

January 27, 2023

Q3FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	4,900		4,900	
Sales (Rs. m)	2,57,896	2,79,855	2,55,234	2,78,358
% Chng.	1.0	0.5		
EBITDA (Rs. m)	66,053	72,855	64,621	72,295
% Chng.	2.2	0.8		
EPS (Rs.)	256.3	288.8	253.0	288.7
% Chng.	1.3	-		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. bn)	214	245	258	280
EBITDA (Rs. bn)	46	64	66	73
Margin (%)	21.5	26.2	25.6	26.0
PAT (Rs. bn)	24	45	43	48
EPS (Rs.)	141.6	272.1	256.3	288.8
Gr. (%)	23.1	92.1	(5.8)	12.7
DPS (Rs.)	34.5	40.3	46.0	51.8
Yield (%)	0.8	1.0	1.1	1.2
RoE (%)	12.9	21.6	17.3	16.9
RoCE (%)	16.0	21.8	19.4	19.1
EV/Sales (x)	3.2	2.7	2.5	2.2
EV/EBITDA (x)	14.9	10.4	9.7	8.3
PE (x)	29.7	15.4	16.4	14.5
P/BV (x)	3.7	3.1	2.6	2.3

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.4,646 / Rs.3,654
Sensex / Nifty	60,205 / 17,892
Market Cap	Rs.700bn/ \$ 8,574m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.1920.33m

Shareholding Pattern (%)

Promoter's	26.70
Foreign	27.29
Domestic Institution	23.16
Public & Others	22.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	(3.0)	(4.6)
Relative	(3.1)	(10.1)	(8.3)

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Sustainability of base business profitability is key

Quick Pointers:

- Ex gRevlimid, US base business and margins improve QoQ
- Strong growth in Russia; PSAI margins also recovered

Dr. Reddy's (DRRD) Q3FY23 profitability was sharply ahead of our estimate aided by higher gRevlimid sales. Even base US business grew QoQ. We expect exRevlimid margins to improve with easing of commodity and revenue scaling up with new launches in US. At CMP, DRRD is trading at attractive valuations of 18x P/E on FY25E adjusted for gRevlimid. We maintain our estimates and 'Buy' rating with TP of Rs4,900/share. Delay in key ANDA approvals and prolonged inflationary environment of raw material prices are key risks to our call.

- **Healthy revenue growth of 27% YoY aided by US sales:** DRRD's sales grew at Rs 68bn sharply above our estimates (Rs 60bn), aided by higher gRevlimid sales. US revenue came in at \$372mn (\$351mn in Q2FY23) vs our est of \$295mn. We believe DRRD has booked \$130-135mn of sales from gRevlimid vs our est of +\$65mn. Domestic business grew 10% YoY; in-line with our estimates; growth was on account of price hike and new product launches. PSAI sales increased 7% YoY driven by favorable forex movement and increase in volumes. EU increased 6% YoY, while Russia sales grew strongly 47% YoY higher than our estimate.
- **Adj EBIDTA for gRevlimid largely in line:** DRRD reported EBIDTA of Rs20.6bn (up 71% YoY) above our estimates of Rs15.2bn. OPM came in at 30.4%; up 40bps QoQ. There were Rs430mn one off govt grant related to PLI scheme. We believe DRRD has booked Rs10.5-11bn EBIDTA adjusted for one-offs and gRevlimid with OPM of 18-19% which was largely in line with our estimate. Segment wise PSAI and generics reported GMs of 18.2% and 64.6% respectively.
- **Key concall takeaways:** (1) **US business:** Mgt is confident that gRevlimid contribution will remain meaningful in Q4. In Q3, launched five new products and guided for +30 new launches in FY24. Expect single digit growth to continue in base business (2) **Domestic business:** Launched two new products in the market. Co. creating several growth engines for business. i.e. Horizon-1 and Horizon-2 with collaboration opportunities for innovations (3) **Russia** reported sharp growth primarily on account of increase in volumes and timing of government tenders. The YoY decline in CIS sales was due to reduction in volumes and adverse forex movement (4) **PSAI:** Growth was driven by favorable forex movement and increase in volumes, partly offset by price erosion. Expect current level of margins to sustain and should recover to +20% GM going forwards (5) **For China,** company expects growth to accelerate from H2FY24 and expects 40-50 filings in next 3-4 years (6) **Tax rate** likely to be in range of 25-26% (7) **Working capital** was reduced by Rs 5bn due to higher collection of receivables (8) **FDA issues** among peers has led to volume gain however price erosion continues to remain same.

Exhibit 1: 3QFY23 Result Overview (Rs mn)- Strong EBITDA aided by gRevlimid

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Sales	67,700	53,197	27.3	63,057	7.4	182,911	160,023	7.8
COGS	27,607	24,585	12.3	25,810	7.0	79,565	74,926	3.2
<i>% of Net Sales</i>	<i>40.8</i>	<i>46.2</i>		<i>40.9</i>		<i>43.5</i>	<i>46.8</i>	
SGA	14,710	12,435	18.3	13,435	9.5	40,588	37,541	3.1
<i>% of Net Sales</i>	<i>21.7</i>	<i>23.4</i>		<i>21.3</i>		<i>22.2</i>	<i>23.5</i>	
R&D	4,821	4,159	15.9	4,869	(1.0)	14,015	13,156	2.2
<i>% of Net Sales</i>	<i>7.1</i>	<i>7.8</i>		<i>7.7</i>		<i>7.7</i>	<i>8.2</i>	
Total Expenditure	47,138	41,179	14.5	44,114	6.9	134,168	125,623	3.1
EBITDA	20,562	12,018	71.1	18,943	8.5	48,743	34,400	25.9
<i>Margin (%)</i>	<i>30.4</i>	<i>22.6</i>		<i>30.0</i>		<i>26.6</i>	<i>21.5</i>	
Depreciation	3,271	2,976	9.9	3,125	4.7	9,446	8,866	4.8
EBIT	17,291	9,042	91.2	15,818	9.3	39,297	25,534	33.4
Other Income	(732)	240	(405.0)	334	(319.2)	5,626	2,470	185.1
Interest	139	(289)	(148.1)	156	(10.9)	(2,054)	(1,260)	125.8
PBT	16,420	9,571	71.6	15,996	2.7	46,977	29,264	55.2
Share of Profit of Equity	60	185		140		294	598	
Exceptional Items	134	47		25		159	47	
Total Taxes	3,875	2,644	46.6	4,983	(22.2)	11,637	7,122	73.3
<i>ETR (%)</i>	<i>23.6</i>	<i>27.6</i>		<i>31.2</i>		<i>24.8</i>	<i>24.3</i>	
Reported PAT	12,471	7,065	76.5	11,128	12.1	35,475	22,693	47.2

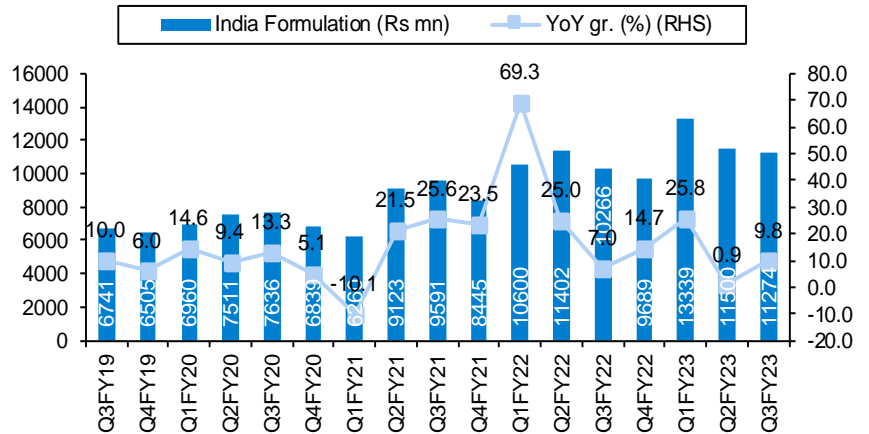
Source: Company, PL

Exhibit 2: Overall healthy performance supported by strong growth in US and Russia market.

Major Sources of Revenues	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
PSAI (CPS & API)	7,758	7,271	6.7	6,434	20.6	21,282	23,183	(15.0)
<i>% of Net Sales</i>	<i>11.5</i>	<i>13.7</i>		<i>10.2</i>		<i>11.6</i>	<i>14.5</i>	
Branded Formulation	59,241	44,508	33.1	55,946	5.9	159,510	133,052	13.2
India	11,274	10,266	9.8	11,500	(2.0)	36,113	32,268	12.9
<i>% of Net Sales</i>	<i>16.7</i>	<i>19.3</i>		<i>18.2</i>		<i>19.7</i>	<i>20.2</i>	
International	47,967	34,242	40.1	44,446	7.9	123,397	100,784	13.4
<i>% of Net Sales</i>	<i>70.9</i>	<i>64.4</i>		<i>70.5</i>		<i>67.5</i>	<i>63.0</i>	
Russia & CIS	9,100	7,100	28.2	8,100	12.3	22,300	19,900	3.1
<i>% of Net Sales</i>	<i>13.4</i>	<i>13.3</i>		<i>12.8</i>		<i>12.2</i>	<i>12.4</i>	
Europe	4,303	4,058	6.0	4,199	2.5	12,643	12,187	2.6
<i>% of Net Sales</i>	<i>6.4</i>	<i>7.6</i>		<i>6.7</i>		<i>6.9</i>	<i>7.6</i>	
North America Generics	30,567	18,645	63.9	28,001	9.2	76,383	54,944	26.2
<i>% of Net Sales</i>	<i>45.2</i>	<i>35.0</i>		<i>44.4</i>		<i>41.8</i>	<i>34.3</i>	
Emerging Mkt Generics	3,997	4,439	(10.0)	4,146	(3.6)	12,071	13,753	(13.3)
<i>% of Net Sales</i>	<i>5.9</i>	<i>8.3</i>		<i>6.6</i>		<i>6.6</i>	<i>8.6</i>	
Innovative Prod. (Proprietary Prod.)	701	1,418	(50.6)	677	3.5	2,118	3,788	(40.2)
<i>% of Net Sales</i>	<i>1.0</i>	<i>2.7</i>		<i>1.1</i>		<i>1.2</i>	<i>2.4</i>	

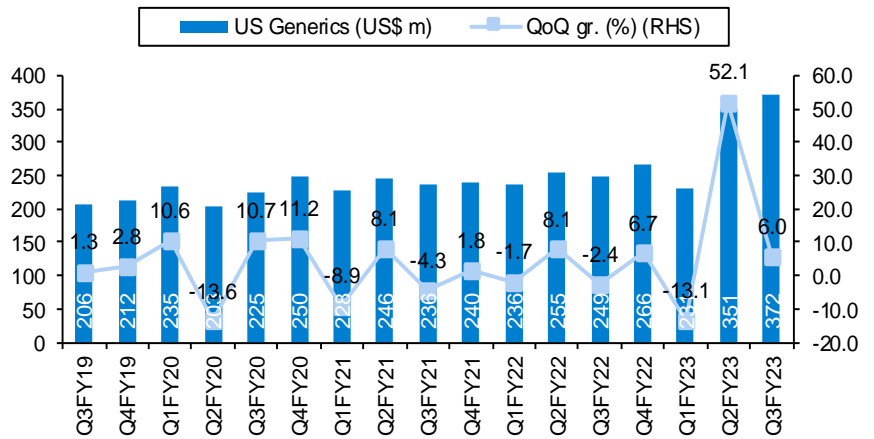
Source: Company, PL

Exhibit 3: India Formulation (Rs mn):- Steady growth of 10% YoY



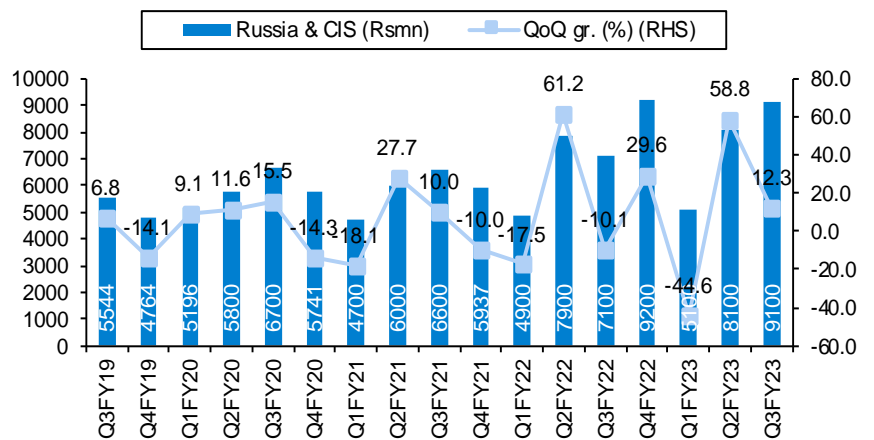
Source: Company, PL

Exhibit 4: US Generic (US\$ m) : Growth led by gRevlimid and base business



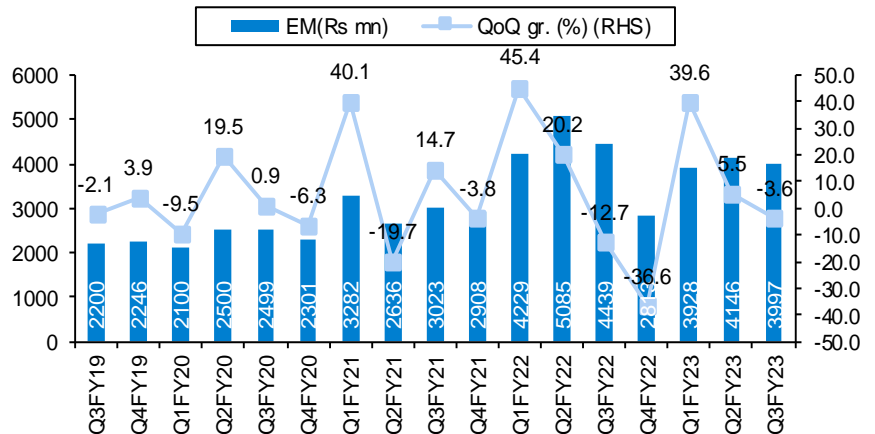
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn) : Driven by increase in price and volume gains



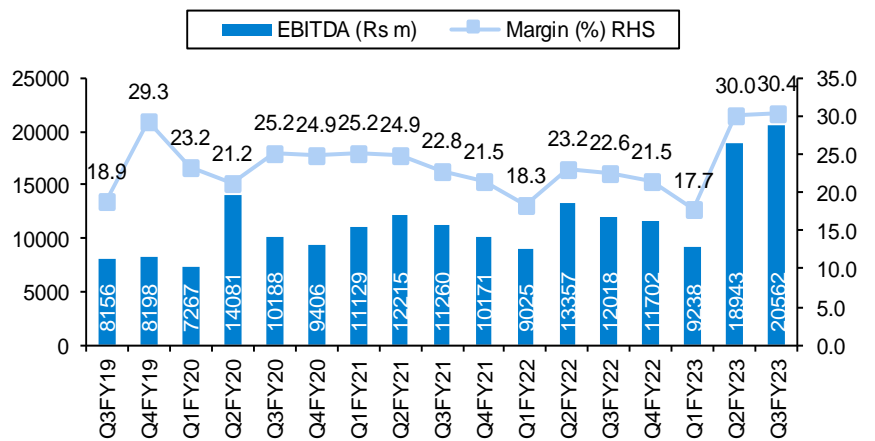
Source: Company, PL

Exhibit 6: Emerging Markets: To continue with growth momentum



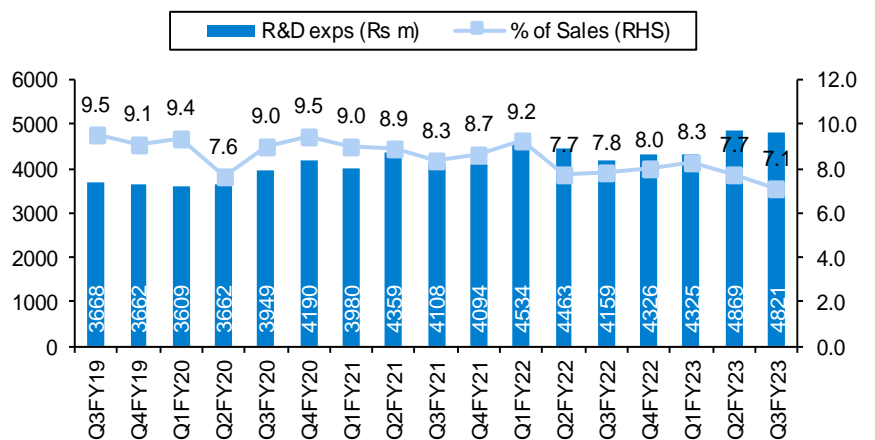
Source: Company, PL

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



Source: Company, PL

Exhibit 8: R&D (Rs mn) & % of sales: Continue to invest and strengthen pipeline



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	2,14,391	2,45,338	2,57,896	2,79,855
YoY gr. (%)	13.0	14.4	5.1	8.5
Cost of Goods Sold	1,00,551	1,10,668	1,17,475	1,28,513
Gross Profit	1,13,840	1,34,669	1,40,421	1,51,342
Margin (%)	53.1	54.9	54.4	54.1
Employee Cost	-	-	-	-
Other Expenses	17,482	18,706	20,015	21,416
EBITDA	46,101	64,199	66,053	72,855
YoY gr. (%)	3.0	39.3	2.9	10.3
Margin (%)	21.5	26.2	25.6	26.0
Depreciation and Amortization	11,824	12,598	14,165	14,575
EBIT	34,277	51,601	51,888	58,280
Margin (%)	16.0	21.0	20.1	20.8
Net Interest	(4,880)	(8,380)	(4,300)	(5,000)
Other Income	-	-	-	-
Profit Before Tax	39,157	59,981	56,188	63,280
Margin (%)	18.3	24.4	21.8	22.6
Total Tax	8,730	14,995	14,047	15,820
Effective tax rate (%)	22.3	25.0	25.0	25.0
Profit after tax	30,427	44,986	42,141	47,460
Minority interest	-	-	-	-
Share Profit from Associate	703	450	500	600
Adjusted PAT	23,568	45,277	42,641	48,060
YoY gr. (%)	23.1	92.1	(5.8)	12.7
Margin (%)	11.0	18.5	16.5	17.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,568	45,277	42,641	48,060
YoY gr. (%)	23.1	92.1	(5.8)	12.7
Margin (%)	11.0	18.5	16.5	17.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,568	45,277	42,641	48,060
Equity Shares O/s (m)	166	166	166	166
EPS (Rs)	141.6	272.1	256.3	288.8

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	1,13,505	1,20,497	1,28,282
Tangibles	90,959	99,557	1,09,021	1,19,353
Intangibles	16,348	13,948	11,476	8,929
Net fixed assets	89,865	92,267	95,683	98,108
Tangibles	62,619	69,021	76,557	83,225
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	57,927	60,892	66,077
Trade receivables	66,764	71,557	75,220	81,625
Cash & Bank Balance	14,852	23,459	51,908	82,000
Other Current Assets	19,093	20,048	21,050	22,103
Total Assets	2,84,323	3,12,623	3,52,117	3,97,277
Equity				
Equity Share Capital	832	832	832	832
Other Equity	1,89,695	2,28,274	2,63,261	3,02,710
Total Networkth	1,90,527	2,29,106	2,64,093	3,03,542
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	26,130	27,737	30,343
Other current liabilities	44,621	46,882	49,783	52,887
Total Equity & Liabilities	2,84,323	3,12,623	3,52,117	3,97,277

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	46,101	64,199	66,053	72,855
Add. Depreciation	11,824	12,598	14,165	14,575
Add. Interest	4,880	8,380	4,300	5,000
Less Financial Other Income	-	-	-	-
Add. Other	(16,548)	(20,978)	(18,465)	(19,575)
Op. profit before WC changes	46,257	64,199	66,053	72,855
Net Changes-WC	(10,712)	(9,521)	(3,122)	(6,932)
Direct tax	(7,437)	(14,995)	(14,047)	(15,820)
Net cash from Op. activities	28,108	39,682	48,883	50,103
Capital expenditures	(14,986)	(19,500)	(17,000)	(17,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(14,986)	(19,500)	(17,000)	(17,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	4,099	(13,099)	-	-
Dividend paid	(4,146)	(6,857)	(7,654)	(8,611)
Interest paid	4,880	8,380	4,300	5,000
Others	(17,932)	-	(80)	600
Net cash from Fin. activities	(13,099)	(11,576)	(3,434)	(3,011)
Net change in cash	23	8,607	28,449	30,092
Free Cash Flow	13,448	24,682	31,883	33,103

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	54,368	52,154	63,057	67,700
YoY gr. (%)	15.0	6.0	9.4	27.3
Raw Material Expenses	25,625	26,148	25,810	27,607
Gross Profit	28,743	26,006	37,247	40,093
Margin (%)	52.9	49.9	59.1	59.2
EBITDA	11,702	9,238	18,943	20,562
YoY gr. (%)	15.1	2.4	41.8	71.1
Margin (%)	21.5	17.7	30.0	30.4
Depreciation / Depletion	2,959	3,050	3,125	3,271
EBIT	8,743	6,188	15,818	17,291
Margin (%)	16.1	11.9	25.1	25.5
Net Interest	(859)	(2,349)	156	139
Other Income	291	6,024	334	(732)
Profit before Tax	9,893	14,561	15,996	16,420
Margin (%)	18.2	27.9	25.4	24.3
Total Tax	1,608	2,779	4,983	3,875
Effective tax rate (%)	16.3	19.1	31.2	23.6
Profit after Tax	8,285	11,782	11,013	12,545
Minority interest	-	-	-	-
Share Profit from Associates	105	94	140	60
Adjusted PAT	875	11,876	11,128	12,471
YoY gr. (%)	(84.2)	108.1	12.2	76.5
Margin (%)	1.6	22.8	17.6	18.4
Extra Ord. Income / (Exp)	7,515	-	25	134
Reported PAT	8,390	11,876	11,153	12,605
YoY gr. (%)	51.2	108.1	12.4	77.2
Margin (%)	15.4	22.8	17.7	18.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,390	11,876	11,153	12,605
Avg. Shares O/s (m)	166	166	166	166
EPS (Rs)	5.3	71.5	67.0	75.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	141.6	272.1	256.3	288.8
CEPS	212.7	347.8	341.4	376.4
BVPS	1,145.0	1,376.8	1,587.1	1,824.2
FCF	80.8	148.3	191.6	198.9
DPS	34.5	40.3	46.0	51.8
Return Ratio(%)				
RoCE	16.0	21.8	19.4	19.1
ROIC	14.3	19.9	19.2	20.4
RoE	12.9	21.6	17.3	16.9
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	157	154	153	153
Valuation(x)				
PER	29.7	15.4	16.4	14.5
P/B	3.7	3.1	2.6	2.3
P/CEPS	19.8	12.1	12.3	11.2
EV/EBITDA	14.9	10.4	9.7	8.3
EV/Sales	3.2	2.7	2.5	2.2
Dividend Yield (%)	0.8	1.0	1.1	1.2

Source: Company Data, PL Research

Key Operating Metrics

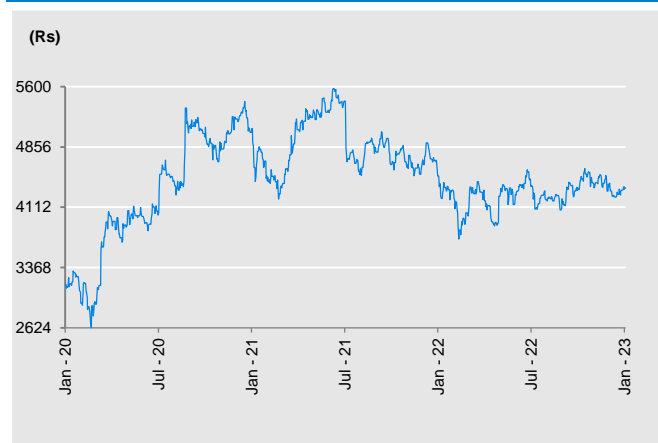
Y/e Mar	FY22	FY23E	FY24E	FY25E
India Formulations	41,957	47,198	50,286	56,321
US formulations	74,915	1,01,775	1,02,514	1,07,073
Russia	20,900	21,287	22,888	25,634
PSAI	30,740	29,579	31,945	34,501

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	4,900	4,295
2	31-Oct-22	BUY	4,900	4,460
3	06-Oct-22	BUY	4,750	4,420
4	29-Jul-22	BUY	4,750	4,260
5	07-Jul-22	BUY	4,900	4,390
6	22-Jun-22	BUY	4,900	4,269
7	20-May-22	BUY	4,900	3,929
8	08-Apr-22	BUY	5,200	4,317
9	31-Jan-22	BUY	5,200	4,219

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,387
2	Aster DM Healthcare	BUY	265	228
3	Aurobindo Pharma	Accumulate	550	444
4	Cipla	BUY	1,300	1,088
5	Divi's Laboratories	Hold	3,300	3,462
6	Dr. Reddy's Laboratories	BUY	4,900	4,295
7	Eris Lifesciences	BUY	850	652
8	Fortis Healthcare	BUY	360	285
9	Glenmark Pharmaceuticals	Accumulate	460	434
10	HealthCare Global Enterprises	BUY	375	285
11	Indoco Remedies	BUY	430	363
12	Ipca Laboratories	Accumulate	950	858
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,992
14	Krishna Institute of Medical Sciences	BUY	1,660	1,505
15	Lupin	Hold	650	742
16	Max Healthcare Institute	BUY	500	433
17	Narayana Hrudayalaya	BUY	920	712
18	Sun Pharmaceutical Industries	BUY	1,175	1,015
19	Torrent Pharmaceuticals	BUY	1,850	1,561
20	Zydus Lifesciences	Accumulate	465	433

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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