

Muted Q1 ex-one-offs; focus on margins and launches

About the stock: Dr Reddy's (DRL) portfolio includes pharmaceutical generics, APIs, custom pharmaceutical services, biosimilar and complex formulations.

- Revenue breakup: US (35%), India (20%), Russia and CIS (14%), Europe (8%), RoW (8%), PSAI (14%) and others (2%)
- It has 13 formulation facilities, nine API manufacturing facilities, one biologics facility and several R&D centres across the globe

Q1FY23 Results: Revenues propelled by brand divestment income (₹ 230 crore)

- Sales were up 6% YoY to ₹ 5233 crore
- Adjusted EBITDA (ex-divestment income) was at ₹ 711 crore, with Adjusted margins at 14% [note: adjustments for income from divestments of brands]
- Adjusted PAT for quarter was at ₹ 607 crore [note: adjustments for income from divestments of brands and settlement gains of ₹564 crore]

What should investors do? Dr Reddy's share price grew 1.6x over past three years

- Maintain **BUY** on back of 1) ramp up across geographies in coming quarters on back of new launches and easing of high Covid base, 2) value accretive launches schedule in global markets, and 3) margin improvement due to new launches, softening of input cost and operating leverage

Target Price and Valuation: We value Dr Reddy's at ₹ 4750 i.e. 24x FY24E EPS of ₹ 191 + NPV of ₹ 167.8 for gRevlimid.

Key triggers for future price performance:

- US pipeline:** In near term, key launches in complex generics (guidance for 25 launches in FY23) is likely to weather persisting price erosion in US, along with additional impetus from gRevlimid in H2FY23. Structurally, 1) 40% of pipeline being injectable/sterile, 2) 25+ complex products and 3) select Biosimilars and Complex generics bodes well for US market
- Emerging Markets & India:** New launches to offset price erosion and loss in Covid opportunities. Domestically, ramp-up of acquired assets and faster integration to increase base business.
- Easing of volatility in currency for Russia-CIS market and possible gains from inventory normalization in H2FY23
- Target to backward integrate 70% molecules to benefit gross margins in medium term. Immediate focus on cost rationalisation, on SG&A front and simultaneous launches across geographies

Alternate Stock Idea: Apart from Dr Reddy's, in healthcare we like Sun Pharma.

- Higher contribution from specialty and strong domestic franchise is likely to change the product mix towards more remunerative businesses by FY23
- BUY with a target price of ₹ 1070

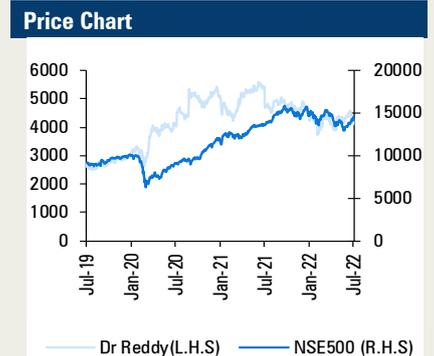
Key Financial Summary

Key Financials (₹crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	17517.0	19047.5	21545.2	8.7	22723.0	24793.4	7.3
EBITDA	2466.0	3869.9	3767.7	8.8	4614.1	5244.6	18.0
EBITDA Margins (%)	14.1	20.3	17.5		20.3	21.2	
Adjusted PAT	2026.0	1951.6	2112.2	10.3	3386.0	3179.3	22.7
EPS (Adjusted)	121.7	117.3	126.9		203.4	191.0	
PE (x)	33.7	34.1	31.3		20.2	21.5	
RoE (%)	13.0	11.1	11.0		15.4	13.0	
RoCE (%)	9.6	13.1	13.0		19.1	18.1	

Source: Company, ICICI Direct Research

Particulars	
Particular	Amount
Market Capitalisation	₹ 68241 crore
Debt (FY22)	₹ 3385 crore
Cash & equivalents (FY22)	₹ 2419 crore
EV	₹ 69206 crore
52 week H/L (₹)	5079/3655
Equity capital	₹ 83.2 crore
Face value	₹ 5

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	26.7	26.7	26.7	26.7
Others	73.3	73.3	73.3	73.3



Recent Event & Key risks

- Announced US launch of gRevlimid in September, 2022
- Key Risk:** (i) Regulatory Delays (ii) Slower ramp up in new launches

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Muted quarter ex-one offs

- Revenues grew 6% YoY to ₹ 5233 crore, driven by 26% YoY growth in India to ₹ 1334 crore. Russia & Other CIS markets grew 4% YoY to ₹ 510 crore while Europe also grew 4% YoY to ₹ 414 crore. US markets grew by 2% YoY to ₹ 1781 crore while RoW markets de-grew 8% YoY to ₹ 390 crore. PSAI segment posted de-growth of 6% YoY to ₹ 709 crore. Revenues for Q1FY23 includes License fee and service income of ₹ 90.2 crore from sale of brands to JB Chemicals and ₹ 139.9 crore from sale of brands to Torrent Pharma. Gross margins declined 210 bps YoY to 63.5% and EBITDA margins improved 313 bps to 18%. Adjusted EBITDA margins for one-off divestment income was at 14.2%. Subsequently, EBITDA grew 28% YoY to ₹ 941 crore. PAT for the quarter was up 224% YoY to ₹ 1180 crore. [Note: Dr Reddy's recognised amount receivable of ₹ 563.8 crore as other income from settlement with Indivior Inc., Indivior UK Limited and Aquestive Therapeutics].
- Dr Reddy's Laboratories' Q1 revenues were in-line with I-direct estimates, however highly skewed in different geographies. Margins for the quarter was a miss on estimates on account of higher commodity prices, adverse leverage on manufacturing overheads, price erosion and adverse forex related impact. Q1FY23 print was again marred by one offs in various directions but the actual narrative was on substantial weaker footing. Russia & CIS markets saw poor offtake due to channel inventory normalization post stocking up in Q4FY22 while US was muted due to price erosion in some key molecules. The management remains committed to working on cost rationalisation, especially on the SGN&A front and calibrating of R&D spend more towards Global Generics front & Biosimilars and lower towards proprietary products. Key growth drivers in the near term would be key launches across geographies besides continuing growth momentum in Global Generics especially in India and Russia.

Q1FY23 Earnings Conference Call highlights

- North America:** Growth was affected by additional competition in couple of molecules, price erosion in US base business while sequentially Vasopressin inventory filling in Q4FY22 led to high base, as volumes and prices have normalised in current quarter. Launched seven new products in Q1FY23 and Management guided for 25 launches in FY23, including volume limited launch of gRevlimid (in all strengths) in septmeber,2022.
- Europe:** During Q1, total of nine launches in various geographies. Gross margins were in-line with previous years.
- India:** Adjusted for brand divestment in current quarter and Covid sales in Q1FY22, growth was in double digits but on adjusting for acquisitions, base business grew in single digits in Q1FY23. Company launched 5 products.
- Emerging Markets:** Russian market (YoY 14% decline in constant currency terms) declined primarily due to channel inventory normalization post stocking up in Q4FY22 while RoW markets declined primarily on account of higher base in Q1FY22 due to Covid product sales and price decline in current quarter. CIS markets grew driven by volume traction in base business, favourable price benefits in some products and launch of new products.
- PSAI business:** Management indicated that adjusted for Covid base in Q1FY22, there was some growth in current quarter. The offtake is likely to improve through FY23 due to addition of new products and new customers.
- Gross margins:** There was 150 bps adverse effect due to forex impact on cost. Management indicated that gross margins will improve on back of new launches and internal sourcing for brands like Cidmus to reduce cost.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	5,232.9	5,324.7	4,945.1	5.8	5,474.9	-4.4	License fee and service income of ₹ 90.2 crore from sale of brands Z&D, Pediclo1yl, Pecef and Ezinapi to JB Chemicals and ₹ 139.9 crore from sale of brands Styptovit-E, Finast, Finast-T and Dynapres to Torrent Pharma
Raw Material Expenses	1,911.3	1,837.0	1,702.1	12.3	1,897.8	0.7	
Gross Profit	3,321.6	3,487.7	3,243.0	2.4	3,577.1	-7.1	
Gross margins (%)	63.5	65.5	65.6	-210.5	65.3	-186.1	YoY decline on account of higher commodity prices, adverse leverage on manufacturing overheads, price erosion and forex related impact, which was partially benefited from brand divestment income.
Employee expenses	1,045.7	945.1	946.5	10.5	972.6	7.5	
Other expenses	1,334.7	1,437.7	1,562.0	-14.6	2,153.5	-38.0	
EBITDA	941.2	1,104.9	734.5	28.1	451.0	108.7	
EBITDA (%)	18.0	20.8	14.9	313.3	8.2	974.9	Adjusting for divestment income, EBITDA margins at 14.2%
Other Income	853.9	106.5	107.9	691.4	121.9	600.5	Recognised present value of the amount receivable of ₹ 563.8 crore for the settlement with Indivior Inc., Indivior UK Limited and Aquestive Therapeutics
Interest	34.7	28.8	19.3	79.8	31.5	10.2	
Depreciation	301.8	333.8	283.9	6.3	293.0	3.0	
PBT	1,468.0	848.8	555.8	164.1	258.9	467.0	
Tax	279.0	220.7	175.4	59.1	161.9	72.3	Recognised reduction in current tax liability of ₹ 476.8 crore with a corresponding increase in deferred tax liability
Net Profit	1,189.0	628.1	380.4	212.6	97.0	1,125.8	
Adjusted PAT	607.0	628.1	363.8	66.9	325.6	86.5	Adjusting for both one-off income from divestment and settlement
Key Metrics							
US	1,781.5	2,022.9	1,739.0	2.4	1,997.1	-10.8	YoY growth driven by launch of new products and favorable forex rates, which was offset by price erosion in some key molecules
Europe	414.1	407.4	399.4	3.7	444.4	-6.8	YoY decline driven by launch of new products and scale up of base business, which was partly offset by price erosion in some molecules and adverse forex rates
India	1,333.9	985.8	1,060.0	25.8	968.9	37.7	YoY growth was driven by divestment of non-core brands, revenue contribution from the products acquired/in-licensed from Novartis, growth in base business and new products contribution. The growth was partially offset by covid product sales in Q1FY22.
Russia & Other CIS	510.0	710.5	490.0	4.1	920.0	-44.6	YoY growth driven by volume traction in base business, favorable price benefits in some products and launch of new products in CIS markets
RoW	390.0	359.5	422.9	-7.8	290.0	34.5	YoY decline on account of higher base in Q1FY22 due to covid product sales and price decline in current quarter, partly offset by new product launches
PSAI	709.0	754.0	754.0	-6.0	755.7	-6.2	YoY decline was primarily on account of higher base in Q1FY22 with covid product sales, partly offset by new products launched and favorable forex rates.

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	23,925.4	22,723.0	-5.0	26,331.1	24,793.4	-5.8	Changed mainly due slower ramp-up in Q1FY23 amid pricing pressure in key molecules in US, along with volatile forex in Russia
EBITDA	5,169.7	4,614.1	-10.7	5,894.3	5,244.6	-11.0	
EBITDA Margin (%)	21.6	20.3	-130 bps	22.4	21.2	-123 bps	Changed to below the management target of ~25% due to high price erosion in US and inflationary environment
Adjusted PAT	3,113.6	3,386.0	8.7	3,628.0	3,179.3	-12.4	Changed in-sync with operational performance
EPS (₹)	187.1	203.4	8.7	218.0	191.0	-12.4	

Source: ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current			Earlier				
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
US	6,465.8	7,049.5	7,491.5	8,139.9	8,766.5	8,519.2	9,200.8	Expectation of good launches from pipeline to be offset by persisting price erosion
Europe	1,170.7	1,540.4	1,663.1	1,799.9	1,979.9	1,829.4	2,012.4	
India	2,894.6	3,341.9	4,195.7	4,615.8	5,011.4	4,622.3	5,177.0	Ramp up in sales of Q1FY23 is not indicative of new base
Russia & Other CIS	2,340.0	2,323.0	2,910.0	2,594.5	2,905.8	3,197.1	3,580.8	Changed as market environment remains volatile currently
RoW	941.4	1,185.6	1,662.9	1,826.5	2,045.7	1,834.2	2,054.3	
PSAI	2,574.7	3,198.2	3,074.0	3,171.0	3,488.1	3,321.5	3,653.6	

Source: ICICI Direct Research

Exhibit 4: Revenue Breakup

(₹ crore)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	CAGR FY17-22 %	CAGR FY22-24E %
US	7545	6360	5982	5996	6466	7050	7492	8140	8766	3.3	8.2
Europe (₹ crore)	773	761	822	787	1171	1540	1663	1800	1980	16.9	9.1
India (₹ crore)	2129	2313	2332	2618	2895	3342	4196	4616	5011	12.6	9.3
Russia & Other CIS (1419	1520	1650	2050	2340	2323	2910	2595	2906	13.9	-0.1
RoW (₹ crore)	940	587	615	839	941	1186	1663	1827	2046	23.1	10.9
PSAI	2238	2128	2199	2414	2575	3198	3074	3171	3488	7.6	6.5

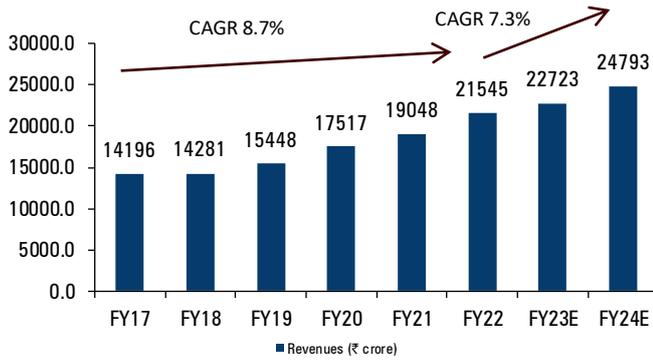
Source: ICICI Direct Research

Exhibit 5: Financial Summary

	Revenues	Growth	Adj. EPS	Growth	P/E	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY21	19047.5	8.7	117.3	-3.7	34.1	17.4	11.1	13.1
FY22	21545.2	13.1	126.9	8.2	31.3	17.8	11.0	13.0
FY23E	22723.0	5.5	203.4	60.3	20.2	14.1	15.4	19.1
FY24E	24793.4	9.1	191.0	-6.1	21.5	12.0	13.0	18.1

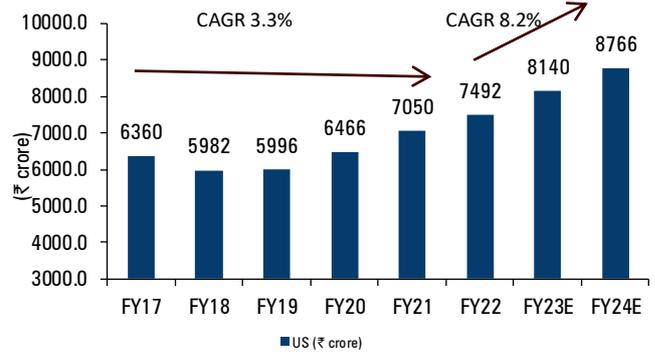
Source: ICICI Direct Research

Exhibit 6: Revenues to grow at CAGR of 7.3% in FY22-24E



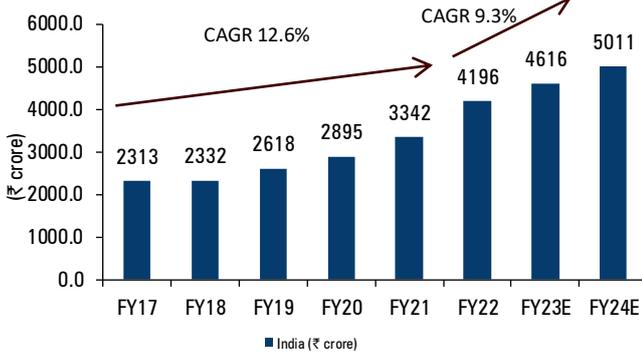
Source: ICICI Direct Research, Company

Exhibit 7: US to grow at CAGR of 8.2% over FY22-24E



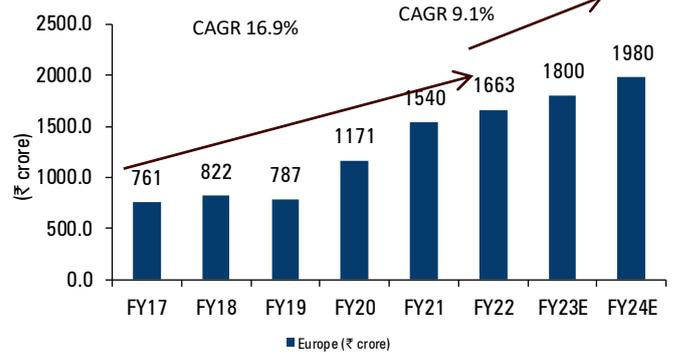
Source: ICICI Direct Research, Company

Exhibit 8: India to grow at CAGR of 9.3% over FY22-24E



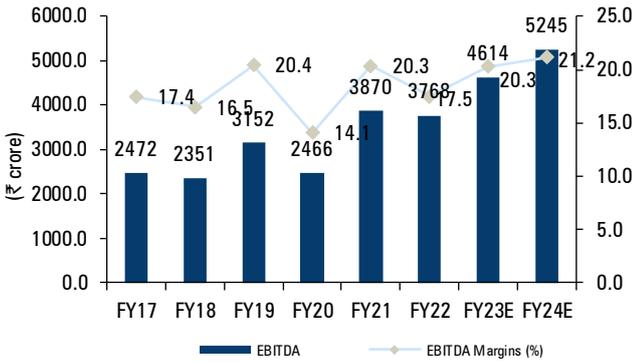
Source: ICICI Direct Research, Company

Exhibit 9: Europe to grow at 9.1% CAGR over FY22-24E



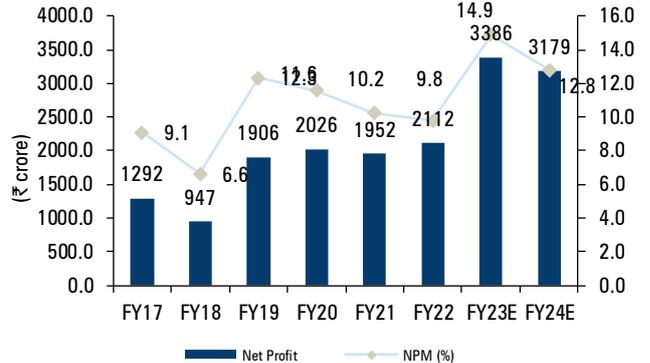
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA & EBITDA margins trend



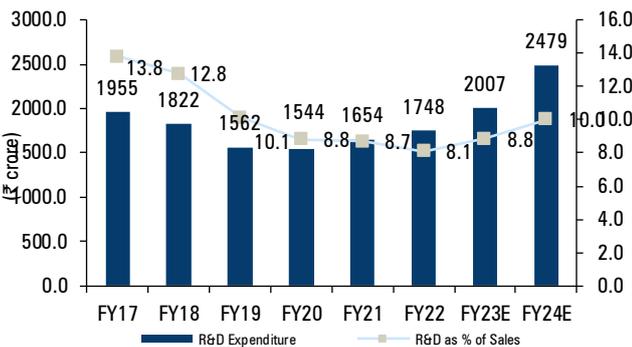
Source: ICICI Direct Research, Company

Exhibit 11: PAT & PAT margins trend



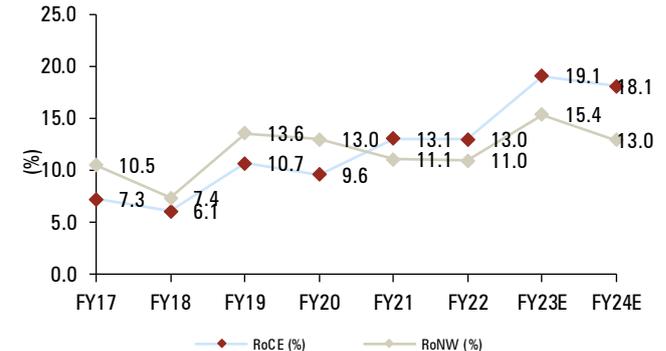
Source: ICICI Direct Research, Company

Exhibit 12: R&D and R&D as percentage of sales



Source: ICICI Direct Research, Company

Exhibit 13: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 14: Trends in Quarterly Performance

₹ Crore	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Total Operating Income	3858.2	4812.8	4397.1	4448.9	4426.5	4910.9	4941.9	4768.2	4945.1	5786.9	5338.3	5474.9	5232.9	5.8	-4.4
Raw Material Expenses	1206.9	1401.1	1415.3	1531.1	1319.6	1580.1	1637.7	1541.5	1702.1	2027.6	1814.7	1897.8	1911.3	12.3	0.7
% of Revenues	31.3	29.1	32.2	34.4	29.8	32.2	33.1	32.3	34.4	35.0	34.0	34.7	36.5	210 bps	186 bps
Gross Profit	2651.3	3411.7	2981.8	2917.8	3106.9	3330.8	3304.2	3226.7	3243.0	3759.3	3523.6	3577.1	3321.6	2.4	-7.1
Gross Profit Margins (%)	68.7	70.9	67.8	65.6	70.2	67.8	66.9	67.7	65.6	65.0	66.0	65.3	63.5	-210 bps	-186 bps
Employee expenses	861.5	825.5	837.7	855.5	872.4	948.8	915.7	893.0	946.5	1010.4	956.3	972.6	1045.7	10.5	7.5
% of Revenues	22.3	17.2	19.1	19.2	19.7	19.3	18.5	18.7	19.1	17.5	17.9	17.8	20.0	84 bps	222 bps
Other expenses	1048.1	1522.4	2432.8	1113.1	1113.2	1225.9	1849.2	1280.5	1562.0	1389.1	1351.6	2153.5	1334.7	-14.6	-38.0
% of Revenues	27.2	31.6	55.3	25.0	25.1	25.0	37.4	26.9	31.6	24.0	25.3	39.3	25.5	-608 bps	-1383 bps
Total Expenditure	3116.5	3749.0	4685.8	3499.7	3305.2	3754.8	4402.6	3715.0	4210.6	4427.1	4122.6	5023.9	4291.7	1.9	-14.6
% of Revenues	80.8	77.9	106.6	78.7	74.7	76.5	89.1	77.9	85.1	76.5	77.2	91.8	82.0	-313 bps	-975 bps
EBITDA	741.7	1063.8	-288.7	949.2	1121.3	1156.1	539.3	1053.2	734.5	1359.8	1215.7	451.0	941.2	28.1	108.7
EBITDA Margins (%)	19.2	22.1	-6.6	21.3	25.3	23.5	10.9	22.1	14.9	23.5	22.8	8.2	18.0	313 bps	975 bps
Total Depreciation	289.0	313.1	286.9	274.1	292.3	316.5	311.2	308.8	283.9	294.1	294.2	293.0	301.8	6.3	3.0
EBITDA	452.7	750.7	-575.6	675.1	829.0	839.6	228.1	744.4	450.6	1065.7	921.5	158.0	639.4	41.9	304.7
Interest	29.8	30.3	15.2	23.0	23.3	25.2	18.8	29.7	19.3	23.4	21.6	31.5	34.7	79.8	10.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
EBT	422.9	720.4	-590.8	652.1	805.7	814.4	209.3	732.6	447.9	1067.0	918.4	137.0	614.1	37.1	348.2
Total Tax	192.8	-320.7	32.5	-44.9	305.9	101.1	267.0	257.9	175.4	276.7	264.9	161.9	279.0	59.1	72.3
Tax %	45.6	-44.5	-5.5	-6.9	38.0	12.4	127.6	35.2	39.2	25.9	28.8	118.2	45.4		
Adjusted PAT	676.5	1106.8	638.9	781.1	594.6	771.8	699.2	557.3	363.8	971.1	690.8	325.6	607.0	66.9	86.5

Source: ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4199	4,500	Buy	60379	7.9	59.1	80.9	107.4	534.2	71.0	51.9	39.1	6.3	15.1	16.7	19.3	2.5	15.1	17.7	19.9
Narayana Hrudalaya	NARHRU	659	750	Buy	13464	-0.7	16.7	18.9	21.6	NA	39.4	34.9	30.5	1.2	20.5	18.8	19.5	-1.3	23.0	20.8	19.4
Shalby	SHALIM	116	150	Buy	1251	3.9	5.4	7.5	9.9	29.5	21.4	15.5	11.7	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	227	270	Buy	11331	3.0	10.5	14.4	18.4	76.7	21.5	15.8	12.3	5.4	9.0	11.4	12.9	4.4	13.3	15.4	16.4
Healthcare Global	HEAGLO	270	340	Buy	3752	-13.9	3.9	3.6	8.0	-13.9	69.8	74.5	33.6	-0.9	5.0	7.6	10.2	-0.9	5.0	5.5	10.8
MNC Pharma																					
Abbott India	ABBIND	19950	20,560	Buy	42392	325.0	375.9	439.8	514.0	61.4	53.1	45.4	38.8	33.8	36.6	37.9	36.3	26.5	28.3	29.5	28.1
P&G Health	MERLIM	4398	4,955	Hold	7300	106.5	121.5	130.5	141.6	41.3	36.2	33.7	31.1	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6345	6,885	Hold	14613	207.4	410.1	270.5	264.8	30.6	15.5	23.5	24.0	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4194	4,810	Hold	19185	108.8	133.9	140.4	160.3	38.6	31.3	29.9	26.2	27.6	26.1	23.5	23.0	20.8	21.4	19.2	18.7
Pharma																					
Ajanta Pharma	AJAPHA	1276	1,495	Buy	16355	51.0	55.6	60.1	71.1	25.0	22.9	21.2	17.9	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	703	720	Hold	13816	62.8	27.8	29.7	35.9	11.2	25.3	23.7	19.6	25.1	10.6	11.2	13.8	24.1	10.4	10.3	11.3
Aurobindo Pharma	AURPHA	549	610	Hold	32168	55.0	47.4	45.6	51.0	10.0	11.6	12.0	10.8	16.9	12.9	12.5	13.1	14.7	11.3	9.9	10.0
Biocon	BIOCON	306	320	Hold	36678	6.3	5.7	5.5	11.3	48.8	53.6	56.0	26.9	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	346	475	Hold	35442	23.3	21.0	20.2	24.0	14.8	16.5	17.1	14.4	13.8	12.0	11.2	12.4	18.4	12.6	11.0	11.7
Cipla	CIPLA	961	1,095	Buy	77519	29.9	32.9	36.2	42.5	32.2	29.2	26.5	22.6	16.3	16.7	16.7	17.7	13.1	12.7	12.6	13.3
Dr Reddy's Labs	DRREDD	4100	4,750	Buy	68241	117.3	126.9	203.4	191.0	35.0	32.3	20.2	21.5	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	378	460	Hold	10667	32.9	42.7	41.0	48.3	11.5	8.9	9.2	7.8	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	994	1,000	Hold	25217	44.9	34.8	32.7	39.9	22.1	28.5	30.4	24.9	27.1	17.4	16.2	17.4	24.2	16.1	13.4	14.4
Jubilant Pharmova	JUBLIF	360	410	Hold	5741	37.4	26.0	24.2	31.4	9.6	13.9	14.9	11.5	13.7	9.0	7.7	9.4	12.6	7.8	6.8	8.2
Lupin	LUPIN	639	610	Hold	29034	26.9	11.9	18.7	30.5	23.8	53.8	34.1	21.0	9.6	3.4	7.6	11.2	8.8	4.4	6.6	9.8
Natco Pharma	NATPHA	679	820	Hold	12396	24.2	9.3	28.3	33.2	28.1	72.9	24.0	20.5	13.1	4.6	13.3	14.1	10.7	4.0	11.0	11.6
Sun Pharma	SUNPHA	887	1,070	Buy	212893	30.0	32.0	32.6	38.3	29.5	27.8	27.2	23.2	14.2	18.2	17.7	18.2	15.5	16.0	14.3	14.7
Torrent Pharma	TORPHA	1519	1,615	Hold	51395	37.0	32.0	43.4	53.9	41.1	47.4	35.0	28.2	17.6	19.7	24.3	29.1	21.4	18.2	20.8	21.6
Indoco Remedies	INDREM	385	510	Buy	3548	10.1	16.8	21.8	28.4	38.1	22.9	17.6	13.6	11.7	17.5	18.8	24.9	12.1	17.1	18.7	20.2
Caplin Point	CAPPOI	767	895	Buy	5815	81.7	85.3	68.3	70.8	9.4	9.0	11.2	10.8	25.3	23.7	22.5	0.0	20.4	20.2	18.5	17.5
Advanced Enzymes	ADVENZ	289	290	Hold	3230	13.1	10.7	10.2	13.2	22.1	27.0	28.3	22.0	19.4	14.3	12.6	14.7	15.1	11.0	9.6	11.1
Hester Biosciences	HESPHA	2212	2,445	Hold	1882	44.4	45.7	41.3	63.2	49.8	48.4	53.6	35.0	16.2	10.9	9.9	13.4	16.5	15.0	12.2	16.3
API/CRAMS																					
Divi's Lab	DIVLAB	3861	4,655	Buy	102492	74.7	111.5	105.7	122.5	51.7	34.6	36.5	31.5	27.6	30.2	25.8	25.5	21.3	25.2	20.3	20.0
Hikal	HIKCHE	252	340	Buy	3107	10.8	13.0	11.1	19.0	23.3	19.4	22.8	13.3	15.1	13.6	10.9	16.3	14.3	15.0	11.5	16.8
Syngene Int.	SYNINT	570	710	Buy	22880	10.1	9.9	11.5	14.6	56.3	57.8	49.4	39.1	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	304	345	Buy	7532	22.2	16.6	19.6	24.6	13.7	18.2	15.5	12.3	24.0	15.6	16.8	18.6	25.3	16.0	16.0	16.9
Laurus Labs	LAULAB	525	675	Buy	28193	18.3	15.4	20.7	27.0	28.7	34.1	25.3	19.5	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	470	555	Hold	11966	14.2	17.8	17.0	18.5	33.0	26.4	27.6	25.3	31.2	37.5	28.5	26.0	30.7	29.7	23.0	20.8

Source: ICICI Direct Research

Financial Summary

Exhibit 16: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Revenues	19,047.5	21,545.2	22,723.0	24,793.4	
Growth (%)	8.7	13.1	5.5	9.1	
Raw Material Expenses	6,078.9	7,442.2	7,857.9	8,143.9	
Employee expenses	3,629.9	3,885.8	4,193.9	4,462.8	
Other expenses	5,468.8	6,449.5	6,057.0	6,942.2	
Total Operating Expenditure	15,177.6	17,777.5	18,108.9	19,548.8	
EBITDA	3,869.9	3,767.7	4,614.1	5,244.6	
Growth (%)	56.9	-2.6	22.5	13.7	
Interest	97.0	95.8	142.9	119.2	
Depreciation	1,228.8	1,165.2	1,234.8	1,324.9	
PBT before Exceptional Items	2,835.5	2,991.1	4,440.2	4,296.3	
Share of profit/ (loss) of equity ac	-48.0	-70.3	0.0	0.0	
PBT	2,883.5	3,061.4	4,440.2	4,296.3	
Total Tax	931.9	878.9	1,054.2	1,117.0	
PAT	1,999.6	2,182.5	3,386.0	3,179.3	
Adjusted PAT	1,951.6	2,112.2	3,386.0	3,179.3	
Growth (%)	-3.7	8.2	60.3	-6.1	
EPS	120.1	131.1	203.4	191.0	
EPS (Adjusted)	117.3	126.9	203.4	191.0	

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	2,311.9	2,317.7	3,386.0	3,179.3	
Add: Depreciation & Amortization	1,228.8	1,165.2	1,234.8	1,324.9	
Net Increase in Current Assets	-780.0	-2,234.0	-712.5	-902.9	
Net Increase in Current Liabilities	-48.8	851.7	314.2	282.2	
CF from operating activities	3,570.3	2,810.8	4,365.3	4,002.7	
(Inc)/dec in Fixed Assets	-2,799.0	-1,605.9	-1,500.0	-1,500.0	
(Inc)/dec in Investments	411.0	-1,120.1	0.0	0.0	
Others	125.1	966.8	-70.3	-73.1	
CF from investing activities	-2,262.9	-1,759.2	-1,570.3	-1,573.1	
Inc / (Dec) in Equity Capital	-92.4	3.3	0.0	0.0	
Inc / (Dec) in Loan	684.8	430.5	-500.0	-500.0	
Dividend & Dividend Tax	-414.7	-414.6	-582.5	-665.8	
Others	-207.5	-134.5	-142.9	-119.2	
CF from financing activities	-29.8	-115.3	-1,225.4	-1,285.0	
Net Cash flow	1,277.6	936.3	1,569.6	1,144.6	
Opening Cash	205.3	1,482.9	2,419.2	3,988.8	
Closing Cash	1,482.9	2,419.2	3,988.8	5,133.5	
Free Cash Flow	771.3	1,204.9	2,865.3	2,502.7	

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	83.2	83.2	83.2	83.2	
Net Network	17,558.5	19,129.2	21,932.6	24,446.1	
Total Shareholders fund	17,641.7	19,212.4	22,015.8	24,529.3	
Total Debt	3,030.8	3,384.5	2,884.5	2,384.5	
Deferred Tax Liability	28.9	1.4	1.5	1.5	
Other Non Current Liabilities	161.7	166.9	173.6	180.5	
Long term Provisions	50.8	25.8	26.8	27.9	
Source of Funds	20,914	22,791	25,102	27,124	
Gross Block - Fixed Assets	17,995.8	19,238.8	20,538.8	22,038.8	
Accumulated Depreciation	10,350.0	11,664.5	12,899.3	14,224.2	
Net Block	7,645.8	7,574.3	7,639.5	7,814.6	
Capital WIP	1,565.1	1,293.4	1,493.4	1,493.4	
Net Fixed Assets	9,210.9	8,867.7	9,132.9	9,308.0	
Goodwill	559.9	547.3	547.3	547.3	
Investments	2,807.7	2,615.9	2,615.9	2,615.9	
Inventory	4,541.2	5,088.4	5,372.6	5,568.1	
Cash	1,482.9	2,419.2	3,988.8	5,133.5	
Debtors	4,964.1	6,676.4	7,041.4	7,683.0	
Loans & Advances & Other CA	1,587.7	1,581.0	1,644.2	1,710.0	
Total Current Assets	12,575.9	15,765.0	18,047.1	20,094.6	
Creditors	1,810.9	2,266.2	2,392.8	2,479.9	
Provisions & Other CL	3,892.0	4,689.7	4,877.3	5,072.4	
Total Current Liabilities	5,702.9	6,955.9	7,270.1	7,552.2	
Net Current Assets	6,873.0	8,809.1	10,777.0	12,542.3	
LT L& A, Other Assets	393.8	674.1	701.1	729.1	
Deferred Tax Assets	1,068.6	1,277.0	1,328.1	1,381.2	
Application of Funds	20,914	22,791	25,102	27,124	

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	117.3	126.9	203.4	191.0	
BV per share	1,059.9	1,154.3	1,322.7	1,473.8	
Operating Ratios (%)					
Gross Profit Margins	68.1	65.5	65.4	67.2	
EBITDA margins	20.3	17.5	20.3	21.2	
Net Profit margins	10.2	9.8	14.9	12.8	
Inventory days	272.7	249.6	249.6	249.6	
Debtor days	95.1	113.1	113.1	113.1	
Creditor days	108.7	111.1	111.1	111.1	
Asset Turnover	1.1	1.1	1.1	1.1	
EBITDA conversion Rate	92.3	74.6	94.6	76.3	
Return Ratios (%)					
RoE	11.1	11.0	15.4	13.0	
RoCE	13.1	13.0	19.1	18.1	
RoIC	19.5	18.4	23.2	25.5	
Valuation Ratios (x)					
P/E	34.1	31.3	20.2	21.5	
EV / EBITDA	17.4	17.8	14.1	12.0	
EV / Revenues	3.5	3.1	2.9	2.5	
Market Cap / Revenues	3.6	3.2	3.0	2.7	
Price to Book Value	3.9	3.6	3.1	2.8	
Solvency Ratios					
Debt / Equity	0.2	0.2	0.1	0.1	
Debt / EBITDA	0.8	0.9	0.6	0.5	
Current Ratio	1.9	1.9	1.9	2.0	

Source: Company, ICICI Direct Research

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