

## Result Update

February 4, 2019

Rating matrix	
Rating	: Hold
Target	: ₹ 2870
Target Period	: 12-15 months
Potential Upside	: 4%

What's Changed?	
Target	Changed from ₹ 2700 to ₹ 2870
EPS FY19E	Changed from ₹ 97.1 to ₹ 107.1
EPS FY20E	Changed from ₹ 129.9 to ₹ 128.6
Rating	Changed from Buy to Hold

Quarterly Performance				
	Q3FY19	Q3FY18	YoY (%)	Q2FY19
Revenue	3,864.6	3,834.1	0.8	3,817.5
EBITDA	804.6	792.7	1.5	759.3
EBITDA (%)	20.8	20.7	14.5	19.9
Adjusted PAT	500.3	302.7	65.3	518.3
				-3.5

Key Financials				
(₹crore)	FY18	FY19E	FY20E	FY21E
Revenues	14281.0	15327.5	17143.1	18975.8
EBITDA	2351.2	3067.1	3591.3	4235.1
Adjusted PAT	946.8	1777.8	2135.4	2647.1
EPS (Adjusted)	57.0	107.1	128.6	159.5

Valuation summary				
	FY18	FY19E	FY20E	FY21E
PE (x)	48.2	25.7	21.4	17.2
Target PE (x)	50.3	26.8	22.3	18.0
EV to EBITDA (x)	20.6	15.1	12.5	10.1
Price to book (x)	3.5	3.1	2.8	2.5
RoNW (%)	7.2	12.2	13.1	14.2
RoCE (%)	6.1	9.5	11.9	14.7

Stock data				
Particular	Amount			
Market Capitalisation	₹ 45642 crore			
Debt (FY18)	₹ 4265 crore			
Cash & cash equivalents (FY18)	₹ 1138 crore			
EV	₹ 48770 crore			
52 week H/L (₹)	2878/1887			
Equity capital	₹ 83.0 crore			
Face value	₹ 5			

Price performance (%)				
	1M	3M	6M	1Y
Dr Reddy's Labs	5.8	13.5	20.5	30.7
Sun Pharma	-5.3	-28.2	-29.7	-25.2
Lupin	3.0	0.4	-3.7	1.4

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## Dr Reddy's Laboratories (DRREDD) ₹ 2750

### Cost rationalisation to the fore in tough times

- Q3FY19 results were higher than I-direct estimates on profitability front while revenues were lower mainly due to lower US sales. Revenues were muted at ₹ 3864.6 crore (I-direct estimate: ₹ 4015 crore). Growth of 10% in domestic market to ₹ 674.1 crore (I-direct estimate: ₹ 674 crore) and 25.0% YoY growth in Russia & CIS to ₹ 550 crore (I-direct estimate: ₹ 550 crore) were largely offset by 7.7% fall in US sales to ₹ 1483.2 crore (I-direct estimate: ₹ 1600 crore)
- EBITDA margins remained at 20.8% YoY but came in 212 bps higher than I-direct estimates mainly due to lower R&D spend. EBITDA grew 1.5% YoY to ₹ 804.6 crore
- Net profit grew 65.3% YoY to ₹ 500.3 crore (I-direct estimate: ₹ 417 crore). Delta vis-à-vis EBITDA was due to ₹ 42.3 crore income from sale of API unit and lower tax rate (17.1% vs 46.2% in Q3FY18)

### US business going through rough patch but promising launches ahead

The US business grew a mere 2% to ₹ 5982 crore in FY14-18 mainly due to the warning letter for its Srikakulam API & other facilities besides price erosion in key products and loss of market share. Despite challenging years, US remains a key driver for the company, contributing ~42% to total revenues. The company has a strong pending pipeline comprising 103 (59 Para IV filings and 33 FTFs) including three NDAs under 505 (b)(2) route. We expect US sales to grow at a CAGR of 7.5% to ₹ 7433 crore in FY18-21E on the back of new launches.

### Russia CIS provides strong growth, India to provide more stability

Global Generics (ex US, Europe) is likely to grow at a CAGR of 1.8% in FY18-21E due to adverse currency movement and geography wise issues. 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 FY18-21E is likely to emanate from more productive and sustainable segments such as the US, Russia, 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 has maintained margins due to effective cost rationalisation. We expect EBITDA margins to improve in FY19-21 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 company has launched 10 products in Q3FY19. We expect this type of aggression in product launches to persist. This can mitigate the pricing pressure in the US. 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). However, recent sharp run up in the stock has largely factored in the near term upside in the stock. We arrive at our new target price of ₹ 2870 based on 18x FY21E EPS of ~₹ 159.5.

### Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	Q2FY19	YoY (%)	QoQ (%)	Comments
Revenue	3,864.6	4,015.2	3,834.1	3,817.5	0.8	1.2	Strong growth in emerging markets including in India was largely offset by decline in the US
Raw Material Expenses	1,175.8	1,124.2	1,036.7	1,051.7	13.4	11.8	A 339 bps YoY decline in gross margins to 69.6% was mainly due to price erosion in some of key molecules in the US
Gross Profit	2,688.8	2,890.9	2,797.4	2,765.8	-3.9	-2.8	
Employee expenses	805.4	875.3	818.1	872.2	-1.6	-7.7	
Other expenses	1,078.8	1,264.8	1,186.6	1,134.3	-9.1	-4.9	R&D spend declined 260 bps YoY to 9.6%
EBITDA	804.6	750.8	792.7	759.3	1.5	6.0	
EBITDA (%)	20.8	18.7	20.7	19.9	14.5	93.0	YoY growth due to lower R&D spend
Other Income	102.3	56.2	43.0	128.2	137.9	-20.2	Included gain of ₹ 42.3 crore on account of sale of API manufacturing unit located at Jeedimetla, Hyderabad
Interest	24.1	20.8	17.2	20.8	40.1	15.9	
Depreciation	290.3	278.7	271.5	278.6	6.9	4.2	
PBT	592.5	507.5	547.0	588.1	8.3	0.7	
Tax	101.1	101.5	252.8	80.7	-60.0	25.3	Lower rate due to 1) reduction of Fed tax rate in the US, 2) favourable resolutions of earlier tax matter led to reversal of tax and 3) claim of deduction of certain items for tax purpose
Net Profit	500.3	416.9	302.7	518.3	65.3	-3.5	
Adjusted PAT	500.3	416.9	302.7	518.3	65.3	-3.5	Delta vis-à-vis EBITDA and I-direct estimates mainly due to lower tax rate and one-off gain
Key Metrics							
US	1,483.2	1,599.9	1,607.3	1,426.5	-7.7	4.0	YoY decline and miss vis-à-vis I-direct estimates due to higher-than-expected price erosion in base business
Europe	203.0	196.6	200.6	191.5	1.2	6.0	New products and volume uptake largely offset by higher price erosion in some key molecules
India	674.1	673.9	612.6	686.4	10.0	-1.8	YoY growth on the back of new launches and improvement in the base business performance
Russia & Other CIS	550.0	550.0	440.0	520.0	25.0	5.8	YoY growth primarily driven by new launches, improvement in base business, marginally offset by unfavorable forex
RoW	224.4	225.0	150.0	229.2	49.6	-2.1	YoY growth driven by new markets (primarily Brazil) and volume traction in China & other countries
PSAI	593.7	598.0	543.6	602.9	9.2	-1.5	YoY growth was largely driven by custom pharma services segment

Source: Company, ICICI Direct Research

### Change in estimates

₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	15,399.7	15,327.5	-0.5	16,962.6	17,143.1	1.1	
EBITDA	2,933.0	3,067.1	4.6	3,583.3	3,591.3	0.2	
EBITDA Margin (%)	19.0	20.0	101 bps	21.1	20.9	-15 bps	Changed mainly due to better-than-expected margins in Q3FY19
Adjusted PAT	1,609.7	1,777.8	10.4	2,156.8	2,135.4	-1.0	
EPS (₹)	97.1	107.1	10.3	129.9	128.6	-1.0	Change mainly in sync with EBITDA and reduction in tax rate guidance

Source: Company, ICICI Direct Research

### Assumptions

₹ crore)	Current			Earlier			Comments
	FY17	FY18	FY19E	FY20E	FY19E	FY20E	
US	6,360.1	5,982.4	6,021.9	6,769.5	6,122.3	6,719.8	
Europe	760.5	821.6	792.9	872.2	790.5	869.5	
India	2,313.2	2,332.1	2,655.4	2,974.0	2,655.1	2,973.7	
Russia & Other CIS	1,520.0	1,650.0	2,023.6	2,327.1	1,979.6	2,177.6	Changed mainly due to strong growth in base business, new launches and favorable macro economic factors
RoW	587.1	614.7	845.9	1,005.6	846.5	1,006.3	
PSAI	2,127.7	2,199.2	2,393.9	2,513.5	2,370.9	2,489.5	

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.

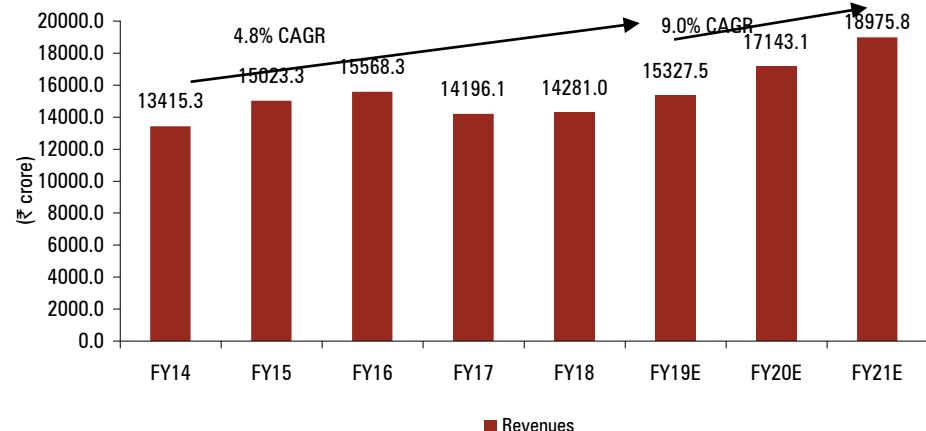
To strengthen its domestic portfolio, in FY16, the company acquired a select domestic portfolio from UCB in the areas of dermatology, respiratory and paediatrics diseases. The revenues of the acquired business are ~₹ 150 crore in 2014. This acquisition has enhanced DRL's presence in the fast growing 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 10% to ₹ 18976 crore in FY18-21E. The US is likely to grow at a CAGR of 7.5% to ₹ 7433 crore on the back of new launches. 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

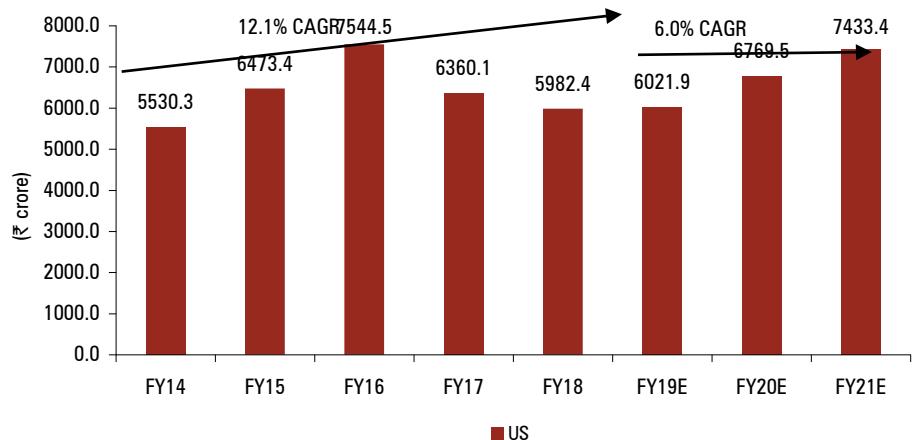


Source: Company, ICICI Direct Research

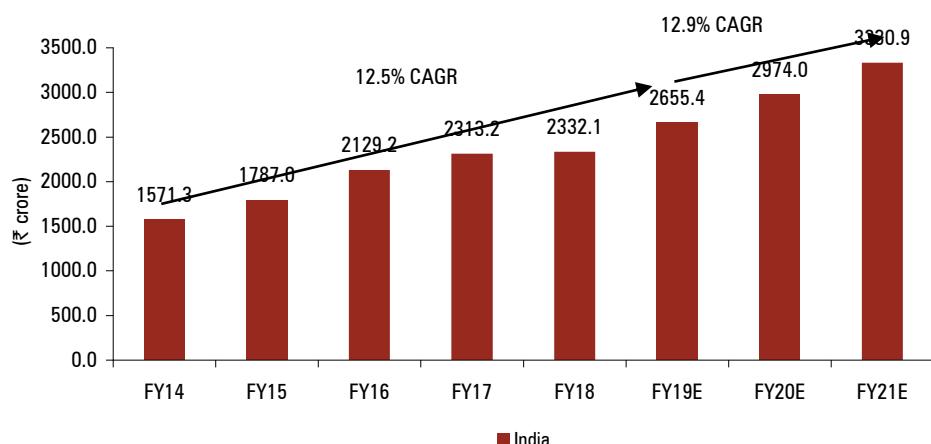
#### Exhibit 2: Geography wise revenue break up

(₹ crore)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
US	5530.3	6473.4	7544.5	6360.1	5982.4	6021.9	6769.5	7433.4
Europe	697.0	718.1	773.2	760.5	821.6	792.9	872.2	959.4
India	1571.3	1787.0	2129.2	2313.2	2332.1	2655.4	2974.0	3330.9
Russia & Other CIS	1981.9	1771.4	1419.1	1520.0	1650.0	2023.6	2327.1	2676.2
RoW	735.9	1305.7	940.2	587.1	614.7	845.9	1005.6	1156.5
PSAI	2397.4	2545.7	2238.0	2127.7	2199.2	2393.9	2513.5	2639.2

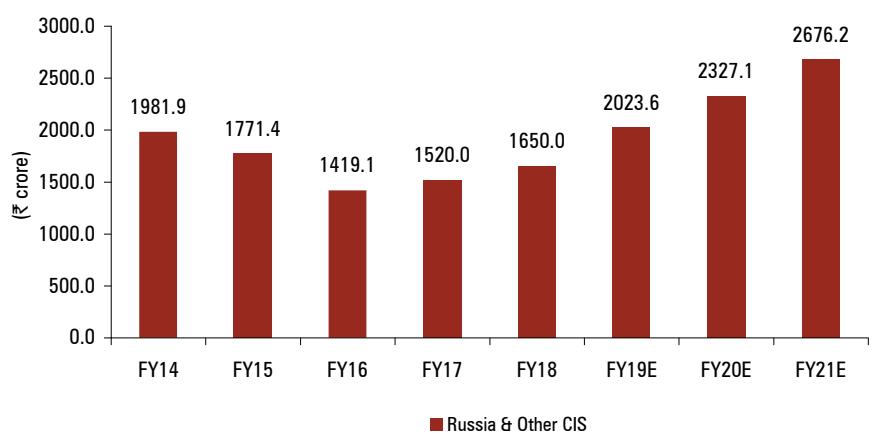
Source: Company, ICICI Direct Research

**Exhibit 3: US sales to be driven by new launches**


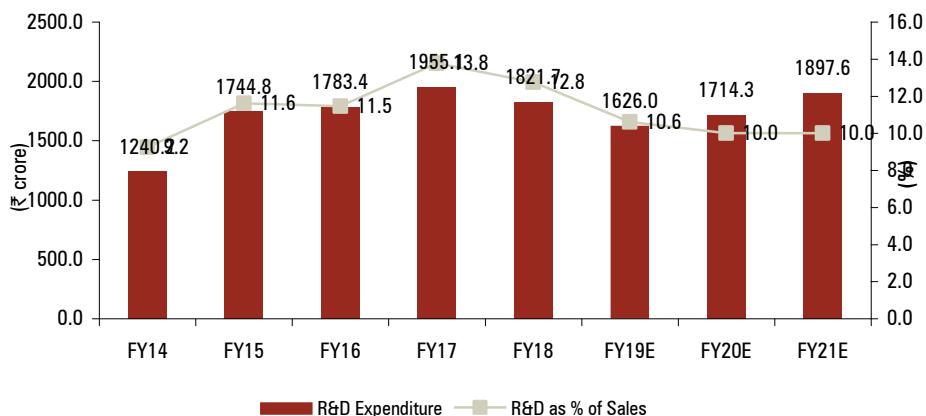
Source: Company, ICICI Direct Research

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


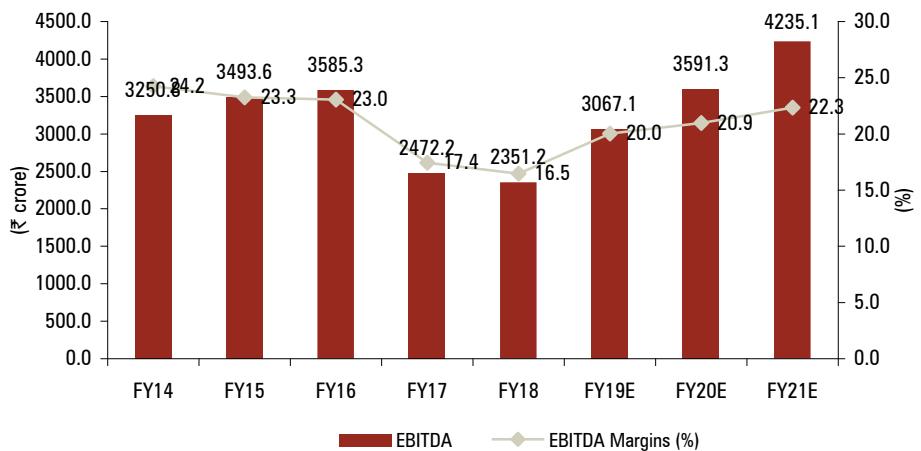
Source: Company, ICICI Direct Research

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


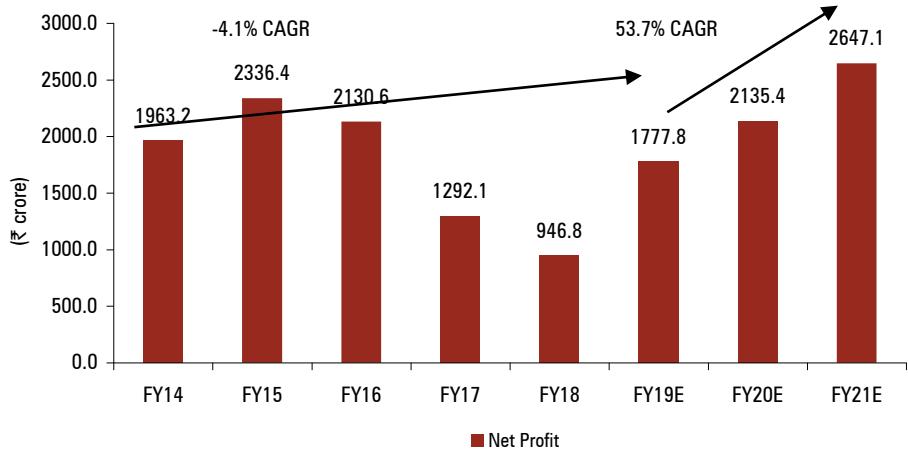
Source: Company, ICICI Direct Research

**Exhibit 6: R&D trend**


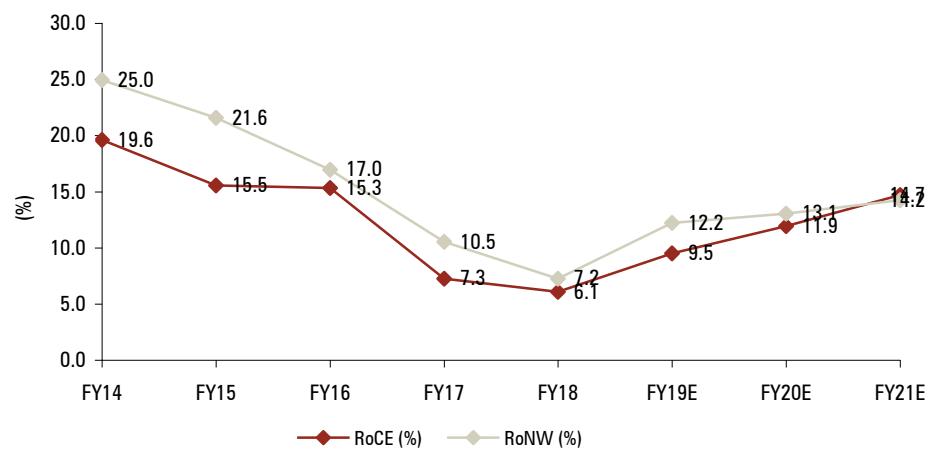
Source: Company, ICICI Direct Research

**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	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	YoY (%)	QoQ (%)
Total Operating Income	3979.7	3795.0	3244.7	3616.3	3723.2	3611.9	3333.2	3559.8	3834.1	3553.9	3736.5	3817.5	3864.6	0.8	1.2
Raw Material Expenses	980.3	964.9	756.4	867.4	815.9	1005.2	959.2	1036.9	1036.7	1006.7	1004.9	1051.7	1175.8	13.4	11.8
% of Revenues	24.6	25.4	23.3	24.0	21.9	27.8	28.8	29.1	27.0	28.3	26.9	27.5	30.4	339 bps	288 bps
Gross Profit	2999.4	2830.1	2488.3	2748.9	2907.3	2606.7	2374.0	2522.9	2797.4	2547.2	2731.6	2765.8	2688.8	-3.9	-2.8
Gross Profit Margins (%)	75.4	74.6	76.7	76.0	78.1	72.2	71.2	70.9	73.0	71.7	73.1	72.5	69.6	-339 bps	-288 bps
Employee expenses	789.3	790.9	805.0	816.1	814.6	671.1	807.3	789.0	818.1	800.5	837.1	872.2	805.4	-1.6	-7.7
% of Revenues	19.8	20.8	24.8	22.6	21.9	18.6	24.2	22.2	21.3	22.5	22.4	22.8	20.8	-50 bps	-201 bps
Other expenses	1226.1	1557.5	1293.1	1305.8	1228.2	1345.1	1243.5	1064.5	1186.6	1183.1	1125.7	1134.3	1078.8	-9.1	-4.9
% of Revenues	30.8	41.0	39.9	36.1	33.0	37.2	37.3	29.9	30.9	33.3	30.1	29.7	27.9	-303 bps	-180 bps
Total Expenditure	2995.7	3313.3	2854.5	2989.3	2858.7	3021.4	3010.0	2890.4	3041.4	2990.3	2967.7	3058.2	3060.0	0.6	0.1
% of Revenues	75.3	87.3	88.0	82.7	76.8	83.7	90.3	81.2	79.3	84.1	79.4	80.1	79.2	-14 bps	-93 bps
EBITDA	984.0	481.7	390.2	627.0	864.5	590.5	323.2	669.4	792.7	563.6	768.8	759.3	804.6	1.5	6.0
EBITDA Margins (%)	24.7	12.7	12.0	17.3	23.2	16.3	9.7	18.8	20.7	15.9	20.6	19.9	20.8	14 bps	93 bps
Total Depreciation	NA	276.7	243.6	262.2	266.5	254.3	259.2	270.2	271.5	276.3	278.7	278.6	290.3	6.9	4.2
EBITDA	NA	205.0	146.6	364.8	598.0	336.2	64.0	399.2	521.2	287.3	490.1	480.7	514.3	-1.3	7.0
Interest	16.0	17.0	14.8	12.6	16.4	19.6	21.5	22.3	17.2	17.8	19.5	20.8	24.1	40.1	15.9
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	188.0	131.8	352.2	581.6	316.6	42.5	376.9	504.0	269.5	470.6	459.9	490.2	-2.7	6.6
Total Tax	153.3	156.3	52.6	95.6	138.5	9.7	23.7	112.3	252.8	49.2	53.2	80.7	101.1	-60.0	25.3
Tax %	NA	83.1	39.9	27.1	23.8	3.1	55.8	29.8	50.2	18.3	11.3	17.5	20.6		
Net Profit	647.5	31.7	79.2	256.6	443.1	306.9	18.8	264.6	251.2	220.3	417.4	379.2	389.1	54.9	2.6
Adjusted PAT	647.5	122.6	153.5	308.9	492.3	337.6	66.6	305.4	302.7	272.1	476.1	518.3	500.3	65.3	-3.5

*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

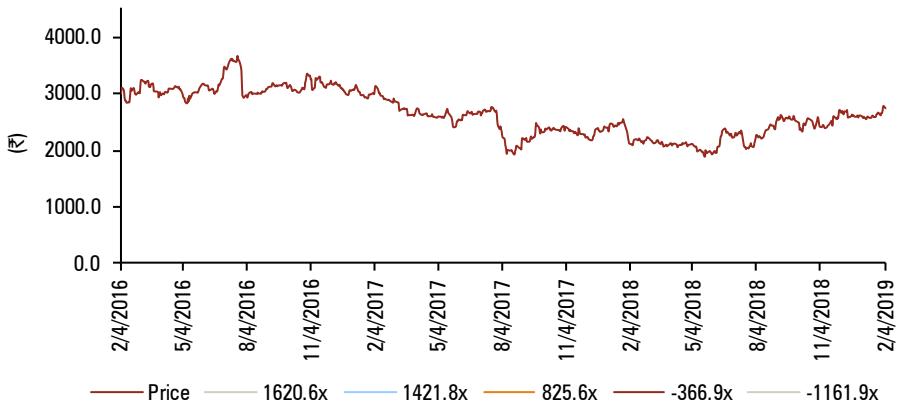
### Conference call Highlights

- The management has guided for recalibration of R&D spend with yearly run rate to be in the range of US\$250-300 million. Total 60% of R&D is likely to be earmarked for generics and the remaining 40% for proprietary products / biosimilars
- PSAI GPMs were higher during the quarter due to higher component of PS (pharmaceutical services)
- Receivables were lower during the quarter due to factoring of some receivables in the US
- **Regulatory status- Srikakulam API-** the company has been asked by the USFDA to carry out certain detailed investigations and analyses to which it has submitted the results of the investigations and analyses in October 2018. The company responded to all queries in January 2019 and is awaiting re-inspection by the USFDA. **Oncology manufacturing facility –Duvvada-** In October 2018, the re-inspection by the USFDA was completed and the USFDA issued Form 483 with eight observations. The company has responded to these observations identified in November 2018 and awaiting to hear from the USFDA.
- The company launched 10 products in the US during the quarter including Colesevvelam (g Welchol; cardio diabetic), Sevelamer (gRenvela; kidney disease) sachet & unit dose, Aspirin & Dipyridamole XR and Omeprazole (GI) OTC tabs. It filed three ANDAs during the quarter
- As of December 31, 2018, cumulatively 103 generic filings are pending for approval with the USFDA (100 ANDAs and 3 NDAs under 505(b)(2) route). Of this, 59 are Para IVs, and 33 have 'First to File' status as per company's perception
- Capex for the quarter was at ₹ 153 crore while for 9M it was ₹ 520 crore
- The company generated FCF of ₹ 1512 crore and ₹ 1713 crore for the quarter and 9MFY19, respectively

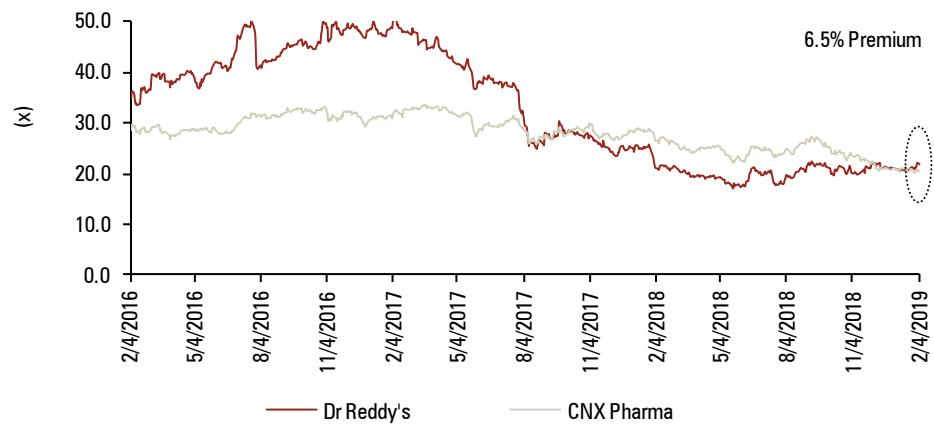
**Exhibit 11: Facilities**

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**


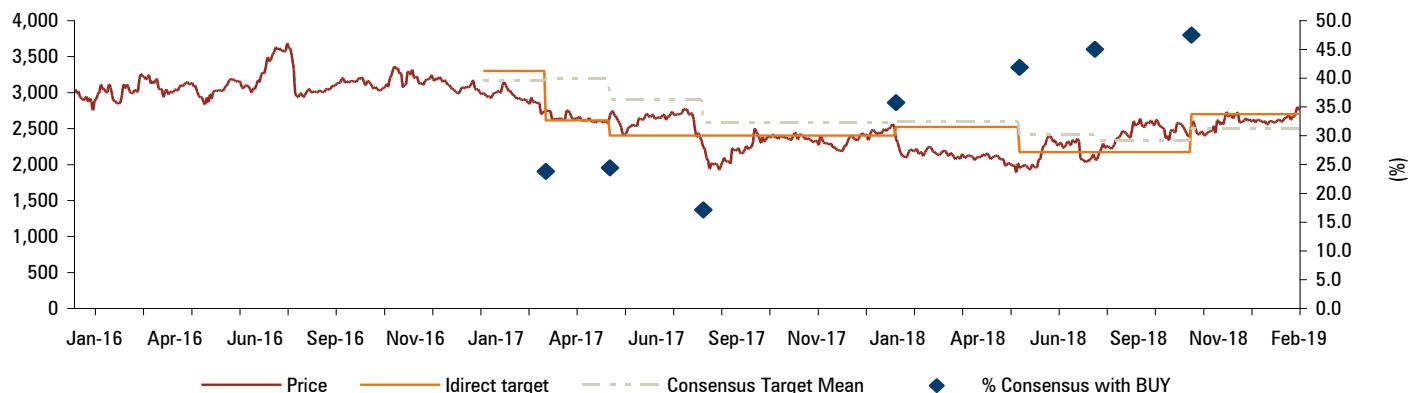
Source: Company, ICICI Direct Research

**Exhibit 14: Valuation**

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY18	14281.0	0.6	57.0	-26.7	48.2	20.6	7.2	6.1
FY19E	15327.5	7.3	107.1	87.8	25.7	15.1	12.2	9.5
FY20E	17143.1	11.8	128.6	20.1	21.4	12.5	13.1	11.9
FY21E	18975.8	10.7	159.5	24.0	17.2	10.1	14.2	14.7

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
Oct-19	Duvvada oncology formulation facility receives 8 observations from USFDA post re-inspection
Jan-19	Receives USFDA approval for novel drug Tosymra' spray to treat acute migraine with or without aura in adults

Source: Company, ICICI Direct Research

## Top 10 Shareholders

Rank	Investor Name	Latest Filing Date	% O/S	Position (\$)	Position Change
1	Dr Reddys Holdings Pvt. Ltd.	30-Sep-18	0.2	41.3253 (\$)	0.1m
2	Commonwealth Bank of Australia	31-Dec-18	0.1	12.824555 (\$)	12.8m
3	Stewart Investors	30-Sep-18	0.1	9.416134 (\$)	0.2m
4	Life Insurance Corporation of India	30-Sep-18	0.0	7.361709 (\$)	0.0m
5	Franklin Templeton Asset Management (India) Pvt. Ltd	30-Sep-18	0.0	5.751727 (\$)	-2.8m
6	Aditya Birla Sun Life AMC Limited	30-Sep-18	0.0	3.995771 (\$)	-0.2m
7	Reliance Nippon Life Asset Management Limited	30-Sep-18	0.0	3.468968 (\$)	-0.8m
8	BlackRock Institutional Trust Company, N.A.	31-Dec-18	0.0	3.360942 (\$)	0.0m
9	First State Investments (U.K.) Ltd	30-Jun-18	0.0	2.605509 (\$)	0.3m
10	SBI Funds Management Pvt. Ltd.	31-Dec-18	0.0	2.293817 (\$)	0.2m

## Shareholding Pattern

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

Source: Reuters, ICICI Direct Research

## Recent Activity

Investor name	Buys		Sells		
	Value (\$)	Shares	Investor name	Value (\$)	Shares
Commonwealth Bank of Australia	482.4m	12.8m	Franklin Templeton Asset Management (India) Pvt. Ltd.	-98.0m	-2.8m
SBI Funds Management Pvt. Ltd.	8.7m	0.2m	Reliance Nippon Life Asset Management Limited	-27.8m	-0.8m
Stewart Investors	6.0m	0.2m	ICICI Prudential Asset Management Co. Ltd.	-19.8m	-0.5m
Unigestion	5.4m	0.1m	Franklin Advisers, Inc.	-10.3m	-0.3m
Schroder Investment Management (Hong Kong) Ltd.	4.1m	0.1m	Templeton Asset Management Ltd.	-8.7m	-0.2m

Source: Reuters, ICICI Direct Research

## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)		FY18	FY19E	FY20E	FY21E
Revenues		14,281.0	15,327.5	17,143.1	18,975.8
Growth (%)		0.6	7.3	11.8	10.7
Raw Material Expenses		4,039.5	4,421.7	5,002.8	5,542.8
Employee expenses		3,214.9	3,327.3	3,577.6	3,767.5
Other expenses		4,675.4	4,511.5	4,971.5	5,430.4
Total Operating Expenditure		11,929.8	12,260.4	13,551.9	14,740.7
EBITDA		2,351.2	3,067.1	3,591.3	4,235.1
Growth (%)		-4.9	30.4	17.1	17.9
Interest		78.8	86.7	72.4	55.7
Depreciation		1,077.2	1,137.9	1,202.7	1,254.7
PBT before Exceptional Items		1,350.4	2,057.1	2,624.8	3,264.4
Share of profit/ (loss) of equity accc		0.0	0.0	0.0	0.0
PBT		1,350.4	2,057.1	2,624.8	3,264.4
Total Tax		438.0	316.3	525.0	652.9
PAT		946.8	1,777.8	2,135.4	2,647.1
Adjusted PAT		946.8	1,777.8	2,135.4	2,647.1
Growth (%)		-26.7	87.8	20.1	24.0
EPS		57.0	107.1	128.6	159.5
EPS (Adjusted)		57.0	107.1	128.6	159.5

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)		FY18	FY19E	FY20E	FY21E
Profit/(Loss) after taxation		1,074.3	1,777.8	2,135.4	2,647.1
Add: Depreciation & Amortization		1,077.2	1,137.9	1,202.7	1,254.7
Net Increase in Current Assets		-754.3	606.3	-805.9	-815.3
Net Increase in Current Liabilities		-142.3	-341.4	210.1	215.3
CF from operating activities		1,803.0	3,267.3	2,814.7	3,357.5
(Inc)/dec in Fixed Assets		-1,090.4	-900.0	-900.0	-900.0
(Inc)/dec in Investments		-425.3	-300.0	-500.0	-500.0
Others		34.0	-22.9	-23.8	-24.8
CF from investing activities		-1,481.7	-1,222.9	-1,423.8	-1,424.8
Inc / (Dec) in Equity Capital		0.1	0.0	0.0	0.0
Inc / (Dec) in Loan		88.2	-800.0	-800.0	-800.0
Dividend & Dividend Tax		-399.2	-283.9	-341.0	-422.8
Others		-133.1	-86.7	-72.4	-55.7
CF from financing activities		-444.0	-1,170.6	-1,213.4	-1,278.4
Net Cash flow		-122.7	873.8	177.5	654.3
Opening Cash		386.5	263.8	1,137.6	1,315.1
Closing Cash		263.8	1,137.6	1,315.1	1,969.4
Free Cash Flow		712.6	2,367.3	1,914.7	2,457.5

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)		FY18	FY19E	FY20E	FY21E
Equity Capital		83.0	83.0	83.0	83.0
Net Networth		12,982.8	14,476.7	16,271.1	18,495.4
Total Shareholders funds		13,065.8	14,559.7	16,354.1	18,578.4
Total Debt		5,065.1	4,265.1	3,465.1	2,665.1
Deferred Tax Liability		195.0	202.8	210.9	219.3
Other Non Current Liabilities		293.3	305.0	317.2	329.9
Long term Provisions		81.7	85.0	88.4	91.9
Source of Funds		18,700.9	19,417.6	20,435.7	21,884.7
Gross Block - Fixed Assets		16,903.2	17,703.2	18,503.2	19,303.2
Accumulated Depreciation		10,468.3	11,606.2	12,808.9	14,063.6
Net Block		6,434.9	6,097.0	5,694.3	5,239.6
Capital WIP		3,470.5	3,570.5	3,670.5	3,770.5
Net Fixed Assets		9,905.4	9,667.5	9,364.8	9,010.1
Goodwill		533.1	533.1	533.1	533.1
Investments		2,298.3	2,598.3	3,098.3	3,598.3
Inventory		2,908.9	2,518.3	2,816.7	3,117.8
Cash		263.8	1,137.6	1,315.1	1,969.4
Debtors		4,052.7	3,779.4	4,227.1	4,679.0
Loans & Advances & Other CA		1,440.0	1,497.6	1,557.5	1,619.8
Total Current Assets		8,665.4	8,932.9	9,916.3	11,385.9
Creditors		1,334.5	892.8	998.5	1,105.3
Provisions & Other CL		2,508.9	2,609.2	2,713.6	2,822.1
Total Current Liabilities		3,843.4	3,502.0	3,712.1	3,927.4
Net Current Assets		4,822.0	5,430.9	6,204.2	7,458.5
LT L & A, Other Assets		601.6	625.7	650.7	676.7
Deferred Tax Assets		540.5	562.1	584.6	608.0
Application of Funds		18,700.9	19,417.6	20,435.7	21,884.7

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)		FY18	FY19E	FY20E	FY21E
Per share data (₹)					
EPS		57.0	107.1	128.6	159.5
BV per share		787.1	877.1	985.1	1,119.1
Operating Ratios (%)					
Gross Profit Margins		71.7	71.2	70.8	70.8
EBITDA margins		16.5	20.0	20.9	22.3
Net Profit margins		6.6	11.6	12.5	13.9
Inventory days		74.3	60.0	60.0	60.0
Debtor days		103.6	90.0	90.0	90.0
Creditor days		34.1	21.3	21.3	21.3
Asset Turnover		0.8	0.9	0.9	1.0
EBITDA conversion Rate		76.7	106.5	78.4	79.3
Return Ratios (%)					
RoE		7.2	12.2	13.1	14.2
RoCE		6.1	9.5	11.9	14.7
RoIC		11.3	18.5	22.5	27.6
Valuation Ratios (x)					
P/E		48.2	25.7	21.4	17.2
EV / EBITDA		20.6	15.1	12.5	10.1
EV / Revenues		3.4	3.0	2.6	2.3
Market Cap / Revenues		3.2	3.0	2.7	2.4
Price to Book Value		3.5	3.1	2.8	2.5
Solvency Ratios					
Debt / Equity		0.4	0.3	0.2	0.1
Debt / EBITDA		2.2	1.4	1.0	0.6
Current Ratio		2.2	2.2	2.3	2.4

Source: Company, ICICI Direct Research

**ICICI Direct coverage universe (Healthcare)**

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
Ajanta Pharma	AJAPHA	955	1,225	Buy	8405.8	57.4	53.0	43.1	50.5	16.6	18.0	22.2	18.9	41.3	30.0	21.6	21.7	32.3	23.0	16.4	16.8
Alembic Pharma	ALEMPHA	589	620	Hold	11104.5	21.2	21.9	30.4	27.1	27.8	26.9	19.4	21.8	25.3	18.0	19.9	17.2	21.0	18.6	21.4	16.6
Apollo Hospitals	APOHOS	1283	1,440	Buy	17849.1	15.9	8.5	26.6	48.2	80.8	151.7	48.2	26.6	6.1	6.3	9.8	13.7	6.0	3.6	10.4	16.4
Aurobindo Pharma	AURPHA	768	915	Buy	45018.2	38.8	41.6	42.6	53.1	19.8	18.5	18.0	14.5	24.4	20.0	18.0	16.7	24.2	20.7	17.8	18.4
Biocon	BIOCON	652	760	Buy	39132.0	8.5	6.2	12.8	17.3	76.9	105.1	51.0	37.7	9.4	8.1	13.1	15.4	10.5	7.2	12.8	15.0
Cadila Healthcare	CADHEA	317	415	Buy	32473.1	14.5	17.5	16.5	18.9	21.8	18.1	19.2	16.8	13.1	16.7	14.2	13.1	21.4	20.5	16.8	16.8
Cipla	CIPLA	507	510	Hold	40879.6	12.5	18.3	17.5	23.1	40.6	27.7	28.9	22.0	7.7	9.6	11.0	13.9	8.0	10.4	9.2	11.0
Divi's Lab	DIVLAB	1605	1,700	Buy	42614.3	39.9	33.3	55.0	65.5	40.2	48.2	29.2	24.5	25.3	20.0	26.8	26.3	19.8	14.9	20.7	20.5
Dr Reddy's Labs	DRREDD	2749	2,870	Buy	45642.5	78.0	57.0	107.1	128.6	35.3	48.2	25.7	21.4	7.3	6.1	9.5	11.9	10.5	7.2	12.2	13.1
Glenmark Pharma	GLEPHA	645	660	Hold	18190.0	42.2	28.5	32.9	36.8	15.3	22.6	19.6	17.5	19.5	14.6	16.0	15.2	26.5	15.6	14.9	14.5
Indoco Remedies	INDREM	180	195	Hold	1655.5	8.4	4.8	-1.8	7.4	21.5	37.2	-98.5	24.2	8.7	6.5	-0.1	8.3	11.8	6.6	-2.6	9.4
Ipca Laboratories	IPCLAB	740	845	Buy	9350.1	15.4	19.0	32.4	42.3	48.0	39.0	22.8	17.5	8.7	9.1	13.8	17.1	7.9	8.9	13.5	15.4
Jubilant Life	JUBLIF	725	920	Buy	11539.9	36.9	41.3	62.5	76.6	19.6	17.6	11.6	9.5	13.8	14.9	19.4	21.3	16.8	15.7	19.4	19.4
Lupin	LUPIN	852	870	Hold	38530.8	56.7	20.8	27.6	39.1	15.0	41.0	30.8	21.8	16.6	10.4	10.4	12.4	19.0	6.9	8.6	11.0
Narayana Hrudalay	NARHRU	191	270	Buy	3903.3	4.1	2.5	2.3	6.6	46.3	76.3	82.2	29.0	12.5	6.3	7.1	12.0	8.8	4.9	4.4	11.1
Natco Pharma	NATPHA	687	860	Buy	12683.7	26.3	37.7	41.7	24.9	26.1	18.2	16.5	27.6	33.6	27.4	26.6	14.8	29.5	22.7	21.2	11.6
Sun Pharma	SUNPHA	411	460	Hold	98621.9	29.0	13.0	14.7	21.1	14.2	31.7	28.0	19.4	20.3	9.8	10.2	13.3	19.0	8.2	8.8	11.5
Syngene Int.	SYNINT	597	675	Buy	11938.0	14.4	15.3	16.3	17.5	40.8	38.4	35.9	33.5	16.0	15.9	16.8	16.5	20.3	17.7	16.1	14.8
Torrent Pharma	TORPHA	1835	2,175	Buy	31051.4	55.2	40.1	52.3	64.9	33.3	45.8	35.1	28.3	18.9	11.2	14.2	17.1	21.5	14.7	16.7	17.9

Source: Company, ICICI Direct Research

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Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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