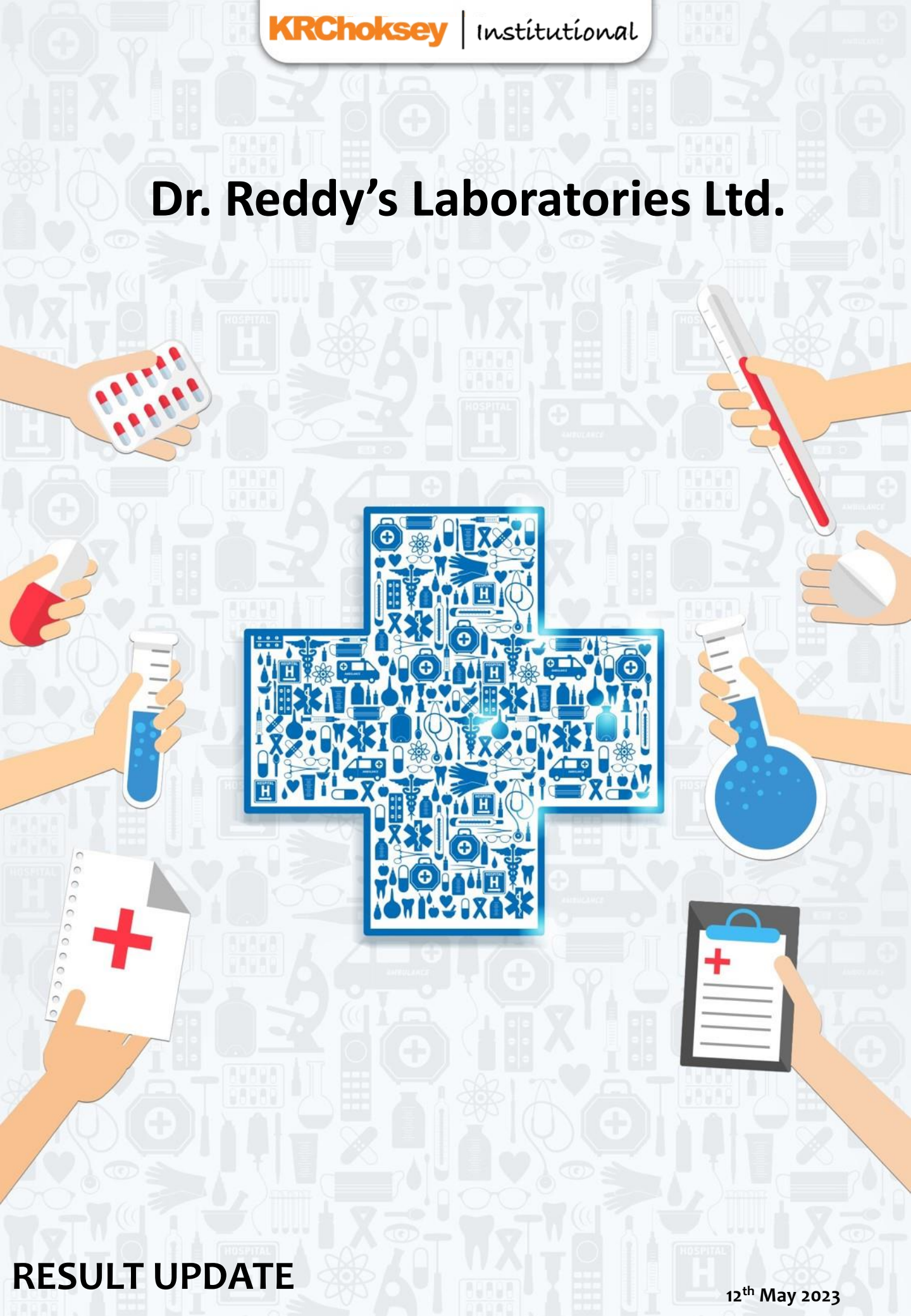


Dr. Reddy's Laboratories Ltd.



Dr. Reddy's Laboratories Ltd.

Lower volume growth in gRevlimid impacted the margin

CMP INR 4,464	Target INR 5,155	Potential Upside 15.5%	Market Cap (INR mn) INR 7,43,843	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights of Q4FY23

- DRReddy's consolidated revenue declined by 7% QoQ to INR 63152 Mn (+15% YoY). The company reported a YoY revenue growth, driven by new product launches, increase in volumes for base business and favourable forex movement, partially offset by the price erosion.
- EBITDA for the quarter was reported at INR 15879 Mn, declined by 18.6% QoQ and improved by 47.7% YoY. The EBITDA margins dropped by 360bps on QoQ to 25.1% on the account of lower gRevlimid sales, lower government incentive and product mix. However, the margins improved on YoY basis as a result of higher sales of new product with better margin and favourable forex.
- The PAT margins of Q4FY23 stood at 9601 Mn, it saw a decline of 22.8% QoQ and growth of 889.8% on YoY basis.
- The EPS for the quarter is reported at INR 57.79.

MARKET DATA

Shares outs (Mn)	166
Equity Cap (INR Mn)	207,752
Mkt Cap (INR Mn)	7,43,843
52 Wk H/L (INR)	4,931/ 3,654
Volume Avg (3m K)	372
Face Value (INR)	5
Bloomberg Code	DRRD IN

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,90,475	2,15,452	2,44,396	2,60,486	2,70,599
EBITDA	45,467	46,981	61,523	65,642	70,085
Adjusted PAT	24,060	28,395	45,072	42,295	45,150
Adj. EPS (INR)	144.6	170.6	270.9	254.2	271.3
EBITDA Margin	23.9%	21.8%	25.2%	25.2%	25.9%
Adjusted NPM	12.6%	13.2%	18.4%	16.2%	16.7%

Source: Company, KRChoksey Research

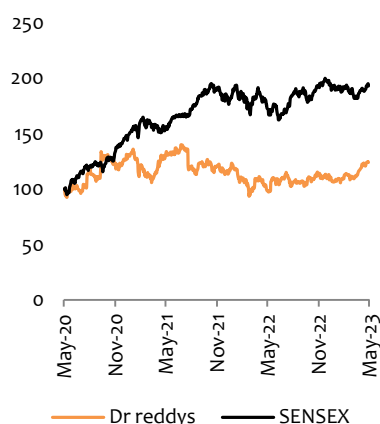
Sequential decline in revenue due to fall in gRevlimid sales :

DRReddy's saw a sequential drop in revenue to INR 63,152 Mn. Global generics, reported a revenue of INR 54,257 Mn, declined by 8% on a QoQ. However, the company witnessed YoY growth of 23.4%, driven by revenue growth in North America, Europe and India, partially offset by a decline of revenues in the emerging markets. The quarterly drop in revenue was mainly attributable to lower sales of gRevlimid and lower revenue contribution from base business products due to seasonality in North America and subdued performance in emerging markets. In North America, the Q4FY23 revenue stood at INR 25,321 Mn(+26.8% YoY,-17.2% QoQ). In Europe, Q4FY23 stood at INR 4,960 Mn(+11.6% YoY +15.3% QoQ) due to traction in the base business volumes. In India, Q4FY23 revenue saw a growth of 38% YoY and 13.8% QoQ to INR 12,834 Mn. Growth in the quarterly revenue was primarily driven by divestment from few non core brands, new product launches and price increase. In the Emerging markets, revenue declined by -4.9% QoQ, but it grew by 8.8% to INR 11142Mn. In the PSAI segment, revenue remained flat on QoQ basis and grew by 12.4% YoY to report INR 7,787 Mn.

Robust product launch pipeline:

The company has launched several new products in Q4FY23 and is actively working on R&D. The R&D spend for FY23 is INR 19,380 Mn. In North America, the company has launched six new products and expects the momentum to continue in FY24. Six new products launch in Q4 include Difluprednate, Lurasidone tablets, lubiprostone capsules, sunitinib capsules, nelarabine injection and timolol gel, taking total launch to 25 in FY23. The company is progressing well in the development of biosimilar products and working on some initial opportunities in Horizon 2. The company has filed 195 global generics, including 12 ANDAs filed in the US and 170 Drug Master File filings globally including Drug Master Files in the US during FY23. Accordingly, the company is building a pipeline of products that will meet the changing needs of patients and healthcare professional to investment in internal R&D as well as strategic acquisitions. The company continues its focus on R&D and aims to build a healthy and a steady pipeline of new products across the market.

SHARE PRICE PERFORMANCE

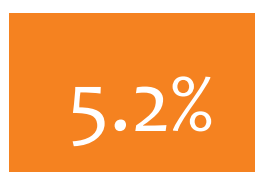


MARKET INFO

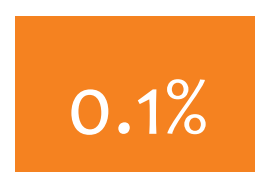
SENSEX	62,028
NIFTY	18,315

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Sep-22 (%)	Jun-22 (%)
Promoters	26.7	26.7	26.7
FIIIs	27.3	27.3	26.3
DIIIs	34.4	33.9	34.8
Others	11.5	11.8	12.0
Total	100%	100	100



Revenue CAGR between FY23 and FY25E



PAT CAGR between FY23 and FY25E

Dr. Reddy's Laboratories Ltd.

Key Concall Highlights:

i) DR Reddys has reported all time highs in revenue, profits and generated a healthy. ii) The company is aiming for double digit growth in all markets. The company maintained its cash flow which has helped to strengthen the core portfolios and the management has given guidance of 25% on EBITDA. iii) The R&D likely to be somewhere between 8% to 9% of sales going forward. iv) SG&A expense increased YoY primarily attributable to investments in sales & marketing and an adverse forex rate. Sequentially, SG&A expenses remained flat. v) The management expects to continue with growth momentum in North America with the introduction of 25 to 30 meaningful products that would be exclusive and have less competition. Further, improvement in the product mix would aid to the growth. The contribution from gRevlimid is expected to remain meaningful for the coming quarters, but may fluctuate on a QoQ basis. vi) The company expects to see the biosimilar launch of Pegfilgrastim by Fresenius Kabi in the US. vi) In Indian formulations, with respect to the horizon 2 strategy, the company continues to partner with global players to bring innovative products in the Indian market via licensing deals viii) The primary goals for India market will be to concentrate on brands, therapeutic areas and expanding the footprint. The management guided that India business would grow inline or higher the market in FY24. ix) In China, the company received approval of products namely Cellular Mayo [ph] and carboprost. They are progressing well in the digitalisation and ESG, and the effect will be visible from FY24, whereas a significant impact could be seen from FY25 onwards.

Valuation and view: Despite weak quarterly performance, we believe the company's strategy of investing in various businesses may provide growth in the long term. Dr. Reddy's is currently trading at a PE multiples of 17.6x/16.5x based on our FY24E/FY25E EPS respectively. **We have revised our target price to INR 5,155/share (Earlier 5,200), gives an upside potential of 15.5% from its CMP of INR 4,464/share, we maintain our "BUY" rating on the shares of Dr. Reddy's.**

Segments Result (INR Mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total Sales	52,203	52,153	63,057	67,700	62,968
Global Generics	43,953	44,323	55,946	59,241	54,257
North America	19,971	17,815	28,001	30,567	25,321
Europe	4,444	4,141	4,199	4,303	4,960
India	9,299	13,339	11,500	11,274	12,834
Emerging Markets	10,239	9,028	12,246	13,097	11,142
PSAI	7,557	7,090	6,434	7,758	7,787
PP & Others	693	740	677	701	924

Segments Result (% YoY)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total Sales	10.4%	6.0%	9.4%	27.3%	20.6%
Global Generics	13.5%	7.8%	18.0%	33.1%	23.4%
North America	14.2%	2.4%	48.1%	63.9%	26.8%
Europe	12.3%	3.7%	1.5%	6.0%	11.6%
India	10.1%	25.8%	0.9%	9.8%	38.0%
Emerging Markets	15.8%	-1.1%	-5.7%	13.5%	8.8%
PSAI	-4.5%	-6.0%	-23.1%	6.7%	3.0%
PP & Others	9.7%	36.8%	-63.0%	-50.6%	33.3%

Revenue Mix (%)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Global Generics	84.2%	85.0%	88.7%	87.5%	86.2%
North America	38.3%	34.2%	44.4%	45.2%	40.2%
Europe	8.5%	7.9%	6.7%	6.4%	7.9%
India	17.8%	25.6%	18.2%	16.7%	20.4%
Emerging Markets	19.6%	17.3%	19.4%	19.3%	17.7%
PSAI	14.5%	13.6%	10.2%	11.5%	12.4%
PP & Others	1.3%	1.4%	1.1%	1.0%	1.5%

Source: Company, KRChoksey Research

Dr. Reddy's Laboratories Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY 21	FY 22	FY 23	FY 24E	FY 25E
Revenues	1,90,475	2,15,452	2,44,396	2,60,486	2,70,599
COGS	60,789	74,422	76,578	82,314	84,427
Gross profit	1,29,686	1,41,030	1,67,818	1,78,172	1,86,172
Employee cost	36,299	38,858	46,466	47,148	48,708
Other expenses	47,920	55,191	59,829	65,382	67,379
EBITDA	45,467	46,981	61,523	65,642	70,085
EBITDA Margin	23.87%	21.81%	25.17%	25.20%	25.90%
Depreciation & amortization	12,288	11,652	13,176	14,587	15,424
EBIT	33,179	35,329	48,347	51,055	54,661
Interest expense	970	958	1,428	1,212	1,218
Other income	2,914	4,844	5,281	5,713	5,935
PBT	28,355	29,911	60,114	55,556	59,378
Tax	9,319	8,789	15,412	14,061	15,028
Share of Profit/(Loss) of Associates	480	703	370	800	800
PAT	19,516	21,825	45,072	42,295	45,150
EPS (INR)	117.7	131.2	270.9	254.2	271.3
Adj. PAT	24,060	28,395	45,072	42,295	45,150
Adj EPS (INR)	144.6	170.6	270.9	254.2	271.3

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY 25E
Net Cash Generated From Operations	35,703	28,108	58,873	52,575	58,532
Net Cash Flow from/(used in) Investing Activities	(22,660)	(26,387)	(41,371)	(21,615)	(22,471)
Net Cash Flow from Financing Activities	(298)	(2,422)	(26,861)	(1,212)	(1,218)
Net Inc/Dec in cash equivalents	12,745	(701)	(9,359)	29,749	34,844
Opening Balance	2,053	14,820	14,852	5,779	35,528
Adjustment	31	733	286	0	0
Closing Balance Cash and Cash Equivalents	14,829	14,852	5,779	35,528	70,371

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY 25E
EBITDA Margin (%)	23.9%	21.8%	25.2%	25.2%	25.9%
Tax rate (%)	32.9%	29.4%	25.6%	25.3%	25.3%
Adj. Net Profit Margin (%)	12.6%	13.2%	18.4%	16.2%	16.7%
RoE (%)	13.6%	14.8%	19.4%	15.4%	14.1%
RoCE (%)	16.1%	15.8%	19.8%	17.8%	16.5%
Current Ratio (x)	1.80	1.82	2.38	2.68	3.03
Adj. EPS (INR)	144.6	170.6	270.9	254.2	271.3

Source: Company, KRChoksey Research

Dr. Reddy's Laboratories Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
EQUITY AND LIABILITIES					
Equity					
Equity share capital	832	832	833	833	833
Other equity	1,75,585	1,91,292	2,32,028	2,74,323	3,19,474
Shareholders Fund	1,76,417	1,92,124	2,32,861	2,75,156	3,20,307
Total Debt	29,444	30,882	11,190	11,190	11,190
Other NCL & Provisions	2,125	3,873	3,509	3,740	3,885
Trade payables	18,109	22,662	22,684	24,383	25,009
OCL & Provisions	39,784	47,914	51,847	55,260	57,406
Total equity and liabilities	2,66,168	2,97,469	3,22,851	3,70,490	4,18,557
ASSETS					
Property, plant and equipment	47,322	48,869	56,542	62,061	67,523
Capital work-in-progress	9,539	12,796	9,752	9,752	9,752
Goodwill	5,599	5,473	5,474	5,474	5,474
Investment in joint ventures	3,375	4,318	4,702	5,502	6,302
Other non-current asset	14,624	19,511	10,742	10,985	11,138
Total No-current assets	1,20,665	1,19,646	1,18,596	1,26,666	1,34,666
Inventories	45,412	50,884	48,670	52,315	53,658
Trade receivables	49,641	66,764	72,485	77,257	80,256
Other Current Assets	15,877	25,150	21,302	22,704	23,586
Cash and cash equivalents	14,829	14,852	17,302	47,051	81,894
Total Current Assets	1,45,503	1,77,823	2,04,255	2,43,823	2,83,891
Total Assets	2,66,168	2,97,469	3,22,851	3,70,490	4,18,557

Source: Company, KRChoksey Research

Dr. Reddy's Laboratories Ltd.

Dr. Reddy's Laboratories Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
12-05-23	4464	5155	BUY	Buy	More than 15%
31-10-22	4,427	5,200	BUY		
29-07-22	4,090	4,869	BUY	Accumulate	5% – 15%
24-05-22	4,275	5,261	BUY	Hold	0 – 5%
31-01-22	4,303	5,261	BUY	Reduce	-5% – 0
02-11-21	4,746	5,261	Accumulate		
05-09-21	4,899	5,261	Accumulate	Sell	Less than – 5%

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