

June 22, 2022

Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	4,900		4,900	
Sales (Rs. m)	2,27,660	2,49,382	2,27,660	2,49,382
% Chng.	-	-	-	-
EBITDA (Rs. m)	47,427	55,338	47,427	55,338
% Chng.	-	-	-	-
EPS (Rs.)	178.9	212.2	178.9	212.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	190	214	228	249
EBITDA (Rs. bn)	45	46	47	55
Margin (%)	23.6	21.5	20.8	22.2
PAT (Rs. bn)	19	24	30	35
EPS (Rs.)	115.1	141.6	178.9	212.2
Gr. (%)	(1.9)	23.1	26.3	18.7
DPS (Rs.)	28.8	34.5	40.3	46.0
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	11.6	12.9	14.7	15.5
RoCE (%)	16.7	16.0	15.1	16.7
EV/Sales (x)	3.7	3.3	3.0	2.7
EV/EBITDA (x)	15.8	15.2	14.4	12.1
PE (x)	37.1	30.1	23.9	20.1
P/BV (x)	4.1	3.7	3.3	2.9

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.5,615 / Rs.3,654
Sensex / Nifty	52,532 / 15,639
Market Cap	Rs.710bn / \$ 9,098m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.2189.83m

Shareholding Pattern (%)

Promoter's	26.72
Foreign	25.16
Domestic Institution	24.34
Public & Others	23.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	(7.6)	(19.2)
Relative	3.9	(1.0)	(19.1)

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Multiple growth initiatives

Quick Pointers:

- Creating new growth avenues like CDMO, Biosimilars, Nutraceuticals and immune-oncology.
- Disciplined capital allocation and productivity enhancement will be the key focus; expect double digit revenue growth with +25% OPM and +25% RoCE.

Dr Reddy's (DRRD) management outlined its strategy to create new (Horizon 2) business models, while growing in existing spaces (Horizon 1) to drive sustainable growth. The company expects double digit revenue growth in the medium term, with aspiration of +25% OPM and 25% RoCE. Horizon 2 will focus on biosimilars, nutraceuticals, Immuno-oncology and new disease management. Most of these initiatives from financials perspective will be visible over next 3-5 years.

Our FY23E/FY24E estimates remain unchanged. We continue to expect steady earnings momentum and pick up in US generic business along with cost optimization. Also, strong pipeline/new launches will drive steady growth in India and RoW markets. We expect 13% EPS CAGR over FY22-24E (ex of Revlimid) and maintain our 'Buy' rating with TP of Rs4,900/share. At CMP, DRRD is trading at 19x P/E on FY24E adjusted for gRevlimid.

- New growth avenues:** Company is planning to build its Immuno-oncology in NCEs, Biologics & CGT, Nutraceuticals, CDMO, new disease management and digital services which will start contributing meaningfully from 2027. We believe, investments in these avenues will lead to overall 50-100bps increase of expenses.
- India- aims to be in top 5:** India market have grown by 2x in last 4 years. Currently company has 16 brands in IPM in top 300, with 15 brands having +Rs1bn revenues. DRRD aspires to be in top 5 from current rank of 10 with focus on building big brands through strong product management processes. Further multiple initiatives like nutraceuticals, OTC and inorganic route will scale up domestic formulation business.
- US –robust pipeline:** DRRD has robust pipeline of 175 products with 90 filed, out of which 40% are injectables/sterile products. Filings for complex products will continue to focus on +25 products across Drug-device combos, peptides and long-acting Injectables. Contribution from US has come down from 50% in FY16 to 37%. In the near term non US markets will continue to grow faster than US generics.
- Other highlights:** (1) **China-** will continue to focus on key markets- It aims to grow 2-3x in next 5 years with double digit filings annually. Currently 17 filings pending for approval. (2) **API –** Aim to backward-integrate 70%+ core molecules which should result in +500 bps gross margin improvement in next 5 years. Geographical diversification will be key focus area. (3) **R&D cost** to inch up 10-11% of sales from current level of 9%. Investments in biosimilars is around 25-30% of R&D, which will grow faster (4) Expect FTO injectable plant to be inspected in July month. (5) **Biosimilar:** Currently 12 products in pipeline across various stages of development, filed 1 so far with 2 assets expected to enter clinical phase by FY23. (6) **EU -** will be another important market for DRRD which has already grown by 2x in last 3 years. Segments like Biosimilar, complex generics and other branded generics have huge opportunities in the near future.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	1,89,721	2,14,391	2,27,660	2,49,382
YoY gr. (%)	8.7	13.0	6.2	9.5
Cost of Goods Sold	86,644	1,00,551	1,08,255	1,17,387
Gross Profit	1,03,077	1,13,840	1,19,405	1,31,995
Margin (%)	54.3	53.1	52.4	52.9
Employee Cost	-	-	-	-
Other Expenses	16,541	17,482	18,706	19,922
EBITDA	44,773	46,101	47,427	55,338
YoY gr. (%)	9.4	3.0	2.9	16.7
Margin (%)	23.6	21.5	20.8	22.2
Depreciation and Amortization	12,796	11,824	12,754	13,978
EBIT	31,977	34,277	34,674	41,360
Margin (%)	16.9	16.0	15.2	16.6
Net Interest	(2,635)	(4,880)	(4,200)	(4,700)
Other Income	-	-	-	-
Profit Before Tax	34,612	39,157	38,874	46,060
Margin (%)	18.2	18.3	17.1	18.5
Total Tax	9,175	8,730	9,913	11,745
Effective tax rate (%)	26.5	22.3	25.5	25.5
Profit after tax	25,437	30,427	28,961	34,314
Minority interest	-	-	-	-
Share Profit from Associate	480	703	800	1,000
Adjusted PAT	19,149	23,568	29,761	35,314
YoY gr. (%)	(1.8)	23.1	26.3	18.7
Margin (%)	10.1	11.0	13.1	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,149	23,568	29,761	35,314
YoY gr. (%)	(1.8)	23.1	26.3	18.7
Margin (%)	10.1	11.0	13.1	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,149	23,568	29,761	35,314
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	115.1	141.6	178.9	212.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	1,96,955	1,97,172	2,06,062	2,16,768
Tangibles	1,39,918	1,53,578	1,68,578	1,85,578
Intangibles	57,037	43,594	37,483	31,190
Acc: Dep / Amortization	1,04,196	1,07,307	1,13,950	1,21,426
Tangibles	82,807	90,959	99,894	1,09,730
Intangibles	21,389	16,348	14,056	11,696
Net fixed assets	92,759	89,865	92,111	95,342
Tangibles	57,111	62,619	68,684	75,849
Intangibles	35,648	27,246	23,427	19,494
Capital Work In Progress	-	-	-	-
Goodwill	4,568	4,418	4,418	4,418
Non-Current Investments	8,333	7,986	12,486	12,486
Net Deferred tax assets	10,292	12,721	12,721	12,721
Other Non-Current Assets	952	948	948	948
Current Assets				
Investments	19,744	29,513	29,513	29,513
Inventories	45,412	50,884	53,753	58,882
Trade receivables	49,641	66,764	66,401	72,736
Cash & Bank Balance	14,829	14,852	16,858	33,878
Other Current Assets	18,623	19,093	20,048	21,050
Total Assets	2,54,861	2,84,323	2,96,536	3,29,254
Equity				
Equity Share Capital	832	832	832	832
Other Equity	1,74,149	1,89,695	2,12,758	2,40,418
Total Network	1,74,981	1,90,527	2,13,590	2,41,250
Non-Current Liabilities				
Long Term borrowings	6,299	5,746	5,746	5,746
Provisions	-	-	-	-
Other non current liabilities	2,401	2,479	2,479	2,479
Current Liabilities				
ST Debt / Current of LT Debt	24,000	28,099	15,000	15,000
Trade payables	21,916	25,572	25,560	27,716
Other current liabilities	35,556	44,621	46,882	49,783
Total Equity & Liabilities	2,54,861	2,84,323	2,96,536	3,29,254

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	44,773	46,101	47,427	55,338
Add. Depreciation	12,796	11,824	12,754	13,978
Add. Interest	2,635	4,880	4,200	4,700
Less Financial Other Income	-	-	-	-
Add. Other	(10,497)	(16,548)	(16,954)	(18,678)
Op. profit before WC changes	49,707	46,257	47,427	55,338
Net Changes-WC	(8,288)	(10,712)	(761)	(7,410)
Direct tax	(5,716)	(7,437)	(9,913)	(11,745)
Net cash from Op. activities	35,703	28,108	36,753	36,183
Capital expenditures	(25,255)	(14,986)	(19,500)	(17,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(25,255)	(14,986)	(19,500)	(17,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(7,263)	4,099	(13,099)	-
Dividend paid	(4,147)	(4,146)	(6,698)	(7,654)
Interest paid	2,635	4,880	4,200	4,700
Others	11,103	(17,932)	350	791
Net cash from Fin. activities	2,328	(13,099)	(15,247)	(2,163)
Net change in cash	12,776	23	2,006	17,020
Free Cash Flow	25,962	13,448	21,753	19,183

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	49,194	57,632	53,197	54,368
YoY gr. (%)	11.4	17.7	7.9	15.0
Raw Material Expenses	23,495	26,846	24,585	25,625
Gross Profit	25,699	30,786	28,612	28,743
Margin (%)	52.2	53.4	53.8	52.9
EBITDA	9,025	13,357	12,018	11,702
YoY gr. (%)	(18.9)	9.3	6.7	15.1
Margin (%)	18.3	23.2	22.6	21.5
Depreciation / Depletion	2,905	2,985	2,976	2,959
EBIT	6,120	10,372	9,042	8,743
Margin (%)	12.4	18.0	17.0	16.1
Net Interest	(652)	(319)	(289)	(859)
Other Income	487	1,743	240	291
Profit before Tax	7,259	12,434	9,571	9,893
Margin (%)	14.8	21.6	18.0	18.2
Total Tax	1,717	2,761	2,644	1,608
Effective tax rate (%)	23.7	22.2	27.6	16.3
Profit after Tax	5,542	9,673	6,927	8,285
Minority interest	-	-	-	-
Share Profit from Associates	166	247	185	105
Adjusted PAT	5,708	9,920	7,065	875
YoY gr. (%)	(1.5)	30.1	3,468.2	(84.2)
Margin (%)	11.6	17.2	13.3	1.6
Extra Ord. Income / (Exp)	-	-	47	7,515
Reported PAT	5,708	9,920	7,112	8,390
YoY gr. (%)	(1.5)	18.0	15.3	51.2
Margin (%)	11.6	17.2	13.4	15.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,708	9,920	7,112	8,390
Avg. Shares O/s (m)	166	166	166	-
EPS (Rs)	34.4	59.8	42.6	5.3

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	115.1	141.6	178.9	212.2
CEPS	192.0	212.7	255.5	296.2
BVPS	1,051.6	1,145.0	1,283.6	1,449.8
FCF	156.0	80.8	130.7	115.3
DPS	28.8	34.5	40.3	46.0
Return Ratio(%)				
RoCE	16.7	16.0	15.1	16.7
ROIC	14.5	14.3	13.9	15.6
RoE	11.6	12.9	14.7	15.5
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	141	157	152	152
Valuation(x)				
PER	37.1	30.1	23.9	20.1
P/B	4.1	3.7	3.3	2.9
P/CEPS	22.2	20.1	16.7	14.4
EV/EBITDA	15.8	15.2	14.4	12.1
EV/Sales	3.7	3.3	3.0	2.7
Dividend Yield (%)	0.7	0.8	0.9	1.1

Source: Company Data, PL Research

Key Operating Metrics

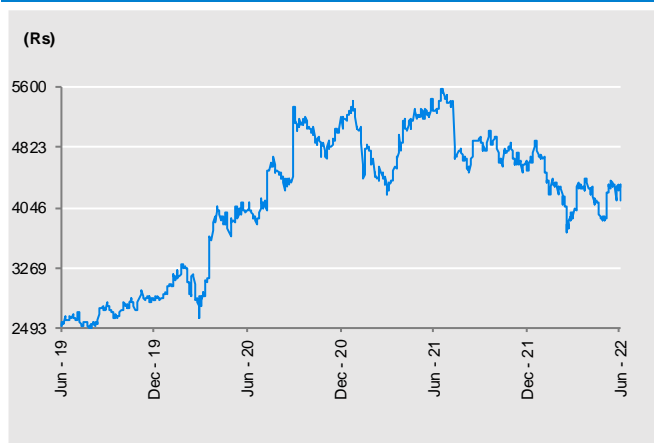
Y/e Mar	FY21	FY22	FY23E	FY24E
India Formulations	33,419	41,957	46,007	51,528
US formulations	70,494	74,915	83,052	89,021
Russia	15,800	20,900	17,030	19,073
PSAI	31,982	30,740	33,199	35,855

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-May-22	BUY	4,900	3,929
2	08-Apr-22	BUY	5,200	4,317
3	31-Jan-22	BUY	5,200	4,219
4	07-Jan-22	BUY	5,400	4,708
5	01-Nov-21	BUY	5,400	4,659

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,000	3,862
2	Aster DM Healthcare	BUY	234	191
3	Aurobindo Pharma	Accumulate	635	534
4	Cipla	BUY	1,085	926
5	Divi's Laboratories	Accumulate	4,300	3,898
6	Dr. Reddy's Laboratories	BUY	4,900	3,929
7	Eris Lifesciences	BUY	850	670
8	Fortis Healthcare	BUY	330	235
9	Glenmark Pharmaceuticals	Accumulate	450	409
10	HealthCare Global Enterprises	BUY	347	276
11	Indoco Remedies	BUY	430	350
12	Ipca Laboratories	BUY	1,085	938
13	Krishna Institute of Medical Sciences	BUY	1,600	1,250
14	Lupin	Hold	600	635
15	Max Healthcare Institute	BUY	427	355
16	Narayana Hrudayalaya	BUY	773	634
17	Sun Pharmaceutical Industries	BUY	1,020	888
18	Torrent Pharmaceuticals	BUY	3,250	2,635
19	Zydus Lifesciences	BUY	450	357

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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