

Dr. Reddy's Laboratories Ltd.



Dr. Reddy's Laboratories Ltd.

Product launches encouraging

CMP INR 4,275	Target INR 5,261	Potential Upside 22.3%	Market Cap (INR mn) INR 7,11,460	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q4FY22

- Dr. Reddy's laboratories reported adj. revenue growth at 10.3% YoY (-1.5% QoQ) to INR 52.59 bn in Q4FY22. This was driven by 10.0% YoY (-0.7% QoQ) increase in revenue from operations to INR 50.68 bn, 26.6% YoY (-29.8% QoQ) decline in license fees and services income to INR 1.52 bn and a 4.3% YoY (+104.8% QoQ) decline in other operating revenue to INR 381.0 mn in Q4FY22
- EBITDA margins declined 168 bps YoY (-242.0 bps QoQ) to 20.4% in Q4FY22
- Excluding one-time incomes from sale of anti-bacterial brands Ciprolet and Levolet in Russia and Daffy bar and Combihale in India of INR 2.16 bn, litigation expenses of INR 983.0 mn and impairment expenses of INR 7.42 bn (Tepilamide Fumarate tablets etc.), the company witnessed its adjusted net profits grow at 29.0% YoY (+1.0% QoQ) to INR 7.21 bn in Q4FY22.

MARKET DATA

Shares outs (Mn)	166
Equity Cap (INR Mn)	192,124
Mkt Cap (INR Mn)	7,11,460
52 Wk H/L (INR)	5,615/3,654
Volume Avg (3m K)	593
Face Value (INR)	5
Bloomberg Code	DRRD IN EQUITY

KEY FINANCIALS

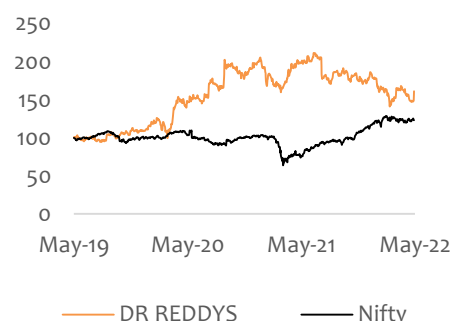
INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,54,482	1,75,170	1,90,475	2,15,452	2,35,909	2,60,157
EBITDA	31,898	41,471	45,467	46,981	54,613	64,129
Adjusted PAT	19,500	38,313	24,060	28,395	33,293	38,280
Adj. EPS (INR)	117.5	230.5	144.6	170.6	200.1	230.1
EBITDA Margin	20.6%	23.7%	23.9%	21.8%	23.2%	24.7%
Adjusted NPM	12.6%	21.9%	12.6%	13.2%	14.1%	14.7%

Source: Company, KRChoksey Research

Adjusted revenue growth, broad based (YoY), across geographies: Dr. Reddy's reported revenue growth (in line with what was witnessed in Q4FY20) at 10.3% YoY (-1.5% QoQ) to INR 52.59 bn (adjusted for one-time gains from sale of brands in India and CIS region, reported consolidated revenue was INR 54.75 bn in Q4FY22). This was driven by 10.0% YoY (-0.7% QoQ) increase in revenue from operations to INR 50.68 bn, 26.6% YoY (-29.8% QoQ) decline in license fees and services income to INR 1.52 bn and a 4.3% YoY (+104.8% QoQ) decline in other operating revenue to INR 381.0 mn in Q4FY22. The growth in revenue from operations was driven by 13.5% YoY (-1.2% QoQ) increase in global generics' revenue (84% of total sales) in Q4FY22. This was driven by North America revenue increasing at 14.2% YoY (+7.1% QoQ, 45.4% of global generics sales), India revenue increasing at 10.1% YoY (-9.4% QoQ, 21.2% of sales), Emerging Markets revenue increasing at 15.8% YoY (-11.3% QoQ, 23.3% of sales) and a 12.3% YoY (+9.5% QoQ, 9.5% of sales) rise in Europe's sales in Q4FY22. North America's revenue growth was driven by new product launches, such as Icosapent Ethyl Soft gels and Vasopressin injection, volume traction in some of its products, scale up in existing products; partially offset by price erosion. India revenue rise was on account of volume traction in the base business, favorable price variance, new product launches, and non – core brand divestments. The sequential decline in India revenue was due to volume decline in some of its products in Q4FY22.

Adjusted Net income grew at a strong pace: The company's gross profits margins (GPMs) reduced 380 bps YoY (-210 bps QoQ) to 63.9% in Q4FY22. This was a result of pricing pressure in North America and Europe, increase in commodity prices and increased inventory provisions. At the same time, EBITDA margins declined 168 bps YoY (-242.0 bps QoQ) to 20.4% in Q4FY22. This was due to reduction in employee costs YoY and QoQ (18.5% of revenue in Q4FY22 vs. 18.7% in Q4FY21 and 17.9% in Q3FY22) and reduction in other expenses (25.0% of revenue in Q4FY22 vs. 25.2% in Q3FY22 and 26.8% in Q4FY21) YoY and QoQ (as a % of revenue) led to EBITDA margins declining both YoY and QoQ. Excluding one-time incomes from sale of anti-bacterial brands Ciprolet and Levolet in Russia and Daffy bar and Combihale in India of INR 2.16 bn, litigation expenses of INR 983.0 mn and impairment expenses of INR 7.42 bn (Tepilamide Fumarate tablets etc.), the company witnessed its adjusted net profits grow at 29.0% YoY (+1.0% QoQ) to INR 7.21 bn in Q4FY22.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	54,289
NIFTY	16,215

SHARE HOLDING PATTERN (%)

Particulars	Mar-22 (%)	Dec-21 (%)	Sep-21 (%)
Promoters	26.7	26.7	26.7
FIIIs	25.2	27.4	27.8
DIIIs	24.8	22.3	21.4
Others	23.3	23.6	24.1
Total	100	100	100

9.9%

Revenue CAGR between FY22 and FY24E

16.1%

PAT CAGR between FY22 and FY24E

Dr. Reddy's Laboratories Ltd.

Key Concall Highlights: (i) Priority for FY23 will be to strengthen its product pipeline across markets, focus on enhancing quality systems, continue with the productivity agenda, and make value accretive buys (ii) Increase in base business volume and new product launches drove the revenue growth (iii) The company took a charge of INR 983 mn towards outstanding litigation with the state of Texas, US in Q4FY22 (iv) The R&D spend was at INR 4.33 bn (USD 57.0 mn), which was at 8.0% of sales in Q4FY22, while it was INR 17.48 bn (USD 230.0 mn), which is at 8.2% of sales in FY22. (v) The company is optimizing the spend in proprietary products and enhancing its pipeline and spend on generics, biosimilar, and MCVs (vi) The company's aspirational EBITDA margin is around 25.0% (vii) Effective tax rate (ETR) for Q4FY22 was 64.8% and for FY22 it was at 27.0%. It was higher in Q4FY22 due to impairment charges taken by the company. The company expects it to be in the range of 24%-26% in FY23 (viii) The capital investments stood at INR 3,740 mn in Q4FY22 and at INR 1,466 mn in FY22. (ix) The company crossed USD 1.0 bn of revenue in the US in FY22 and improved market share in majority of the markets. (x) The company launched 3 new products in Q4FY22 and 70 products during FY22 in the US and plans to launch 20-25 new products in FY23 (xi) The company launched 34 new products in Europe and 86 in Emerging Markets in FY22 (xii) India remains a priority market and the company is committed to grow it (xiii) The company's focus is on building a global pipeline of products including generics, injectables, and biosimilars and can grow through inorganic route as well. (xiv) The capex is expected to be around INR 1.50 – INR 1.70 bn in FY23, which will be targeted on biologics and digital initiatives.

Valuation and view: While price erosion is a concern in the US and Europe markets, broad based growth across geographies with new product launches and base business growing with increase in volumes share, and strong number of products launches are encouraging. **We estimate the revenue and adj. net income to grow at 9.9% and 16.1% CAGR, respectively over FY22-FY24E (vs. our earlier estimate of 11.9% and 19.3% CAGR, respectively over FY21-FY24E).** Since our last update on the stock in Feb 22, the stock has declined by 1%. The stock is trading at 20.4x/17.4x on its FY23E/FY24E EPS estimates. We apply the same 21.4x valuation P/E multiple on FY24E EPS of INR 245.3. As such we maintain the target price of INR 5,261 on the shares of Dr. Reddy's, with an upside potential of 23.1% from its CMP of INR 4,275/ share. Accordingly, we maintain our "BUY" rating on the shares of Dr. Reddy's.

Segments Result (INR Mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total Sales	47,284	49,194	57,632	53,198	52,203
Global Generics	38,737	41,113	47,431	44,508	43,953
North America	17,491	17,390	18,909	18,645	19,971
Europe	3,956	3,994	4,135	4,058	4,444
India	8,445	10,600	11,402	10,266	9,299
Emerging Markets	8,845	9,129	12,985	11,539	10,239
PSAI	7,915	7,540	8,372	7,271	7,557
PP & Others	632	541	1,829	1,419	693

Segments Result (% YoY)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total Sales	6.7%	11.4%	17.7%	7.9%	10.4%
Global Generics	6.4%	17.2%	19.1%	9.2%	13.5%
North America	-3.2%	0.6%	3.2%	7.2%	14.2%
Europe	14.8%	12.5%	10.1%	-2.1%	12.3%
India	23.5%	69.3%	25.0%	7.0%	10.1%
Emerging Markets	10.0%	14.4%	50.4%	19.9%	15.8%
PSAI	10.0%	-11.8%	-1.6%	3.7%	-4.5%
PP & Others	-12.8%	-1.1%	194.5%	-7.6%	9.7%

Revenue Mix (%)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Global Generics	81.9%	83.6%	82.3%	83.7%	84.2%
North America	37.0%	35.3%	32.8%	35.0%	38.3%
Europe	8.4%	8.1%	7.2%	7.6%	8.5%
India	17.9%	21.5%	19.8%	19.3%	17.8%
Emerging Markets	18.7%	18.6%	22.5%	21.7%	19.6%
PSAI	16.7%	15.3%	14.5%	13.7%	14.5%
PP & Others	1.3%	1.1%	3.2%	2.7%	1.3%

Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY 19	FY 20	FY 21	FY 22	FY 23E	FY 24E
Revenues	1,54,482	1,75,170	1,90,475	2,15,452	2,35,909	2,60,157
COGS	44,948	55,544	60,789	74,422	76,316	84,161
Gross profit	1,09,534	1,19,626	1,29,686	1,41,030	1,59,592	1,75,996
Employee cost	33,562	33,802	36,299	38,858	43,643	46,828
Other expenses	44,074	44,353	47,920	55,191	61,336	65,039
EBITDA	31,898	41,471	45,467	46,981	54,613	64,129
EBITDA Margin	20.65%	23.67%	23.87%	21.81%	23.15%	24.65%
Depreciation & amortization	11,348	11,631	12,288	11,652	13,655	15,215
EBIT	20,550	29,840	33,179	35,329	40,958	48,913
Interest expense	889	983	970	958	1,305	1,301
Other income	3,375	6,206	2,914	4,844	4,096	2,831
PBT	22,920	18,296	28,355	29,911	43,748	50,444
Tax	3,858	-1,403	9,319	8,789	11,156	12,863
Share of Profit/(Loss) of Associates	438	561	480	703	700	700
PAT	19,500	20,260	19,516	21,825	33,293	38,280
EPS (INR)	117.5	122.0	117.7	131.2	200.1	230.1
Adj. PAT	19,500	38,313	24,060	28,395	33,293	38,280
Adj EPS (INR)	117.5	230.5	144.6	170.6	200.1	230.1

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	28,704	29,841	35,703	28,108	36,118	40,787
Net Cash Flow from/(used in) Investing Activities	(7,727)	(4,923)	(22,660)	(26,387)	(16,052)	(17,336)
Net Cash Flow from Financing Activities	(21,326)	(25,159)	(298)	(2,422)	(100)	(100)
Net Inc/Dec in cash equivalents	(349)	(241)	12,745	(701)	19,966	23,351
Opening Balance	2,638	2,228	2,053	14,820	14,852	34,624
Adjustment	(61)	66	31	733	(194)	0
Closing Balance Cash and Cash Equivalents	2,228	2,053	14,829	14,852	34,624	57,975

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	20.6%	23.7%	23.9%	21.8%	23.2%	24.7%
Tax rate (%)	16.8%	-7.7%	32.9%	29.4%	25.5%	25.5%
Adj. Net Profit Margin (%)	12.6%	21.9%	12.6%	13.2%	14.1%	14.7%
RoE (%)	13.9%	24.6%	13.6%	14.8%	14.8%	14.7%
RoCE (%)	11.8%	17.2%	16.1%	15.8%	16.0%	16.7%
Current Ratio (x)	1.88	1.75	1.80	1.82	2.08	2.34
Adj. EPS (INR)	117.5	230.5	144.6	170.6	200.1	230.1

Source: Company, KRChoksey Research

Dr. Reddy's Laboratories Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
EQUITY AND LIABILITIES						
Equity						
Equity share capital	830	831	832	832	832	832
Other equity	1,39,406	1,55,157	1,75,585	1,91,292	2,23,885	2,60,180
Shareholders Fund	1,40,236	1,55,988	1,76,417	1,92,124	2,24,717	2,61,012
Total Debt	34,125	17,836	29,444	30,882	31,799	31,699
Other NCL & Provisions	2,974	2,800	2,125	3,873	6,027	6,231
Trade payables	13,671	15,248	18,109	22,662	23,239	24,400
OCL & Provisions	33,177	40,361	39,784	47,914	49,242	51,704
Total equity and liabilities	2,24,656	2,32,253	2,66,168	2,97,469	3,35,024	3,75,046
ASSETS						
Property, plant and equipment	49,127	47,779	47,322	48,869	51,266	53,387
Capital work-in-progress	4,725	4,364	9,539	12,796	13,436	14,108
Goodwill	4,659	4,913	5,599	5,473	34,108	35,814
Investment in joint ventures	2,529	2,763	3,375	4,318	4,534	4,761
Other non-current asset	8,968	19,317	14,624	19,511	22,238	23,350
Total No-current assets	1,13,555	1,06,262	1,20,665	1,19,646	1,25,582	1,31,419
Inventories	33,579	35,067	45,412	50,884	52,179	54,786
Trade receivables	39,869	50,278	49,641	66,764	73,103	78,951
Other Current Assets	12,896	14,906	15,877	25,150	49,535	51,915
Cash and cash equivalents	2,228	2,053	14,829	14,852	34,624	57,975
Total Current Assets	1,11,101	1,25,991	1,45,503	1,77,823	2,09,442	2,43,627
Total Assets	2,24,656	2,32,253	2,66,168	2,97,469	3,35,024	3,75,046

Source: Company, KRChoksey Research

Dr. Reddy’s Laboratories Ltd.

Dr. Reddy’s Laboratories Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-05-22	4,275	5,261	BUY	Buy	More than 15%
31-01-22	4,303	5,261	BUY		
02-11-21	4,746	5,261	Accumulate	Accumulate	5% – 15%
05-09-21	4,899	5,261	Accumulate	Hold	0 – 5%
29-07-21	4,673	4,790	HOLD		
17-05-21	5,203	5,497	Accumulate	Reduce	-5% – 0
29-10-20	4,942	5,418	Accumulate	Sell	Less than – 5%

ANALYST CERTIFICATION:
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