

September 24, 2020

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		HOLD	
Target Price	5,648		4,326	
Sales (Rs. m)	206,129	229,269	198,324	200,337
% Chng.	3.9	14.4		
EBITDA (Rs. m)	50,502	57,890	48,589	49,082
% Chng.	3.9	17.9		
EPS (Rs.)	191.2	224.4	180.2	177.9
% Chng.	6.1	26.2		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	154	168	182	206
EBITDA (Rs. bn)	32	34	43	51
Margin (%)	20.6	20.3	23.6	24.5
PAT (Rs. bn)	20	26	27	32
EPS (Rs.)	117.5	157.2	161.4	191.2
Gr. (%)	106.0	33.8	2.7	18.4
DPS (Rs.)	24.1	23.6	31.5	38.1
Yield (%)	0.5	0.5	0.6	0.7
RoE (%)	14.7	17.6	16.1	17.1
RoCE (%)	11.7	12.8	17.1	18.9
EV/Sales (x)	5.5	5.0	4.5	4.0
EV/EBITDA (x)	27.0	24.7	19.2	16.2
PE (x)	43.5	32.5	31.6	26.7
P/BV (x)	6.0	5.4	4.8	4.2

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.5,515 / Rs.2,495
Sensex / Nifty	37,668 / 11,132
Market Cap	Rs.849bn/ \$ 11,542m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.17414.39m

Shareholding Pattern (%)

Promoter's	26.74
Foreign	29.33
Domestic Institution	14.87
Public & Others	29.06
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.8	84.5	84.6
Relative	16.1	27.3	91.5

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Earnings upgrade on back of limited competition launches

Quick Pointers:

- Revlimid: DRRD to join Natco/Allergan and Alvogen for volume restricted launch post Mar CY22E.
- gCopaxone, gNuvaring and gVascepa also set to launch in FY21-23E.

We incorporate potential benefits from new launches over FY21-23E and upgrade our earnings estimate by 5%/6%/26%. We believe 1) gRevlimid could add value of Rs 262/share (using NPV method) for benefits over FY23-26E, 2) DRRD could be the fourth player in gCopaxone with expected launch in FY22E and could contribute EPS of Rs8.20 in FY23E 3) gNuvaring also expected to be launch in FY22E with expected EPS contribution of Rs7.70 in FY23E and, 4) gVascepa could be a near-term opportunity after receiving favorable outcome from the court with expected EPS contribution of Rs4.5/1.60/0.50 in FY21/22/23E. We incorporate benefits from new launches and roll forward our base year of valuation to FY23E (from FY22E) though maintained our assigned PE 24x, given its sustainability of improved earnings visibility led by new host of launches. Our new TP is Rs5,648 (earlier Rs4,326) with gRevlimid benefit contributing Rs262/share (assigning 1x(PE) to discounted cash flow of gRevlimid benefit over FY23E-26E). We also change our rating to Accumulate (earlier Hold).

DRRD settlement with BMS for gRevlimid partially removes uncertainty over the launch of generics, however the competitive landscape would be fast changing with higher intensify as multiple generic players could also enter into similar settlement and launch post Mar-CY22E. With early mover advantage in filing and better completeness of data, Natco, DRRD and Alvogen are in advantage position in comparison to other players. We would also highlight that launch of gRevlimid by DRRD is subject to USFDA approval and any delay from regulatory aspect (CRL from FDA) would change the earnings dynamics for DRRD as it has happened with gCopaxone and gNuvaring.

What's build in our assumptions

gRevlimid: We expect DRRD to launch gRevlimid in CY22E post Natco and Alvogen since they settled in CY15. We expect Natco to have better terms of settlement with BMS (patent holder) in comparison to peers and assume it shall launch in Mar CY22E. We expect Revlimid volume growth of 5-6% over CY20-22E and DRRD's gRevlimid may gain market share of 5%/7%/10%/12% in FY23/24/25/26E, while post FY26E Revlimid could become highly commoditized. We value gRevlimid benefits using NPV method as competitive environment is fast-changing as current group of pending litigants could also settle the case and receive similar benefits like DRRD, Alvogen and Natco and launch in FY23E. **gRevlimid could fetch Rs43.5bn of NPV over FY23-26E which translates into Rs262/per share.**

gCopaxone may launch in 1QFY22E: DRRD has responded to the required data of CRL (Complete Response Letter) it received from USFDA and we expect final approval and launch in Q1FY22E. Copaxone current market size is US\$1.5b with 40mg having 80-85% share and currently the market is dominated by 3 players (Teva, Natco/Mylan and Novartis) with the innovator (Teva) holding market share of 55-60% followed by Natco/Mylan 30-35%. Synthron/Pfizer, Amneal and Biocon are few known filers who are yet to receive approval from the regulator while Mylan/Mapi Pharma is working towards with a once-monthly dose of Copaxone. **We believe in FY23E few more generic players could launch gCopaxone and DRRD can sustain with 15% market share in FY23E and can contribute EPS of Rs8.20.**

gNuvaring: DRRD is currently in process to generate data required by the CRL received from USFDA and management expects to file final response by Dec FY21E and expects approval after 8-10 months. We expect DRRD shall launch gNuvaring in Nov FY22E and gain Rx share of 15% over 12-18 months. The current market size is of US\$742m, while Anmeal received generic approval in CY19 and innovator (Merck) launched its own authorized generic soon after Anmeal approval. gNuvaring may compete with an efficient substitute product, Annovera as it lasts for 12-13 cycle v/s Nuvaring for 1 cycle. **We assume an EPS contribution of Rs7.7 from gNuvaring /FY23E.**

gVascepa: It is a blockbuster drug of Amarin (innovator) and roped in US\$429m sales with 87% increase in CY19. Vascepa doesn't have any competing products after failure of trials of AstraZeneca's Epanova and Acasti Pharma's omega-3 drug CaPre, however it faces risk of generic launch after Hikma and DRRD received favorable court rulings recently. Hikma, DRRD and Teva have received FDA approvals for gVascepa and plans to launch the drug in FY21E. With settlement with Amarin and FDA approval, Teva could launch the drug along with peer generics while Apotex may also launch AG. With assured supply of API of gVascepa, DRRD could launch the drug in 3QFY21E and capture 15% share with 70% price erosion to the brand and **EPS contribution of Rs4.50/1.60/.50 in FY21/22/23E.**

Genesis of gVascepa It is a cardiovascular drug that is made from fish oil derivative and first approved as an adjunct in diet to reduce triglyceride levels in adult patients with severe hypertriglyceridemia. Vascepa became the first medication by the FDA as an adjunct to maximally tolerated statin therapy to reduce cardiovascular risk, including myocardial infarction, stroke, coronary revascularization, and unstable angina requiring hospitalization in adult patients. Vascepa is a difficult to manufacture product due to complexity over matching chemical structure of the semi-synthetic fish oil with natural fish oil.

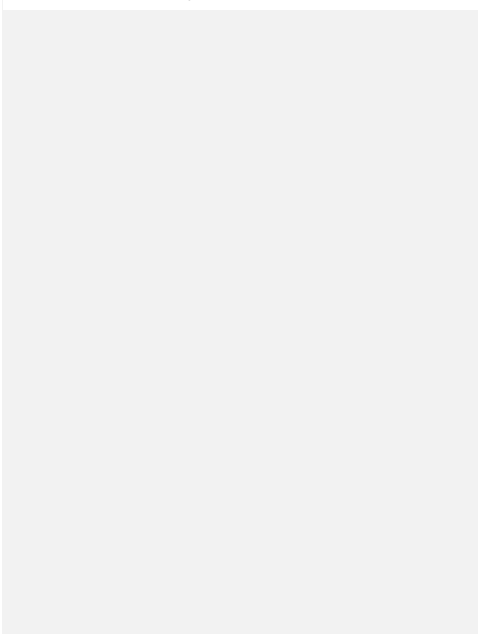
Genesis of Revlimid (Lenalidomide): It is a medication used to treat multiple myeloma (MM) and myelodysplastic syndromes (MDS). Global sales of Revlimid were US\$10.6bn, of which US sales were US\$7.8bn in CY19. Revlimid was originally approved by the FDA back in CY05 and its last patent expires in CY27. Natco and its marketing partner Teva claimed to have FTF on gRevlimid while Natco to share 70% of profit with Allergan(Teva) on the sales of gRevlimid in US.

Few more generic player could also step-in for CY22 launch: Zydus Cadila, Cipla, Apotex, Sun Pharma, Hetero, Mylan, Aurobindo have litigations on pending para-IV generic challenges on the patent of Revlimid. All the applicants seek approvals for launching gRevlimid before the patent expiry of CY-27. Celgene (BMS) has filed patent infringement actions against companies in the U.S. DC of New Jersey asserting certain FDA Orange Book-listed (OB) patents and alleging that the asserted patents are invalid, unenforceable, and/or not infringed. We expect majority of the pending litigants have large probability of settlement with innovator at varied length of –volume restricted launch of generics before it becomes commodities post Jan-CY26E.

Exhibit 1: Key launches for DRRD over FY21-23E

Drug(API)	Market Size (US\$)	Potential Launch Date	Market share	Limited competition period	EPS Contribution in FY23E	NPV/Sh are	Competitive Status
Revlimid (Lenalidomide)	7.8b	FY23E	5-12%	FY23-26	-	262	Natco/Teva would be first to launch in CY22-March followed by Alvogen and DRRD. Many filers are also seeking approval for Revlimid which could change competitive environment at a fast pace.
Copaxone (Glatiramer acetate)	1.5b	FY22E	15-20%	FY22-23E	8.20	-	Currently it a 3 player market (Teva, Novartis and Natco/Mylan) with innovator having market share of 55-60% in 40mg. DRRD submitted response (of CRL) to FDA. Expected launch in Q1FY22E. Synthon / Pfizer, Amneal and Biocon are few known filers.
Nuvaring (etonogestrel/ethinyl estradiol vaginal ring)	742m	FY22E	15%	FY22-23E	7.70	-	Anmeal launched 1st generic post approval in Dec (CY-19) followed up by launch of own generic by Merck. DRRD response to CRL (received in CY19) is in W-I-P. Post submission of response, final approval is expected in 8-10 months. Expect approval/launch in FY22E though it may compete with improved medicine Annovera (new approved).
Vascepa (icosapen)t ethyl	429m	FY21E(3Q)	15%	FY21-22E	0.50	-	Hikma and DRRD recently received favorable outcome from the higher court. Hikma, DRRD and Teva received approval and expect planned launch in FY21E.

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	154,482	167,684	182,253	206,129
YoY gr. (%)	8.2	8.5	8.7	13.1
Cost of Goods Sold	44,948	55,544	55,295	63,900
Gross Profit	109,534	112,140	126,957	142,229
Margin (%)	70.9	66.9	69.7	69.0
Employee Cost	33,562	33,802	35,448	37,103
Other Expenses	15,607	15,410	15,947	17,521
EBITDA	31,782	33,985	43,085	50,502
YoY gr. (%)	35.2	6.9	26.8	17.2
Margin (%)	20.6	20.3	23.6	24.5
Depreciation and Amortization	11,348	11,631	11,867	12,498
EBIT	20,434	22,354	31,218	38,004
Margin (%)	13.2	13.3	17.1	18.4
Net Interest	889	983	922	709
Other Income	3,375	2,793	3,308	3,440
Profit Before Tax	22,920	24,164	33,603	40,734
Margin (%)	14.8	14.4	18.4	19.8
Total Tax	3,858	(1,403)	7,393	8,961
Effective tax rate (%)	16.8	(5.8)	22.0	22.0
Profit after tax	19,062	25,567	26,210	31,773
Minority interest	(438)	(561)	(617)	(679)
Share Profit from Associate	-	-	-	-
Adjusted PAT	19,500	26,128	26,827	32,451
YoY gr. (%)	106.0	34.0	2.7	21.0
Margin (%)	12.6	15.6	14.7	15.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,500	26,128	26,827	32,451
YoY gr. (%)	106.0	34.0	2.7	21.0
Margin (%)	12.6	15.6	14.7	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,500	26,128	26,827	32,451
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	117.5	157.2	161.4	191.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	145,327	156,149	176,225	196,972
Tangibles	104,208	110,619	131,486	152,984
Intangibles	41,119	45,530	44,739	43,988
Acc: Dep / Amortization	78,076	92,559	104,426	116,924
Tangibles	55,081	62,840	74,707	87,205
Intangibles	22,995	29,719	29,719	29,719
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	39,951	42,013
Trade receivables	39,869	50,278	45,554	51,768
Cash & Bank Balance	2,228	2,053	8,693	9,706
Other Current Assets	10,424	10,424	10,945	11,492
Total Assets	224,656	232,253	244,506	263,332
Equity				
Equity Share Capital	830	831	831	831
Other Equity	139,406	155,157	176,209	201,764
Total Networkth	140,236	155,988	177,040	202,595
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	7,439
Trade payables	13,671	15,248	15,663	17,168
Other current liabilities	33,177	40,361	35,771	33,104
Total Equity & Liabilities	224,656	232,253	244,505	263,333

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	23,358	18,857	34,220	41,413
Add. Depreciation	11,348	11,631	11,867	12,498
Add. Interest	889	983	922	709
Less Financial Other Income	3,375	2,793	3,308	3,440
Add. Other	(3,887)	14,011	(449)	(3,349)
Op. profit before WC changes	31,708	45,482	46,560	51,272
Net Changes-WC	1,837	(8,536)	(5,276)	(10,451)
Direct tax	(4,841)	(7,105)	(7,393)	(8,961)
Net cash from Op. activities	28,704	29,841	33,892	31,859
Capital expenditures	(6,226)	(5,725)	(16,239)	(17,869)
Interest / Dividend Income	77,072	112,720	3,308	3,440
Others	(78,573)	(111,918)	(3,619)	(4,165)
Net Cash from Inv. activities	(7,727)	(4,923)	(16,550)	(18,594)
Issue of share cap. / premium	(535)	(470)	-	-
Debt changes	(15,182)	(19,165)	(4,459)	(5,204)
Dividend paid	(4,002)	(3,916)	(5,229)	(6,339)
Interest paid	(1,607)	(1,608)	(922)	(709)
Others	35	(25)	-	-
Net cash from Fin. activities	(21,291)	(25,184)	(10,611)	(12,253)
Net change in cash	(314)	(266)	6,731	1,013
Free Cash Flow	22,478	24,116	17,653	13,990

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	117.5	157.2	161.4	191.2
CEPS	185.8	227.2	232.8	270.5
BVPS	844.8	938.6	1,065.2	1,219.0
FCF	135.4	145.1	106.2	84.2
DPS	24.1	23.6	31.5	38.1
Return Ratio(%)				
RoCE	11.7	12.8	17.1	18.9
ROIC	10.2	10.8	15.0	17.1
RoE	14.7	17.6	16.1	17.1
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	141	153	140	136
Valuation(x)				
PER	43.5	32.5	31.6	26.7
P/B	6.0	5.4	4.8	4.2
P/CEPS	27.5	22.5	21.9	18.9
EV/EBITDA	27.0	24.7	19.2	16.2
EV/Sales	5.5	5.0	4.5	4.0
Dividend Yield (%)	0.5	0.5	0.6	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	40,899	43,971	44,489	44,265
YoY gr. (%)	7.1	13.8	10.4	14.7
Raw Material Expenses	14,011	14,153	15,311	13,196
Gross Profit	26,888	29,818	29,178	31,069
Margin (%)	65.7	67.8	65.6	70.2
EBITDA	6,969	10,313	9,499	11,213
YoY gr. (%)	(8.2)	28.2	16.0	51.2
Margin (%)	17.0	23.5	21.4	25.3
Depreciation / Depletion	3,131	2,869	2,748	2,923
EBIT	3,838	7,444	6,751	8,290
Margin (%)	9.4	16.9	15.2	18.7
Net Interest	303	152	230	233
Other Income	540	673	736	871
Profit before Tax	4,075	7,965	7,257	8,928
Margin (%)	10.0	18.1	16.3	20.2
Total Tax	(3,207)	325	(449)	3,059
Effective tax rate (%)	(78.7)	4.1	(6.2)	34.3
Profit after Tax	7,282	7,640	7,706	5,869
Minority interest	(117)	(176)	(105)	(77)
Share Profit from Associates	-	-	-	-
Adjusted PAT	7,399	7,816	7,811	5,946
YoY gr. (%)	42.8	56.2	71.5	79.7
Margin (%)	18.1	17.8	17.6	13.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	7,399	7,816	7,811	5,946
YoY gr. (%)	42.8	56.2	71.5	79.7
Margin (%)	18.1	17.8	17.6	13.4
Other Comprehensive Income	-	454	1,263	782
Total Comprehensive Income	7,399	8,270	9,074	6,728
Avg. Shares O/s (m)	166	166	166	166
EPS (Rs)	44.6	47.1	47.1	35.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
India Formulations	26,179	28,946	30,393	34,040
US formulations	59,957	64,659	74,393	86,120
Russia	20,500	23,424	20,683	23,663
PSAI	24,140	25,747	31,411	33,610

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Jul-20	Hold	4,326	4,306
2	08-Jul-20	Accumulate	4,326	3,887
3	21-May-20	Accumulate	4,326	3,915
4	18-Apr-20	Accumulate	4,030	3,930
5	14-Apr-20	Accumulate	3,331	3,622
6	27-Jan-20	Accumulate	3,331	3,200
7	03-Jan-20	Accumulate	2,910	2,884
8	01-Nov-19	Accumulate	2,910	2,757
9	22-Oct-19	Accumulate	2,997	2,820
10	03-Oct-19	Accumulate	2,997	2,677

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aurobindo Pharma	Hold	838	881
2	Cadila Healthcare	Sell	329	396
3	Cipla	Reduce	657	729
4	Dr. Lal PathLabs	Sell	1,006	1,892
5	Dr. Reddy's Laboratories	Hold	4,326	4,306
6	Eris Lifesciences	BUY	576	511
7	Glenmark Pharmaceuticals	Sell	365	481
8	Indoco Remedies	Hold	243	262
9	Ipca Laboratories	Hold	1,962	2,013
10	Jubilant Life Sciences	Sell	446	830
11	Lupin	BUY	1,085	972
12	Sun Pharmaceutical Industries	Reduce	479	532
13	Thyrocare Technologies	Sell	307	677

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



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