

May 21, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	4,326		4,030	
Sales (Rs. m)	1,79,800	1,98,324	1,79,800	1,98,324
% Chng.	-	-	-	-
EBITDA (Rs. m)	42,253	48,589	38,747	46,606
% Chng.	9.0	4.3	-	-
EPS (Rs.)	153.5	180.2	136.6	167.9
% Chng.	12.3	7.3	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	154	175	180	198
EBITDA (Rs. bn)	32	41	42	49
Margin (%)	20.6	23.7	23.5	24.5
PAT (Rs. bn)	20	20	26	30
EPS (Rs.)	117.5	121.9	153.5	180.2
Gr. (%)	106.0	3.8	25.9	17.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	14.7	13.7	15.2	15.4
RoCE (%)	11.7	7.5	15.4	16.3
EV/Sales (x)	4.3	3.7	3.5	3.1
EV/EBITDA (x)	20.7	15.5	14.7	12.5
PE (x)	33.3	32.1	25.5	21.7
P/BV (x)	4.6	4.2	3.6	3.1

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.4,132 / Rs.2,351
Sensex / Nifty	30,819 / 9,067
Market Cap	Rs.651bn/ \$ 8,583m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.8615.51m

Shareholding Pattern (%)

Promoter's	26.75
Foreign	30.15
Domestic Institution	14.59
Public & Others	28.51
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	37.9	51.2
Relative	4.6	81.9	93.1

Surajit Pal

surajitpal@plindia.com | 91-22-66322259

Tausif Shaikh

tausifshaikh@plindia.com | 91-22-66322246

Beats estimate on all counts due to US-Gx, EU

Quick Pointers:

- US-Gx growth net-offs muted performance in other regions.
- EBITDA margin at 21% even in tough environment.
- Regulatory overhang fades away after Srikakulam (API Unit) EIR

We continue to believe that DRRD is one of the best play in large-cap pharma space a) due to its control on overhead expenses, b) focus on domestic business, c) injectable pipeline for US and EU, d) net cash on books and e) resolution for all major FDA issues. Over FY21-22E, DRRD will likely see change in business mix with high margin domestic formulation (17% of revenue FY20) contributing more to the revenue. DRRD had already recognized (even earlier than its peers) about challenging environment in the US market and accordingly reduced capital allocation.

In Q4FY20, US-Gx growth was mainly due to stock up which helped to net-off muted performance of other regions. This trend seems unlikely in future as US-Gx has already normalized as per management guidance. We expect normalized growth in India formulations however EU and EMs to be major growth drivers to refill the lower growth in US-Gx and Russia for 1HFY21E. We change our earnings estimate marginally and continue to assign 24x PE on FY22E and arrive at new TP Rs4326(Rs4030). We maintain 'Accumulate' rating.

Strong performance due to US generics: DRRD beat our estimates with favorable forex, COVID-led high stockings in US and new growth in EU (driven by launch of injectables). Revenue grew 10% YoY and 16% QoQ to Rs 44.4b (PLe 39.3b), while EBITDA grew 16% YoY to 20% QoQ to Rs 9.4b (PLe Rs7.61b). EBITDA margin was 21.4% (PLe 19.3%) v/s 20.3% YoY and 20.7% QoQ. DRRD was able to report 20%+ margin even in the tough COVID environment.

Conference Call and other key highlights:

- Domestic formulations:** India formulation grew by 5% YoY while at QoQ it declined by 10%. Muted performance during the quarter was on account of deferment of sales and logistic issue was due to COVID led lockdown across India. As per IPM, DRRD has outperformed the industry since last few months with growth of more than 20% in top-10 brands. However, this pace slowed down in April CY-20. Wockhardt deal is likely to have closure in Q1FY21E, while integration to be completed in Q2FY21E. We believe domestic growth would be muted in Q1FY21E and growth trajectory to be back on track by Q2FY21E.
- North America:** Revenue grew 10% QoQ and 17% YoY to US\$250m. It launched 5 products during the quarter. The growth was led by stocking up in Mar due to COVID, new launches and market share gain amongst a few products. DRRD Rx share in gSuboxone increased to 20% (from 15%) after

the exit of AG (Sandoz) in Q4FY20. Management believes that Rx to grow further as branded sales still have 40% Rx share which implies further opportunity of genericisation in near term. Key triggers for US market would be launch of gNuvaring, gCopaxone in FY21E, new business opportunities (NBO) and re-launch of selected older molecules (discontinued earlier). DRRD would reply to FD's further query on its filings on Nuvaring and Copaxone in Q1FY21E. Management plans to launch 25-30 products in FY21E with focus on key injectables.

- **Europe:** Revenue grew 80% YoY and 11% QoQ led by entry in new European countries (France, Spain and Italy). DRRD plans to launch more products, especially injectables in Europe markets which are part of US product line.
- **Emerging Markets:** Revenue for EM grew 15% YoY while declined 13% QoQ. Russia, ROW, CIS and Romania declined by 20%, 5% and 2% QoQ. EM's performance could only be a concern for DRRD in FY21E due to de-valuation of currency and lower volumes.
- **Regulatory Issues:** Five-year overhang of regulatory issues finally ended in Q4FY20 post EIR for Srikakulam (API Unit)
- Guided CAPEX of Rs10b for FY21E with key focus on products (especially injectables and Biosimilar) which could be marketable across geographies.

Exhibit 1: Q4FY20 Result Overview (Rs m)- US-Gx growth net-offs muted performance in other regions

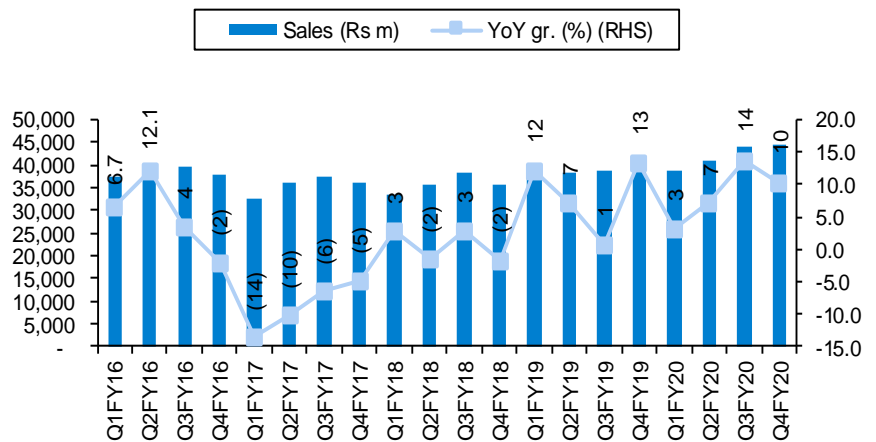
Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	44,489	40,296	10.4	38,341	1,75,170	1,54,482	13.4
Raw Material	15,311	12,624	21.3	10,367	55,544	44,948	23.6
<i>% of Net Sales</i>	<i>34.4</i>	<i>31.3</i>		<i>27.0</i>	<i>31.7</i>	<i>29.1</i>	
Personnel Cost	8,555	8,415	1.7	8,181	33,802	33,562	0.7
<i>% of Net Sales</i>	<i>19.2</i>	<i>20.9</i>		<i>21.3</i>	<i>19.3</i>	<i>21.7</i>	
Others	11,124	11,068	0.5	11,866	44,353	44,190	0.4
<i>% of Net Sales</i>	<i>25.0</i>	<i>27.5</i>		<i>30.9</i>	<i>25.3</i>	<i>28.6</i>	
Total Expenditure	34,990	32,107	9.0	30,414	1,33,699	1,22,700	9.0
EBITDA	9,499	8,189	16.0	7,927	41,471	31,782	30.5
<i>Margin (%)</i>	<i>21.4</i>	<i>20.3</i>		<i>20.7</i>	<i>23.7</i>	<i>20.6</i>	
Depreciation	2,748	2,872	(4.3)	2,715	11,631	11,348	2.5
EBIT	6,751	5,317	27.0	5,212	29,840	20,434	46.0
Other Income	736	833	(11.6)	430	6,206	3,375	83.9
Interest	230	245	(6.1)	172	983	889	
PBT	7,257	5,905	22.9	5,470	35,063	22,920	53.0
Share of Profit of Equity Accounted Investees	105	157		85	(16,206)	438	
Total Taxes	(449)	1,508	(129.8)	2,528	(1,403)	3,858	(136.4)
<i>ETR (%)</i>	<i>(6.2)</i>	<i>25.5</i>		<i>46.2</i>	<i>(4.0)</i>	<i>16.8</i>	
Reported PAT	7,811	4,554	71.5	3,027	20,260	19,500	3.9

Source: Company, PL

Exhibit 2: Major Sources of Revenue

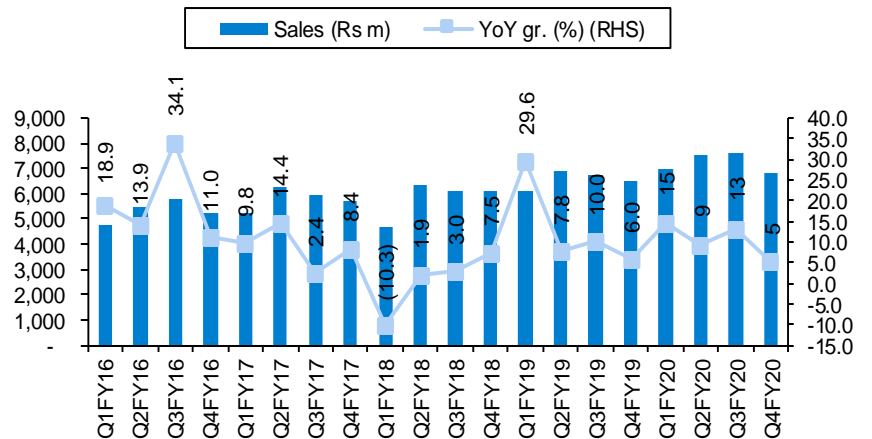
Major Sources of Revenues	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
PSAI (CPS & API)	7,195	6,765	6.4	7,107	25,747	24,140	6.7
<i>% of Net Sales</i>	16.2	16.8		14.8	14.7	15.7	
Branded Formulation	36,399	30,384	19.8	32,816	1,38,123	1,22,903	12.4
India	6,839	6,505	5.1	7,511	28,946	26,179	10.6
<i>% of Net Sales</i>	15.4	16.2		15.6	16.6	17.0	
International	29,560	23,879	23.8	25,305	1,09,177	96,724	12.9
<i>% of Net Sales</i>	66.7	59.5		52.7	62.5	62.9	
Russia & CIS	5,700	4,720	20.8	5,800	23,424	20,500	14.3
<i>% of Net Sales</i>	12.9	11.8		12.1	13.4	13.3	
Europe	3,446	1,912	80.2	2,764	11,707	7,873	48.7
<i>% of Net Sales</i>	7.8	4.8		5.8	6.7	5.1	
North America Generics	18,072	14,957	20.8	14,265	64,659	59,957	7.8
<i>% of Net Sales</i>	40.8	37.2		29.7	37.0	39.0	
Emerging Mkt Generics	2,342	2,290	2.3	2,476	9,387	8,394	11.8
<i>% of Net Sales</i>	5.3	5.7		5.2	5.4	5.5	
Innovative Prod. (Proprietary Prod.)	725	3,017	(76.0)	8,086	10,730	6,808	57.6
<i>% of Net Sales</i>	1.6	7.5		16.8	6.1	4.4	
Net Sales	44,319	40,166	10.3	48,009	1,74,600	1,53,851	13.5

Exhibit 3: Revenue (Rs m) & Growth YoY (%)



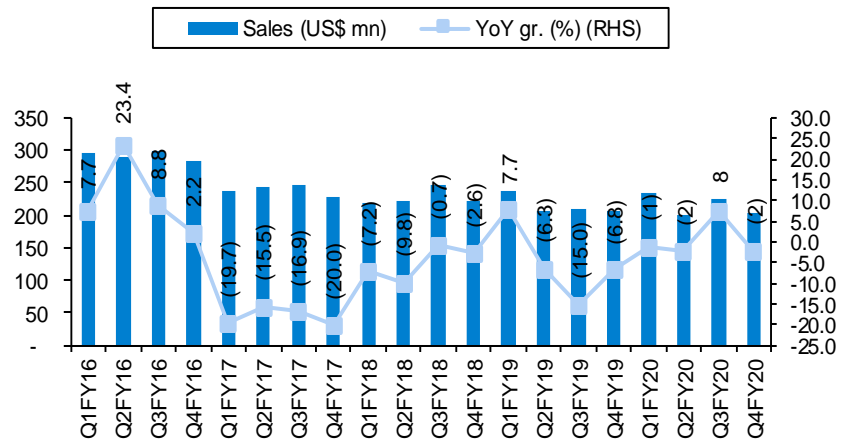
Source: Company, PL

Exhibit 4: India Formulation (Rs m) & Growth YoY (%)



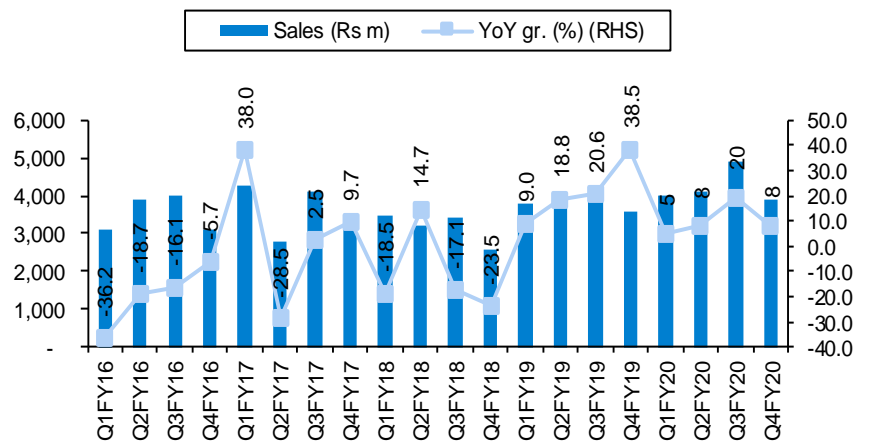
Source: Company, PL

Exhibit 5: US Generic (US\$m) and Growth YoY (%)



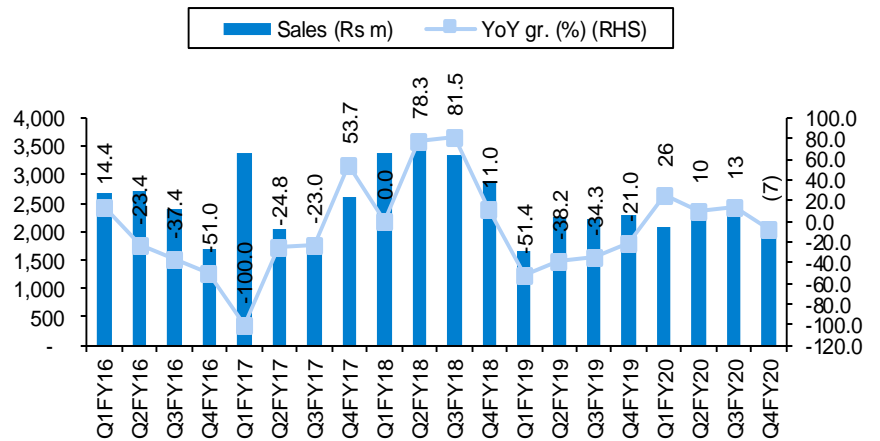
Source: Company, PL

Exhibit 6: Revenue Russia & CIS (Rs m) and Growth YoY (%)



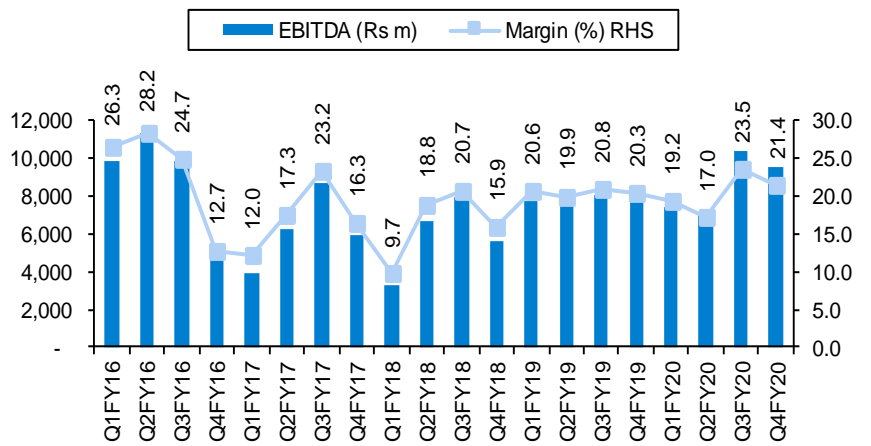
Source: Company, PL

Exhibit 7: Emerging Markets (Rs m) & Growth YoY (%)



Source: Company, PL

Exhibit 8: EBITDA (Rs m) & EBITDA Margin (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,54,482	1,75,170	1,79,800	1,98,324
YoY gr. (%)	8.2	13.4	2.6	10.3
Cost of Goods Sold	44,948	55,544	56,637	62,472
Gross Profit	1,09,534	1,19,626	1,23,163	1,35,852
Margin (%)	70.9	68.3	68.5	68.5
Employee Cost	33,562	33,802	32,364	34,707
Other Expenses	15,607	15,410	16,182	16,858
EBITDA	31,782	41,471	42,253	48,589
YoY gr. (%)	35.2	30.5	1.9	15.0
Margin (%)	20.6	23.7	23.5	24.5
Depreciation and Amortization	11,348	28,398	13,928	15,056
EBIT	20,434	13,073	28,325	33,534
Margin (%)	13.2	7.5	15.8	16.9
Net Interest	889	983	820	800
Other Income	3,375	6,206	3,611	3,864
Profit Before Tax	22,920	18,296	31,116	36,598
Margin (%)	14.8	10.4	17.3	18.5
Total Tax	3,858	(1,403)	6,223	7,320
Effective tax rate (%)	16.8	(7.7)	20.0	20.0
Profit after tax	19,062	19,699	24,893	29,278
Minority interest	(438)	(561)	(617)	(679)
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,500	20,260	25,510	29,957
YoY gr. (%)	106.0	3.9	25.9	17.4
Margin (%)	12.6	11.6	14.2	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,500	20,260	25,510	29,957
YoY gr. (%)	106.0	3.9	25.9	17.4
Margin (%)	12.6	11.6	14.2	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,500	20,260	25,510	29,957
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	117.5	121.9	153.5	180.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	1,51,134	1,75,871	1,98,009	2,21,313
Tangibles	1,10,028	1,20,311	1,39,162	1,59,345
Intangibles	41,106	55,560	58,846	61,969
Acc: Dep / Amortization	83,883	1,12,281	1,26,209	1,41,265
Tangibles	60,901	72,532	82,383	93,566
Intangibles	22,982	39,749	43,826	47,699
Net fixed assets	67,251	63,590	71,799	80,048
Tangibles	49,127	47,779	56,779	65,779
Intangibles	18,124	15,811	15,020	14,269
Capital Work In Progress	29,335	15,351	11,513	8,635
Goodwill	4,659	4,913	4,176	3,550
Non-Current Investments	4,186	5,621	3,389	3,514
Net Deferred tax assets	3,844	12,179	11,936	11,698
Other Non-Current Assets	3,807	4,588	4,359	4,141
Current Assets				
Investments	22,529	23,687	27,240	31,326
Inventories	33,579	35,067	36,865	38,848
Trade receivables	39,869	50,278	44,916	49,737
Cash & Bank Balance	2,228	2,053	14,759	21,906
Other Current Assets	10,424	10,424	10,945	11,492
Total Assets	2,24,656	2,32,253	2,46,847	2,70,337
Equity				
Equity Share Capital	830	831	831	831
Other Equity	1,39,406	1,55,157	1,79,005	2,07,300
Total Network	1,40,236	1,55,988	1,79,836	2,08,131
Non-Current Liabilities				
Long Term borrowings	22,000	1,304	978	734
Provisions	793	745	842	842
Other non current liabilities	2,079	2,055	1,541	1,156
Current Liabilities				
ST Debt / Current of LT Debt	12,125	16,532	12,399	9,299
Trade payables	13,671	15,248	15,209	16,776
Other current liabilities	33,177	40,361	35,771	33,104
Total Equity & Liabilities	2,24,656	2,32,253	2,46,847	2,70,337

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	23,358	18,857	31,733	37,277
Add. Depreciation	11,348	28,398	13,928	15,056
Add. Interest	(213)	(213)	(213)	(213)
Less Financial Other Income	3,375	6,206	3,611	3,864
Add. Other	1,930	(3,993)	(15,538)	128
Op. profit before WC changes	36,423	43,049	29,910	52,247
Net Changes-WC	2,493	(5,537)	(2,005)	(8,918)
Direct tax	(3,858)	1,403	(6,223)	(7,320)
Net cash from Op. activities	35,058	38,915	21,682	36,010
Capital expenditures	(8,880)	(10,753)	(18,300)	(20,426)
Interest / Dividend Income	3,375	6,206	3,611	3,864
Others	(2,463)	(673)	(3,619)	(4,165)
Net Cash from Inv. activities	(7,968)	(5,220)	(18,307)	(20,727)
Issue of share cap. / premium	-	-	-	-
Debt changes	(16,526)	(16,289)	(4,459)	(3,344)
Dividend paid	(3,992)	(3,992)	(3,992)	(3,992)
Interest paid	(889)	(983)	(820)	(800)
Others	-	-	-	-
Net cash from Fin. activities	(21,407)	(21,264)	(9,271)	(8,136)
Net change in cash	5,683	12,431	(5,896)	7,146
Free Cash Flow	26,178	28,162	3,382	15,583

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	38,582	40,899	43,971	44,489
YoY gr. (%)	3.3	7.1	13.8	10.4
Raw Material Expenses	12,069	14,011	14,153	15,311
Gross Profit	26,513	26,888	29,818	29,178
Margin (%)	68.7	65.7	67.8	65.6
EBITDA	7,417	6,969	10,313	9,499
YoY gr. (%)	(3.5)	(8.2)	28.2	16.0
Margin (%)	19.2	17.0	23.5	21.4
Depreciation / Depletion	2,890	3,131	2,869	2,748
EBIT	4,527	3,838	7,444	6,751
Margin (%)	11.7	9.4	16.9	15.2
Net Interest	298	303	152	230
Other Income	4,301	7,769	673	736
Profit before Tax	8,530	11,304	7,965	7,257
Margin (%)	22.1	27.6	18.1	16.3
Total Tax	1,928	(3,207)	325	(449)
Effective tax rate (%)	22.6	(28.4)	4.1	(6.2)
Profit after Tax	6,602	14,511	7,640	7,706
Minority interest	(163)	(117)	(176)	(105)
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,765	14,628	7,816	7,811
YoY gr. (%)	42.1	182.2	56.2	71.5
Margin (%)	17.5	35.8	17.8	17.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,765	14,628	7,816	7,811
YoY gr. (%)	42.1	182.2	56.2	71.5
Margin (%)	17.5	35.8	17.8	17.6
Other Comprehensive Income	5,535	-	454	1,263
Total Comprehensive Income	12,300	14,628	8,270	9,074
Avg. Shares O/s (m)	166	166	166	166
EPS (Rs)	40.8	88.1	47.1	47.1

Source: Company Data, PL Research

Key Financial Metrics

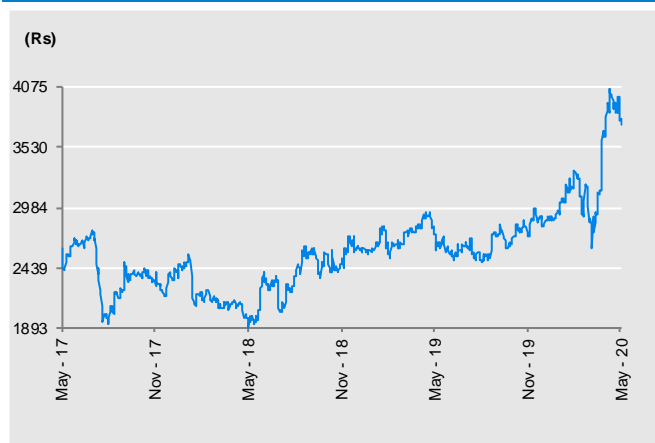
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	117.5	121.9	153.5	180.2
CEPS	185.8	292.8	237.3	270.8
BVPS	844.8	938.6	1,082.0	1,252.3
FCF	157.7	169.4	20.4	93.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	11.7	7.5	15.4	16.3
ROIC	10.2	6.3	13.8	15.4
RoE	14.7	13.7	15.2	15.4
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	141	146	135	132
Valuation(x)				
PER	33.3	32.1	25.5	21.7
P/B	4.6	4.2	3.6	3.1
P/CEPS	21.1	13.4	16.5	14.5
EV/EBITDA	20.7	15.5	14.7	12.5
EV/Sales	4.3	3.7	3.5	3.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
India Formulations	26,179	28,946	33,132	37,771
US formulations	59,957	64,659	68,612	73,415
Russia	20,500	23,424	25,434	29,182
PSAI	24,140	25,747	26,868	28,749

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	18-Apr-20	Accumulate	4,030	3,930
2	14-Apr-20	Accumulate	3,331	3,622
3	27-Jan-20	Accumulate	3,331	3,200
4	03-Jan-20	Accumulate	2,910	2,884
5	01-Nov-19	Accumulate	2,910	2,757
6	22-Oct-19	Accumulate	2,997	2,820
7	03-Oct-19	Accumulate	2,997	2,677
8	29-Jul-19	Accumulate	2,997	2,648
9	04-Jul-19	Hold	2,997	2,602

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Accumulate	702	644
2	Cadila Healthcare	Sell	263	324
3	Cipla	Reduce	542	570
4	Dr. Lal PathLabs	Sell	895	1,583
5	Dr. Reddy's Laboratories	Accumulate	4,030	3,930
6	Eris Lifesciences	BUY	547	486
7	Glenmark Pharmaceuticals	Sell	257	314
8	Indoco Remedies	Hold	259	236
9	Ipca Laboratories	Accumulate	1,728	1,619
10	Jubilant Life Sciences	Hold	363	345
11	Lupin	BUY	978	835
12	Sun Pharmaceutical Industries	Hold	436	457
13	Thyrocare Technologies	Hold	523	543

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



ANALYST CERTIFICATION

(Indian Clients)

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