

## Strong numbers (adjusted); beat on all fronts...

Revenues grew 13.8% YoY to ₹ 4397.1 crore, mainly due to strong growth in Europe, Russia, other CIS markets. Domestic revenues grew 13.3% YoY to ₹ 763.6 crore. US revenues grew 7.9% YoY to ₹ 1599.9 crore. EBITDA margins (excluding impairment charges) expanded 263.4 bps to 23.5% mainly due to lower R&D and employee expenses. EBITDA grew 28.2% YoY to ₹ 1031.3 crore. Adjusted PAT grew 56.2% YoY to ₹ 781.6 crore. Delta vis-à-vis EBITDA was mainly due to lower tax outgo and interest cost offset by lower other income.

## US going through rough patch but promising launches ahead

Despite challenging years, the US remains a key driver for the company, contributing ~42% to total revenues. The company has a strong pending pipeline comprising 99 ANDAs (53 Para IV filings, 32 FTFs) and two NDAs under 505 (b) (2) route. We expect US sales to grow at a CAGR of ~9% to ₹ 7780 crore in FY19-22E on the back of new launches.

## Russia, CIS, India to provide more stability

These two markets are more or less identical in nature (branded generics and OTC) with similar growth potential and similar kinds of risks. Dr Reddy's 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 and biosimilars space and UCB like acquisitions besides an improvement in productivity. We expect Russia & other CIS to grow at a CAGR of 12.4% during FY19-22E to ₹ 2913 crore whereas India is likely to grow at a CAGR of ~12% during FY19-22E to ₹ 3987 crore.

## Valuation & Outlook

Excluding impairment charges, the Q3 result was better than I-direct estimates on all fronts with healthy growth across geographies and strongest operational (adjusted for impairment) margins in the past 20 quarters. Sustained cost rationalisation, especially on the SGN&A front and calibrating of R&D spend are some continuing hallmarks. Despite recent product related setbacks in the US, the company remains focused on the US market but will be calculative and plans to push only those products with better EBITDA profile. We expect a continuum in operational improvement due to strong growth from branded markets, control on overheads and reduction in regulatory spend. Overall, it is still a work in progress for the company with product/segment identification for growth and cost rationalisation drive likely to continue for the next few quarters. We arrive at our target price of ₹ 3255 based on 18x FY22E EPS of ~₹ 180.9.

Dr.Reddy's

### Particulars

Particular	Amount
Market Capitalisation	₹ 52968 crore
Debt (FY19)	₹ 3413 crore
Cash & equivalents (FY19)	₹ 223 crore
EV	₹ 56158 crore
52 week H/L (₹)	3209/1873
Equity capital	₹ 83.1 crore
Face value	₹ 5

### Key Highlights

- Excluding impairment charges, Q3 result was better than I-direct estimates on all fronts
- The management is continuously focusing on margin improvement
- However, overall, it is still a work in progress for the company with product/segment identification for growth and cost rationalisation drive likely to continue for the next few quarters
- Maintain HOLD

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### Key Financial Summary

(₹ crore)	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E) %
Revenues	15448.2	17289.6	18701.8	20652.9	10.2
EBITDA	3151.6	2411.7	4071.2	4581.0	13.3
EBITDA Margins (%)	20.4	13.9	21.8	22.2	
Adjusted PAT	1906.3	1786.1	2565.4	3004.6	16.4
EPS (Adjusted)	114.8	107.5	154.4	180.9	
PE (x)	27.8	29.7	20.6	17.6	
EV to EBITDA (x)	17.1	21.9	12.4	10.5	
RoE (%)	13.6	11.5	14.5	14.9	
RoCE (%)	11.1	8.6	15.0	17.5	

Source: ICICI Direct Research; Company

**Exhibit 1: Variance Analysis**

	Q3FY20	Q3FY20E	Q3FY19	Q2FY20	YoY (%)	QoQ (%)	Comments
Revenue	4,397.1	4,194.5	3,864.6	4,812.8	13.8	-8.6	YoY growth driven by strong growth in India, EU, Russia and PSAl segment
Raw Material Expenses	1,415.3	1,384.2	1,175.8	1,401.1	20.4	1.0	Gross profit margin for GG and PSAl business segments were at 58.2% and 30.0%, respectively
Gross Profit	2,981.8	2,810.3	2,688.8	3,411.7	10.9	-12.6	
Employee expenses	837.7	828.6	805.4	825.5	4.0	1.5	
Other expenses	2,432.8	1,132.5	1,078.8	1,522.4	125.5	59.8	Included ~₹ 1320 crore of impairment charges pertaining to gnarring and other intangible products
EBITDA	-288.7	849.2	804.6	1,063.8	-135.9	-127.1	
EBITDA (%)	-6.6	20.2	20.8	22.1	-2,738.5	-2,866.9	Excluding impairment charges, improvement in EBITDA margins and beat vis-à-vis I-direct estimates mainly due to strong gross margins across segments and lower employee cost
Other Income	67.3	54.5	102.3	54.0	-34.2	24.6	Q3FY19 other income includes gain of ₹ 42.3 crore due to sale of API business manufacturing unit at Jeedimetla
Interest	15.2	30.3	24.1	30.3	-36.9	-49.8	
Depreciation	286.9	304.8	290.3	313.1	-1.2	-8.4	
PBT	-523.5	568.6	592.5	774.4	-188.4	-167.6	
Tax	32.5	113.7	101.1	-320.7	NA	NA	
Net Profit	-538.4	466.6	500.3	1,106.8	-207.6	-148.6	
Adjusted PAT	-538.4	466.6	500.3	1,106.8	-207.6	-148.6	Delta vis-à-vis EBITDA beat I-direct estimates mainly due to lower tax rate

**Key Metrics**

US	1,599.9	1,518.0	1,483.2	1,426.5	7.9	12.2	Growth due to market share gain in key products and new launches. Beat vis-à-vis I-direct estimates mainly due to better-than-expected gains from new launches
Europe	309.3	274.1	203.0	276.4	52.4	11.9	YoY growth primarily on account of new products and volume traction in base business and tender supply of Rituximab. Beat vis-à-vis I-direct estimates mainly due to tender supply of Rituximab
India	763.6	755.0	674.1	751.1	13.3	1.7	YoY growth on the back of new products, improved realisations in base business and volume traction
Russia & Other CIS	670.0	605.0	550.0	580.0	21.8	15.5	YoY growth primarily driven by new launches, increase in volumes and better realisations in some key molecules
RoW	250.0	258.1	224.4	247.6	11.4	1.0	YoY growth primarily on account of new products, volume traction partly offset by price erosions in some key molecules
PSAl	690.6	682.8	593.7	710.7	16.3	-2.8	YoY growth largely due to increase in volumes

Source: ICICI Direct Research

**Exhibit 2: Change in Estimates**

	FY20E			FY21E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	17,035.5	17,289.6	1.5	18,412.6	18,701.8	1.6	
EBITDA	3,481.4	2,411.7	-30.7	3,894.7	4,071.2	4.5	
EBITDA Margin (%)	20.4	13.9	-645 bps	21.2	21.8	57 bps	FY20 margins impacted due to impairment charges. Improved FY21 margins mainly due to change in product mix
Adjusted PAT	2,698.2	1,786.1	-33.8	2,324.6	2,565.4	10.4	FY20 profitability impacted due to impairment charges. Improved FY21 margins mainly due better operational performance
EPS (₹)	162.5	107.5	-33.8	140.0	154.4	10.3	

Source: ICICI Direct Research

**Exhibit 3: Change in Estimates**

	Current			Earlier		
(₹ crore)	FY18	FY19	FY20E	FY21E	FY20E	FY21E
US	5,982.4	5,995.7	6,245.0	7,023.0	6,153.8	6,912.2
Europe	821.6	787.3	1,112.9	1,248.2	1,067.5	1,198.3
India	2,332.1	2,618.4	2,939.3	3,292.0	2,930.7	3,282.3
Russia & Other CIS	1,650.0	2,050.0	2,322.0	2,600.6	2,257.0	2,527.8
RoW	614.7	838.9	961.4	1,105.6	969.4	1,114.8
PSAl	2,199.2	2,414.0	2,565.5	2,943.4	2,528.0	2,904.0

Source: ICICI Direct Research

## Conference Call Highlights

- Q3 financials include an impairment charge of ₹ 1320 crore, ₹ 1110 crore for gNuvaRing and ₹ 210 crore for other products. The company expects considerable erosion in gNuvaRing post authorised generic launch
- The company is still working on gNuvaRing CRL response, which it expects to send in the next couple of months
- The company is targeting 25% EBITDA margins and 25% RoCE
- The company is still out of US market for Ranitidine
- As per the management, Rituximab tender business reported in Q3 is lumpy in nature (for Russian market)
- The company has 11 biosimilars under pipeline
- Capex during the quarter was ₹ 121 crore
- Foreign currency cash flow hedges for the next nine months was ~US\$210 million, largely hedged around the range of 70.43 to 74.34/US\$. In addition, it has cash flow hedges of 900 million roubles at the rate of ₹ 1.0789/rouble, maturing over next three months
- R&D spend during the quarter was ₹ 395 crore; 9% of revenues

**Exhibit 4: Trends in quarterly financials**

₹ Crore	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	YoY (%)	QoQ (%)
Total Operating Income	3723.2	3611.9	3333.2	3559.8	3834.1	3553.9	3736.5	3817.5	3864.6	4029.6	3858.2	4812.8	4397.1	13.8	-8.6
Raw Material Expense	815.9	1005.2	959.2	1036.9	1036.7	1006.7	1004.9	1051.7	1175.8	1262.4	1206.9	1401.1	1415.3	20.4	1.0
% of Revenues	21.9	27.8	28.8	29.1	27.0	28.3	26.9	27.5	30.4	31.3	31.3	29.1	32.2	176 bps	308 bps
Gross Profit	2907.3	2606.7	2374.0	2522.9	2797.4	2547.2	2731.6	2765.8	2688.8	2767.2	2651.3	3411.7	2981.8	10.9	-12.6
Gross Profit Margins (%)	78.1	72.2	71.2	70.9	73.0	71.7	73.1	72.5	69.6	68.7	68.7	70.9	67.8	-176 bps	-308 bps
Employee expenses	814.6	671.1	807.3	789.0	818.1	800.5	837.1	872.2	805.4	841.5	861.5	825.5	837.7	4.0	1.5
% of Revenues	21.9	18.6	24.2	22.2	21.3	22.5	22.4	22.8	20.8	20.9	22.3	17.2	19.1	-179 bps	190 bps
Other expenses	1228.2	1345.1	1243.5	1064.5	1186.6	1183.1	1125.7	1134.3	1078.8	1106.8	1048.1	1522.4	2432.8	125.5	59.8
% of Revenues	33.0	37.2	37.3	29.9	30.9	33.3	30.1	29.7	27.9	27.5	27.2	31.6	55.3	2741 bps	2370 bps
Total Expenditure	2858.7	3021.4	3010.0	2890.4	3041.4	2990.3	2967.7	3058.2	3060.0	3210.7	3116.5	3749.0	4685.8	53.1	25.0
% of Revenues	76.8	83.7	90.3	81.2	79.3	84.1	79.4	80.1	79.2	79.7	80.8	77.9	106.6	2739 bps	2867 bps
EBITDA	864.5	590.5	323.2	669.4	792.7	563.6	768.8	759.3	804.6	818.9	741.7	1063.8	-288.7	-135.9	-127.1
EBITDA Margins (%)	23.2	16.3	9.7	18.8	20.7	15.9	20.6	19.9	20.8	20.3	19.2	22.1	-6.6	-2739 bps	-2867 bps
Total Depreciation	266.5	254.3	259.2	270.2	271.5	276.3	278.7	278.6	290.3	287.2	289.0	313.1	286.9	-1.2	-8.4
EBITDA	598.0	336.2	64.0	399.2	521.2	287.3	490.1	480.7	514.3	531.7	452.7	750.7	-575.6	-211.9	-176.7
Interest	16.4	19.6	21.5	22.3	17.2	17.8	19.5	20.8	24.1	24.5	29.8	30.3	15.2	-36.9	-49.8
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	581.6	316.6	42.5	376.9	504.0	269.5	470.6	459.9	490.2	507.2	422.9	720.4	-590.8	-220.5	-182.0
Total Tax	138.5	9.7	23.7	112.3	252.8	49.2	53.2	80.7	101.1	150.8	192.8	-320.7	32.5	-67.9	-110.1
Tax %	23.8	3.1	55.8	29.8	50.2	18.3	11.3	17.5	20.6	29.7	45.6	-44.5	-5.5		
Net Profit	443.1	306.9	18.8	264.6	251.2	220.3	417.4	379.2	389.1	356.4	230.1	1041.1	-623.3	-260.2	-159.9
Adjusted PAT	492.3	337.6	66.6	305.4	302.7	272.1	476.1	518.3	500.3	455.4	676.5	1106.8	-538.4	-207.6	-148.6

Source: ICICI Direct Research

## Company Background

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.

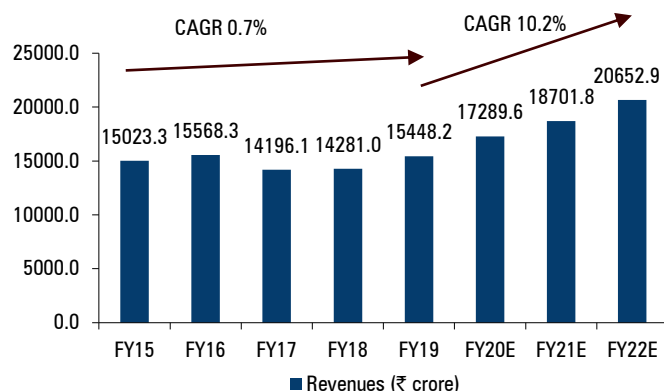
DRL is one of the few Indian companies to foray into new drug discovery & development (NDDS) and new chemical entity (NCE) research. The company started research operations in 1992 through a non profit organisation, Dr Reddy's Research Foundation, which was later merged into the company. Despite being 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 ~10% of the turnover on R&D in FY19 and is likely to be at ~9% going ahead. Besides ANDAs, it has also filed three new drug applications (NDAs) in the 505(b)(2) route that are awaiting approval.

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

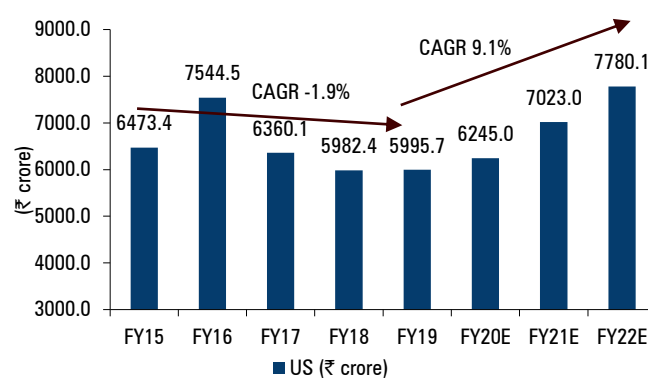
The company entered into a license agreement with XenoPort for exclusive US rights for XP23829 on milestone and double digit royalty basis. DRL plans to develop XP23829 as a potential treatment for moderate-to-severe chronic plaque psoriasis and may potentially develop XP23829 for relapsing forms of 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.

**Exhibit 5: Revenues to grow at CAGR of 10% over FY19-22E**



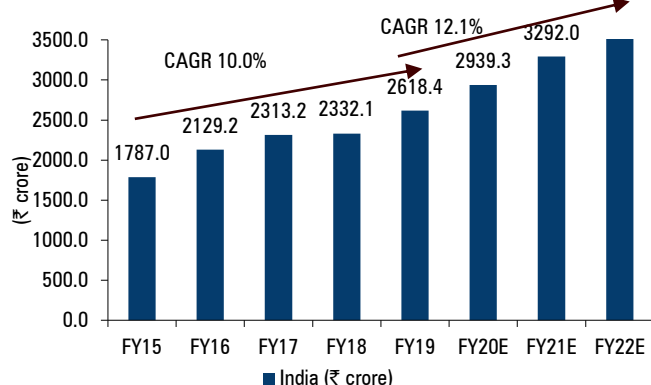
Source: ICICI Direct Research, Company

**Exhibit 6: US to grow at CAGR of 9% over FY19-22E**



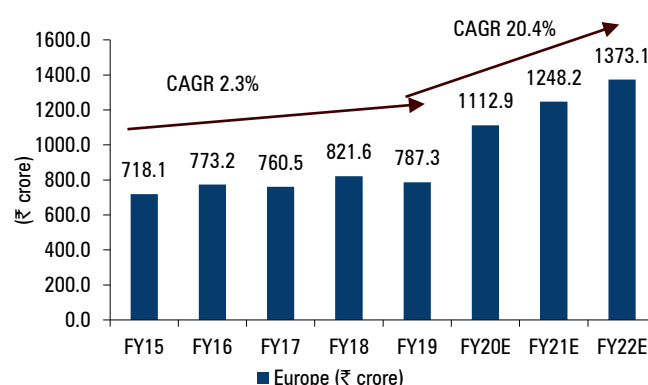
Source: ICICI Direct Research, Company

**Exhibit 7: India to grow at CAGR of 12% over FY19-22E**



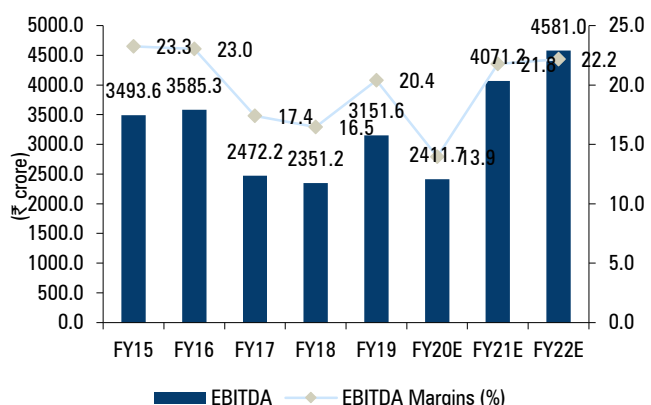
Source: ICICI Direct Research, Company

**Exhibit 8: Europe to grow at 20% CAGR over FY19-22E**



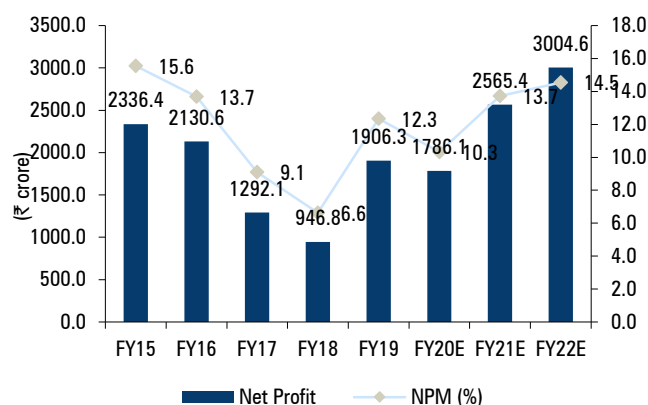
Source: ICICI Direct Research, Company

**Exhibit 9: EBITDA & EBITDA margins trend**



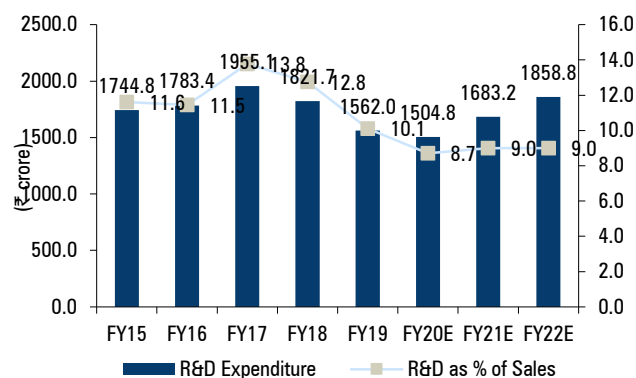
Source: ICICI Direct Research, Company

**Exhibit 10: PAT & PAT margins trend**



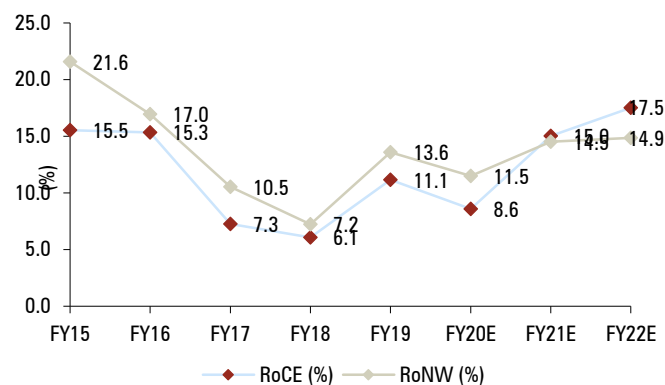
Source: ICICI Direct Research, Company

**Exhibit 11: R&D and R&D as percentage of sales**



Source: ICICI Direct Research, Company

**Exhibit 12: RoE & RoCE trend**



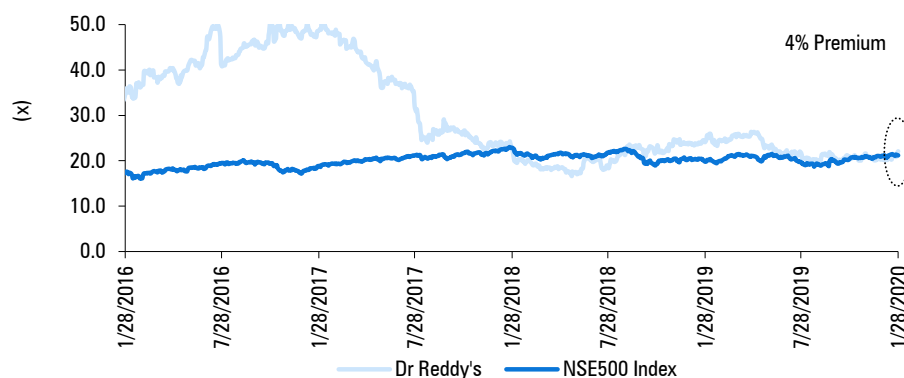
Source: ICICI Direct Research, Company

**Exhibit 13: Revenue break-up**

(₹ crore)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	CAGR	CAGR
									FY15-19 %	FY19-22E %
US	6473.4	7544.5	6360.1	5982.4	5995.7	6245.0	7023.0	7780.1	-1.9	9.1
Europe	718.1	773.2	760.5	821.6	787.3	1112.9	1248.2	1373.1	2.3	20.4
India	1787.0	2129.2	2313.2	2332.1	2618.4	2939.3	3292.0	3687.0	10.0	12.1
Russia & Other CIS	1771.4	1419.1	1520.0	1650.0	2050.0	2322.0	2600.6	2912.7	3.7	12.4
RoW	1305.7	940.2	587.1	614.7	838.9	961.4	1105.6	1271.4	-10.5	14.9
PSAI	2545.7	2238.0	2127.7	2199.2	2414.0	2565.5	2943.4	3090.6	-1.3	8.6

Source: ICICI Direct Research, Company

**Exhibit 14: One year forward PE of company vs. NSE500 Index**

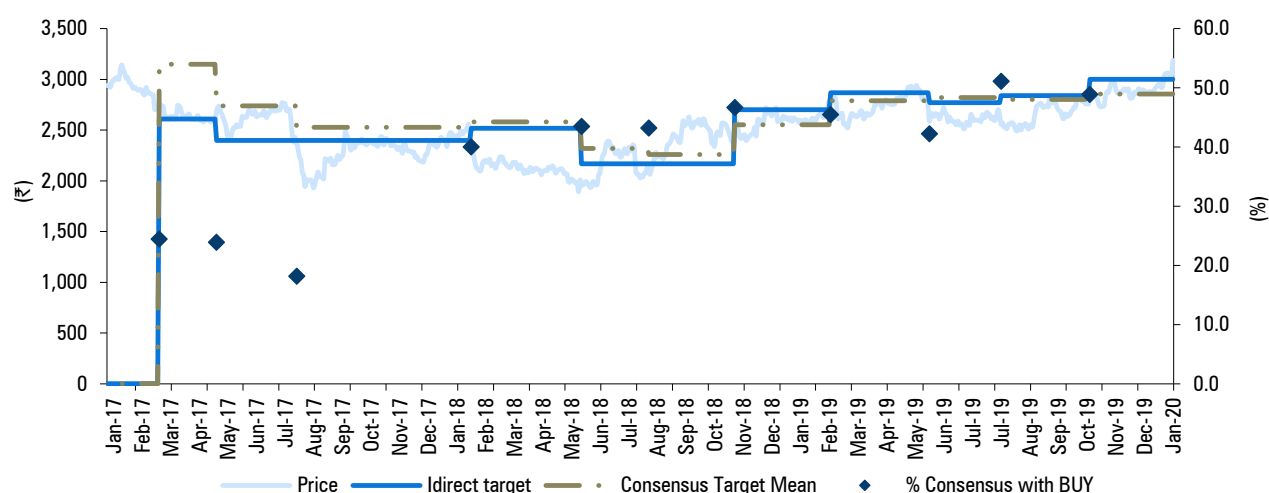


Source: ICICI Direct Research, Bloomberg

**Exhibit 15: Financial Summary**

	Revenues	Growth	Adj. EPS	Growth	P/E	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY19	15448.2	8.2	114.8	101.3	27.8	17.1	13.6	11.1
FY20E	17289.6	11.9	107.5	-6.3	29.7	21.9	11.5	8.6
FY21E	18701.8	8.2	154.4	43.6	20.6	12.4	14.5	15.0
FY22E	20652.9	10.4	180.9	17.1	17.6	10.5	14.9	17.5

Source: ICICI Direct Research, Company

**Exhibit 16: Recommendation history vs. Consensus**


Source: ICICI Direct Research, Bloomberg

**Exhibit 17: Top 10 Shareholders**

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Dr Reddy'S Holdings Ltd	30-Jun-19	24.9	41.33m	0.0m
2	First State Investments	30-Jun-19	6.1	10.16m	(0.1)m
3	Blackrock Inc	30-Nov-19	4.8	8.04m	(3.1)m
4	Life Insurance Corp Of India	30-Jun-19	3.9	6.49m	0.0m
5	Oppenheimer Holdings Inc	23-Apr-18	2.9	4.89m	0.0m
6	Franklin Resources Inc	17-Jan-20	2.7	4.55m	0.3m
7	Aditya Birla Sun Life Trustee	30-Jun-19	1.5	2.40m	(1.0)m
8	ICICI Prudential Life Insurance	30-Jun-19	1.3	2.17m	2.2m
9	Vanguard Group	31-Dec-19	1.3	2.15m	(0.0)m
10	SBI Funds Management Pvt Ltd	31-Dec-19	1.3	2.14m	0.0m

Source: ICICI Direct Research, Bloomberg

**Exhibit 18: Shareholding Pattern**

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	26.8	26.8	26.8	26.8	26.8
Others	73.2	73.2	73.2	73.2	73.2

Source: ICICI Direct Research, Company



## Financial Summary

**Exhibit 19: Profit & Loss (₹ crore)**

(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Revenues</b>	<b>15,448.2</b>	<b>17,289.6</b>	<b>18,701.8</b>	<b>20,652.9</b>
Growth (%)	8.2	11.9	8.2	10.4
Raw Material Expenses	4,494.8	5,382.1	6,019.6	6,608.9
Employee expenses	3,356.2	3,403.4	3,655.0	3,990.0
Other expenses	4,445.6	6,092.4	4,956.0	5,473.0
Total Operating Expenditure	12,296.6	14,877.9	14,630.5	16,071.9
<b>EBITDA</b>	<b>3,151.6</b>	<b>2,411.7</b>	<b>4,071.2</b>	<b>4,581.0</b>
Growth (%)	34.0	-23.5	68.8	12.5
Interest	88.9	105.6	62.1	18.6
Depreciation	1,134.8	1,175.9	1,228.4	1,309.1
PBT before Exceptional Item	2,248.3	1,746.4	3,061.3	3,600.3
Share of profit/ (loss) of equ	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>2,248.3</b>	<b>1,746.4</b>	<b>3,061.3</b>	<b>3,600.3</b>
Total Tax	385.8	23.5	566.3	666.0
PAT	1,906.3	1,786.1	2,565.4	3,004.6
<b>Adjusted PAT</b>	<b>1,906.3</b>	<b>1,786.1</b>	<b>2,565.4</b>	<b>3,004.6</b>
Growth (%)	101.3	-6.3	43.6	17.1
EPS	114.8	107.5	154.4	180.9
<b>EPS (Adjusted)</b>	<b>114.8</b>	<b>107.5</b>	<b>154.4</b>	<b>180.9</b>

Source: ICICI Direct Research

**Exhibit 20: Cash Flow Statement (₹ crore)**

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/(Loss) after taxation	1,807.9	1,786.1	2,565.4	3,004.6
Add: Depreciation & Amortizat	1,134.8	1,175.9	1,228.4	1,309.1
Net Increase in Current Asset:	-669.9	-927.1	-725.1	-983.5
Net Increase in Current Liabilit	92.8	-227.3	220.3	257.2
<b>CF from operating activities</b>	<b>2,870.4</b>	<b>1,913.2</b>	<b>3,351.0</b>	<b>3,606.0</b>
(Inc)/dec in Fixed Assets	-622.6	-600.0	-600.0	-600.0
(Inc)/dec in Investments	-228.2	-500.0	-500.0	-1,000.0
Others	72.0	-22.1	-23.0	-23.9
<b>CF from investing activities</b>	<b>-778.8</b>	<b>-1,122.1</b>	<b>-1,123.0</b>	<b>-1,623.9</b>
Inc / (Dec) in Equity Capital	-53.5	0.0	0.0	0.0
Inc / (Dec) in Loan	-1,518.2	-500.0	-1,200.0	-1,200.0
Dividend & Dividend Tax	-400.2	-285.3	-409.7	-479.9
Others	-160.7	-105.6	-62.1	-18.6
<b>CF from financing activities</b>	<b>-2,132.6</b>	<b>-890.9</b>	<b>-1,671.8</b>	<b>-1,698.4</b>
Net Cash flow	-41.0	-99.7	556.2	283.7
Opening Cash	263.8	222.8	123.1	679.3
<b>Closing Cash</b>	<b>222.8</b>	<b>123.1</b>	<b>679.3</b>	<b>963.0</b>
<b>Free Cash Flow</b>	<b>2,247.8</b>	<b>1,313.2</b>	<b>2,751.0</b>	<b>3,006.0</b>

Source: ICICI Direct Research

**Exhibit 21: Balance Sheet (₹ crore)**

(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	83.0	83.0	83.0	83.0
Net Networth	13,940.6	15,441.5	17,597.1	20,121.8
Total Shareholders funds	14,023.6	15,524.5	17,680.1	20,204.8
Total Debt	3,412.5	2,912.5	1,712.5	512.5
Deferred Tax Liability	47.3	49.2	51.2	53.2
Other Non Current Liabilities	218.1	226.8	235.9	245.3
Long term Provisions	79.3	82.5	85.8	89.2
<b>Source of Funds</b>	<b>17,780.8</b>	<b>18,795.4</b>	<b>19,765.4</b>	<b>21,105.1</b>
Gross Block - Fixed Assets	14,532.7	15,632.7	16,732.7	17,832.7
Accumulated Depreciation	7,807.6	8,983.5	10,211.9	11,521.0
Net Block	6,725.1	6,649.2	6,520.8	6,311.7
Capital WIP	2,933.5	2,433.5	1,933.5	1,433.5
Net Fixed Assets	9,658.6	9,082.7	8,454.3	7,745.2
Goodwill	465.9	465.9	465.9	465.9
Investments	2,587.1	3,087.1	3,587.1	4,587.1
Inventory	3,357.9	3,758.1	4,065.1	4,489.2
Cash	222.8	123.1	679.3	963.0
Debtors	3,986.9	4,462.1	4,826.6	5,330.1
Loans & Advances & Other	1,289.6	1,341.2	1,394.8	1,450.6
Total Current Assets	8,857.2	9,684.5	10,965.8	12,233.0
Creditors	1,367.1	1,007.1	1,089.3	1,203.0
Provisions & Other CL	3,317.7	3,450.4	3,588.4	3,732.0
Total Current Liabilities	4,684.8	4,457.5	4,677.7	4,934.9
Net Current Assets	4,172.4	5,227.1	6,288.1	7,298.1
LT L& A, Other Assets	465.1	483.7	503.1	523.2
Deferred Tax Assets	431.7	449.0	466.9	485.6
<b>Application of Funds</b>	<b>17,780.8</b>	<b>18,795.4</b>	<b>19,765.4</b>	<b>21,105.1</b>

Source: ICICI Direct Research

**Exhibit 22: Key Ratios (₹ crore)**

(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	114.8	107.5	154.4	180.9
BP per share	844.2	934.6	1,064.4	1,216.4
<b>Operating Ratios (%)</b>				
Gross Profit Margins	70.9	68.9	67.8	68.0
EBITDA margins	20.4	13.9	21.8	22.2
Net Profit margins	12.3	10.3	13.7	14.5
Inventory days	79.3	79.3	79.3	79.3
Debtor days	94.2	94.2	94.2	94.2
Creditor days	32.3	21.3	21.3	21.3
Asset Turnover	1.1	1.1	1.1	1.2
EBITDA conversion Rate	91.1	79.3	82.3	78.7
<b>Return Ratios (%)</b>				
RoE	13.6	11.5	14.5	14.9
RoCE	11.1	8.6	15.0	17.5
RoIC	18.8	10.4	23.3	25.7
<b>Valuation Ratios (x)</b>				
P/E	27.8	29.7	20.6	17.6
EV / EBITDA	17.1	21.9	12.4	10.5
EV / Revenues	3.5	3.1	2.7	2.3
Market Cap / Revenues	3.4	3.1	2.8	2.6
Price to Book Value	3.8	3.4	3.0	2.6
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.2	0.1	0.0
Debt / EBITDA	1.1	1.2	0.4	0.1
Current Ratio	1.8	2.1	2.2	2.3

Source: ICICI Direct Research



**Exhibit 23: ICICI Direct Coverage Universe (Healthcare)**
**(₹ crore)**

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
Ajanta Pharr	AJAPHA	1176	1,180	Buy	10263	43.5	43.5	52.3	64.4	27.0	27.0	22.5	18.3	21.8	21.8	20.8	21.9	17.1	17.1	16.0	17.2
Alembic Pha	ALEMPHA	615	620	Hold	11586	31.4	31.4	26.6	31.0	19.5	19.5	23.1	19.8	19.6	19.6	13.4	14.9	21.8	21.8	13.3	13.8
Apollo Hospi	APOHOS	1696	1,800	Buy	23596	17.0	17.0	43.7	68.1	100.0	100.0	38.8	24.9	8.8	8.8	14.8	17.5	7.1	7.1	14.9	19.6
Aurobindo Pl	AURPHA	511	475	Hold	29941	42.1	42.1	55.4	59.5	12.1	12.1	9.2	8.6	15.9	15.9	15.7	16.1	17.7	17.7	16.7	15.4
Biocon	BIOCON	290	310	Hold	34812	6.2	6.2	10.3	15.7	46.7	46.7	28.1	18.5	10.9	10.9	15.1	19.4	12.2	12.2	14.7	18.6
Cadila Healtl	CADHEA	273	260	Hold	27984	18.1	18.1	16.6	18.7	15.1	15.1	16.5	14.6	13.0	13.0	11.7	12.4	17.8	17.8	13.5	13.6
Cipla	CIPLA	464	520	Hold	37445	18.6	18.6	25.3	30.0	25.0	25.0	18.4	15.5	10.9	10.9	13.6	14.8	10.0	10.0	11.2	11.9
Divi's Lab	DIVLAB	1918	1,850	Hold	50926	51.0	51.0	59.1	71.2	37.6	37.6	32.5	26.9	25.5	25.5	22.1	22.8	19.4	19.4	17.0	17.6
Dr Reddy's L	DRREDD	3189	3,255	Hold	52968	114.8	114.8	154.4	180.9	27.8	27.8	20.6	17.6	11.1	11.1	15.0	17.5	13.6	13.6	14.5	14.9
Glenmark Ph	GLEPHA	356	410	Hold	10049	26.9	26.9	36.7	46.1	13.2	13.2	9.7	7.7	15.3	15.3	15.0	17.0	13.5	13.5	14.0	15.1
Hikal	HIKCHE	130	140	Buy	1255	6.3	8.4	9.7	11.7	20.8	15.6	13.4	11.2	12.2	14.3	13.0	14.2	11.5	13.6	14.2	14.8
Ipca Laborat	IPCLAB	1232	1,355	Buy	15562	35.1	35.1	60.7	75.3	35.1	35.1	20.3	16.4	15.0	15.0	19.9	21.2	14.2	14.2	18.0	18.9
Indoco reme	INDREM	226	240	Hold	2082	-0.3	3.0	8.4	15.1	-718.0	76.5	26.9	14.9	1.0	4.6	9.3	15.3	-0.4	4.0	10.1	15.4
Lupin	LUPIN	758	810	Hold	34330	16.5	16.5	35.0	37.1	45.8	45.8	21.7	20.4	9.4	9.4	9.9	12.1	5.4	5.4	8.4	8.3
Narayana Hr	NARHRU	354	360	Buy	7244	2.9	2.9	9.8	13.3	122.1	122.1	36.3	26.6	7.7	7.7	13.9	16.5	5.5	5.5	14.5	16.7
Natco Pharm	NATPHA	655	595	Hold	11905	34.9	34.9	23.7	22.0	18.7	18.7	27.6	29.7	21.3	21.3	12.2	10.5	18.5	18.5	10.0	8.6
Sun Pharma	SUNPHA	448	470	Hold	107584	15.9	15.9	20.2	24.7	28.3	28.3	22.2	18.1	10.3	10.3	11.3	12.5	9.2	9.2	9.9	11.3
Syngene Int.	SYNINT	311	360	Buy	12428	8.3	8.3	9.6	12.0	37.0	37.0	31.7	25.6	14.8	14.8	13.1	15.1	16.8	16.8	14.1	14.9
Torrent Phar	TORPHA	2027	2,020	Hold	34304	48.9	48.9	71.5	91.8	41.4	41.4	28.4	22.1	14.2	14.2	18.4	21.2	17.5	17.5	19.1	20.7

Source: ICICI Direct Research, Bloomberg

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