

July 29, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	4,750		4,900	
Sales (Rs. m)	2,19,699	2,42,812	2,27,660	2,49,382
% Chng.	(3.5)	(2.6)		
EBITDA (Rs. m)	41,801	53,274	47,427	55,338
% Chng.	(11.9)	(3.7)		
EPS (Rs.)	187.6	203.9	178.9	212.2
% Chng.	4.9	(3.9)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	190	214	220	243
EBITDA (Rs. bn)	45	46	42	53
Margin (%)	23.6	21.5	19.0	21.9
PAT (Rs. bn)	19	24	31	34
EPS (Rs.)	115.1	141.6	187.6	203.9
Gr. (%)	(1.9)	23.1	32.5	8.6
DPS (Rs.)	28.8	34.5	40.3	46.0
Yield (%)	0.7	0.8	0.9	1.1
RoE (%)	11.6	12.9	15.4	14.9
RoCE (%)	16.7	16.0	12.6	15.8
EV/Sales (x)	3.7	3.3	3.1	2.7
EV/EBITDA (x)	15.7	15.1	16.2	12.4
PE (x)	37.0	30.1	22.7	20.9
P/BV (x)	4.1	3.7	3.3	2.9

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.5,079 / Rs.3,654
Sensex / Nifty	56,858 / 16,930
Market Cap	Rs.709bn / \$ 8,890m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.2035.88m

Shareholding Pattern (%)

Promoter's	26.71
Foreign	25.87
Domestic Institution	25.21
Public & Others	22.21
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.6)	1.0	(10.0)
Relative	(8.9)	1.6	(17.0)

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Weak quarter; PAT aided by one-offs

Quick Pointers:

- PAT was aided from brand divestment income (Rs2.3bn) and forex gain
- US sales was down QoQ impacted by price erosion and competition in certain products like gSuboxone.

Dr Reddy's (DRRD) Q1FY23 profitability adjusted for one-time divestment income was weak impacted by lower GMs and US sales. Our FY24E EPS stands reduced by 4%. We expect margins to improve with easing of commodity and as revenue scale up with new launches in US like gRevlimid. India revenues were healthy. We estimate margins ex of gRevlimid at 19% and 22% in FY23E and FY24E. We maintain our 'Buy' rating with revised TP of Rs4,750/share (Rs4,900 earlier). At CMP, DRRD is trading at 20x P/E on FY24E adjusted for gRevlimid. We assign 22x FY24E EPS plus Rs250/share for gRevlimid NPV. Delay in key ANDA approvals and prolonged inflationary environment of raw material prices are key risks to our call.

- Muted revenue growth, weak US and PSAI sales:** DRRD's sales grew 6% YoY at Rs 52.2bn. Adjusted for one-time divestment income (Rs2.3bn), revenues were flat YoY and below our estimate. The miss was largely on account of lower US and PSAI sales. US sales came in at \$231mn (down 13% QoQ), impacted by price erosion and competition in certain key products. Domestic business grew 26% YoY aided by divestment of certain brands to Torrent Pharma (Rs1.4bn) and JB Chemical (Rs0.9bn). PSAI sales declined by 6% while EU increased by 4% YoY. Russia sales declined by 8.6% YoY on the back of channel inventory normalization post stocking up in Q4. RoW declined by 7% YoY.
- Adjusted EBIDTA sharply below our estimates:** DRRD reported EBIDTA of Rs9.2bn; Adjusted for divestment income, EBIDTA came in at Rs6.9bn vs our estimate of Rs10.5bn impacted by weak GMs and lower revenues. Adjusted GMs came in lower at 47.3% (down 500 bps YoY); impacted due to adverse forex, higher commodity prices. Segment wise PSAI margins were at 15.7% (18.4% in Q4) and generic margins were at 55% vs 58.2% in Q4. Other operating income came in higher at Rs6bn aided by \$72mn of settlement income from Indivior. Interest income also came in higher at Rs2.3bn aided by forex gain. Resultant PAT came in at Rs11.9bn; higher than our estimate.
- Key concall takeaways: (1) US business:** increased competition in key products like gSuboxone and price erosion of 7-8% led to decline. Guided to launches 25 products in FY23. (2) Completion of FDA inspection at new sterile injectable facility will support further approval in the future. (3) Domestic formulation growth was in single digit adjusted for brand divestment, Cidmus acquisition and COVID (4) Margins should improve in coming quarters as revenues pick up and normalization of expenses (5) gRevlimid launch in Sept 2022 with volume restrictions and will be across strengths (6) Maintained guidance of achieving 25% OPM. (8) Healthy cash inflow to be utilized for future business growth through inorganic opportunities

Exhibit 1: 1QFY23 Result Overview (Rs mn)- Weak margins; PAT aided by settlement income

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
Net Sales	52,154	49,194	6.0	54,368	(4.1)
COGS	26,148	23,495	11.3	25,625	2.0
<i>% of Net Sales</i>	<i>50.1</i>	<i>47.8</i>		<i>47.1</i>	
SGA	12,443	12,140	2.5	12,715	(2.1)
<i>% of Net Sales</i>	<i>23.9</i>	<i>24.7</i>		<i>23.4</i>	
R&D	4,325	4,534	(4.6)	4,326	(0.0)
<i>% of Net Sales</i>	<i>8.3</i>	<i>9.2</i>		<i>8.0</i>	
Total Expenditure	42,916	40,169	6.8	42,666	0.6
EBITDA	9,238	9,025	2.4	11,702	(21.1)
<i>Margin (%)</i>	<i>17.7</i>	<i>18.3</i>		<i>21.5</i>	
Depreciation	3,050	2,905	5.0	2,959	3.1
EBIT	6,188	6,120	1.1	8,743	(29.2)
Other Income	6,024	487	1,137.0	291	1,970.1
Interest	(2,349)	(652)	260.3	(859)	173.5
PBT	14,561	7,259	100.6	9,893	47.2
Share of Profit of Equity	94	166		105	
Exceptional Items	-	-		7,515	
Total Taxes	2,779	1,717	61.9	1,608	72.8
<i>ETR (%)</i>	<i>19.1</i>	<i>23.7</i>		<i>16.3</i>	
Reported PAT	11,876	5,708	108.1	875	1,257.3

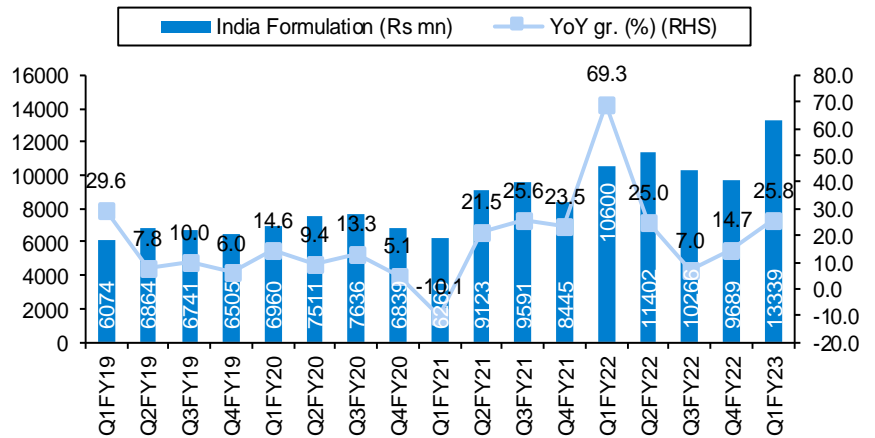
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
PSAI (CPS & API)	7,090	7,540	(6.0)	7,557	(6.2)
<i>% of Net Sales</i>	<i>13.6</i>	<i>15.3</i>		<i>13.9</i>	
Branded Formulation	44,323	41,113	7.8	46,117	(3.9)
India	13,339	10,600	25.8	9,689	37.7
<i>% of Net Sales</i>	<i>25.6</i>	<i>21.5</i>		<i>17.8</i>	
International	30,984	30,513	1.5	36,428	(14.9)
<i>% of Net Sales</i>	<i>59.4</i>	<i>62.0</i>		<i>67.0</i>	
Russia & CIS	5,100	4,900	4.1	9,200	(44.6)
<i>% of Net Sales</i>	<i>9.8</i>	<i>10.0</i>		<i>16.9</i>	
Europe	4,141	3,994	3.7	4,444	(6.8)
<i>% of Net Sales</i>	<i>7.9</i>	<i>8.1</i>		<i>8.2</i>	
North America Generics	17,815	17,390	2.4	19,971	(10.8)
<i>% of Net Sales</i>	<i>34.2</i>	<i>35.3</i>		<i>36.7</i>	
Emerging Mkt Generics	3,928	4,229	(7.1)	2,813	39.6
<i>% of Net Sales</i>	<i>7.5</i>	<i>8.6</i>		<i>5.2</i>	
Innovative Prod. (Proprietary Prod.)	740	541	36.8	693	6.8
<i>% of Net Sales</i>	<i>1.4</i>	<i>1.1</i>		<i>1.3</i>	

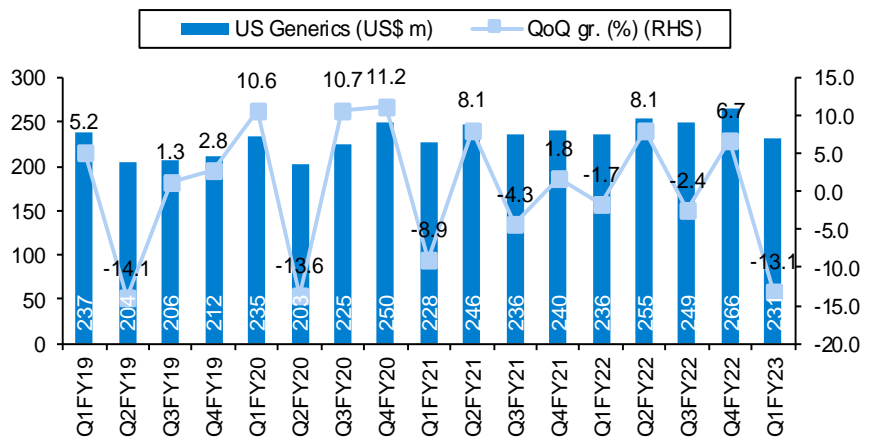
Source: Company, PL

Exhibit 3: India Formulation (Rs mn):- adjusted for one-off, CIDMUS product and COVID base, company reported single digit growth



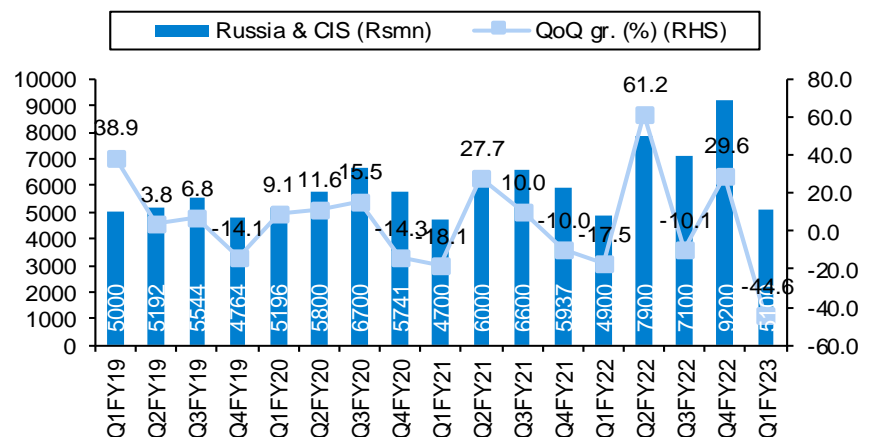
Source: Company, PL

Exhibit 4: US Generic (US\$ m) : Price erosion and competition impacted sales



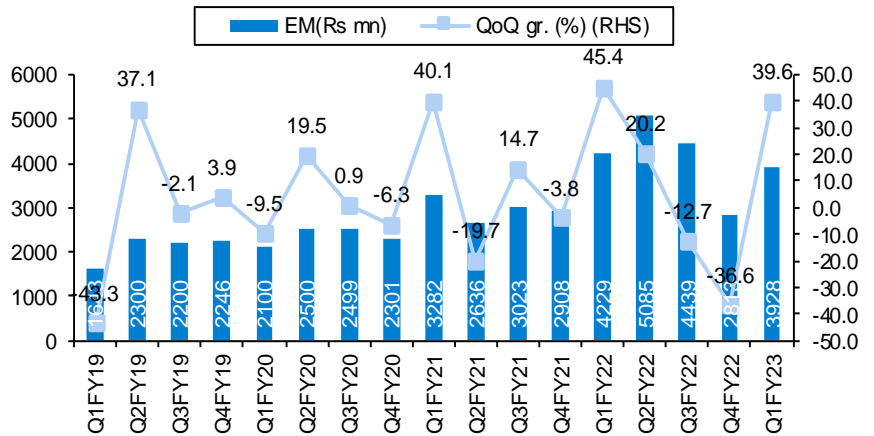
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn): Declined due to channel inventory normalization



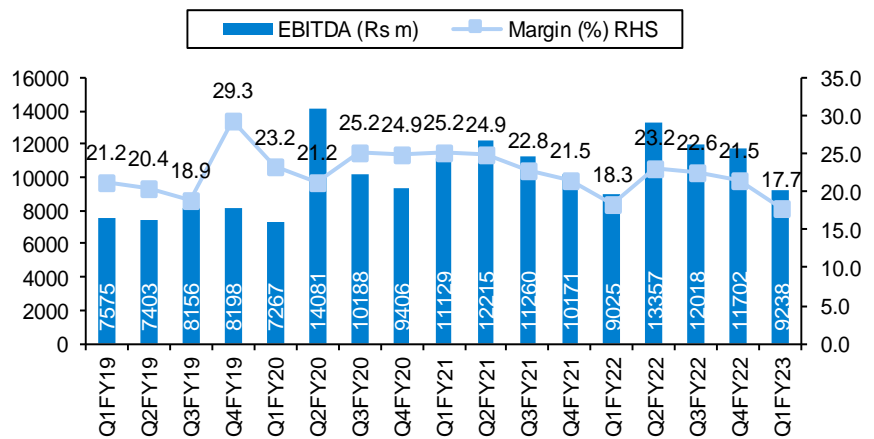
Source: Company, PL

Exhibit 6: Emerging Markets (Rs mn): volume traction in base business, price benefits and new launches in few markets



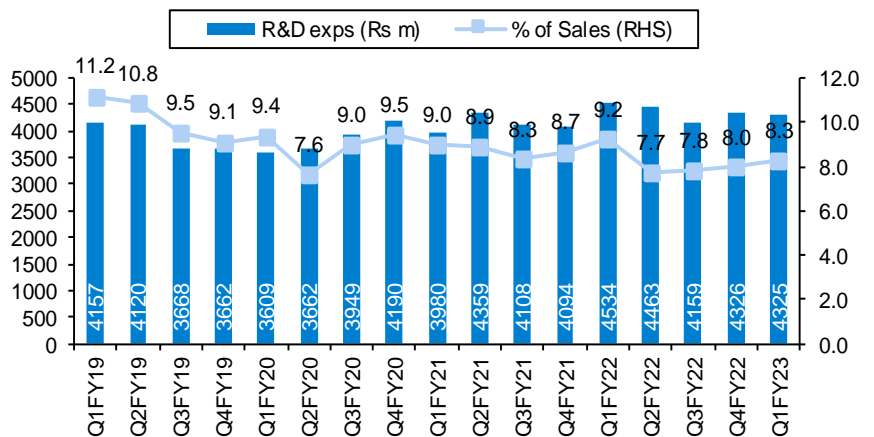
Source: Company, PL

Exhibit 7: Adjusted margins for one-off came sharply lower



Source: Company, PL

Exhibit 8: R&D (Rs mn) as % of sales



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	1,89,721	2,14,391	2,19,699	2,42,812
YoY gr. (%)	8.7	13.0	2.5	10.5
Cost of Goods Sold	86,644	1,00,551	1,07,951	1,15,731
Gross Profit	1,03,077	1,13,840	1,11,747	1,27,081
Margin (%)	54.3	53.1	50.9	52.3
Employee Cost	-	-	-	-
Other Expenses	16,541	17,482	18,181	19,454
EBITDA	44,773	46,101	41,801	53,274
YoY gr. (%)	9.4	3.0	(9.3)	27.4
Margin (%)	23.6	21.5	19.0	21.9
Depreciation and Amortization	12,796	11,824	12,754	13,978
EBIT	31,977	34,277	29,048	39,296
Margin (%)	16.9	16.0	13.2	16.2
Net Interest	(2,635)	(4,880)	(10,980)	(4,600)
Other Income	-	-	-	-
Profit Before Tax	34,612	39,157	40,028	43,896
Margin (%)	18.2	18.3	18.2	18.1
Total Tax	9,175	8,730	9,607	10,974
Effective tax rate (%)	26.5	22.3	24.0	25.0
Profit after tax	25,437	30,427	30,421	32,922
Minority interest	-	-	-	-
Share Profit from Associate	480	703	800	1,000
Adjusted PAT	19,149	23,568	31,221	33,922
YoY gr. (%)	(1.8)	23.1	32.5	8.6
Margin (%)	10.1	11.0	14.2	14.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	19,149	23,568	31,221	33,922
YoY gr. (%)	(1.8)	23.1	32.5	8.6
Margin (%)	10.1	11.0	14.2	14.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,149	23,568	31,221	33,922
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	115.1	141.6	187.6	203.9

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	51,873	57,331
Trade receivables	49,641	66,764	64,079	70,820
Cash & Bank Balance	14,829	14,852	22,449	37,022
Other Current Assets	18,623	19,093	20,048	21,050
Total Assets	2,54,861	2,84,323	2,97,925	3,28,931
Equity				
Equity Share Capital	832	832	832	832
Other Equity	1,74,149	1,89,695	2,14,219	2,40,486
Total Network	1,74,981	1,90,527	2,15,051	2,41,318
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	25,488	27,325
Other current liabilities	35,556	44,621	46,882	49,783
Total Equity & Liabilities	2,54,861	2,84,323	2,97,925	3,28,931

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	44,773	46,101	41,801	53,274
Add. Depreciation	12,796	11,824	12,754	13,978
Add. Interest	2,635	4,880	10,980	4,600
Less Financial Other Income	-	-	-	-
Add. Other	(10,497)	(16,548)	(23,734)	(18,578)
Op. profit before WC changes	49,707	46,257	41,801	53,274
Net Changes-WC	(8,288)	(10,712)	3,369	(8,463)
Direct tax	(5,716)	(7,437)	(9,607)	(10,974)
Net cash from Op. activities	35,703	28,108	35,564	33,837
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	10,980	4,600
Others	11,103	(17,932)	350	791
Net cash from Fin. activities	2,328	(13,099)	(8,467)	(2,263)
Net change in cash	12,776	23	7,597	14,573
Free Cash Flow	25,962	13,448	20,564	16,837

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	57,632	53,197	54,368	52,154
YoY gr. (%)	17.7	7.9	15.0	6.0
Raw Material Expenses	26,846	24,585	25,625	26,148
Gross Profit	30,786	28,612	28,743	26,006
Margin (%)	53.4	53.8	52.9	49.9
EBITDA	13,357	12,018	11,702	9,238
YoY gr. (%)	9.3	6.7	15.1	2.4
Margin (%)	23.2	22.6	21.5	17.7
Depreciation / Depletion	2,985	2,976	2,959	3,050
EBIT	10,372	9,042	8,743	6,188
Margin (%)	18.0	17.0	16.1	11.9
Net Interest	(319)	(289)	(859)	(2,349)
Other Income	1,743	240	291	6,024
Profit before Tax	12,434	9,571	9,893	14,561
Margin (%)	21.6	18.0	18.2	27.9
Total Tax	2,761	2,644	1,608	2,779
Effective tax rate (%)	22.2	27.6	16.3	19.1
Profit after Tax	9,673	6,927	8,285	11,782
Minority interest	-	-	-	-
Share Profit from Associates	247	185	105	94
Adjusted PAT	9,920	7,065	875	11,876
YoY gr. (%)	30.1	3,468.2	(84.2)	108.1
Margin (%)	17.2	13.3	1.6	22.8
Extra Ord. Income / (Exp)	-	47	7,515	-
Reported PAT	9,920	7,112	8,390	11,876
YoY gr. (%)	18.0	15.3	51.2	108.1
Margin (%)	17.2	13.4	15.4	22.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	9,920	7,112	8,390	11,876
Avg. Shares O/s (m)	166	166	166	166
EPS (Rs)	59.8	42.6	5.3	71.5

Source: Company Data, PL Research

Key Financial Metrics

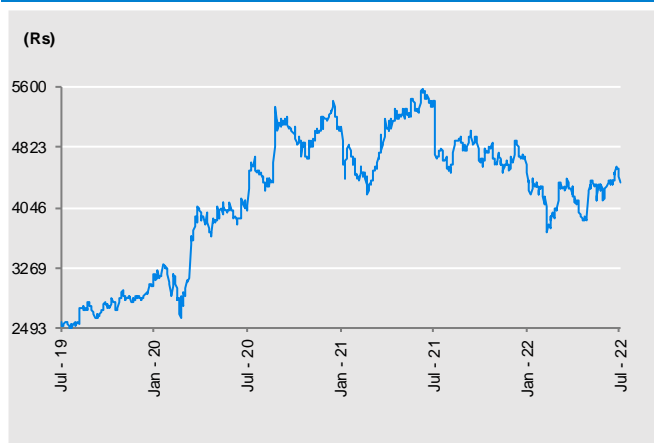
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	115.1	141.6	187.6	203.9
CEPS	192.0	212.7	264.3	287.9
BVPS	1,051.6	1,145.0	1,292.4	1,450.2
FCF	156.0	80.8	123.6	101.2
DPS	28.8	34.5	40.3	46.0
Return Ratio(%)				
RoCE	16.7	16.0	12.6	15.8
ROIC	14.5	14.3	11.8	15.0
RoE	11.6	12.9	15.4	14.9
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	141	157	150	152
Valuation(x)				
PER	37.0	30.1	22.7	20.9
P/B	4.1	3.7	3.3	2.9
P/CEPS	22.2	20.0	16.1	14.8
EV/EBITDA	15.7	15.1	16.2	12.4
EV/Sales	3.7	3.3	3.1	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	48,469	51,709
US formulations	70,494	74,915	74,473	84,262
Russia	15,800	20,900	17,030	19,073
PSAI	31,982	30,740	31,355	33,863

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	BUY	4,900	4,390
2	22-Jun-22	BUY	4,900	4,269
3	20-May-22	BUY	4,900	3,929
4	08-Apr-22	BUY	5,200	4,317
5	31-Jan-22	BUY	5,200	4,219
6	07-Jan-22	BUY	5,400	4,708
7	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	3,884
2	Aster DM Healthcare	BUY	234	183
3	Aurobindo Pharma	Accumulate	635	544
4	Cipla	BUY	1,085	946
5	Divi's Laboratories	Accumulate	4,300	3,659
6	Dr. Reddy's Laboratories	BUY	4,900	4,390
7	Eris Lifesciences	BUY	850	643
8	Fortis Healthcare	BUY	330	238
9	Glenmark Pharmaceuticals	Accumulate	450	390
10	HealthCare Global Enterprises	BUY	347	274
11	Indoco Remedies	BUY	430	377
12	Ipca Laboratories	BUY	1,085	946
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,600	1,220
15	Lupin	Hold	600	630
16	Max Healthcare Institute	BUY	427	370
17	Narayana Hrudayalaya	BUY	773	639
18	Sun Pharmaceutical Industries	BUY	1,020	838
19	Torrent Pharmaceuticals	BUY	3,250	2,900
20	Zydus Lifesciences	BUY	450	366

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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