharma		
API Cuernavaca Plant	API	USFDA
Dr. Reddy's Labs (UK)		
API Mirfield Plant	API	
Tech Development Center Cambridge Chirotech	R&D	
Formulations Shreveport Plant	Formulations	USFDA
Formulations Bristol Plant	Formulations	USFDA
API Middleburgh Plant	API	
Technology Development Center Lieden Octoplus N.V	R&D	
Technology Development Center Princeton	R&D	

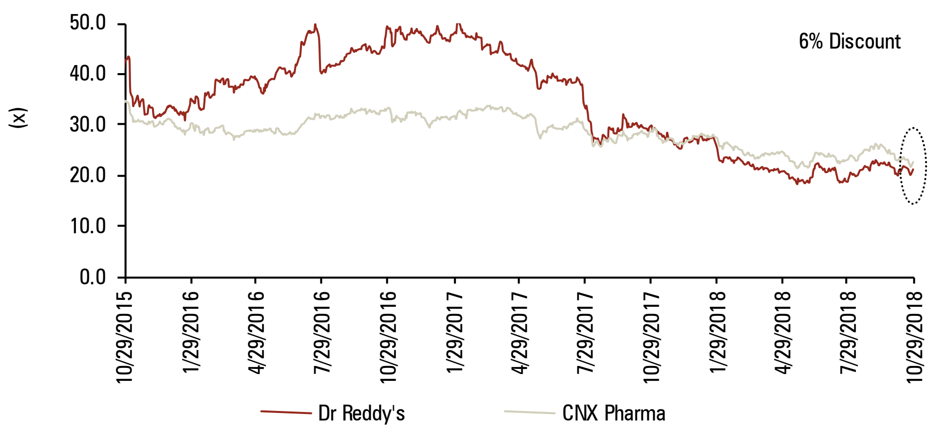
Source: Company, ICICI Direct Research

Exhibit 12: One year forward PE



Source: Company, ICICI Direct Research

Exhibit 13: One year forward PE of company vs. CNX Pharma



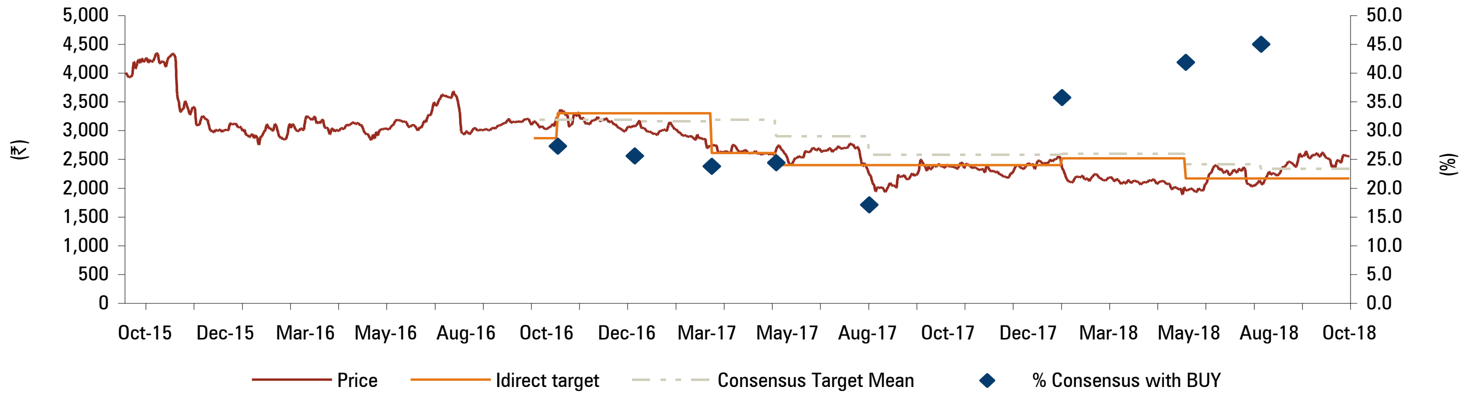
Source: Company, ICICI Direct Research

Exhibit 14: Valuation

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY17	14196.1	-8.8	78.0	-39.4	30.8	17.4	10.5	7.3
FY18	14281.0	0.6	57.0	-26.7	42.1	18.2	7.2	6.1
FY19E	15399.7	7.8	97.1	70.0	24.7	14.0	11.2	8.9
FY20E	16962.6	10.1	135.0	39.0	17.8	11.1	13.7	11.9

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Key events

Date	Event
Nov-10	Acquires GSK's US oral penicillin facility and product portfolio. Under the agreement, GSK will transfer rights for Augmentin and Amoxil brands
Dec-10	Enters into licensing of technology transfer, manufacturing and marketing agreement with R-Pharm of Russia. The collaboration is in the area of high-technology and will work on a profit sharing model
Jun-12	Dr Reddy's and Merck Serono sign an agreement to co-develop and commercialise a portfolio of biosimilars compounds in oncology
Jul-12	USFDA lifts import alert for chemical manufacturing facility at Cuernavaca, Mexico
Oct-12	Acquires Netherland based specialty injectable company OctoPlus NV
Jun-13	Dr Reddy's and Fujifilm Corporation call off their joint venture. The JV was started in July 2011 for developing and launching generic drugs in the Japanese market
Dec-14	Dr. Reddy's Labs closed the acquisition of Habitrol brand, an over-the-counter nicotine replacement therapy transdermal patch, from Novartis for a consideration of US$ 80 million
Apr-15	Enters a €118 million (₹ 800 crore) definitive agreement to acquire a select portfolio of established products from UCB in India
Nov-15	Receives a warning letter from the USFDA for three of its manufacturing facilities. These include two API facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana and one oncology formulation facility at Duvvada, Vishakhapatnam
Apr-16	Launches USFDA approved ZEMBRACE SymTouch is a prefilled, low-dose, ready-to-use, two-step autoinjector containing 3 mg of sumatriptan. ZEMBRACE SymTouch is a prescription medicine used to treat acute migraine headaches
Jun-16	Launches USFDA approved prescription topical plaque psoriasis Spray Sernivo (betamethasone dipropionate), 0.05% in the US
Aug-16	Acquires portfolio of eight ANDAs from Teva in the US for US$350 million
Mar-17	Duvvada oncology formulation facility receives 13 observations from USFDA post re-inspection
Apr-17	Srikakulam API facility receives two form 483 observations from USFDA post re-inspection
Apr-17	Bachupally formulation plant in Hyderabad receives 11 Form 483 observations from USFDA

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Top Investors (As of Latest Filing)	Top Investors (As o	Top Inve	Top Investors	Top Investors
1	Dr Reddys Holdings Pvt. Ltd.	31-Mar-18	0.2	41.0835 ($)	0.0m
2	Commonwealth Bank of Australia	31-Dec-16	0.1	16.266909 ($)	16.3m
3	Franklin Templeton Asset Management (India) Pvt. Ltd	31-Mar-18	0.0	7.871335 ($)	1.5m
4	Life Insurance Corporation of India	31-Mar-18	0.0	7.361709 ($)	1.5m
5	Stewart Investors	31-Mar-18	0.0	7.324871 ($)	-1.4m
6	OppenheimerFunds, Inc.	31-Mar-18	0.0	5.286227 ($)	-1.1m
7	Reliance Nippon Life Asset Management Limited	31-Mar-18	0.0	3.45824 ($)	0.0m
8	Franklin Advisers, Inc.	31-May-18	0.0	3.2 ($)	0.0m
9	BlackRock Institutional Trust Company, N.A.	30-Jun-18	0.0	3.107883 ($)	-0.3m
10	Aditya Birla Sun Life AMC Limited	31-Mar-18	0.0	2.90134 ($)	0.1m

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	26.8	26.8	26.8	26.8	26.8
Others	73.2	73.2	73.2	73.2	73.2

Recent Activity

Buys			Sells		
Investor name	Value ($)	Shares	Investor name	Value ($)	Shares
Life Insurance Corporation of India	49.4m	1.5m	Stewart Investors	-45.7m	-1.4m
Franklin Templeton Asset Management (India) Pvt. Ltd.	48.6m	1.5m	OppenheimerFunds, Inc.	-36.7m	-1.1m
Templeton Asset Management Ltd.	44.3m	1.4m	First State Investments (Singapore)	-10.3m	-0.3m
ICICI Prudential Asset Management Co. Ltd.	4.7m	0.1m	Kotak Mahindra Asset Management Company Ltd.	-7.8m	-0.3m
Aditya Birla Sun Life AMC Limited	4.0m	0.1m	BlackRock Institutional Trust Company, N.A.	-8.2m	-0.3m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	14,196.1	14,281.0	15,399.7	16,962.6
Growth (%)	-8.8	0.6	7.8	10.1
Raw Material Expenses	3,444.9	4,039.5	4,275.8	4,588.2
Employee expenses	3,106.8	3,214.9	3,459.5	3,702.4
Other expenses	5,172.2	4,675.4	4,731.4	5,088.8
Total Operating Expenditure	11,723.9	11,929.8	12,466.7	13,379.4
EBITDA	2,472.2	2,351.2	2,933.0	3,583.3
Growth (%)	-31.0	-4.9	24.7	22.2
Interest	63.4	78.8	84.8	72.4
Depreciation	1,026.6	1,077.2	1,114.7	1,110.2
PBT before Exceptional Items	1,553.7	1,350.4	1,949.0	2,658.5
Share of profit/ (loss) of equity accc	0.0	0.0	0.0	0.0
PBT	1,553.7	1,350.4	1,949.0	2,658.5
Total Tax	296.5	438.0	380.3	584.9
PAT	1,292.1	946.8	1,609.7	2,237.7
Adjusted PAT	1,292.1	946.8	1,609.7	2,237.7
Growth (%)	-39.4	-26.7	70.0	39.0
EPS	78.0	57.0	97.1	135.0
EPS (Adjusted)	78.0	57.0	97.1	135.0

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit/(Loss) after taxation	976.7	1,074.3	1,609.7	2,237.7
Add: Depreciation & Amortization	1,026.6	1,077.2	1,114.7	1,110.2
Net Increase in Current Assets	-431.9	-754.3	230.4	-737.2
Net Increase in Current Liabilities	-24.7	-142.3	-337.2	195.4
CF from operating activities	2,144.4	1,803.0	2,702.4	2,878.4
(Inc)/dec in Fixed Assets	-4,090.4	-1,090.4	-900.0	-900.0
(Inc)/dec in Investments	2,187.2	-425.3	-300.0	-500.0
Others	22.4	34.0	-22.9	-23.8
CF from investing activities	-1,880.8	-1,481.7	-1,222.9	-1,423.8
Inc / (Dec) in Equity Capital	-1,569.3	0.1	0.0	0.0
Inc / (Dec) in Loan	1,631.4	88.2	-800.0	-800.0
Dividend & Dividend Tax	-339.0	-399.2	-257.1	-357.4
Others	-92.3	-133.1	-84.8	-72.4
CF from financing activities	-369.2	-444.0	-1,141.9	-1,229.7
Net Cash flow	-105.6	-122.7	337.6	224.8
Opening Cash	492.1	386.5	263.8	601.4
Closing Cash	386.5	263.8	601.4	826.3
Free Cash Flow	-1,946.0	712.6	1,802.4	1,978.4

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Equity Capital	82.9	83.0	83.0	83.0
Net Networth	12,179.2	12,982.8	14,335.4	16,215.7
Total Shareholders funds	12,262.1	13,065.8	14,418.4	16,298.7
Total Debt	4,918.5	5,065.1	4,265.1	3,465.1
Deferred Tax Liability	162.0	195.0	202.8	210.9
Other Non Current Liabilities	343.4	293.3	305.0	317.2
Long term Provisions	84.2	81.7	85.0	88.4
Source of Funds	17,770.2	18,700.9	19,276.3	20,380.3
Gross Block - Fixed Assets	15,456.1	16,903.2	17,703.2	18,503.2
Accumulated Depreciation	9,001.7	10,468.3	11,583.0	12,693.2
Net Block	6,454.4	6,434.9	6,120.2	5,810.0
Capital WIP	3,324.5	3,470.5	3,570.5	3,670.5
Net Fixed Assets	9,778.9	9,905.4	9,690.7	9,480.5
Goodwill	476.3	533.1	533.1	533.1
Investments	2,109.7	2,298.3	2,598.3	3,098.3
Inventory	2,852.8	2,908.9	2,530.2	2,787.0
Cash	386.5	263.8	601.4	826.3
Debtors	3,819.6	4,052.7	4,143.4	4,564.0
Loans & Advances & Other CA	1,218.7	1,440.0	1,497.6	1,557.5
Total Current Assets	8,277.6	8,665.4	8,772.6	9,734.7
Creditors	1,056.9	1,334.5	897.0	988.0
Provisions & Other CL	2,989.4	2,508.9	2,609.2	2,713.6
Total Current Liabilities	4,046.3	3,843.4	3,506.2	3,701.6
Net Current Assets	4,231.3	4,822.0	5,266.4	6,033.1
LT L& A, Other Assets	495.6	601.6	625.7	650.7
Deferred Tax Assets	678.4	540.5	562.1	584.6
Application of Funds	17,770.2	18,700.9	19,276.3	20,380.3

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	78.0	57.0	97.1	135.0
BV per share	739.8	787.1	869.9	983.4
Operating Ratios (%)				
Gross Profit Margins	75.7	71.7	72.2	73.0
EBITDA margins	17.4	16.5	19.0	21.1
Net Profit margins	9.1	6.6	10.5	13.2
Inventory days	73.3	74.3	60.0	60.0
Debtor days	98.2	103.6	98.2	98.2
Creditor days	27.2	34.1	21.3	21.3
Asset Turnover	0.9	0.8	0.9	0.9
EBITDA conversion Rate	86.7	76.7	92.1	80.3
Return Ratios (%)				
RoE	10.5	7.2	11.2	13.7
RoCE	7.3	6.1	8.9	11.9
RoIC	13.4	11.3	16.8	22.3
Valuation Ratios (x)				
P/E	30.8	42.1	24.7	17.8
EV / EBITDA	17.4	18.2	14.0	11.1
EV / Revenues	3.0	3.0	2.7	2.3
Market Cap / Revenues	2.8	2.8	2.6	2.3
Price to Book Value	3.2	3.1	2.8	2.4
Solvency Ratios				
Debt / Equity	0.4	0.4	0.3	0.2
Debt / EBITDA	2.0	2.2	1.5	1.0
Current Ratio	2.0	2.2	2.3	2.4

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Healthcare)

Company	I-Direct	CMP	TP	Rating	M Cap	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
	Code	(₹)	(₹)		(₹ Cr)	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	995	1,205	Hold	8762.2	57.4	53.0	47.4	60.0	17.4	18.8	21.0	16.6	41.3	30.0	22.2	23.2	32.3	23.0	17.0	18.4
Alembic Pharma	ALEMPHA	550	560	Hold	10374.0	21.2	21.9	27.9	31.2	26.0	25.1	19.7	17.6	25.3	18.0	18.6	19.4	21.0	18.6	19.9	19.0
Apollo Hospitals	APOHOS	1110	1,190	Buy	15437.3	15.9	8.5	24.2	38.6	69.9	131.2	45.8	28.8	6.1	6.3	9.1	12.0	6.0	3.6	9.6	13.6
Aurobindo Pharma	AURPHA	721	915	Buy	42241.0	38.8	41.6	42.6	49.5	18.6	17.3	16.9	14.6	24.4	20.0	18.1	15.7	24.2	20.7	17.8	17.3
Biocon	BIOCON	618	740	Buy	37098.0	8.5	6.2	11.5	15.4	72.9	99.6	53.5	40.1	9.4	8.1	13.1	16.2	10.5	7.2	11.7	13.7
Cadila Healthcare	CADHEA	341	365	Hold	34878.9	14.5	17.5	16.9	19.6	23.4	19.4	20.2	17.4	13.1	16.7	14.7	15.7	21.4	20.5	17.1	17.2
Cipla	CIPLA	609	620	Hold	49038.4	12.5	18.3	20.1	26.0	48.7	33.2	30.4	23.4	7.7	9.6	12.3	15.3	8.0	10.4	10.4	12.2
Divi's Lab	DIVLAB	1253	1,375	Buy	33263.2	39.9	33.3	45.9	53.1	31.4	37.6	27.3	23.6	25.3	20.0	23.1	23.2	19.8	14.9	17.8	17.8
Dr Reddy's Labs	DRREDD	2403	2,700	Hold	39887.3	78.0	57.0	97.1	135.0	30.8	42.1	24.7	17.8	7.3	6.1	8.9	11.9	10.5	7.2	11.2	13.7
Glenmark Pharma	GLEPHA	613	555	Hold	17285.6	42.2	28.5	32.4	34.1	14.5	21.5	18.9	17.9	19.5	14.6	15.2	14.3	26.5	15.6	15.2	13.9
Indoco Remedies	INDREM	181	190	Hold	1668.8	8.4	4.5	3.7	12.2	21.7	40.5	49.2	14.8	8.7	6.2	5.9	12.5	11.8	6.1	4.8	14.3
Ipca Laboratories	IPCLAB	644	845	Buy	8134.5	15.4	19.0	29.1	42.3	41.7	33.9	22.1	15.2	8.7	9.1	13.0	17.3	7.9	8.9	12.3	15.5
Jubilant Life	JUBLIF	657	945	Buy	10460.8	36.9	41.3	62.5	76.6	17.8	15.9	10.5	8.6	13.8	14.9	19.4	21.3	16.8	15.7	19.4	19.4
Lupin	LUPIN	851	760	Hold	38495.2	56.7	20.8	27.0	38.8	15.0	41.0	31.5	21.9	16.6	10.4	9.8	12.5	19.0	6.9	8.4	10.9
Narayana Hrudalaya	NARHRU	217	280	Buy	4437.7	4.1	2.5	1.7	5.5	52.6	87.4	128.0	39.8	12.5	6.3	5.9	10.6	8.8	4.9	3.2	9.4
Natco Pharma	NATPHA	682	860	Hold	12587.4	26.3	37.7	43.9	26.7	25.9	18.1	15.5	25.5	33.6	27.3	27.7	15.6	29.5	22.6	22.0	12.2
Sun Pharma	SUNPHA	559	690	Buy	134058.9	29.0	13.0	16.5	24.9	19.2	43.1	33.8	22.5	20.3	9.8	11.6	15.0	19.0	8.1	9.5	12.8
Syngene Int.	SYNINT	577	685	Buy	11535.0	14.4	15.3	17.6	19.6	40.2	37.8	32.8	29.4	16.0	15.9	17.0	17.4	20.3	17.7	17.1	16.1
Torrent Pharma	TORPHA	1579	1,675	Hold	26720.1	55.2	40.1	44.4	69.7	28.6	39.4	35.6	22.7	18.9	11.2	14.3	18.9	21.5	14.7	14.5	19.4

Source: Company, ICICI Direct Research

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