

October 31, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	4,900		4,750	
Sales (Rs. m)	2,55,234	2,78,358	2,42,811	2,63,202
% Chng.	5.1	5.8		
EBITDA (Rs. m)	64,621	72,295	53,274	59,712
% Chng.	21.3	21.1		
EPS (Rs.)	253.0	288.7	203.9	230.1
% Chng.	24.1	25.5		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	214	236	255	278
EBITDA (Rs. bn)	46	55	65	72
Margin (%)	21.5	23.5	25.3	26.0
PAT (Rs. bn)	24	41	42	48
EPS (Rs.)	141.6	244.3	253.0	288.7
Gr. (%)	23.1	72.5	3.5	14.1
DPS (Rs.)	34.5	40.3	46.0	51.8
Yield (%)	0.8	0.9	1.0	1.2
RoE (%)	12.9	19.6	17.4	17.2
RoCE (%)	16.0	18.3	19.2	19.3
EV/Sales (x)	3.4	3.0	2.7	2.4
EV/EBITDA (x)	15.9	12.8	10.6	9.1
PE (x)	31.5	18.3	17.6	15.4
P/BV (x)	3.9	3.3	2.9	2.5

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.4,931 / Rs.3,654
Sensex / Nifty	59,960 / 17,787
Market Cap	Rs.743bn/ \$ 9,004m
Shares Outstanding	166m
3M Avg. Daily Value	Rs.1800.72m

Shareholding Pattern (%)

Promoter's	26.71
Foreign	25.70
Domestic Institution	24.70
Public & Others	22.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	8.2	(2.4)
Relative	(1.4)	3.8	(2.4)

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Strong quarter aided by gRevlimid

Quick Pointers:

- Ex gRevlimid; profitability was largely in-line with our estimate.
- Maintained 25% OPM on sustainable basis.

Dr. Reddy's (DRRD) Q2FY23 profitability adjusted for gRevlimid improved QoQ, yet is still below historical levels. We have incorporated gRevlimid in our nos, however ex Revlimid our FY24E and FY25E stands cut by 8% and 5% respectively. We expect exRevlimid margins to improve with easing of commodity and as revenue scale up with new launches in US. India revenues were healthy. At CMP, DRRD is trading at 21x P/E on Sept 2024E adjusted for gRevlimid. We assign 23x Sept 2024E EPS plus Rs250/share for gRevlimid NPV and maintain our 'Buy' rating with revised TP of Rs4,900/share (Rs4,750 earlier) as we roll forward. Delay in key ANDA approvals and prolonged inflationary environment of raw material prices are key risks to our call.

- Strong revenue growth aided by gRevlimid:** DRRD's sales grew 9% YoY at Rs 63bn sharply above our estimates (Rs 58bn) aided by higher gRevlimid sales. US revenue came in at \$321mn (\$230mn in Q1FY23) vs our est of \$275mn. We believe DRRD has booked \$110-120mn of sales from gRevlimid vs our est of +\$40mn. Domestic business grew 1% YoY to Rs 11.4bn vs our estimates of Rs 12bn; the muted growth was due to high COVID base and divestment. PSAI sales declined by 23% YoY impacted by lower volumes and high base. EU increased by 2% YoY, while Russia sales strongly grew strongly by 84% QoQ higher than our estimate.
- Adj EBIDTA for gRevlimid and one offs in line:** DRRD reported EBIDTA of Rs19bn. There were one offs- Rs1bn COVID led inventory write off, Rs 1.93bn govt grant related to PLI scheme. Adjusted for one-offs, EBIDTA came in at Rs18bn vs our estimate of Rs13bn. We believe DRRD has booked Rs9-9.5bn EBIDTA adjusted for one-offs and gRevlimid with OPM of 18-19% which was largely in line with our estimate.
- Key concall takeaways: (1) US business:** Contribution is likely to be meaningful from gRevlimid in H2. During Q2, launched 7 products including gRevlimid. Filed one ANDA during Q2 and expect it to pick up in coming quarters. For bPegfilgrastim, DRRD will receive royalties, while filing for bRituximab will be done in FY23. (2) **Domestic business:** Adjusted for COVID sales and brand divestments, domestic sales grew in mid-teens. Focus will be to grow through inorganic, partnerships for focused therapy area while continue to divest non-core brands (3) There will be sharp QoQ growth in Russia sales, as Q1 had impact of destocking channel inventory. Also favorable forex aided Russia sales (4) **PSAI:** Adjusted for COVID sales, business decline was in single digit yoy. Management cited decline was on account lower volumes. Expect margins to normalize in coming quarters (5) Capex in FY23 to remain in the range of Rs 15bn, majorly towards building capacity for biosimilar and injectable business (6) Tax rate likely to be in range of 25-26% (7) Working capital was reduced by 15 days due to optimization of inventory and factoring of facilities in Russia.

Exhibit 1: 2QFY23 Result Overview (Rs mn)- Strong EBITDA aided by gRevlimid

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
Net Sales	63,057	57,632	9.4	52,154	20.9	115,211	106,826	6.0
COGS	25,810	26,846	(3.9)	26,148	(1.3)	51,958	50,341	11.3
<i>% of Net Sales</i>	<i>40.9</i>	<i>46.6</i>		<i>50.1</i>		<i>45.1</i>	<i>47.1</i>	
SGA	13,435	12,966	3.6	12,443	8.0	25,878	25,106	2.5
<i>% of Net Sales</i>	<i>21.3</i>	<i>22.5</i>		<i>23.9</i>		<i>22.5</i>	<i>23.5</i>	
R&D	4,869	4,463	9.1	4,325	12.6	9,194	8,997	(4.6)
<i>% of Net Sales</i>	<i>7.7</i>	<i>7.7</i>		<i>8.3</i>		<i>8.0</i>	<i>8.4</i>	
Total Expenditure	44,114	44,275	(0.4)	42,916	2.8	87,030	84,444	6.8
EBITDA	18,943	13,357	41.8	9,238	105.1	28,181	22,382	2.4
<i>Margin (%)</i>	<i>30.0</i>	<i>23.2</i>		<i>17.7</i>		<i>24.5</i>	<i>21.0</i>	
Depreciation	3,125	2,985	4.7	3,050	2.5	6,175	5,890	5.0
EBIT	15,818	10,372	52.5	6,188	155.6	22,006	16,492	1.1
Other Income	334	1,743	(80.8)	6,024	(94.5)	6,358	2,230	1,137.0
Interest	156	(319)	(148.9)	(2,349)	(106.6)	(2,193)	(971)	260.3
PBT	15,996	12,434	28.6	14,561	9.9	30,557	19,693	100.6
Share of Profit of Equity	140	247		94		234	413	
Exceptional Items	25	-		-		25	-	
Total Taxes	4,983	2,761	80.5	2,779	79.3	7,762	4,478	61.9
<i>ETR (%)</i>	<i>31.2</i>	<i>22.2</i>		<i>19.1</i>		<i>25.4</i>	<i>22.7</i>	
Reported PAT	11,128	9,920	12.2	11,876	(6.3)	23,004	15,628	108.1

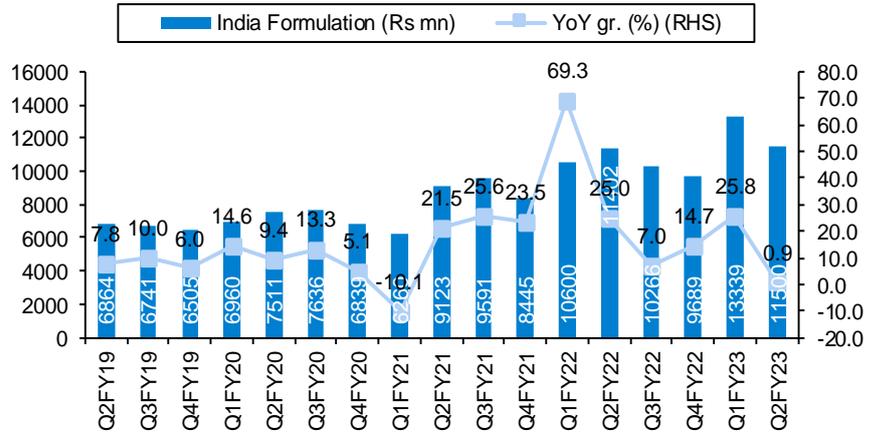
Source: Company, PL

Exhibit 2: Major Sources of Revenue

Major Sources of Revenues	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	H1FY23	H1FY22	YoY gr. (%)
PSAI (CPS & API)	6,434	8,372	(23.1)	7,090	(9.3)	13,524	15,912	(6.0)
<i>% of Net Sales</i>	<i>10.2</i>	<i>14.5</i>		<i>13.6</i>		<i>11.7</i>	<i>14.9</i>	
Branded Formulation	55,946	47,431	18.0	44,323	26.2	100,269	88,544	7.8
India	11,500	11,402	0.9	13,339	(13.8)	24,839	22,002	25.8
<i>% of Net Sales</i>	<i>18.2</i>	<i>19.8</i>		<i>25.6</i>		<i>21.6</i>	<i>20.6</i>	
International	44,446	36,029	23.4	30,984	43.4	75,430	66,542	1.5
<i>% of Net Sales</i>	<i>70.5</i>	<i>62.5</i>		<i>59.4</i>		<i>65.5</i>	<i>62.3</i>	
Russia & CIS	8,100	7,900	2.5	5,100	58.8	13,200	12,800	4.1
<i>% of Net Sales</i>	<i>12.8</i>	<i>13.7</i>		<i>9.8</i>		<i>11.5</i>	<i>12.0</i>	
Europe	4,199	4,135	1.5	4,141	1.4	8,340	8,129	3.7
<i>% of Net Sales</i>	<i>6.7</i>	<i>7.2</i>		<i>7.9</i>		<i>7.2</i>	<i>7.6</i>	
North America Generics	28,001	18,909	48.1	17,815	57.2	45,816	36,299	2.4
<i>% of Net Sales</i>	<i>44.4</i>	<i>32.8</i>		<i>34.2</i>		<i>39.8</i>	<i>34.0</i>	
Emerging Mkt Generics	4,146	5,085	(18.5)	3,928	5.5	8,074	9,314	(7.1)
<i>% of Net Sales</i>	<i>6.6</i>	<i>8.8</i>		<i>7.5</i>		<i>7.0</i>	<i>8.7</i>	
Innovative Prod. (Proprietary Prod.)	677	1,829	(63.0)	740	(8.5)	1,417	2,370	36.8
<i>% of Net Sales</i>	<i>1.1</i>	<i>3.2</i>		<i>1.4</i>		<i>1.2</i>	<i>2.2</i>	

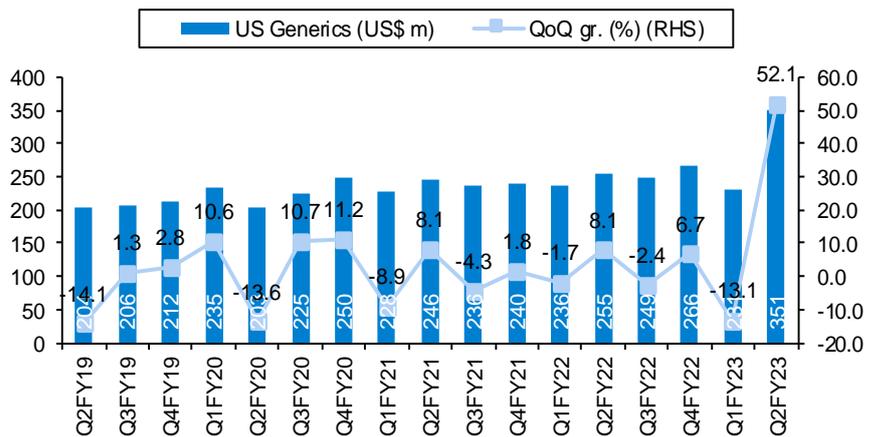
Source: Company, PL

Exhibit 3: India Formulation (Rs mn):- muted growth due to high base, ex-Covid growth was in mid teen.



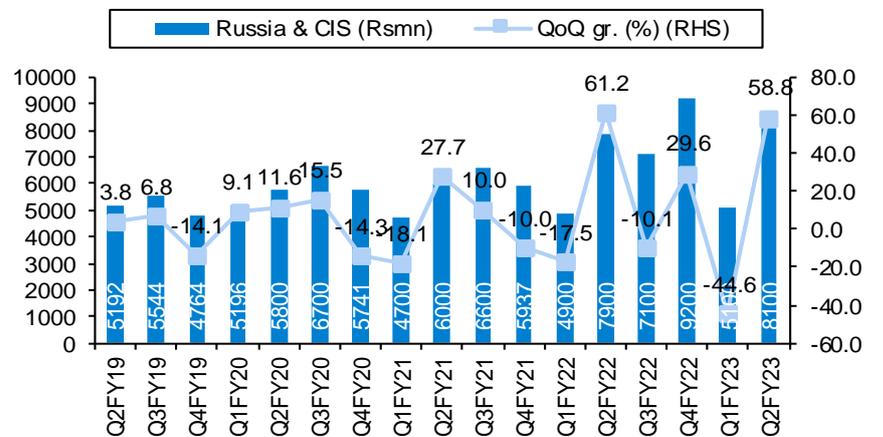
Source: Company, PL

Exhibit 4: US Generic (US\$ m) : growth led by gRevlimid



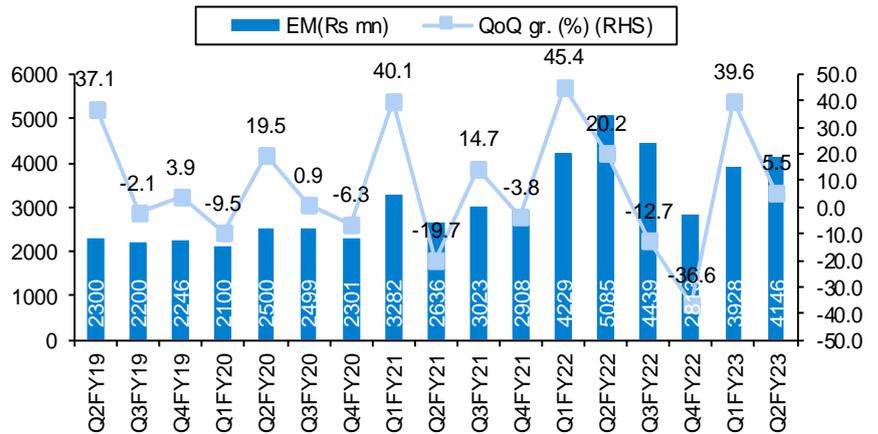
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn) : Driven by new launches and volume gain



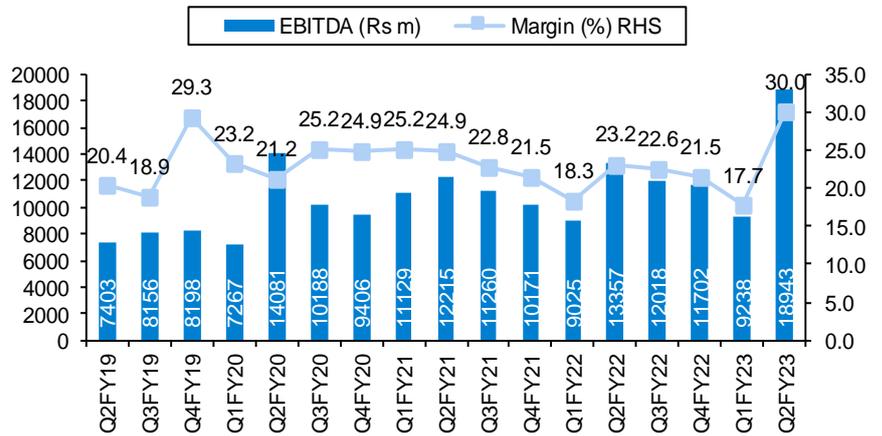
Source: Company, PL

Exhibit 6: Emerging Markets (Rs mn): Sales remained stable



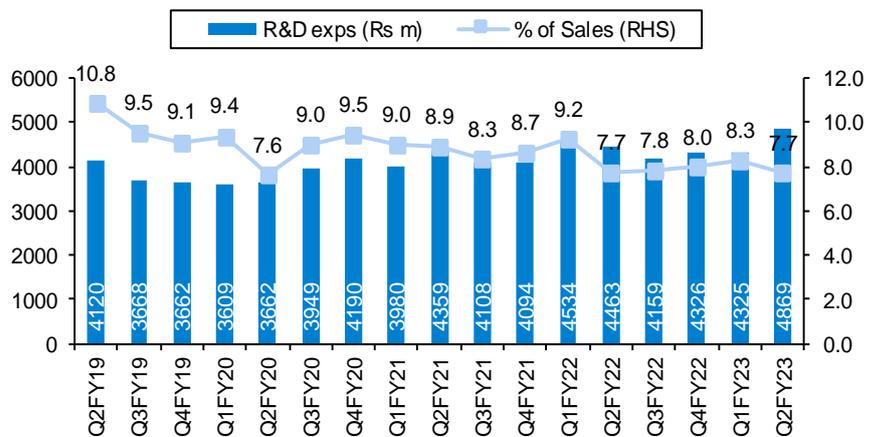
Source: Company, PL

Exhibit 7: Higher margins led by good product mix and favorable forex rate



Source: Company, PL

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



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,14,391	2,36,281	2,55,234	2,78,358
YoY gr. (%)	13.0	10.2	8.0	9.1
Cost of Goods Sold	1,00,551	1,10,723	1,16,619	1,27,977
Gross Profit	1,13,840	1,25,558	1,38,615	1,50,381
Margin (%)	53.1	53.1	54.3	54.0
Employee Cost	-	-	-	-
Other Expenses	17,482	18,356	19,641	21,016
EBITDA	46,101	55,437	64,621	72,295
YoY gr. (%)	3.0	20.3	16.6	11.9
Margin (%)	21.5	23.5	25.3	26.0
Depreciation and Amortization	11,824	12,429	14,165	14,373
EBIT	34,277	43,008	50,457	57,922
Margin (%)	16.0	18.2	19.8	20.8
Net Interest	(4,880)	(10,980)	(4,600)	(4,800)
Other Income	-	-	-	-
Profit Before Tax	39,157	53,988	55,057	62,722
Margin (%)	18.3	22.8	21.6	22.5
Total Tax	8,730	14,037	13,764	15,681
Effective tax rate (%)	22.3	26.0	25.0	25.0
Profit after tax	30,427	39,951	41,292	47,042
Minority interest	-	-	-	-
Share Profit from Associate	703	700	800	1,000
Adjusted PAT	23,568	40,651	42,092	48,042
YoY gr. (%)	23.1	72.5	3.5	14.1
Margin (%)	11.0	17.2	16.5	17.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,568	40,651	42,092	48,042
YoY gr. (%)	23.1	72.5	3.5	14.1
Margin (%)	11.0	17.2	16.5	17.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,568	40,651	42,092	48,042
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	141.6	244.3	253.0	288.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	1,97,172	2,05,772	2,16,180	2,26,390
Tangibles	1,53,578	1,68,578	1,85,578	2,02,578
Intangibles	43,594	37,194	30,602	23,812
Acc: Dep / Amortization	1,07,307	1,13,336	1,20,143	1,27,726
Tangibles	90,959	99,388	1,08,667	1,18,796
Intangibles	16,348	13,948	11,476	8,929
Net fixed assets	89,865	92,436	96,037	98,665
Tangibles	62,619	69,190	76,911	83,782
Intangibles	27,246	23,246	19,126	14,882
Capital Work In Progress	-	-	-	-
Goodwill	4,418	4,418	4,418	4,418
Non-Current Investments	7,986	12,486	12,486	12,486
Net Deferred tax assets	12,721	12,721	12,721	12,721
Other Non-Current Assets	948	948	948	948
Current Assets				
Investments	29,513	29,513	29,513	29,513
Inventories	50,884	55,789	60,264	65,723
Trade receivables	66,764	68,915	74,443	81,188
Cash & Bank Balance	14,852	23,457	47,582	76,914
Other Current Assets	19,093	20,048	21,050	22,103
Total Assets	2,84,323	3,08,010	3,46,741	3,91,957
Equity				
Equity Share Capital	832	832	832	832
Other Equity	1,89,695	2,23,649	2,58,087	2,97,518
Total Networkth	1,90,527	2,24,481	2,58,919	2,98,350
Non-Current Liabilities				
Long Term borrowings	5,746	5,746	5,746	5,746
Provisions	-	-	-	-
Other non current liabilities	2,479	2,479	2,479	2,479
Current Liabilities				
ST Debt / Current of LT Debt	28,099	15,000	15,000	15,000
Trade payables	25,572	26,143	27,535	30,217
Other current liabilities	44,621	46,882	49,783	52,887
Total Equity & Liabilities	2,84,323	3,08,010	3,46,741	3,91,957

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	46,101	55,437	64,621	72,295
Add. Depreciation	11,824	12,429	14,165	14,373
Add. Interest	4,880	10,980	4,600	4,800
Less Financial Other Income	-	-	-	-
Add. Other	(16,548)	(23,409)	(18,765)	(19,173)
Op. profit before WC changes	46,257	55,437	64,621	72,295
Net Changes-WC	(10,712)	(4,729)	(6,713)	(7,471)
Direct tax	(7,437)	(14,037)	(13,764)	(15,681)
Net cash from Op. activities	28,108	36,672	44,145	49,143
Capital expenditures	(14,986)	(19,500)	(17,000)	(17,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(14,986)	(19,500)	(17,000)	(17,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	4,099	(13,099)	-	-
Dividend paid	(4,146)	(6,698)	(7,654)	(8,611)
Interest paid	4,880	10,980	4,600	4,800
Others	(17,932)	250	34	1,000
Net cash from Fin. activities	(13,099)	(8,567)	(3,020)	(2,811)
Net change in cash	23	8,605	24,125	29,332
Free Cash Flow	13,448	21,672	27,145	32,143

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	53,197	54,368	52,154	63,057
YoY gr. (%)	7.9	15.0	6.0	9.4
Raw Material Expenses	24,585	25,625	26,148	25,810
Gross Profit	28,612	28,743	26,006	37,247
Margin (%)	53.8	52.9	49.9	59.1
EBITDA	12,018	11,702	9,238	18,943
YoY gr. (%)	6.7	15.1	2.4	41.8
Margin (%)	22.6	21.5	17.7	30.0
Depreciation / Depletion	2,976	2,959	3,050	3,125
EBIT	9,042	8,743	6,188	15,818
Margin (%)	17.0	16.1	11.9	25.1
Net Interest	(289)	(859)	(2,349)	156
Other Income	240	291	6,024	334
Profit before Tax	9,571	9,893	14,561	15,996
Margin (%)	18.0	18.2	27.9	25.4
Total Tax	2,644	1,608	2,779	4,983
Effective tax rate (%)	27.6	16.3	19.1	31.2
Profit after Tax	6,927	8,285	11,782	11,013
Minority interest	-	-	-	-
Share Profit from Associates	185	105	94	140
Adjusted PAT	7,065	875	11,876	11,128
YoY gr. (%)	3,468.2	(84.2)	108.1	12.2
Margin (%)	13.3	1.6	22.8	17.6
Extra Ord. Income / (Exp)	47	7,515	-	25
Reported PAT	7,112	8,390	11,876	11,153
YoY gr. (%)	15.3	51.2	108.1	12.4
Margin (%)	13.4	15.4	22.8	17.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	7,112	8,390	11,876	11,153
Avg. Shares O/s (m)	166	166	166	166
EPS (Rs)	42.6	5.3	71.5	67.0

Source: Company Data, PL Research

Key Financial Metrics

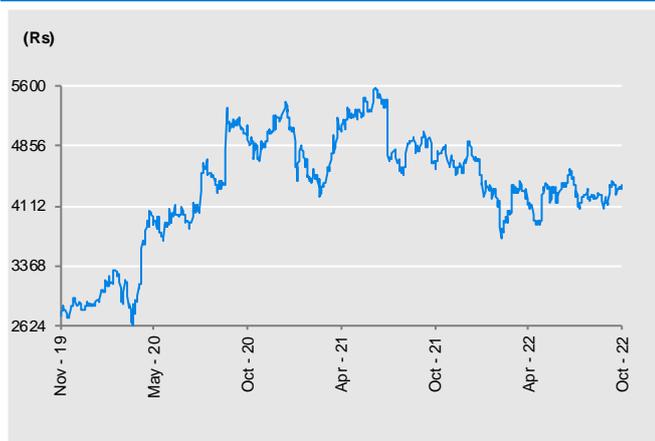
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	141.6	244.3	253.0	288.7
CEPS	212.7	319.0	338.1	375.1
BVPS	1,145.0	1,349.0	1,556.0	1,793.0
FCF	80.8	130.2	163.1	193.2
DPS	34.5	40.3	46.0	51.8
Return Ratio(%)				
RoCE	16.0	18.3	19.2	19.3
ROIC	14.3	16.9	18.7	20.3
RoE	12.9	19.6	17.4	17.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	157	152	153	153
Valuation(x)				
PER	31.5	18.3	17.6	15.4
P/B	3.9	3.3	2.9	2.5
P/CEPS	21.0	14.0	13.2	11.9
EV/EBITDA	15.9	12.8	10.6	9.1
EV/Sales	3.4	3.0	2.7	2.4
Dividend Yield (%)	0.8	0.9	1.0	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	41,957	47,198	50,286	54,224
US formulations	74,915	76,108	79,805	84,738
Russia	20,900	19,352	20,807	23,304
PSAI	30,740	30,125	32,535	35,138

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	4,750	4,420
2	29-Jul-22	BUY	4,750	4,260
3	07-Jul-22	BUY	4,900	4,390
4	22-Jun-22	BUY	4,900	4,269
5	20-May-22	BUY	4,900	3,929
6	08-Apr-22	BUY	5,200	4,317
7	31-Jan-22	BUY	5,200	4,219
8	07-Jan-22	BUY	5,400	4,708
9	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	4,391
2	Aster DM Healthcare	BUY	234	249
3	Aurobindo Pharma	Accumulate	635	535
4	Cipla	BUY	1,110	1,131
5	Divi's Laboratories	Accumulate	4,140	3,727
6	Dr. Reddy's Laboratories	BUY	4,750	4,420
7	Eris Lifesciences	BUY	850	736
8	Fortis Healthcare	BUY	330	266
9	Glenmark Pharmaceuticals	Accumulate	450	401
10	HealthCare Global Enterprises	BUY	358	291
11	Indoco Remedies	BUY	430	336
12	Ipca Laboratories	Accumulate	1,000	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,950	1,636
14	Krishna Institute of Medical Sciences	BUY	1,550	1,467
15	Lupin	Hold	600	721
16	Max Healthcare Institute	BUY	427	414
17	Narayana Hrudayalaya	BUY	810	715
18	Sun Pharmaceutical Industries	BUY	1,070	945
19	Torrent Pharmaceuticals	BUY	1,850	1,567
20	Zydus Lifesciences	BUY	425	409

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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