

Rating: REDUCE | CMP: Rs6,879 | TP: Rs6,000

July 29, 2024

Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	6,000		5,700	
Sales (Rs. m)	3,08,550	3,35,601	2,93,322	3,17,838
% Chng.	5.2	5.6		
EBITDA (Rs. m)	82,159	87,953	80,025	82,060
% Chng.	2.7	7.2		
EPS (Rs.)	336.6	359.8	329.2	333.3
% Chng.	2.3	8.0		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	246	279	309	336
EBITDA (Rs. bn)	65	78	82	88
Margin (%)	26.3	28.1	26.6	26.2
PAT (Rs. bn)	45	56	56	60
EPS (Rs.)	270.5	333.8	336.6	359.8
Gr. (%)	91.0	23.4	0.8	6.9
DPS (Rs.)	46.0	46.0	57.5	69.0
Yield (%)	0.7	0.7	0.8	1.0
RoE (%)	21.4	21.8	18.5	17.1
RoCE (%)	22.2	23.3	20.5	19.1
EV/Sales (x)	4.5	3.9	3.4	3.1
EV/EBITDA (x)	17.0	13.9	12.9	11.7
PE (x)	25.4	20.6	20.4	19.1
P/BV (x)	5.0	4.1	3.5	3.1

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.6,966 / Rs.5,206	
Sensex / Nifty	81,333 / 24,835	
Market Cap	Rs.1,148bn/ \$ 13,705m	
Shares Outstanding	167m	
3M Avg. Daily Value	Rs.3300.41m	

Shareholding Pattern (%)

Promoter's	26.65
Foreign	27.68
Domestic Institution	20.72
Public & Others	24.95
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.3	17.5	25.6
Relative	9.6	2.1	3.0

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EBITDA beat aided by higher Revlimid sales

Quick Pointers:

- Other expenses remain elevated as it continues to invest for building pipeline
- Booked Rs809mn for Q1FY25 as grant income from PLI.

Dr. Reddy's (DRRD) Q1FY25 EBITDA was 14% above our estimate aided by higher gRevlimid sales. The base business margins and US sales ex of gRevlimid and PLI incentives continued to remain weak. Further thin US pipeline in near term and competition in certain key products remains a key risk. Our FY25 and FY26E EPS stands increased by 3% and 8% as we factor in higher gRevlimid sales. At CMP, DRRD is trading at expensive valuations of 30x P/E on FY26E adjusted for gRevlimid. We maintain our 'Reduce' rating with TP of Rs6,000/share; valuing at 26x FY26E EPS for base business. Any big ticket ANDA approvals and sharp recovery in base business margins are key risks to our call.

- Strong revenue grown aided by higher US sales:** DRRD's sales grew by 14% YoY at Rs 76bn; beat our estimates. US revenue came in higher at \$461mn. (\$393mn in Q4FY24) vs our est of \$390mn. We expect QoQ improvement was due to higher gRevlimid sales and contribution from new launches. Domestic business increased by 15% YoY to Rs 13.2bn aided by consolidation of Sanofi vaccine brands. PSAI sales increased by 14% YoY on low base. EU sales increased 3.8% YoY, while Russia sales declined marginally by 1.8% YoY impacted by currency. RoW growth was at 13% YoY.
- EBITDA beat aided by higher gRevlimid sales:** DRRD reported EBITDA of Rs 21.3bn vs our estimates of Rs 19bn. We expect company have booked+\$180mn sales from gRevlimid in Q1. OPM came in higher at 27.7%, increased 250bps QoQ, we est 26.2%. Segment wise PSAI margins declined at 23.1% (28.6% in Q4FY24) whereas generic margins increased at 64.7% (62% in Q4FY24). Adjusted OPM for PLI grant income came in at 26.7%; up 270 bps QoQ. Other expenses continue to remain elevated; up 34% YoY and 13% QoQ. R&D expenses stood at 8.1% of revenues, up 24% YoY.
- Key concall takeaways: US business** - Launched 3 new products and filed 1 ANDA in US. Partnered with Alvotech to commercialize its Denosumab biosimilar in US, Europe and UK. Continue to witness price erosion in generic markets. **India:** Integrated vaccine brands of Sanofi. Launches 13 new products. Growth in the base business was at mid-single digit. Mgmt has guided for double digit growth. It's recent JV with Nestle for their nutritional supplements is likely to get operational in Q2FY25. **Biosimilars:** Invested few billions in building capacities. Intends to increase capacity from 15KL to 50KL over next 2 years. Focus remains on launching products in India on the back of scale up of capacities. Future pipeline includes launches such as injectable and peptides. **Russia** business declined YoY due to currency devaluation. Partnered with Novartis Pharma LLC to distribute Galvus and Galvus Met, its leading diabetic brands. **EM's** Launched 17 products across markets. The YoY growth in EM sales was on account of market share gain and new launches. The transaction of Nicotinell and related brands acquisition is likely to conclude by Q4CY24. During the quarter, DRRD received Rs 810mn as grant from PLI. Guided for 24-25% tax rate in FY25. Net cash at Rs 67bn.

Exhibit 1: 1QFY25 Result Overview (Rs mn): EBITDA above est aided by higher US sales

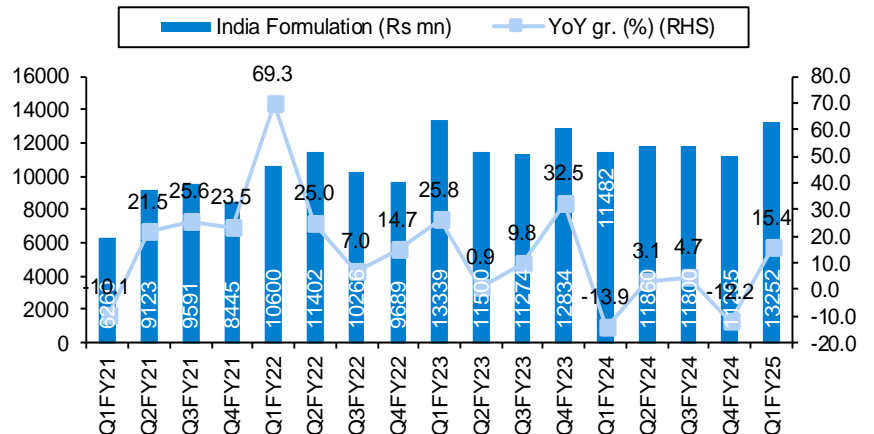
Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	76,727	67,384	13.9	70,830	8.3	279,164	245,879	13.5
COGS	30,383	27,831	9.2	29,347	3.5	115,557	106,536	8.5
<i>% of Net Sales</i>	<i>39.6</i>	<i>41.3</i>		<i>41.4</i>		<i>41.4</i>	<i>43.3</i>	
SGA	18,881	14,119	33.7	16,764	12.6	62,346	55,390	12.6
<i>% of Net Sales</i>	<i>24.6</i>	<i>21.0</i>		<i>23.7</i>		<i>22.3</i>	<i>22.5</i>	
R&D	6,193	4,984	24.3	6,877	(9.9)	22,873	19,381	18.0
<i>% of Net Sales</i>	<i>8.1</i>	<i>7.4</i>		<i>9.7</i>		<i>8.2</i>	<i>7.9</i>	
Total Expenditure	55,457	46,934	18.2	52,988	4.7	200,776	181,307	10.7
EBITDA	21,270	20,450	4.0	17,842	19.2	78,388	64,572	21.4
<i>Margin (%)</i>	<i>27.7</i>	<i>30.3</i>		<i>25.2</i>		<i>28.1</i>	<i>26.3</i>	
Depreciation & Amortisation	3,810	3,583	6.3	3,712	2.6	14,855	12,636	17.6
EBIT	17,460	16,867	3.5	14,130	23.6	63,533	51,936	22.3
Other Income	470	780	(39.7)	656	(28.4)	4,199	5,907	(28.9)
Interest	(837)	(784)	6.8	(1,022)	(18.1)	(3,994)	(2,853)	40.0
PBT	18,767	18,431	1.8	15,808	18.7	71,726	60,696	18.2
Share of Profit of Equity	59	43		35		147	370	
Extra Ord Items	5	11		(173)		3	699	
Total Taxes	4,901	4,438	10.4	2,946	66.4	16,186	15,300	5.8
<i>ETR (%)</i>	<i>26.1</i>	<i>24.1</i>		<i>18.6</i>		<i>22.6</i>	<i>25.2</i>	
Reported PAT	13,920	14,025	(0.7)	13,070	6.5	55,684	45,067	23.6

Source: Company, PL

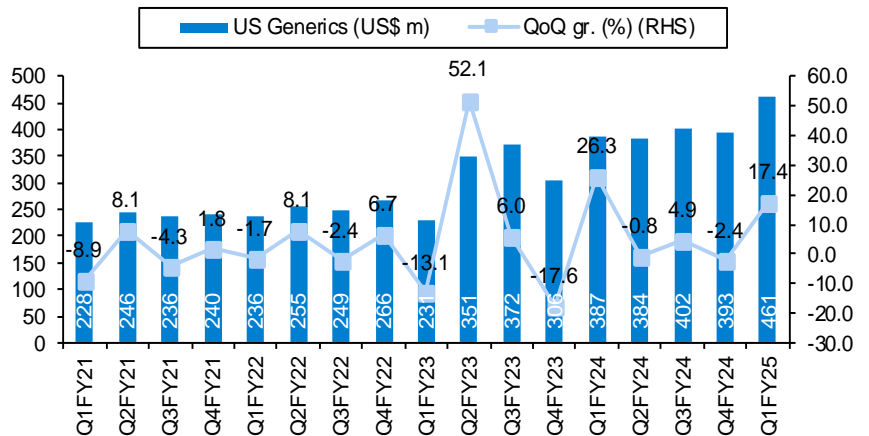
Exhibit 2: Higher gRevlimid sales aided US segment

Major Sources of Revenues	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
PSAI (CPS & API)	7,657	6,709	14.1	8,219	(6.8)	29,801	29,069	2.5
<i>% of Net Sales</i>	<i>10.0</i>	<i>10.0</i>		<i>11.6</i>		<i>10.7</i>	<i>11.8</i>	
Branded Formulation	68,857	60,083	14.6	61,199	12.5	245,386	213,767	14.8
India	13,252	11,482	15.4	11,265	17.6	46,407	48,947	(5.2)
<i>% of Net Sales</i>	<i>17.3</i>	<i>17.0</i>		<i>15.9</i>		<i>16.6</i>	<i>19.9</i>	
International	55,605	48,601	14.4	49,934	11.4	198,979	164,820	20.7
<i>% of Net Sales</i>	<i>72.5</i>	<i>72.1</i>		<i>70.5</i>		<i>71.3</i>	<i>67.0</i>	
Russia & CIS	7,400	7,600	(2.6)	7,200	2.8	31,000	29,800	4.0
<i>% of Net Sales</i>	<i>9.6</i>	<i>11.3</i>		<i>10.2</i>		<i>11.1</i>	<i>12.1</i>	
Europe	5,265	5,071	3.8	5,208	1.1	20,535	17,603	16.7
<i>% of Net Sales</i>	<i>6.9</i>	<i>7.5</i>		<i>7.4</i>		<i>7.4</i>	<i>7.2</i>	
North America Generics	38,462	31,978	20.3	32,626	17.9	129,796	101,704	27.6
<i>% of Net Sales</i>	<i>50.1</i>	<i>47.5</i>		<i>46.1</i>		<i>46.5</i>	<i>41.4</i>	
Emerging Mkt Generics	4,478	3,952	13.3	4,900	(8.6)	17,648	15,713	12.3
<i>% of Net Sales</i>	<i>5.8</i>	<i>5.9</i>		<i>6.9</i>		<i>6.3</i>	<i>6.4</i>	
Innovative Prod. (Proprietary Prod.)	212	592	(64.2)	1,420	(85.1)	3,910	3,042	28.5
<i>% of Net Sales</i>	<i>0.3</i>	<i>0.9</i>		<i>2.0</i>		<i>1.4</i>	<i>1.2</i>	

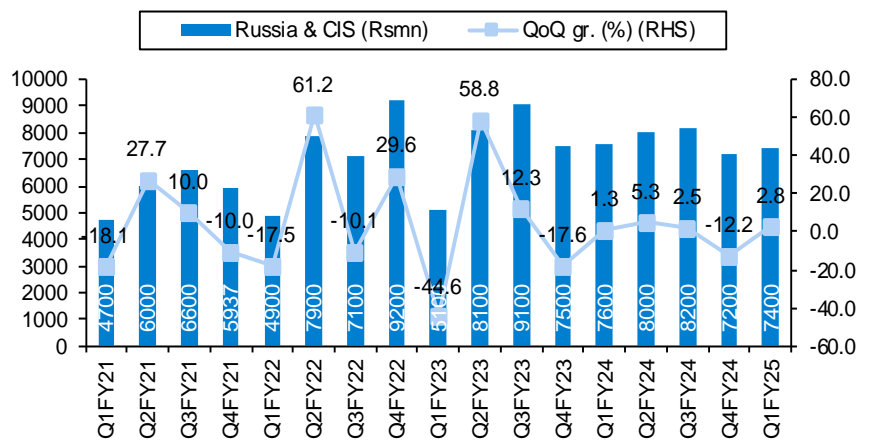
Source: Company, PL

Exhibit 3: India Formulation (Rs mn): Adj for Sanofi brand growth was muted


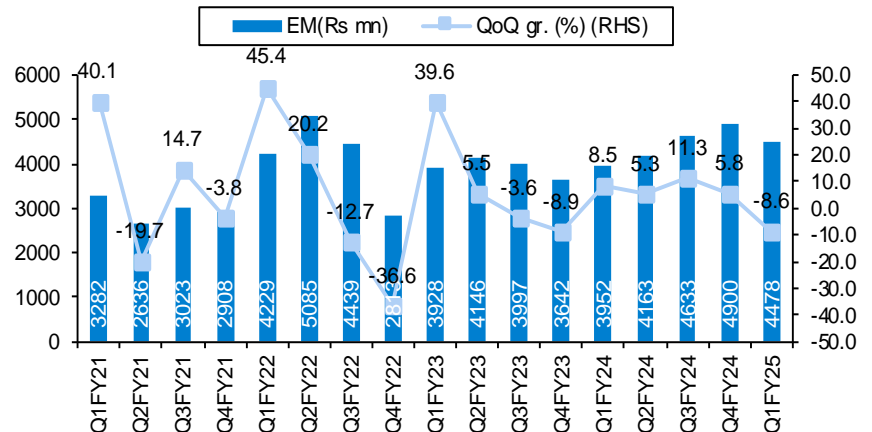
Source: Company, PL

Exhibit 4: US Generic (US\$ m): gRevlimid continues to drive US sales


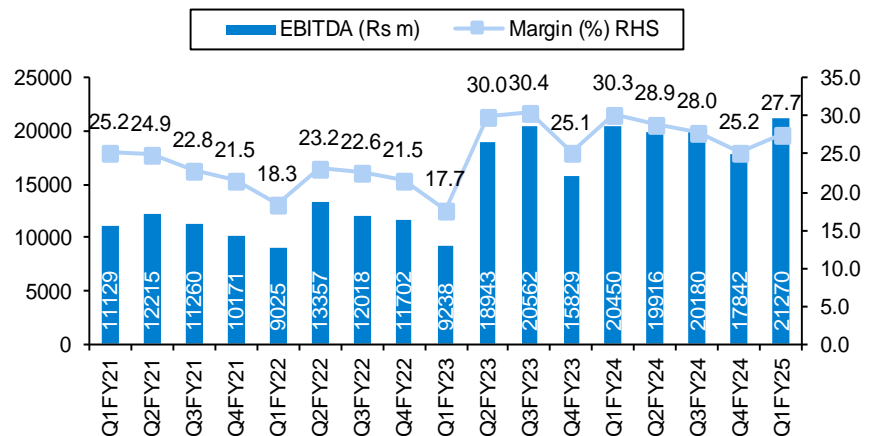
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn): Currency devaluation impacted growth


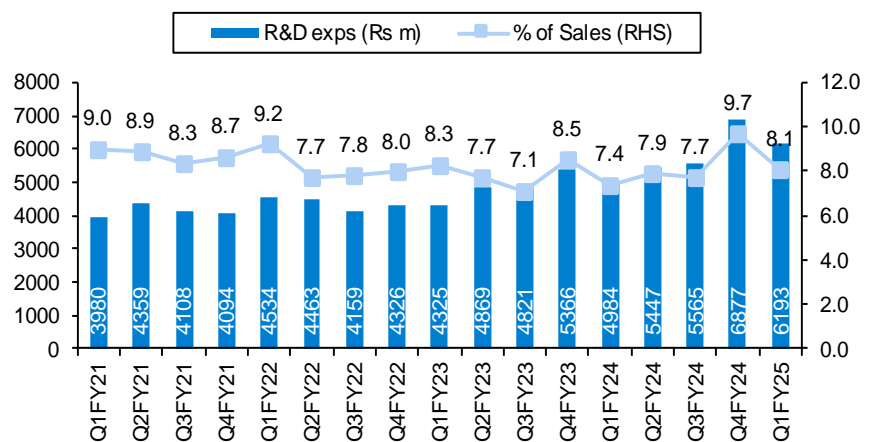
Source: Company, PL

Exhibit 6: Emerging Markets: New launches aided YoY growth


Source: Company, PL

Exhibit 7: GM's supported EBITDA performance


Source: Company, PL

Exhibit 8: R&D spend up 24% YoY


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	2,45,879	2,79,164	3,08,550	3,35,601
YoY gr. (%)	14.7	13.5	10.5	8.8
Cost of Goods Sold	1,06,536	1,15,557	1,26,254	1,40,255
Gross Profit	1,39,342	1,63,607	1,82,296	1,95,347
Margin (%)	56.7	58.6	59.1	58.2
Employee Cost	-	-	-	-
Other Expenses	19,381	22,873	24,703	26,679
EBITDA	64,571	78,392	82,159	87,953
YoY gr. (%)	40.1	21.4	4.8	7.1
Margin (%)	26.3	28.1	26.6	26.2
Depreciation and Amortization	12,636	14,856	15,806	17,102
EBIT	51,935	63,536	66,354	70,852
Margin (%)	21.1	22.8	21.5	21.1
Net Interest	(8,760)	(8,193)	(7,200)	(8,500)
Other Income	-	-	-	-
Profit Before Tax	60,695	71,729	73,554	79,352
Margin (%)	24.7	25.7	23.8	23.6
Total Tax	15,300	16,186	17,653	19,838
Effective tax rate (%)	25.2	22.6	24.0	25.0
Profit after tax	45,395	55,543	55,901	59,514
Minority interest	-	-	-	-
Share Profit from Associate	370	147	250	500
Adjusted PAT	45,066	55,684	56,151	60,014
YoY gr. (%)	91.2	23.6	0.8	6.9
Margin (%)	18.3	19.9	18.2	17.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	45,066	55,684	56,151	60,014
YoY gr. (%)	91.2	23.6	0.8	6.9
Margin (%)	18.3	19.9	18.2	17.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	45,066	55,684	56,151	60,014
Equity Shares O/s (m)	167	167	167	167
EPS (Rs)	270.5	333.8	336.6	359.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	2,14,260	2,40,426	2,51,725	2,64,762
Tangibles	1,64,901	1,81,304	2,01,304	2,23,304
Intangibles	49,358	59,122	50,420	41,458
Acc: Dep / Amortization	1,16,949	1,26,589	1,33,693	1,41,832
Tangibles	98,439	1,04,418	1,14,786	1,26,286
Intangibles	18,509	22,171	18,908	15,547
Net fixed assets	97,311	1,13,837	1,18,031	1,22,930
Tangibles	66,462	76,886	86,519	97,019
Intangibles	30,849	36,951	31,513	25,911
Capital Work In Progress	-	-	-	-
Goodwill	4,245	4,253	4,253	4,253
Non-Current Investments	5,362	5,255	5,255	5,255
Net Deferred tax assets	6,363	9,940	9,940	9,940
Other Non-Current Assets	800	1,632	1,632	1,632
Current Assets				
Investments	56,018	74,363	74,363	74,363
Inventories	48,670	63,552	72,852	79,239
Trade receivables	72,485	80,298	94,279	1,02,545
Cash & Bank Balance	5,779	7,107	29,654	64,370
Other Current Assets	23,988	26,447	27,769	29,158
Total Assets	3,14,658	3,76,744	4,28,089	4,83,745
Equity				
Equity Share Capital	833	834	834	834
Other Equity	2,30,158	2,79,716	3,26,276	3,74,780
Total Network	2,30,991	2,80,550	3,27,110	3,75,614
Non-Current Liabilities				
Long Term borrowings	1,278	5,990	5,990	5,990
Provisions	-	-	-	-
Other non current liabilities	2,907	4,833	4,833	4,833
Current Liabilities				
ST Debt / Current of LT Debt	12,194	14,030	14,030	14,030
Trade payables	26,444	30,191	31,564	35,064
Other current liabilities	47,207	51,090	54,503	58,154
Total Equity & Liabilities	3,14,658	3,76,744	4,28,089	4,83,745

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	73,331	86,585	89,359	96,453
Add. Depreciation	12,636	14,856	15,806	17,102
Add. Interest	8,760	8,193	7,200	8,500
Less Financial Other Income	-	-	-	-
Add. Other	(21,222)	(27,723)	(23,006)	(25,602)
Op. profit before WC changes	73,505	81,911	89,359	96,453
Net Changes-WC	(3,918)	(16,430)	(19,819)	(8,890)
Direct tax	(10,714)	(20,047)	(17,653)	(19,838)
Net cash from Op. activities	58,873	45,433	51,888	67,726
Capital expenditures	(18,866)	(27,435)	(20,000)	(22,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(18,866)	(27,435)	(20,000)	(22,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(15,905)	1,836	-	-
Dividend paid	(4,979)	(6,648)	(9,591)	(11,509)
Interest paid	-	-	-	-
Others	(28,196)	(11,858)	250	500
Net cash from Fin. activities	(49,080)	(16,670)	(9,341)	(11,009)
Net change in cash	(9,073)	1,328	22,547	34,717
Free Cash Flow	47,550	29,030	31,888	45,726

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	68,802	72,148	70,830	76,727
YoY gr. (%)	9.1	6.6	12.5	13.9
Raw Material Expenses	28,434	29,945	29,347	30,383
Gross Profit	40,368	42,203	41,483	46,344
Margin (%)	58.7	58.5	58.6	60.4
EBITDA	19,916	20,180	17,842	21,270
YoY gr. (%)	5.1	(1.9)	12.7	4.0
Margin (%)	28.9	28.0	25.2	27.7
Depreciation / Depletion	3,790	3,770	3,712	3,810
EBIT	16,126	16,410	14,130	17,460
Margin (%)	23.4	22.7	19.9	22.8
Net Interest	(1,225)	(963)	(1,022)	(837)
Other Income	1,796	967	656	470
Profit before Tax	19,147	18,340	15,808	18,767
Margin (%)	27.8	25.4	22.3	24.5
Total Tax	4,334	4,468	2,946	4,901
Effective tax rate (%)	22.6	24.4	18.6	26.1
Profit after Tax	14,813	13,872	12,862	13,866
Minority interest	-	-	-	-
Share Profit from Associates	42	27	35	59
Adjusted PAT	14,800	13,789	13,070	13,920
YoY gr. (%)	33.0	10.6	36.3	(0.7)
Margin (%)	21.5	19.1	18.5	18.1
Extra Ord. Income / (Exp)	55	110	(173)	5
Reported PAT	14,855	13,899	12,897	13,925
YoY gr. (%)	33.2	10.3	27.3	(0.8)
Margin (%)	21.6	19.3	18.2	18.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,855	13,899	12,897	13,925
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	89.2	83.1	78.7	83.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	270.5	333.8	336.6	359.8
CEPS	346.4	422.9	431.4	462.3
BVPS	1,386.5	1,682.0	1,961.1	2,251.9
FCF	285.4	174.0	191.2	274.1
DPS	46.0	46.0	57.5	69.0
Return Ratio(%)				
RoCE	22.2	23.3	20.5	19.1
ROIC	20.5	21.5	20.5	20.5
RoE	21.4	21.8	18.5	17.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	141	149	160	160
Valuation(x)				
PER	25.4	20.6	20.4	19.1
P/B	5.0	4.1	3.5	3.1
P/CEPS	19.9	16.3	15.9	14.9
EV/EBITDA	17.0	13.9	12.9	11.7
EV/Sales	4.5	3.9	3.4	3.1
Dividend Yield (%)	0.7	0.7	0.8	1.0

Source: Company Data, PL Research

Key Operating Metrics

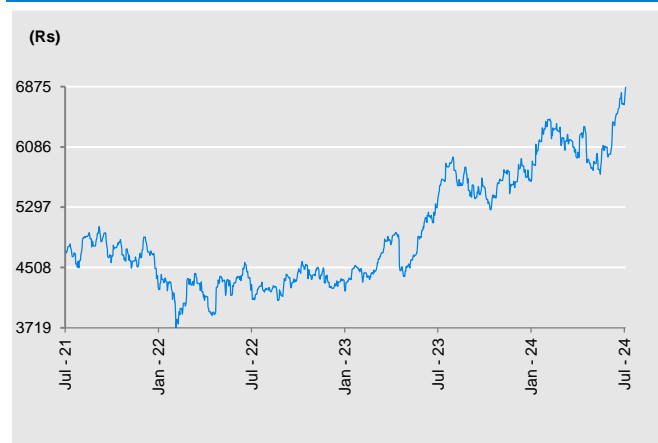
Y/e Mar	FY23	FY24	FY25E	FY26E
India Formulations	48,932	46,407	54,120	60,614
US formulations	1,01,704	1,29,895	1,45,071	1,50,029
Russia	21,200	22,300	22,244	28,332
PSAI	29,069	29,801	32,483	35,082

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Reduce	5,700	6,520
2	08-May-24	Reduce	5,700	6,258
3	08-Apr-24	Reduce	5,650	6,179
4	31-Jan-24	Reduce	5,650	5,841
5	08-Jan-24	Reduce	5,300	5,852
6	30-Oct-23	Reduce	5,300	5,397
7	07-Oct-23	Reduce	5,150	5,425

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,335
2	Aster DM Healthcare	BUY	400	340
3	Aurobindo Pharma	Accumulate	1,300	1,304
4	Cipla	Accumulate	1,680	1,575
5	Divi's Laboratories	Accumulate	4,350	4,626
6	Dr. Reddy's Laboratories	Reduce	5,700	6,520
7	Eris Lifesciences	BUY	1,100	1,012
8	Fortis Healthcare	BUY	515	460
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	377
11	Indoco Remedies	Accumulate	320	322
12	Ipca Laboratories	Reduce	1,150	1,193
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,743
14	Jupiter Life Line Hospitals	BUY	1,360	1,330
15	Krishna Institute of Medical Sciences	BUY	2,200	2,135
16	Lupin	Hold	1,675	1,770
17	Max Healthcare Institute	BUY	925	914
18	Narayana Hrudayalaya	BUY	1,335	1,246
19	Sun Pharmaceutical Industries	BUY	1,710	1,568
20	Sunteck Realty	BUY	600	471
21	Torrent Pharmaceuticals	Accumulate	3,300	3,162
22	Zydus Lifesciences	Accumulate	1,130	1,162

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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