

Revlimid settlement a significant US opportunity...

Dr Reddy's (DRL) has announced the settlement of its Revlimid capsules (Lenalidomide) patent litigation with Celgene [Bristol Myers Squibb (BMS)] in the US. This makes DRL the third player after Natco and Alvogen to sign a settlement agreement with the innovator for gRevlimid. Under the terms of the settlement, Celgene will provide DRL with a license to sell generic volume-limited amounts of gRevlimid capsules in the US after Natco's launch in March 2022 subject to regulatory approval. This limited volume constraint will be applicable till January 31, 2026 post which DRL will be able to sell the drug in the US without any volume limitations whatsoever. The oncology drug, indicated for treatment of multiple myeloma, had annual US sales of US\$9 billion in CY19 as per BMS report.

Exhibit 1: Key Revlimid event timeline

Date	Details
Dec-05	Celgene gets Revlimid approval from USFDA
Dec-15	Celgene settles Revlimid patent litigation with Natco
Mar-19	Celgene settles Revlimid patent litigation with Alvogen
Sep-20	Celgene settles Revlimid patent litigation with Dr Reddy's
Dec-20	USFDA target action date for Natco's gRevlimid filing
Mar-22	Likely launch of gRevlimid capsules by Natco
FY 23	Launch of gRevlimid post Natco's launch by Alvogen, Dr Reddy's
Mar'22-Jan'26	Volume-limited sales of gRevlimid by three players
Post Jan'26	Unlimited volume sales of gRevlimid

Source: ICICI Direct Research

Valuation & Outlook

The outcome of the company's gRevlimid litigation was one of the key monitorables for DRL due to the sheer opportunity size of the product. We believe this product is likely to remain a limited competition product. As per the agreement, DRL will be restricted to single digit market share in the first year. We expect this to grow to 12% share in the final year (January 2026). Due to uncertainty about the settlement timeline we had not modelled for this opportunity earlier. However, with launch certainty coming in and assuming DRL's gRevlimid launch in October 2022, we expect NPV of ₹ 510 for DRL. Also, we remain positive on the company, banking on the management's focus on simultaneous launches across geographies and segments besides realignment of R&D spend towards - Global Generics, Biosimilars and PSAI segment. Strong FCF generation, healthy balance sheet are some legacy strongholds for the company. We believe efforts taken in the last few quarters are sustainable and should support stable performances, going ahead. We maintain **BUY** and arrive at a target price of ₹ 5710, which includes base business value of ~₹ 5200 (26x FY22E EPS of ₹ 200) + ₹ 510 for NPV of gRevlimid.

Key Financial Summary

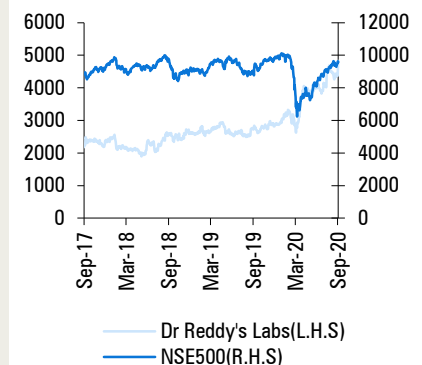
(₹ crore)	FY19	FY20	FY21E	FY22E	CAGR FY20-22E %
Revenues	15448.2	17517.0	19255.9	22204.5	12.6
EBITDA	3151.6	2466.0	4516.7	5378.6	47.7
EBITDA Margins (%)	20.4	14.1	23.5	24.2	
Adjusted PAT	1906.3	2026.0	2680.7	3324.6	28.1
EPS (Adjusted)	114.7	121.9	161.2	200.0	
PE (x)	42.1	39.6	29.9	24.1	
EV to EBITDA (x)	25.8	32.3	17.5	14.4	
RoE (%)	13.6	13.0	15.0	16.0	
RoCE (%)	10.7	9.6	18.4	19.7	

Source: ICICI Direct Research; Company

Particulars

Particular	Amount
Market Capitalisation	₹80240 crore
Debt (FY 20)	₹2210 crore
Cash & equivalents (FY 20)	₹205 crore
EV	₹82245 crore
52 week H/L (₹)	5303/2498
Equity capital	₹83.1 crore
Face value	₹5

Price Performance



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Financial Summary

Exhibit 2: Profit & Loss				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Revenues	15,448.2	17,517.0	19,255.9	22,204.5
Growth (%)	8.2	13.4	9.9	15.3
Raw Material Expenses	4,494.8	5,554.4	6,014.8	6,937.1
Employee expenses	3,356.2	3,380.2	3,681.3	4,115.7
Other expenses	4,445.6	6,116.4	5,043.0	5,773.2
Total Operating Expenditure	12,296.6	15,051.0	14,739.1	16,826.0
EBITDA	3,151.6	2,466.0	4,516.7	5,378.6
Growth (%)	34.0	-21.8	83.2	19.1
Interest	88.9	98.3	49.8	44.9
Depreciation	1,134.8	1,163.1	1,169.2	1,240.0
PBT before Exceptional Items	2,248.3	1,829.6	3,607.2	4,451.1
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0
PBT	2,248.3	1,829.6	3,607.2	4,451.1
Total Tax	385.8	-140.3	957.4	1,157.3
PAT	1,906.3	2,026.0	2,680.7	3,324.6
Adjusted PAT	1,906.3	2,026.0	2,680.7	3,324.6
Growth (%)	101.3	6.3	32.3	24.0
EPS	114.7	121.9	161.2	200.0
EPS (Adjusted)	114.7	121.9	161.2	200.0

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	1,807.9	1,175.2	2,680.7	3,324.6
Add: Depreciation & Amortization	1,134.8	1,163.1	1,169.2	1,240.0
Net Increase in Current Assets	-669.9	-1,393.3	-349.5	-1,413.3
Net Increase in Current Liabilities	92.8	639.7	295.7	406.8
CF from operating activities	2,870.4	2,984.1	3,845.9	3,603.1
(Inc)/dec in Fixed Assets	-622.6	-572.5	-2,650.0	-1,400.0
(Inc)/dec in Investments	-228.2	-21.4	600.0	-1,700.0
Others	72.0	108.2	-66.0	-68.6
CF from investing activities	-778.8	-485.7	-2,116.0	-3,168.6
Inc / (Dec) in Equity Capital	-53.5	-47.0	0.0	0.0
Inc / (Dec) in Loan	-1,518.2	-1,868.3	-1,200.0	0.0
Dividend & Dividend Tax	-400.2	-391.6	-368.4	-456.9
Others	-160.7	-209.0	-49.8	-44.9
CF from financing activities	-2,132.6	-2,515.9	-1,618.2	-501.8
Net Cash flow	-41.0	-17.5	111.8	-67.3
Opening Cash	263.8	222.8	205.3	317.1
Closing Cash	222.8	205.3	317.1	249.7
Free Cash Flow	2,247.8	2,411.6	1,195.9	2,203.1

Source: ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	83.0	83.1	83.1	83.1
Net Network	13,940.6	15,515.7	17,828.0	20,695.8
Total Shareholders fund	14,023.6	15,598.8	17,911.1	20,778.9
Total Debt	3,838.1	2,210.2	1,010.2	1,010.2
Deferred Tax Liability	47.3	2.0	2.1	2.2
Other Non Current Liabilities	218.1	205.5	213.7	222.3
Long term Provisions	79.3	74.5	77.5	80.6
Source of Funds	18,206.4	18,091.0	19,214.6	22,094.1
Gross Block - Fixed Assets	14,532.7	15,616.9	18,766.9	20,666.9
Accumulated Depreciation	7,807.6	9,257.9	10,427.1	11,667.1
Net Block	6,725.1	6,359.0	8,339.8	8,999.8
Capital WIP	2,933.5	1,535.1	1,035.1	535.1
Net Fixed Assets	9,658.6	7,894.1	9,374.9	9,534.9
Goodwill	465.9	491.3	491.3	491.3
Investments	2,587.1	2,677.8	2,077.8	3,777.8
Inventory	3,357.9	3,506.7	3,854.8	4,445.1
Cash	222.8	205.3	317.1	249.7
Debtors	3,986.9	5,027.8	4,969.6	5,730.6
Loans & Advances & Other	1,289.6	1,490.6	1,550.2	1,612.2
Total Current Assets	8,857.2	10,230.4	10,691.7	12,037.7
Creditors	1,367.1	1,524.8	1,676.2	1,932.8
Provisions & Other CL	2,892.1	3,609.5	3,753.9	3,904.0
Total Current Liabilities	4,259.2	5,134.3	5,430.0	5,836.9
Net Current Assets	4,598.0	5,096.1	5,261.6	6,200.8
LT LA & A, Other Assets	465.1	711.8	740.3	769.9
Deferred Tax Assets	431.7	1,219.9	1,268.7	1,319.4
Application of Funds	18,206.4	18,091.0	19,214.6	22,094.1

Source: ICICI Direct Research

Exhibit 5: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	114.7	121.9	161.2	200.0
BV per share	843.5	938.3	1,077.4	1,249.9
Operating Ratios (%)				
Gross Profit Margins	70.9	68.3	68.8	68.8
EBITDA margins	20.4	14.1	23.5	24.2
Net Profit margins	12.3	11.6	13.9	15.0
Inventory days	79.3	73.1	73.1	73.1
Debtor days	94.2	104.8	94.2	94.2
Creditor days	32.3	31.8	31.8	31.8
Asset Turnover	1.1	1.1	1.0	1.1
EBITDA conversion Rate	91.1	121.0	85.1	67.0
Return Ratios (%)				
RoE	13.6	13.0	15.0	16.0
RoCE	10.7	9.6	18.4	19.7
RoIC	18.0	11.5	25.1	27.6
Valuation Ratios (x)				
P/E	42.1	39.6	29.9	24.1
EV / EBITDA	25.8	32.3	17.5	14.4
EV / Revenues	5.3	4.5	4.1	3.5
Market Cap / Revenues	5.2	4.6	4.2	3.6
Price to Book Value	5.7	5.1	4.5	3.9
Solvency Ratios				
Debt / Equity	0.3	0.1	0.1	0.0
Debt / EBITDA	1.2	0.9	0.2	0.2
Current Ratio	2.0	2.0	1.9	2.0

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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