

May 11, 2023

Q4FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		BUY	
Target Price	4,500		4,900	
Sales (Rs. m)	2,52,204	2,76,465	2,57,605	2,79,490
% Chng.	(2.1)	(1.1)		
EBITDA (Rs. m)	58,281	67,357	66,019	72,761
% Chng.	(11.7)	(7.4)		
EPS (Rs.)	231.0	270.1	256.2	288.7
% Chng.	(9.9)	(6.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	214	246	252	276
EBITDA (Rs. bn)	46	65	58	67
Margin (%)	21.5	26.3	23.1	24.4
PAT (Rs. bn)	24	45	38	45
EPS (Rs.)	141.6	270.5	231.0	270.1
Gr. (%)	23.1	91.0	(14.6)	17.0
DPS (Rs.)	34.5	46.0	46.0	51.8
Yield (%)	0.7	0.9	0.9	1.1
RoE (%)	12.9	21.4	15.6	16.1
RoCE (%)	16.0	22.2	17.2	18.0
EV/Sales (x)	3.7	3.1	2.9	2.6
EV/EBITDA (x)	17.3	11.8	12.8	10.7
PE (x)	34.4	18.0	21.1	18.0
P/BV (x)	4.3	3.5	3.1	2.7

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.4,989 / Rs.3,788
Sensex / Nifty	61,940 / 18,315
Market Cap	Rs.811bn/ \$ 9,886m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.1501.07m

Shareholding Pattern (%)

Promoter's	26.70
Foreign	27.25
Domestic Institution	22.86
Public & Others	23.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.3	7.0	24.4
Relative	(1.2)	4.7	9.1

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Weak base business profitability

Quick Pointers:

- Profitability was aided by divestment income (Rs2.65bn)
- US sales was down QoQ on account of lower gRevlimid sales

Dr. Reddy's (DRRD) Q4FY23 reported profitability was in line with our estimate. Adjusted for one-time divestment income (Rs2.65bn), EBITDA was 20% below our estimates impacted by lower GMs and higher overheads. Our FY24E and FY25E EPS stands reduced by 10% and 6% as we factor in lower margins ex of gRevlimid. We downgrade stock to Reduce from Buy with revised TP of Rs4,500/share (Rs4,900 earlier). At CMP, DRRD is trading at expensive valuations of 24x P/E on FY25E adjusted for gRevlimid. Any big ticket ANDA approvals and sharp recovery in base business margins are key risks to our call.

- Healthy revenue growth of 16% YoY aided by US generics and one-time divestment income:** DRRD's sales grew by 16% YoY at Rs 63bn. Adjusted for one-time divestment income (Rs2.64bn), revenues were down 11% QoQ and below our estimate. The miss was largely on account lower PSAI and US sales. US revenue came in at \$308mn (\$372mn in Q3FY23) vs our est of \$322mn. Domestic business adjusted for divestment of certain brands grew 5% YoY. PSAI sales increased by mere 3% YoY; below our estimate. EU increased 12% YoY, while Russia sales declined by 25% YoY.
- Adjusted EBIDTA sharply below our estimates:** DRRD reported EBIDTA of Rs15.8bn (up 35% YoY). Adjusted for divestment income and PLI grants, EBIDTA came in at Rs12.8bn vs our estimates of Rs16.1bn. Adj OPM came in at 21.4%. There were Rs305mn one off govt grant related to PLI scheme booked in Q4 while for FY23 it was Rs3.1bn. We believe DRRD has booked Rs8-9bn EBIDTA adj for one-offs and gRevlimid with OPM of ~16%. Segment wise PSAI and generics reported GMs of 25.2% and 61.7% respectively.
- Key concall takeaways: (1) US business:** Mgt guided that gRevlimid continue to remain meaningful in FY24E. In Q4, launched six new products and guided for 25-30 new launches in FY24. Expect US sales to grow in double digit despite high base **(2) Domestic business:** growth was driven by divestment of non-core brands offset by decline in volume of some of the products. Mgt expects to beat the IPM growth going ahead and will continue to explore inorganic route to strengthen its portfolio **(3) Decline in Russia business** was on account of high base, higher channel inventory and lower volume of base business. The YoY growth in CIS sales was flat while RoW growth was healthy at 28% YoY driven by increase in base business, new product launches and favorable forex movement **(4) PSAI:** Growth was driven by favorable forex movement and increase in volumes, partly offset by price erosion **(5) Co.** has received approval for three products in China, expects growth to accelerate from H2FY24 **(6) Tax rate** likely to be in range of 24-25% **(7) Capex** for FY23 stood at Rs11bn. Net cash stands at Rs51bn as of FY23 end **(8) Company** indicated that one observation received for its CTO 1 facility is minor in nature

Exhibit 1: 4QFY23 Result Overview (Rs mn)- Adjusted EBITDA for one offs was below our estimates

Y/e March	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
Net Sales	62,968	54,368	15.8	67,700	(7.0)	245,879	214,391	14.3
COGS	26,971	25,625	5.3	27,607	(2.3)	106,536	100,551	6.2
<i>% of Net Sales</i>	<i>42.8</i>	<i>47.1</i>		<i>40.8</i>		<i>43.3</i>	<i>46.9</i>	
SGA	14,802	12,715	16.4	14,710	0.6	55,390	50,256	8.1
<i>% of Net Sales</i>	<i>23.5</i>	<i>23.4</i>		<i>21.7</i>		<i>22.5</i>	<i>23.4</i>	
R&D	5,366	4,326	24.0	4,821	11.3	19,381	17,482	6.5
<i>% of Net Sales</i>	<i>8.5</i>	<i>8.0</i>		<i>7.1</i>		<i>7.9</i>	<i>8.2</i>	
Total Expenditure	47,139	42,666	10.5	47,138	0.0	181,307	168,289	6.8
EBITDA	15,829	11,702	35.3	20,562	(23.0)	64,572	46,102	41.7
<i>Margin (%)</i>	<i>25.1</i>	<i>21.5</i>		<i>30.4</i>		<i>26.3</i>	<i>21.5</i>	
Depreciation	3,190	2,959	7.8	3,271	(2.5)	12,636	11,825	6.5
EBIT	12,639	8,743	44.6	17,291	(26.9)	51,936	34,277	53.9
Other Income	281	291	(3.4)	(732)	(138.4)	5,907	2,761	127.8
Interest	(799)	(859)	(7.0)	139	(674.8)	(2,853)	(2,119)	63.0
PBT	13,719	9,893	38.7	16,420	(16.4)	60,696	39,157	60.5
Share of Profit of Equity	76	105		60		370	703	
Exceptional Items	540	7,515		134		699	7,562	
Total Taxes	3,663	1,608	127.8	3,875	(5.5)	15,300	8,730	63.4
<i>ETR (%)</i>	<i>26.7</i>	<i>16.3</i>		<i>23.6</i>		<i>25.2</i>	<i>22.3</i>	
Reported PAT	9,592	875	996.2	12,471	(23.1)	45,067	23,568	56.3

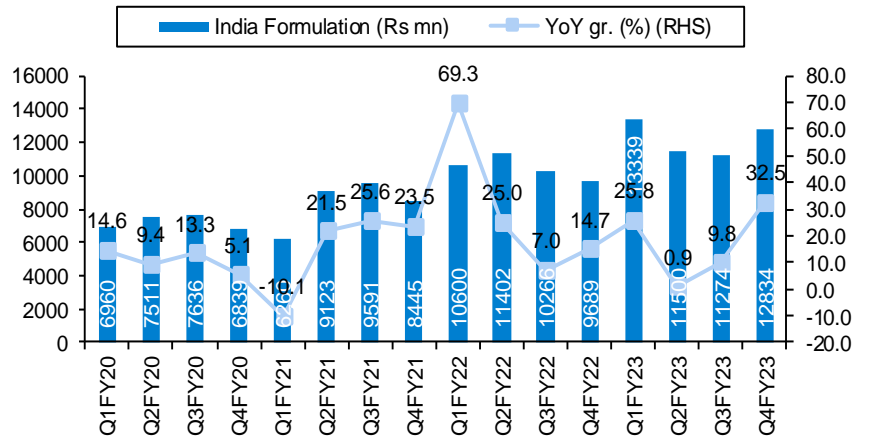
Source: Company, PL

Exhibit 2: US sales was down 17% QoQ

Major Sources of Revenues	Q4FY23	Q4FY22	YoY gr. (%)	Q3FY23	QoQ gr. (%)	FY23	FY22	YoY gr. (%)
PSAI (CPS & API)	7,787	7,557	3.0	7,758	0.4	29,069	30,740	(8.2)
<i>% of Net Sales</i>	<i>12.4</i>	<i>13.9</i>		<i>11.5</i>		<i>11.8</i>	<i>14.3</i>	
Branded Formulation	54,257	46,117	17.7	59,241	(8.4)	213,767	179,169	19.9
India	12,834	9,689	32.5	11,274	13.8	48,947	41,957	11.9
<i>% of Net Sales</i>	<i>20.4</i>	<i>17.8</i>		<i>16.7</i>		<i>19.9</i>	<i>19.6</i>	
International	41,423	36,428	13.7	47,967	(13.6)	164,820	137,212	22.4
<i>% of Net Sales</i>	<i>65.8</i>	<i>67.0</i>		<i>70.9</i>		<i>67.0</i>	<i>64.0</i>	
Russia & CIS	7,500	9,200	(18.5)	9,100	(17.6)	29,800	29,100	12.1
<i>% of Net Sales</i>	<i>11.9</i>	<i>16.9</i>		<i>13.4</i>		<i>12.1</i>	<i>13.6</i>	
Europe	4,960	4,444	11.6	4,303	15.3	17,603	16,631	3.7
<i>% of Net Sales</i>	<i>7.9</i>	<i>8.2</i>		<i>6.4</i>		<i>7.2</i>	<i>7.8</i>	
North America Generics	25,321	19,971	26.8	30,567	(17.2)	101,704	74,915	39.0
<i>% of Net Sales</i>	<i>40.2</i>	<i>36.7</i>		<i>45.2</i>		<i>41.4</i>	<i>34.9</i>	
Emerging Mkt Generics	3,642	2,813	29.5	3,997	(8.9)	15,713	16,566	(12.2)
<i>% of Net Sales</i>	<i>5.8</i>	<i>5.2</i>		<i>5.9</i>		<i>6.4</i>	<i>7.7</i>	
Innovative Prod. (Proprietary Prod.)	924	693	33.3	701	31.8	3,042	4,481	(44.1)
<i>% of Net Sales</i>	<i>1.5</i>	<i>1.3</i>		<i>1.0</i>		<i>1.2</i>	<i>2.1</i>	

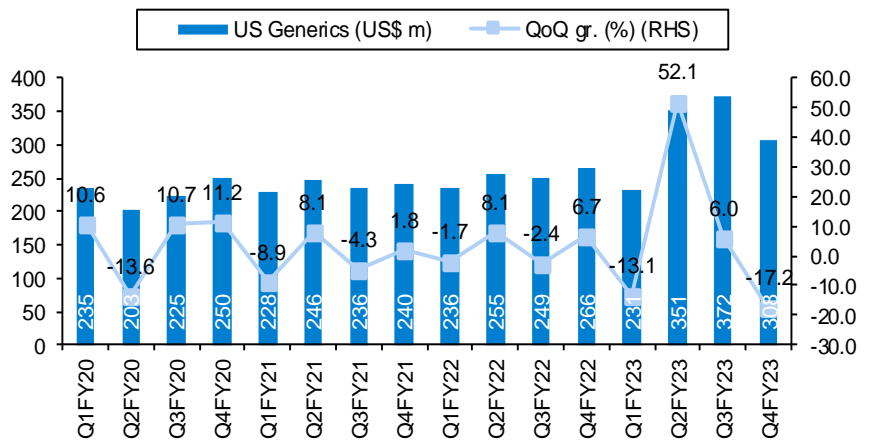
Source: Company, PL

Exhibit 3: India Formulation (Rs mn):- Adj for divestment growth was 5%



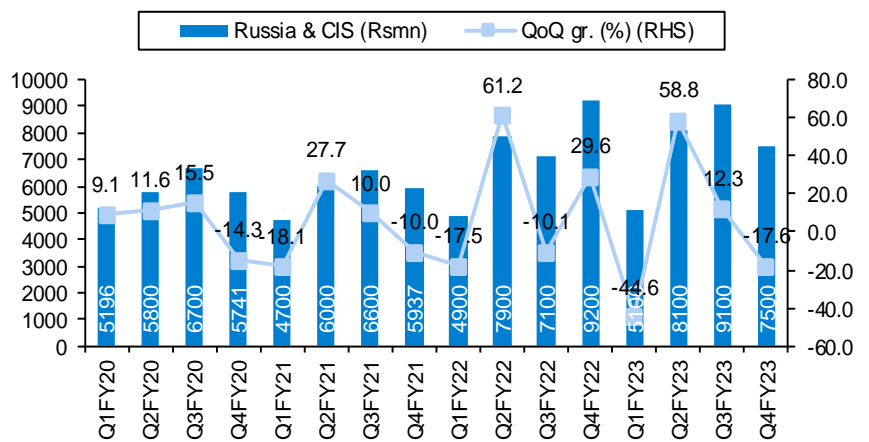
Source: Company, PL

Exhibit 4: US Generic (US\$ m): Growth impacted due to lower gRevlimid sales



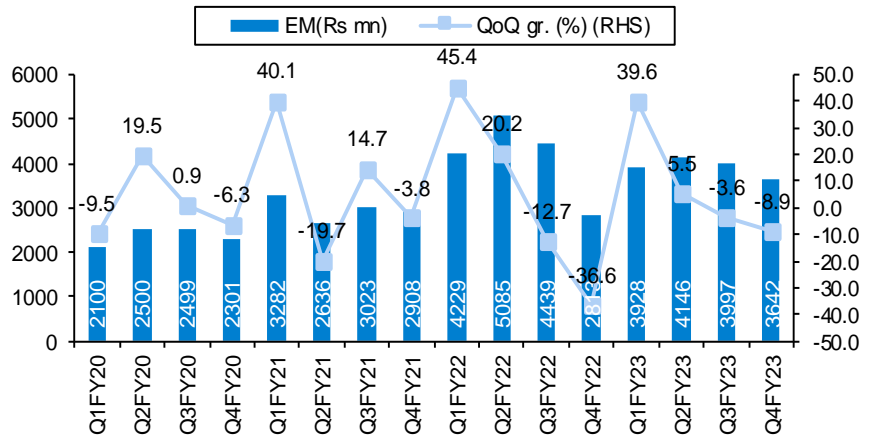
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn) : Reduction YoY due to high base



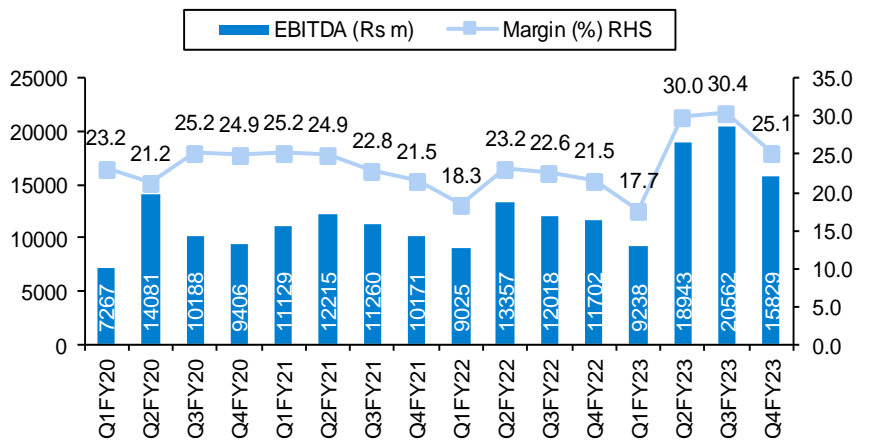
Source: Company, PL

Exhibit 6: Emerging Markets: Growth momentum to be continued



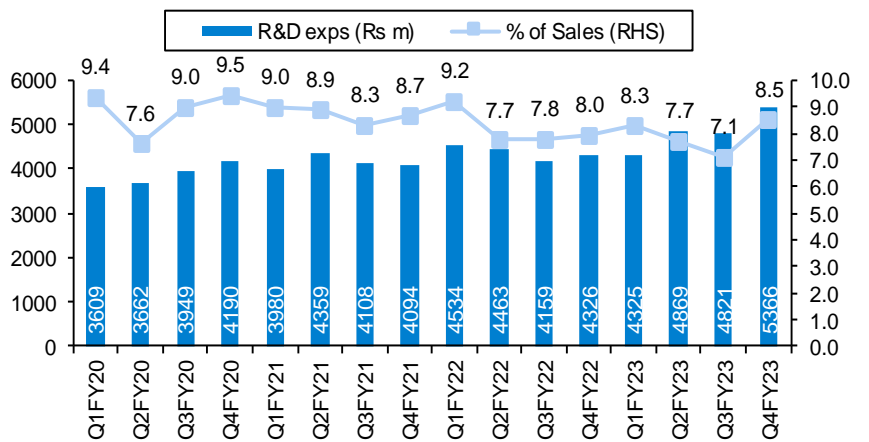
Source: Company, PL

Exhibit 7: Ex one time divestment income; margins were weak



Source: Company, PL

Exhibit 8: R&D: Continue to invest and strengthen pipeline



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	2,14,391	2,45,879	2,52,204	2,76,465
YoY gr. (%)	13.0	14.7	2.6	9.6
Cost of Goods Sold	1,00,551	1,06,536	1,15,025	1,25,851
Gross Profit	1,13,840	1,39,342	1,37,178	1,50,614
Margin (%)	53.1	56.7	54.4	54.5
Employee Cost	-	-	-	-
Other Expenses	17,482	19,381	20,738	22,189
EBITDA	46,101	64,571	58,281	67,357
YoY gr. (%)	3.0	40.1	(9.7)	15.6
Margin (%)	21.5	26.3	23.1	24.4
Depreciation and Amortization	11,824	12,636	13,645	14,657
EBIT	34,277	51,935	44,636	52,700
Margin (%)	16.0	21.1	17.7	19.1
Net Interest	(4,880)	(8,760)	(6,000)	(6,500)
Other Income	-	-	-	-
Profit Before Tax	39,157	60,695	50,636	59,200
Margin (%)	18.3	24.7	20.1	21.4
Total Tax	8,730	15,300	12,659	14,800
Effective tax rate (%)	22.3	25.2	25.0	25.0
Profit after tax	30,427	45,395	37,977	44,400
Minority interest	-	-	-	-
Share Profit from Associate	703	370	500	600
Adjusted PAT	23,568	45,066	38,477	45,000
YoY gr. (%)	23.1	91.2	(14.6)	17.0
Margin (%)	11.0	18.3	15.3	16.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	23,568	45,066	38,477	45,000
YoY gr. (%)	23.1	91.2	(14.6)	17.0
Margin (%)	11.0	18.3	15.3	16.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,568	45,066	38,477	45,000
Equity Shares O/s (m)	166	167	167	167
EPS (Rs)	141.6	270.5	231.0	270.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	1,97,172	2,14,260	2,24,632	2,34,805
Tangibles	1,53,578	1,64,901	1,81,901	1,98,901
Intangibles	43,594	49,358	42,730	35,903
Acc: Dep / Amortization	1,07,307	1,18,083	1,25,099	1,32,929
Tangibles	90,959	99,573	1,09,076	1,19,466
Intangibles	16,348	18,509	16,024	13,464
Net fixed assets	89,865	96,177	99,532	1,01,875
Tangibles	62,619	65,328	72,826	79,436
Intangibles	27,246	30,849	26,706	22,439
Capital Work In Progress	-	-	-	-
Goodwill	4,418	4,245	4,245	4,245
Non-Current Investments	7,986	5,362	5,362	5,362
Net Deferred tax assets	12,721	6,363	6,363	6,363
Other Non-Current Assets	948	800	800	800
Current Assets				
Investments	29,513	56,018	56,018	56,018
Inventories	50,884	48,670	59,548	65,276
Trade receivables	66,764	72,485	73,559	80,636
Cash & Bank Balance	14,852	5,779	25,089	50,992
Other Current Assets	19,093	23,988	25,187	26,447
Total Assets	2,84,323	3,13,524	3,49,341	3,91,651
Equity				
Equity Share Capital	832	833	833	833
Other Equity	1,89,695	2,30,158	2,60,972	2,97,350
Total Network	1,90,527	2,30,991	2,61,805	2,98,183
Non-Current Liabilities				
Long Term borrowings	5,746	1,278	1,278	1,278
Provisions	-	-	-	-
Other non current liabilities	2,479	2,907	2,907	2,907
Current Liabilities				
ST Debt / Current of LT Debt	28,099	12,194	12,194	12,194
Trade payables	25,572	26,444	27,159	29,715
Other current liabilities	44,621	47,207	50,362	53,737
Total Equity & Liabilities	2,84,323	3,14,658	3,49,341	3,91,651

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	46,101	73,331	64,281	73,857
Add. Depreciation	11,824	12,636	13,645	14,657
Add. Interest	4,880	8,760	6,000	6,500
Less Financial Other Income	-	-	-	-
Add. Other	(16,548)	(21,396)	(19,645)	(21,157)
Op. profit before WC changes	46,257	73,331	64,281	73,857
Net Changes-WC	(10,712)	(3,918)	(9,283)	(8,133)
Direct tax	(7,437)	(10,714)	(12,659)	(14,800)
Net cash from Op. activities	28,108	58,699	42,339	50,924
Capital expenditures	(14,986)	(18,866)	(17,000)	(17,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(14,986)	(18,866)	(17,000)	(17,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	4,099	(15,905)	-	-
Dividend paid	(4,146)	(4,979)	(7,664)	(8,622)
Interest paid	4,880	-	-	-
Others	(17,932)	(28,023)	1,634	600
Net cash from Fin. activities	(13,099)	(48,907)	(6,029)	(8,021)
Net change in cash	23	(9,073)	19,310	25,903
Free Cash Flow	13,448	47,376	25,339	33,924

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	52,154	63,057	67,700	62,968
YoY gr. (%)	6.0	9.4	27.3	15.8
Raw Material Expenses	26,148	25,810	27,607	26,971
Gross Profit	26,006	37,247	40,093	35,997
Margin (%)	49.9	59.1	59.2	57.2
EBITDA	9,238	18,943	20,562	15,829
YoY gr. (%)	2.4	41.8	71.1	35.3
Margin (%)	17.7	30.0	30.4	25.1
Depreciation / Depletion	3,050	3,125	3,271	3,190
EBIT	6,188	15,818	17,291	12,639
Margin (%)	11.9	25.1	25.5	20.1
Net Interest	(2,349)	156	139	(799)
Other Income	6,024	334	(732)	281
Profit before Tax	14,561	15,996	16,420	13,719
Margin (%)	27.9	25.4	24.3	21.8
Total Tax	2,779	4,983	3,875	3,663
Effective tax rate (%)	19.1	31.2	23.6	26.7
Profit after Tax	11,782	11,013	12,545	10,056
Minority interest	-	-	-	-
Share Profit from Associates	94	140	60	76
Adjusted PAT	11,876	11,128	12,471	9,592
YoY gr. (%)	108.1	12.2	76.5	996.2
Margin (%)	22.8	17.6	18.4	15.2
Extra Ord. Income / (Exp)	-	25	134	540
Reported PAT	11,876	11,153	12,605	10,132
YoY gr. (%)	108.1	12.4	77.2	20.8
Margin (%)	22.8	17.7	18.6	16.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,876	11,153	12,605	10,132
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	71.5	67.0	75.1	57.8

Source: Company Data, PL Research

Key Financial Metrics

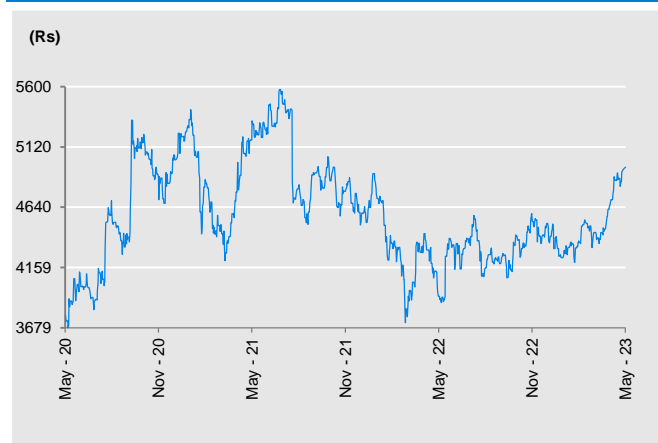
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	141.6	270.5	231.0	270.1
CEPS	212.7	346.4	312.9	358.1
BVPS	1,145.0	1,386.5	1,571.5	1,789.8
FCF	80.8	284.4	152.1	203.6
DPS	34.5	46.0	46.0	51.8
Return Ratio(%)				
RoCE	16.0	22.2	17.2	18.0
ROIC	14.3	20.6	16.6	18.5
RoE	12.9	21.4	15.6	16.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	157	141	153	153
Valuation(x)				
PER	34.4	18.0	21.1	18.0
P/B	4.3	3.5	3.1	2.7
P/CEPS	22.9	14.1	15.6	13.6
EV/EBITDA	17.3	11.8	12.8	10.7
EV/Sales	3.7	3.1	2.9	2.6
Dividend Yield (%)	0.7	0.9	0.9	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
India Formulations	41,957	48,932	49,204	55,108
US formulations	74,915	1,01,704	1,09,299	1,17,250
Russia	20,900	21,200	20,980	23,498
PSAI	30,740	29,069	31,395	33,906

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Apr-23	BUY	4,900	4,683
2	27-Jan-23	BUY	4,900	4,201
3	06-Jan-23	BUY	4,900	4,295
4	31-Oct-22	BUY	4,900	4,460
5	06-Oct-22	BUY	4,750	4,420
6	29-Jul-22	BUY	4,750	4,260
7	07-Jul-22	BUY	4,900	4,390
8	22-Jun-22	BUY	4,900	4,269
9	20-May-22	BUY	4,900	3,929

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,400	4,201
2	Aster DM Healthcare	BUY	265	240
3	Aurobindo Pharma	BUY	565	522
4	Cipla	BUY	1,070	896
5	Divi's Laboratories	Hold	2,700	2,890
6	Dr. Reddy's Laboratories	BUY	4,900	4,683
7	Eris Lifesciences	BUY	780	585
8	Fortis Healthcare	BUY	360	256
9	Glenmark Pharmaceuticals	Accumulate	460	480
10	HealthCare Global Enterprises	BUY	375	274
11	Indoco Remedies	BUY	430	328
12	Ipca Laboratories	Hold	750	741
13	J.B. Chemicals & Pharmaceuticals	BUY	2,350	1,975
14	Krishna Institute of Medical Sciences	BUY	1,660	1,415
15	Lupin	Hold	675	659
16	Max Healthcare Institute	BUY	500	419
17	Narayana Hrudayalaya	BUY	965	760
18	Sun Pharmaceutical Industries	BUY	1,175	997
19	Torrent Pharmaceuticals	BUY	1,820	1,578
20	Zydus Lifesciences	Accumulate	480	493

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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