KRChoksey research

Dr. Reddy's Laboratories Ltd.

Annual Report Round-Up

12th July 2022

Executive Summary

- The company posted strong growth in consolidated revenue in FY22, driven by a rise in base business volume and new product launches.

- Geographically, the revenue growth was largely influenced by strong growth across markets such as India, the US, Russia, and others. US generics business crossed the USD 1.0 bn mark in FY22, driven by high-value launches such as gVascepa or Icosapent Ethyl soft gel and gVascostrict or Vasopressin injections (first authorized generic to launch) and enhancement in volume share of the existing products, which more than offset the price erosion.

- Russia revenue grew at 32.0% YoY in FY22, driven by improved performance of the base business, the launch of new products, and divestment income from the sale of a few non-core brands such as Ciprolet and Levolet for INR 1.77 bn in Q4FY22.

- The Global Generic (GG) segment is dealing with higher price erosions with increased market competition across some of its major products. The company has been able to offset it by gaining volume share in existing products such as Ciprofloxacin Dexamethasone and Isotretinoin, and with the launches of new and complex as well as high-value products in the US.

- The Pharma Services and Active Ingredients (PSAI) segment witnessed a decline in revenue due to a fall in sales volumes and prices of some of its existing products; partially offset by launches of new products. The sales decline was also due to the normalization of overfilled channel inventory that took place in FY21.

- The company has deeply incorporated sustainability in its purpose, and it forms the core of Dr. Reddy's. It is committed to 9 principles of national guidelines on Responsible Business.

- The company will be driving the revenue growth with generics, biosimilars, APIs, branded generics, and Over the Counter (OTC) products, over the short-medium term and will be considering immuno-oncology New Chemical Entities (NCEs), Biologics, Nutraceuticals, CDMO, and Digital Services to drive its growth over the long term.

- The company is also open to inorganic growth opportunities, which can amplify its growth tremendously.

Dr. Reddy's Laboratories Ltd.– View & Recommendation

- **Dr. Reddy's Laboratories Ltd.** is one of the largest Pharmaceutical companies in India. Through its portfolio of products and services, it manufactures generic and branded drugs in multiple therapeutic areas including Gastrointestinal, oncology, cardiovascular, pain management, CNS, respiratory, and anti-infectives. It also manufactures APIs and provides CDMO services to global innovator pharmaceutical companies. It also develops novel therapeutics for oncology and inflammation areas through its subsidiary called Aurigene Discovery Technologies Ltd. (ADTL)
  - The key geographies it serves include the US, Europe, India, Russia, Commonwealth of Independent States (CIS) countries, South Africa, China, Brazil, Australia, and some other markets.
  - It holds 3.0% market share in India Pharma Market (IPM) as of May 22, which it was able to double up with the help of acquisition of Wockhardt's over 60 branded generic products in FY21.

Key Information

Sector	**Pharmaceuticals**
M-Cap (INR Cr)	74,915
52-week H/L (INR)	5,534/3,654
Volume Avg. (3m K)	434
CMP (INR)	**4,501**
Target Price (INR)	**5,261**
Upside (%)	**16.9%**
Recommendation	**BUY**

Shareholding Pattern (%)

Particulars	Mar-22	Dec-21
Promoters	26.7	26.7
FIIs	25.2	27.4
DIIs	24.8	22.3
Others	23.3	23.6
Total	100	100

Source: BSE

Source: Company, KRChoksey Research

Dr. Reddy's witnessed a strong growth in revenue driven by rise in GG business

- The company posted a 13.0% YoY rise in consolidated revenue in FY22, driven by a rise in base business volume and new product launches. The growth was driven by a strong increase visible in the GG's sales, Proprietary products (PP) segment sales; partially offset by a fall in PSAI segment sales and slower growth in other segment sales such as the biotechnology development arm ADTL and digital healthcare and IT-enabled support services (Svaas).

- The growth in revenue was driven by strong growth in the GG segment across therapies such as Gastro, anti-infectives, pain management, respiratory, and newly reported segments such as hematology, dermatology, and Nutraceuticals; partially offset by a decline in revenue for Central Nervous System (CNS) and slower sales growth in chronic therapies such as oncology and cardiovascular.

- Geographically, the revenue growth was largely influenced by strong growth across markets such as India, US, Russia, and others.

Revenue INR bn	FY21	FY22
Revenue Operating	**189**	**214**
YoY Growth (%)	8.7%	13.0%
Global Generic	**154**	**179**
YoY Growth (%)	11.8%	16.0%
PSAI	**32**	**31**
YoY Growth (%)	24.2%	-3.9%
Prop. Products	**0.52**	**1.60**
YoY Growth (%)	-93.4%	208.0%
Others	**2.81**	**2.87**
YoY Growth (%)	1.2%	2.0%

- US generics business crossed the USD 1 bn mark in FY22, driven by high-value launches (limited competition) such as gVascepa or Icosapent Ethyl soft gel (with only 2 other generic players such as Apotex, and Hikma producing it and market size of USD 598 mn in the US as of CY20), gVascostrict or Vasopressin injections (first authorized generic to launch with market size of USD 878.5 in CY21), and enhancement in volume share of the existing products, more than offsetting the price erosion.

- The company has launched 7 Abbreviated New Drug Applications (ANDAs) in the US, 10 Drug Master Files (DMFs), and launched nearly 157 products across markets, which it intends to accelerate in FY23E. The company has 90 ANDA filings pending for approval as of FY22.

Global Generic (GG)

	FY21	FY22
Revenue (INR bn)	**154.**	**179**
YoY Growth (%)	11.8%	16.0%

- The key geographies for the company include the US (42.0% of GG revenue), India (23.0%), Russia (12.0%), Europe (9.0%), and emerging markets (EMs), which include South Africa, China, Brazil, Australia, and others (14%)
- Despite the key challenges that emerged in FY22, including COVID 19 second wave, increased pricing pressure in the US, Europe, and some emerging markets, rising commodity prices, and geopolitical conflicts between Russia and Ukraine, the company was able to maintain supply unabated, lapped up on every business opportunity to enhance operating leverage, and continued with its cost control measures, initiated since FY18.
- The company invested in brand development in emerging economies such as India, Russia (part of emerging markets), and others. This led to strong growth in the segments. India grew at 25.5% YoY in FY22. The company launched 20 new branded products in India, including the Sputnik vaccine for COVID 19.
- Russia revenue grew at 32.0% YoY in FY22, driven by improved performance of the base business, the launch of new products, and divestment income from the sale of a few non-core brands such as Ciprolet and Levolet for INR 1.77 bn in Q4FY22. The Russian government has announced the roadmap for the pharma sector up to 2030, by which they are expected to focus more on biological and pathogenetic drugs. There are several countries that have imposed sanctions on Russia post its war with Ukraine. However, Dr. Reddy's will continue to expand in markets such as Russia, China, Brazil, and South Africa.
- Growth in North America was driven by the launch of 17 new products in FY22. Some of the major launches included gVascepa, gVasostrict injectable, gInvanz injectable, and gDiovan. Out of the 90 pending filings in the US, nearly 50% of products are complex as they comprise of 3 NDAs under 505 (b)(2) route and 44 para IV filings with 24 of them being First To File (FTF).
- The segment is dealing with higher price erosions with increased market competition across some of its major products. The company has been able to offset it by gaining volume share in existing products such as Ciprofloxacin Dexamethasone and Isotretinoin and new complex and high-value product launches in the US. The company intends to outdo the competition by accelerating new product launches and increasing the volume share of existing products through traditional and digital channels to ensure the right cost structures. It will focus on complex products such as injectables and Oral Solid Dosages (OSD) in short – medium term and biosimilars and differentiated products over long term.

PSAI affected by lower volumes and prices and over-filled channel inventory since FY21

	FY21	FY22
Revenue (INR bn)	32	31
YoY Growth (%)	24.2%	-3.9%

- The PSAI segment witnessed a decline in revenue due to a decline in sales volumes and prices of some of its existing products; partially offset by launches of new products. The sales decline was also due to the normalization of overfilled channel inventory that took place in FY21.
- The company has filed 139 DMFs across the globe, which also includes 10 filed in the US markets.
- The segment has not only, API and intermediates sales in the segment, but also CDMO revenue that it generates from global pharmaceutical customers. The company intends to leverage its relationship with key customers to supply value-added (customized) materials instead of plain vanilla APIs.

PP Revenue driven by licensing of a product

	FY21	FY22
Revenue (INR bn)	0.52	1.61
YoY Growth (%)	-93.4%	208.0%

- PP Revenue was driven by recognition of license fees associated with the sale of its US and Canada territory rights for Elyxyb 25 mg/ml to BioDelievery Sciences International Inc. in Q2FY22.
- The company took an impairment loss of INR 6.18 bn in FY22 compared to INR 6.72 bn of impairment losses taken in FY21. Nearly INR 4.34 bn was related to PPC -06 (Tepilamide Fumarate Extended-Release Tablets), and INR 1.84 bn related to Xeglyze, which were products under development under the PP segment.
- The company's intangible assets under development have reduced from INR 6.11 bn in FY21 to INR 138 mn as of FY22. This is majorly on account of impairment of INR 6.27 bn related to PP products (98% of the impairments) and generic products. This was also on account of the disposal of Intellectual Property (IP) rights to anti-cancer agent E777 (denileukin diftitox) to Citius Pharmaceuticals Inc.
- As per the out-licensing agreement with BioDelivery Sciences, the company was entitled to receive USD 6.0 mn upfront following the closure of the deal, and USD 9.0 mn after a year from closing. Also, the company is entitled to receiving milestone payments on gaining certain regulatory approvals, certain sales in the CY, and certain earn-out payments as a share of net sales of the product in the territory.

Key performance indicators - Physical parameters

The diversified revenue base across therapies with new product launches are helping it to mitigate price erosions in the competitive markets of the US, Europe, and a few emerging markets

- The CNS, anti-infectives, and respiratory have emerged as high-growth therapies for Dr. Reddy's, while newly reported hematology, dermatology, and nutraceuticals are adding to revenue growth.
- Its clinical-stage biotech company, ADTL., which is committed to bringing novel therapeutics for cancer and inflammation is reported under the other segment.

Dr. Reddy's INR bn	FY18	FY19	FY20	FY21	FY22
Global Generics	114.01	122.9	138.12	154.4	179.17
PSAI	21.99	24.14	25.75	31.98	30.74
PP	4.25	4.75	7.95	0.52	1.61
Others	1.78	2.06	2.78	2.81	2.87

Dr. Reddy's Global Generic INR bn	FY18	FY19	FY20	FY21	FY22
Central Nervous system (CNS)	12.51	19.73	26.83	29.04	26.16
Gastrointestinal	19.15	19.25	19.39	21.13	23.39
Anti-infective	6.56	7.07	9.40	12.91	22.53
Pain management	12.90	13.81	13.81	15.53	18.44
Oncology	17.00	18.36	18.25	16.84	17.05
Respiratory	0.00	8.13	10.43	11.09	15.09
Cardiovascular	16.50	15.11	14.73	15.46	14.86
Hematology	0.00	0.00	0.00	4.96	11.74
Dermatology	0.00	0.00	0.00	5.24	6.80
Nutraceuticals	0.00	0.00	0.00	4.06	4.53
Others	29.40	21.46	25.29	18.15	18.61
Total	114.01	122.90	138.12	154.40	179.17

Source: Company, KRChoksey Research

Financial Analysis

- Dr. Reddy's reported consolidated revenue of INR 215.45 bn, up 13.1% YoY driven by a growth in base business' volume and new product launches.
- The growth was driven by a strong increase visible in the GG's sales, PP segment sales; partially offset by a fall in PSAI segment sales and slower growth in other segment sales such as that of ADTL.
- Geographically, sales growth was strong across segments. The US revenue grew at 6.0% YoY (42.0% of GG revenue), India revenue increased at 25.5% YoY (24.0%), Europe revenue rose at 8.0% YoY (9.0%), EMs grew at 30.0% YoY (25.0%). Russia (part of EMs) grew at 32.0% YoY (12.0%).
- The company invested in brand development in emerging economies such as India, Russia and others. This led to strong growth visible in the segments. India grew at 25.5% YoY in FY22.
- Russia revenue grew at 32.0% YoY in FY22, driven by improved performance of the base business, the launch of new products, and divestment income from the sale of a few non-core brands such as Ciprolet and Levolet for INR 1.77 bn in Q4FY22.
- Growth in North America was driven by the launch of 17 new products in FY22.
- EBITDA margins remained healthy at 21.8%, Adjusted PAT stood at INR 28.40 bn, registering YoY growth of 18.0% with NPM at 13.2% in FY22.
- The Board of Directors of Dr. Reddy's has proposed a dividend of INR 30.0 per share and that dividend amounts to INR 4.99 bn for FY22.

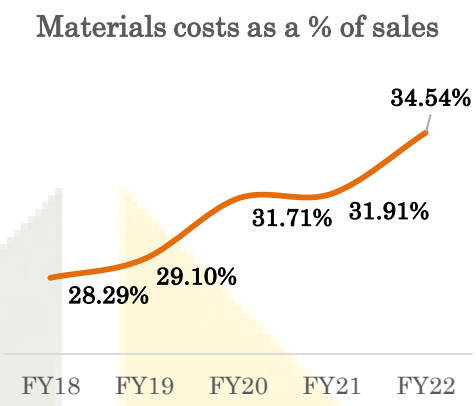
	FY21	FY22
Net Revenue (INR bn)	**190**	**215**
YoY Growth (%)	8.7%	13.1%
EBITDA (INR bn)	**45**	**47**
YoY Growth (%)	9.6%	3.3%
EBITDA Margin	**23.9%**	**21.8%**
PAT (INR bn)	**24**	**28**
YoY Growth (%)	-37.2%	18.0%
PAT Margin	**12.6%**	**13.2%**

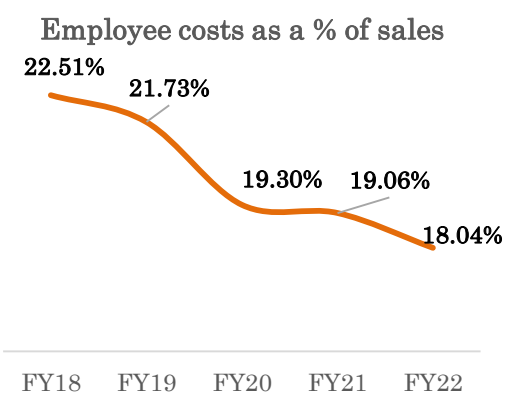
Particulars	FY21	FY22
Dividend per share	**24.9**	**30.0**
YoY Growth	-0.1%	20.4%
Total (INR Bn)	**4.15**	**4.99**
YoY Growth	0.0%	20.4%

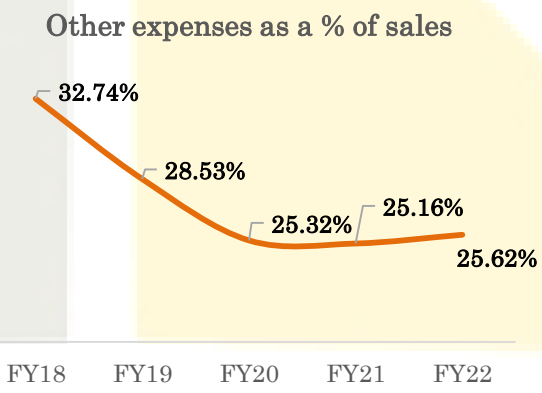
Cost & Margin Analysis

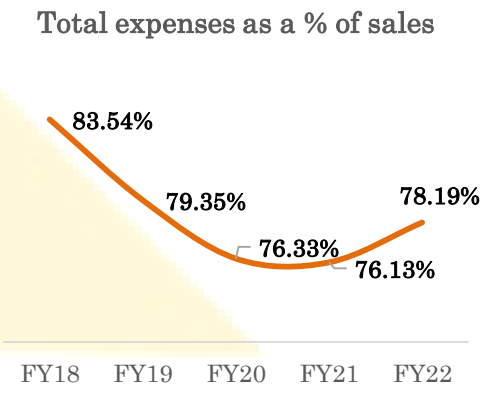
- While the total revenue rose by 13.1% YoY, the cost of raw materials increased by 22.4% YoY in FY22. The company has been taking cost measures to mitigate its impact. Also, the improved product mix and normalization of freight costs and APIs should help it enhance its EBITDA margins towards its targeted 25.0% range, over a period.

- The cost rationalization was started in FY18 and is visible in the expenses trend except for raw materials. The cost rationalization measures were taken across manufacturing, procurement and R&D expenditure. Also, investments have been made on digital capabilities, people, product pipeline and brands to drive the profits.





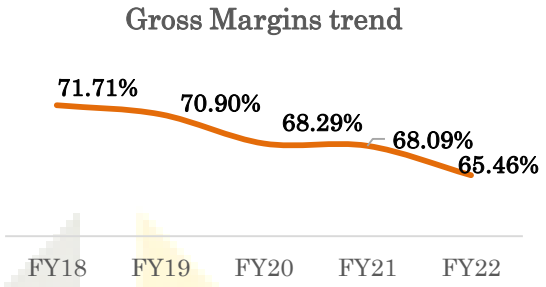


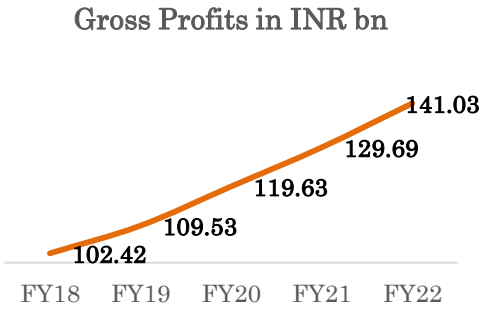


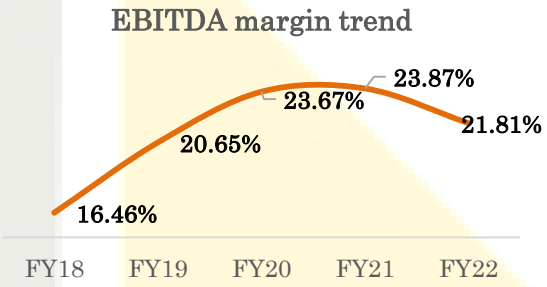
Source: Company, KRChoksey Research

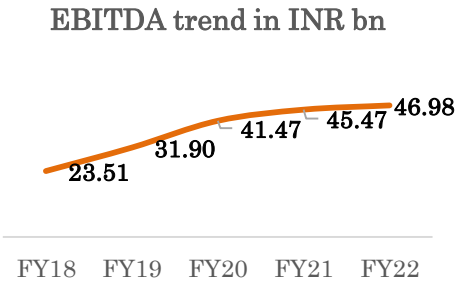
Cost & Margin Analysis

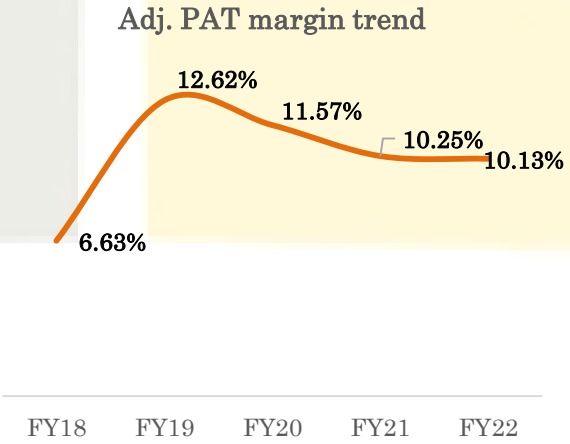
- For FY22, gross margin declined by 263 bps YoY on account of the rise in raw materials and freight costs at a faster rate than in net sales.
- EBITDA for FY22 stood at INR 46.98 bn (+3.3% YoY), with EBITDA margins at 21.8% (declined by 206 bps YoY). The decline in margins was mainly due to higher raw materials and other expenses as a % of sales due to supply disruptions and the opening of the operations, fully.
- Going forward, the margins are expected to benefit from the improved products mix towards specialty products (complex generics, injectables, and OTC products) and a rise in the base business' volumes; partially offsetting the price erosions in the competitive markets of the US, Europe, and few emerging markets. Additionally, the cost-cutting measures and digitization of operations should contribute as well.

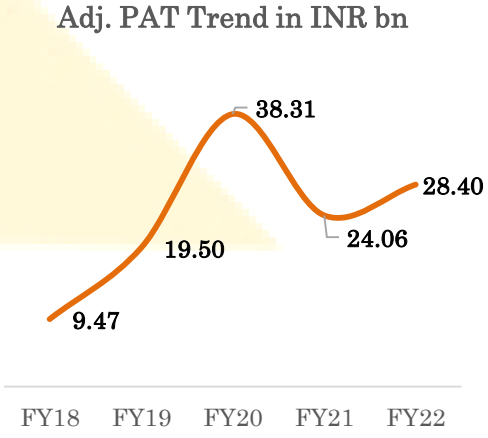












Source: Company, KRChoksey Research

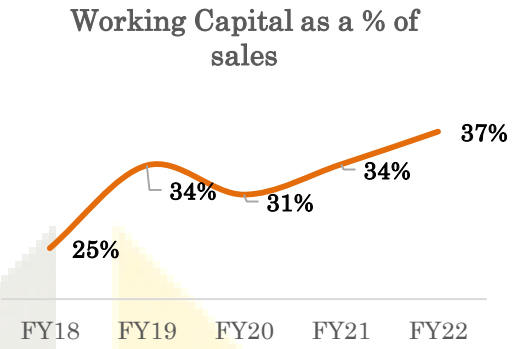
ANALYST
Kushal Shah, research3@krchoksey.com, +91-22-6696 5555

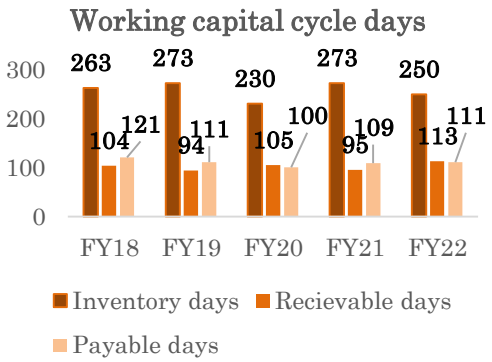
Balance Sheet Analysis

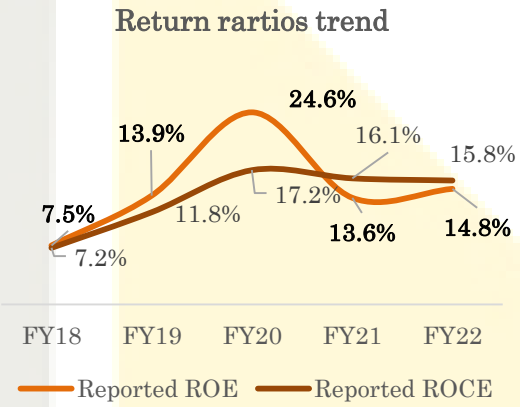
- **Working capital:** Dr. Reddy's has witnessed marginally reduced working capital cycle days in FY22 as inventory days reduced and creditor days rose, favorably. The trend is likely to continue as the normalization of operations returns.

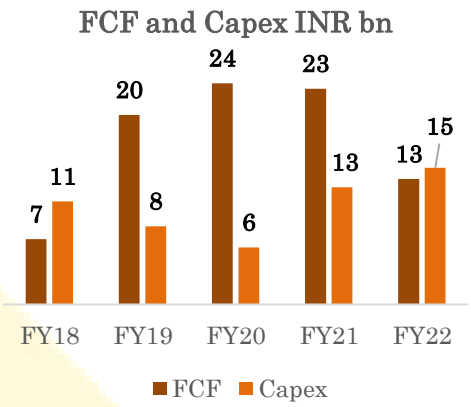
- **FCF and capex:** Free cash flow (FCF) generation weakened during FY22 due to continued higher capex the company resorted to. We expect FCF generation to improve meaningfully from FY23E as the margins expand with improved products mix from specialty products. The company expects to continue to invest in injectables, biologics and digital facilities going forward.

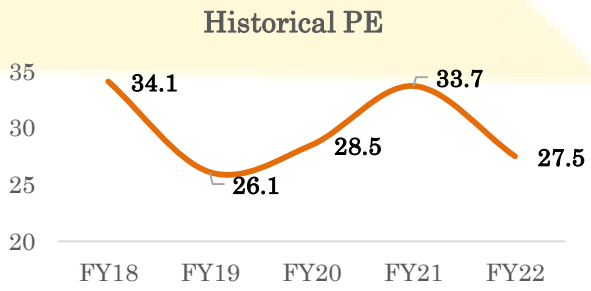
- **Return ratios:** Improved products mix, normalization of raw materials and other costs should help it improve its return ratios.











Source: Company, KRChoksey Research

ANALYST
Kushal Shah, research3@krchoksey.com, +91-22-6696 5555

- The company has deeply incorporated sustainability in its purpose, and it forms the core of Dr. Reddy's. It is committed to 9 principles of national guidelines on Responsible Business.

- **Govern with integrity:** All its Key Managerial Personnel (KMPs) and nearly 82.0% of its employees are trained in business, regulations, code of business conduct, and ethics. There is no disciplinary action against Directors / KMPs, Employees / Workers by any law enforcement agencies for charges of bribery/corruption.

- **Provide goods and services in a manner that is sustainable and safe:** The company sends 99.0% of its global hazardous waste to industries such as cement industries (to co-process or to make bricks from) and recyclers for co-processing and recycling. The company spent INR 1.31 bn and INR 1.43 bn in FY21 and FY22, respectively, on R&D and Capex investments to improve the environmental and social impacts of products and processes. Plastic waste is either co-processed or recycled based on the type of waste generated. E-waste is sold to authorized vendors. Only a 1.0% of global hazardous waste is sent to landfills.

- **Promote well-being of employees:** Nearly all of its employees including permanent employees, workers and others are covered under health and accident insurance, and maternity and paternity benefits. The company has achieved a 98.1% return to work rate, post parental leave.

- **Stakeholder management:** The company provides various avenues of communication for employees to empower them and encourage them to innovate and grow as a professional and individuals. The company engages with investors to enable them to invest in the company by providing timely updates on the business, financial performance, and strategy. Also, the company has patient assistance programs such as lifestyle support programs, education counseling programs, disease management, awareness initiatives, and marketing communication for OTC products to engage effectively with patients to be able to address their meetable and also unmet needs.

- **Respect and protect human rights:** The company provides training on human rights issues and policies of the company. Also, almost all of its employees are paid more than the minimum wage. The median remuneration of the employees is more than INR 5 lakh p.a.

- **Respect and make efforts to protect and restore the environment:** The company's energy and freshwater intensity per unit of sales has reduced. The company has implemented zero liquid discharge facility at all its chemical technical

- operations and formulation plants in India (except one). The ZLD water treatment engineering approach enables it to avoid the discharge of untreated wastewater effluents as it treats the water and the same is channeled back into its utilities. The company has implemented multiple projects for reducing greenhouse gas emissions from its operations. Those projects include shifting to piped natural gas in place of oil at FTO 2 and 3, shifting to biomass or Briquette fuel in place of coal at CTOs, sourcing renewable power through power purchase agreements, and setting up rooftop solar power. These resulted in reducing greenhouse emissions by 58,124 $mtCO_2e$.

- **Influencing regulatory policies in a transparent manner:** The company has a number of affiliations such as with the National Council of the Confederation of Indian Industry (CII), Board of Trade, Ministry of Commerce, Government of India, India Pharmaceutical Alliance, National Accreditation Board of Certified bodies, etc. The company works closely with various trade and industry associations. These include industry representations to the government and/or regulators. The company advocates policy in a transparent and responsible manner to take into account the company's as well as the larger interest of the nation.

- **Promote inclusive growth and equitable development:** The company sources nearly 71.0% of its input materials locally such as directly from within the district and neighboring districts. It has been able to engage with 3.64 lakh individuals through its Corporate Social Responsibility (CSR) initiatives such as quality education, skilling and employability program for youth, farmer livelihood projects, etc.

- **Engage with consumers:** There has not been an instance of data breaches or any major critical service disruption. This has been the result of customer service cells, which engage with consumers for their feedback.

- Dr. Reddy's is one of the 7 Indian companies in Bloomberg Gender Equality Index 2022 and the only Pharma company from India in the index, which comprises of 418 companies across 45 countries. It is the fifth consecutive year of inclusion in the Bloomberg Gender Equality Index for Dr. Reddy's. The company is also included in the Sustainability Yearbook 2022, based on its corporate sustainability assessment (CSA), 2021, done by S&P Global.

- Dr. Reddy's is positioned 9th among the sustainable pharmaceutical companies, globally, in the Dow Jones Sustainability Index (DJSI), 2021, being added for the 6th consecutive year in the Emerging Markets category and among the top 10 sustainability leaders as listed in the DJSI.

The company has announced two sets of periodic strategies to drive its profitable growth over the short-medium to long-term. The company has a strong product pipeline, comprising of 175 products for the US market, out of which 90 have been filed with the USFDA, so far. The pipeline consists of products across complex generic (Semaglutide, Teriparatide, Octreotide, Liraglutide, Regadenoson, and Dasatinib) and biosimilars (Pegfilgrastim, Rituximab, Tocilizumab, and Abatacept) comprising of injectables/sterile products, drug-device combos, peptides, and depots. For Europe, the company has biosimilars, complex generics, and other generics in the pipeline.

In India, it intends to strengthen its brands and gain market share by inching up from the 12th largest Indian Pharma Market (IPM) player to the top 5. In April 22, it acquired the cardiovascular brand, Cidmus, in India and in-licensed Voveran (pain management branded drug) and Methergine (obstetric branded drug) from Novartis AG. For API business, the company intends to backward integrate for nearly 70.0% of its core molecules, which can add to its gross margins by 500 bps over the next 5 years. The company has 225 active DMFs and ~ 55 products in the API pipeline.

The company also envisages supplying value-added APIs to MNC pharma companies across ~ 60 countries from ~ 25 countries, currently. In the CDMO services space, the company is already serving 3 of the top 5 innovators and 120 biopharma companies, globally. The company will be driving its revenue with generics, biosimilars, API, branded generics, and OTC products over the short-medium term and will be considering immuno-oncology New Chemical Entities (NCEs), Biologics, Nutraceuticals, CDMO, and Digital Services to drive its growth over the long term.

Since our last update, the shares of Dr. Reddy's Laboratories have risen by ~2%. We estimate a 9.9% CAGR growth in revenue and a 16.1% CAGR rise in Adjusted PAT over FY22-FY24E, driven by its strong product pipeline, and its ability to witness volume share in the base business and focus on branded markets of India and Russia. At a CMP of INR 4,501 per share, Dr. Reddy's shares are trading at 22.5x/19.6x FY23E/FY24E EPS. Based on our FY24E estimates and applying a 22.9x PE multiple, we arrive at a target price of INR 5,261 per share; a potential upside of 16.9%. Accordingly, we reiterate our "BUY" rating on the shares of Dr. Reddy's.

Exhibits: Quarterly Income Statement

Income Statement (INR Mn)	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY	FY22	FY21	YoY
Net Revenue	**52,585**	**53,383**	**47,682**	**-1.49%**	**10.28%**	**2,15,452**	**1,90,475**	**13.11%**
Total Expenditure	41,837	41,179	37,135	1.60%	12.66%	1,68,471	1,45,008	16.18%
Cost of Raw Materials	13,030	7,605	10,261	71.33%	26.99%	43,124	42,958	0.39%
Purchase of Stock	7,087	10,819	6,768	-34.49%	4.71%	34,837	25,736	35.36%
Changes in Inventories	-1,139	-277	-1,614	311.19%	-29.43%	-3,539	-7,905	-55.23%
Employee Cost	9,726	9,563	8,930	1.70%	8.91%	38,858	36,299	7.05%
Other expenses	13,133	13,469	12,790	-2.49%	2.68%	55,191	47,920	15.17%
EBITDA	**10,748**	**12,204**	**10,547**	**-11.93%**	**1.91%**	**46,981**	**45,467**	**3.33%**
EBITDA Margin (%)	**20.44%**	**22.86%**	**22.12%**	**(242bps)**	**(168bps)**	**21.81%**	**23.87%**	**(206 bps)**
Depreciation	2,930	2,942	3,088	-0.41%	-5.12%	11,652	12,288	-5.18%
EBIT	**7,818**	**9,262**	**7,459**	**-15.59%**	**4.81%**	**35,329**	**33,179**	**6.48%**
Interest Expense	315	216	297	45.83%	6.06%	958	970	-1.24%
Other Income	1,219	1,024	826	19.05%	47.58%	4,844	2,914	66.23%
PBT	**8,722**	**10,070**	**7,988**	**-13.39%**	**9.19%**	**39,215**	**35,123**	**11.65%**
Exceptional Items	6,238	47	15	NM	NM	9,304	6,768	37.47%
Tax	1,619	2,649	2,579	-39%	-37.22%	8,789	9,319	-5.69%
Share in P&L / MI	105.00	185.00	179.00	-43.24%	-41.34%	703	480	46.46%
PAT	**970**	**7,559**	**5,573**	**-87.17%**	**-82.59%**	**21,825**	**19,516**	11.83%
PAT Margin	**1.84%**	**14.16%**	**11.69%**	**(1,232 bps)**	**(984 bps)**	**10.13%**	**10.25%**	**(12 bps)**
EPS	**5.83**	**42.63**	**33.49**	**-86.32%**	**-82.59%**	**131.16**	**117.28**	**11.83%**
Adj PAT	**7,208**	**7,140**	**5,588**	**0.95%**	**28.99%**	**28,395**	**24,060**	**18.02%**
PAT Margin	**13.71%**	**13.38%**	**11.72%**	**33 bps**	**199 bps**	**13.18%**	**12.63%**	**55 bps**
Adj EPS	**43.32**	**42.91**	**33.58**	**0.95%**	**28.99%**	**170.64**	**144.59**	**18.02%**

Source: Company, KRChoksey Research

Exhibits: Common Size Statement – P&L

As a % of sales	FY18	FY19	FY20	FY21	FY22
Revenue	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Cost of Raw Materials	28.29%	29.10%	31.71%	31.91%	34.54%
Gross Profits	**71.71%**	**70.90%**	**68.29%**	**68.09%**	**65.46%**
Employee expenses	22.51%	21.73%	19.30%	19.06%	18.04%
Other expenses	32.74%	28.53%	25.32%	25.16%	25.62%
Stores, spares, and other materials	4.10%	3.79%	3.34%	3.07%	2.69%
Clinical trials and R&D	4.59%	4.25%	3.75%	3.44%	2.86%
Advertisement	1.15%	1.06%	0.93%	0.86%	1.01%
Carriage outwards	4.11%	3.80%	3.35%	3.08%	2.51%
Power and fuel	2.24%	2.07%	1.83%	1.68%	1.81%
Other selling expenses	5.40%	4.99%	4.40%	4.05%	4.55%
Others	11.96%	11.06%	9.75%	8.97%	10.19%
EBITDA	**16.46%**	**20.65%**	**23.67%**	**23.87%**	**21.81%**

YoY Growth (%)	FY18	FY19	FY20	FY21	FY22
Revenue	**0.60%**	**8.17%**	**13.39%**	**8.74%**	**13.11%**
Cost of Raw Materials	9.28%	11.27%	23.57%	9.44%	22.43%
Gross Profits	-2.46%	6.95%	9.21%	8.41%	8.75%
Employee expenses	3.48%	4.40%	0.72%	7.39%	7.05%
Other expenses	-4.98%	-5.73%	0.63%	8.04%	15.17%
Stores, spares, and other materials	8.08%	-19.63%	21.84%	6.17%	-0.84%
Clinical trials and R&D	-19.27%	-18.64%	-14.10%	12.40%	-5.94%
Advertisement	22.18%	-7.59%	6.37%	18.11%	32.38%
Carriage outwards	22.67%	23.27%	12.28%	52.53%	-7.92%
Power and fuel	-0.24%	-0.06%	-4.35%	1.81%	21.84%
Other selling expenses	-4.15%	4.31%	-7.05%	-10.50%	26.94%
Others	-7.12%	-5.73%	3.51%	6.74%	28.49%
EBITDA	**-4.89%**	**35.67%**	**30.01%**	**9.64%**	**3.33%**

Source: Company, KRChoksey Research

Exhibits: Income Statement

YoY Growth (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	**1,42,810**	**1,54,482**	**1,75,170**	**1,90,475**	**2,15,452**	**2,35,909**	**2,60,153**
COGS	40,395	44,948	55,544	60,789	74,422	76,317	84,159
Gross Profits	**1,02,415**	**1,09,534**	**1,19,626**	**1,29,686**	**1,41,030**	**1,59,593**	**1,75,993**
Employee expenses	32,149	33,562	33,802	36,299	38,858	43,643	46,828
Other expenses	46,754	44,074	44,353	47,920	55,191	61,336	65,038
EBITDA	**23,512**	**31,898**	**41,471**	**45,467**	**46,981**	**54,613**	**64,128**
EBITDA margin %	***16.46%***	***20.65%***	***23.67%***	***23.87%***	***21.81%***	***23.15%***	***24.65%***
Depreciation and Amortization	10,772	11,348	11,631	12,288	11,652	13,655	15,215
EBIT	12,740	20,550	29,840	33,179	35,329	40,958	48,913
Interest expenses	788	889	983	970	958	1,305	1,301
Other income	1,552	3,375	6,206	2,914	4,844	4,096	2,831
Exceptional Items	0	116	16,767	6,768	9,304	0	0
PBT	**13,504**	**22,920**	**18,296**	**28,355**	**29,911**	**43,749**	**50,443**
Tax	4,380	3,858	-1,403	9,319	8,789	11,156	12,863
Share of associates JV / Associates	344	438	561	480	703	700	700
PAT	**9,468**	**19,500**	**20,260**	**19,516**	**21,825**	**33,293**	**38,280**
EPS (INR)	**57.04**	**117.47**	**121.90**	**117.28**	**131.16**	**200.08**	**230.05**

Source: Company, KRChoksey Research

Exhibits: Balance Sheet

Balance Sheet INR Mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Non-current assets							
Property, plant and equipment	49,733	49,127	47,779	47,322	48,869	51,266	53,387
Capital work-in-progress	7,678	4,725	4,364	9,539	12,796	13,436	14,108
Intangible assets (inc. Goodwill)	19,947	47,393	31,711	40,847	32,484	34,108	35,814
Investments	2,104	2,529	2,763	3,375	4,318	4,534	4,761
Others	13,970	9,781	19,645	19,582	21,179	22,238	23,350
Total non-current assets	**93,432**	**1,13,555**	**1,06,262**	**1,20,665**	**1,19,646**	**1,25,582**	**1,31,419**
Current assets							
Inventories	29,089	33,579	35,067	45,412	50,884	52,179	54,786
Trade receivables	40,527	39,869	50,278	49,641	66,764	73,103	78,952
Cash and cash equivalents	2,638	2,228	2,053	14,829	14,852	34,624	57,975
Others	32,730	35,425	38,593	35,621	45,323	49,535	51,915
Total current assets	**1,04,984**	**1,11,101**	**1,25,991**	**1,45,503**	**1,77,823**	**2,09,442**	**2,43,627**
TOTAL ASSETS	**1,98,416**	**2,24,656**	**2,32,253**	**2,66,168**	**2,97,469**	**3,35,024**	**3,75,046**
EQUITY AND LIABILITIES							
Equity share capital	830	830	831	832	832	832	832
Other equity	1,24,886	1,39,406	1,55,157	1,75,585	1,91,292	2,23,885	2,60,180
Total equity	**1,25,716**	**1,40,236**	**1,55,988**	**1,76,417**	**1,92,124**	**2,24,717**	**2,61,012**
LIABILITIES							
Borrowings	25,233	22,102	1,304	6,299	5,746	5,696	5,646
Others	5,556	3,345	2,820	2,414	1,941	4,081	4,285
Total non-current liabilities	**30,789**	**25,447**	**4,124**	**8,713**	**7,687**	**9,777**	**9,931**
Borrowings	25,562	12,125	16,532	23,145	27,082	28,049	27,999
Trade payables	13,345	13,671	15,248	18,109	22,662	23,239	24,400
Others	30,031	33,177	40,361	39,784	47,914	49,242	51,704
Total current liabilities	**68,938**	**58,973**	**72,141**	**81,038**	**97,658**	**1,00,530**	**1,04,103**
Total liabilities	**99,727**	**84,420**	**76,265**	**89,751**	**1,05,345**	**1,10,307**	**1,14,034**
TOTAL EQUITY AND LIABILITIES	**2,25,443**	**2,24,656**	**2,32,253**	**2,66,168**	**2,97,469**	**3,35,024**	**3,75,046**

Source: Company, KRChoksey Research

Exhibits: Cash Flow Statement & Key Ratios

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	18,030	28,704	29,841	35,703	28,108	36,118	40,787
Net Cash Flow from/(used in) Investing Activities	(14,883)	(7,727)	(4,923)	(22,660)	(26,387)	(16,052)	(17,336)
Net Cash Flow from Financing Activities	(4,440)	(21,326)	(25,159)	(298)	(2,422)	(100)	(100)
Net Inc/Dec in cash equivalents	(1,293)	(349)	(241)	12,745	(701)	19,966	23,351
Opening Balance	3,778	2,638	2,228	2,053	14,820	14,852	34,624
Adjustment	153	(61)	66	31	733	(194)	0
Closing Balance Cash and Cash Equivalents	2,638	2,228	2,053	14,829	14,852	34,624	57,975

Key Ratio	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	16.5%	20.6%	23.7%	23.9%	21.8%	23.2%	24.7%
Tax rate (%)	32.4%	16.8%	-7.7%	32.9%	29.4%	25.5%	25.5%
Adj. Net Profit Margin (%)	6.6%	12.6%	21.9%	12.6%	13.2%	14.1%	14.7%
RoE (%)	7.5%	13.9%	24.6%	13.6%	14.8%	14.8%	14.7%
RoCE (%)	7.2%	11.8%	17.2%	16.1%	15.8%	16.0%	16.7%
Current Ratio (x)	1.52	1.88	1.75	1.80	1.82	2.08	2.34
Adj. EPS (INR)	57.0	117.5	230.5	144.6	170.6	200.1	230.0

Source: Company, KRChoksey Research

DISCLAIMER

KRChoksey | research

ANALYST CERTIFICATION:

I, Kushal Shah (CFA L1, CFP, M.com), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers.

The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein, .In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Kushal Shah (CFA L1, CFP, M.com), Research Analyst, of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Kushal Shah (CFA L1, CFP, M.com), Research Analyst, do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
KR Choksey Shares and Securities Pvt. Ltd
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.