

Dr Reddy's Labs

Estimate change



TP change



Rating change



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Bloomberg	DRRD IN
Equity Shares (m)	166
M.Cap.(INRb)/(USD\$)	912.1 / 11.1
52-Week Range (INR)	5489 / 3996
1, 6, 12 Rel. Per (%)	3/20/10
12M Avg Val (INR M)	1875

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	240.9	270.8	298.1
EBITDA	62.1	73.6	77.5
Adj. PAT	40.8	47.1	49.5
EBITDA Margin (%)	25.8	27.2	26.0
Cons. Adj. EPS (INR)	244.7	282.8	297.1
EPS Gr. (%)	39.2	15.5	5.1
BV/Sh. (INR)	1,387	1,643	1,915

Ratios

Net D:E	-0.3	-0.3	-0.5
RoE (%)	19.3	18.7	16.7
RoCE (%)	15.9	17.5	15.9
Payout (%)	9.0	8.9	8.4

Valuations

P/E (x)	22.4	19.4	18.4
EV/EBITDA (x)	13.8	11.5	10.4
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	2.2	1.3	4.7
EV/Sales (x)	3.5	3.1	2.7

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	26.7	26.7	26.7
DII	22.0	23.1	25.2
FII	39.8	38.8	26.2
Others	11.6	11.5	22.0

FII Includes depository receipts

CMP: INR5,478

TP: INR5,240 (-4%)

Neutral

Sharp off-take in NA/Russia drive earnings

PSAI yet to see recovery

- Dr. Reddy's Lab (DRRD) delivered strong beat on earnings for 1QFY24, led by an uptick in North America (NA) base business, reduced intensity of price erosion, and favorable seasonality in the Russia segment. However, the lower demand for products in the Pharmaceutical services division was a drag on the overall performance.
- We raise our EPS estimate by 15%/9% for FY24/FY25 factoring a) improving outlook for NA/China business, b) increased pace of launches in emerging markets, and c) better growth prospects in the domestic formulation (DF) segment. We value DRRD at 22x 12M forward earnings and add NPV of INR140 related to g-Revlimid to arrive at a price target of INR5,240.
- We expect 10% earnings CAGR over FY23-25, led by 15% sales CAGR in NA, 10% sales CAGR in the DF/EU segment and consistent profitability across the company's operations. Given the current valuation adequately factors the upside potential in earnings, we reiterate our Neutral stance on the stock.

Niche launches/better operating leverage aids sharp improvement in margins

- DRRD 1QFY24 revenues grew 35% YoY to INR67b (vs. est. of INR62b). Sequentially, DRRD sales grew 11%.
- NA sales was up by 80% YoY to INR32b (~USD390m; 47% of sales), led by base business performance, new launches, and favorable FX movement. EM sales grew 28% YoY to INR11.5b (17% of sales). Within the emerging market, Russia sales grew 76% YoY, partly due to the low base of last year. Europe sales was up 23% YoY to INR5b (8% of sales). DF sales was up 4% YoY at INR11.5b (17% of Sales). PSAI segment sales declined 5% YoY (11% of sales).
- Gross margin (GM) expanded 770bp YoY to 58.7%, due to higher contribution from niche launches. Having said this, the PSAI segment witnessed lower GM (down 270bp YoY as a percentage of sales) for the quarter.
- EBITDA margin expanded 960bp YoY to 30.3% (our est: 23%). The growth is primarily attributed to superior GM and reduced opex (down 190bp YoY as percentage of sales).
- EBITDA almost doubled YoY to INR20.5b (vs. est. of INR14.2b).
- R&D expense stood at INR5b (7.4% of sales).
- During the quarter, the company recorded a one-off income of INR0.5b, which resulted from a settlement related to gAbiraterone in Canada.
- Adj PAT came in at INR13.6b (our est: INR9b), up 67% YoY.

Highlights from the management commentary

- DRRD expects gross margin to be 56-59% for FY24.
- In 1QFY24, excluding g-Revlimid, US sales witnessed robust growth, driven by market share gain in key products, reduced price erosion, and volume-based growth.
- Adjusted for divestment of brands, DRRD garnered high single-digit YoY growth in the DF segment for 1QFY24.
- DRRD indicated that its quarterly R&D expenditure is ~INR5b. Around 20% of this R&D spend is allocated to the biosimilar segment, and the company foresees further scaling up of investments in this area in the future.

Quarterly Performance - IFRS

Y/E March	FY23				FY24E				(INR m)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24E
Sales	49,853	63,057	67,700	60,328	67,384	66,712	68,125	68,549	240,936	270,771
YoY Change (%)	1.3	9.4	27.3	15.6	35.2	5.8	0.6	13.6	13.5	12.4
Total Expenditure	39,516	45,022	47,136	47,139	46,934	48,566	50,413	51,208	178,813	197,121
EBITDA	10,337	18,035	20,564	13,189	20,450	18,146	17,713	17,341	62,123	73,650
YoY Change (%)	14.5	35.0	71.1	25.4	97.8	0.6	-13.9	31.5	38.3	18.6
Margins (%)	20.7	28.6	30.4	21.9	30.3	27.2	26.0	25.3	25.8	27.2
Amortization	3,050	3,150	3,273	3,190	3,583	3,650	3,750	3,909	12,663	14,892
EBIT	7,287	14,885	17,291	9,999	16,867	14,496	13,963	13,432	49,460	58,757
YoY Change (%)	19.1	43.5	91.2	32.2	131.5	-2.6	-19.2	34.3	49.4	18.8
Other Income	2,829	318	180	1,156	1,107	900	960	929	4,483	3,896
PBT before EO expenses	10,116	15,203	17,471	11,155	17,974	15,396	14,923	14,361	53,943	62,653
One-off income/(expense)	4,537	908	-1,125	2,100	489	0	0	0	6,420	489
Profit before Tax	14,653	16,111	16,346	13,255	18,463	15,396	14,923	14,361	60,362	63,142
Tax	2,779	4,983	3,875	3,663	4,438	3,726	3,671	3,829	15,300	15,663
Rate (%)	19.0	30.9	23.7	27.6	24.0	24.2	24.6	26.7	25.3	24.8
Reported Profit	11,874	11,128	12,471	9,592	14,025	11,670	11,252	10,532	45,063	47,479
Adjusted PAT	8,197	11,402	13,103	8,072	13,654	11,670	11,252	10,532	40,775	47,107
YoY Change (%)	43.6	14.9	84.2	23.7	66.6	2.3	-14.1	30.5	39.3	15.5
Margins (%)	16.4	18.1	19.4	13.4	20.3	17.5	16.5	15.4	16.9	17.4

E - MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
INRm										
North America	17,815	28,001	30,567	25,321	31,978	29,600	30,400	30,582	101,704	122,560
YoY Change (%)	2.4	48.1	63.9	26.8	79.5	5.7	12.0	20.8	35.8	20.5
Europe	4,141	4,199	4,303	4,960	5,071	4,829	4,948	4,708	17,603	19,556
YoY Change (%)	3.7	1.5	6.0	11.6	22.5	15.0	15.0	-5.1	5.8	11.1
India	11,047	11,500	11,274	10,194	11,482	12,478	12,289	11,728	44,015	47,976
YoY Change (%)	4.2	0.9	9.8	9.6	3.9	8.5	9.0	15.0	5.9	9.0
Russia & Others CIS	5,074	8,100	9,100	7,500	7,600	7,849	8,159	8,412	29,774	32,020
YoY Change (%)	3.5	2.7	28.2	1.0	49.8	-3.1	-10.3	12.2	8.6	7.5
Others	3,954	4,146	3,997	3,642	3,952	4,229	4,357	4,697	15,729	17,234
YoY Change (%)	-6.5	-18.6	-10.0	29.5	-0.1	2.0	9.0	29.0	-4.7	9.6
PSAI	7,090	6,434	7,758	7,787	6,709	7,077	7,293	7,667	29,069	28,746
YoY Change (%)	-6.0	-23.1	6.7	3.0	-5.4	10.0	-6.0	-1.5	-5.4	-1.1
Cost Break-up										
COGS (% of Sales)	49.0	42.4	40.8	44.7	41.3	43.0	44.0	42.9	43.9	42.8
SG&A (% of Sales)	21.5	21.3	21.7	24.5	21.0	22.4	22.0	22.6	22.3	22.0
R&D Expenses(% of Sales)	8.7	7.7	7.1	8.9	7.4	7.4	8.0	9.2	8.0	8.0
Gross Margins(%)	51.0	57.6	59.2	55.3	58.7	57.0	56.0	57.1	56.1	57.2
EBITDA Margins(%)	20.7	28.6	30.4	21.9	30.3	27.2	26.0	25.3	25.8	27.2
EBIT Margins(%)	14.6	23.6	25.5	16.6	25.0	21.7	20.5	19.6	20.5	21.7

E: MOFSL Estimates

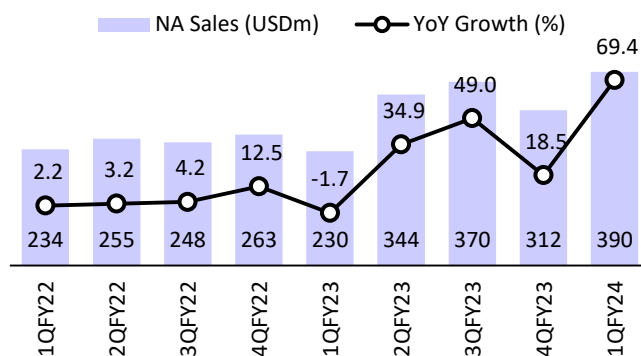


Management call highlights

- DRRD Launched eight products in NA in 1QFY24 and expects the launch momentum to continue in the coming quarters.
- It had 27 new launches in EM in 1QFY24. Favorable seasonality during the quarter was partly attributed to the YoY growth in the Russia segment.
- DRRD is working on 11 biosimilars at portfolio level.
- USFDA inspection concluded successfully at four sites during the quarter.
- DRRD remains on track in terms of filings/approval for the China market. The outlook would be much better FY25 onwards.
- DRRD expects ETR to range between 24% and 25% for FY24.

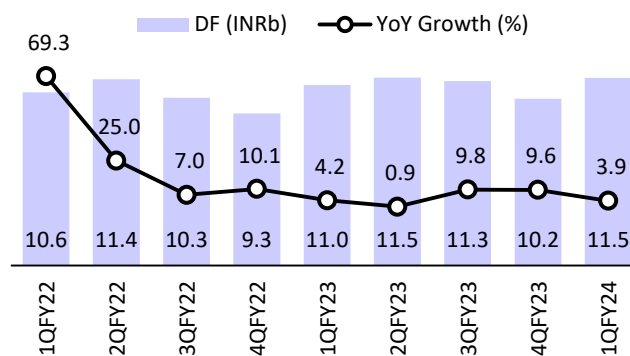
Key exhibits

Exhibit 1: In CC terms, NA sales grew 69% YoY in 1QFY24



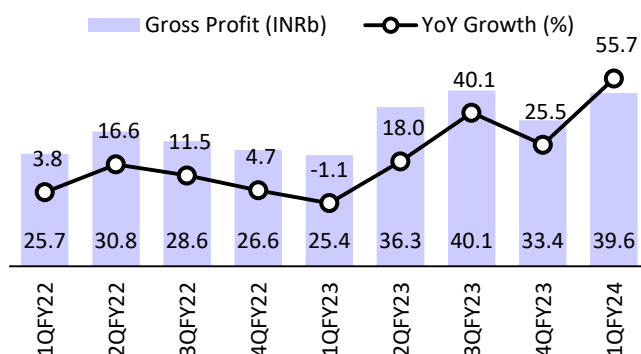
Source: MOFSL, Company

Exhibit 2: DF sales grew 4% YoY in 1QFY24



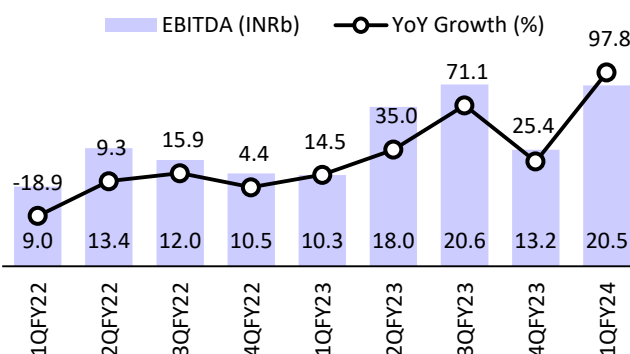
Source: MOFSL, Company

Exhibit 3: Gross profit increased 56% YoY in 1QFY24

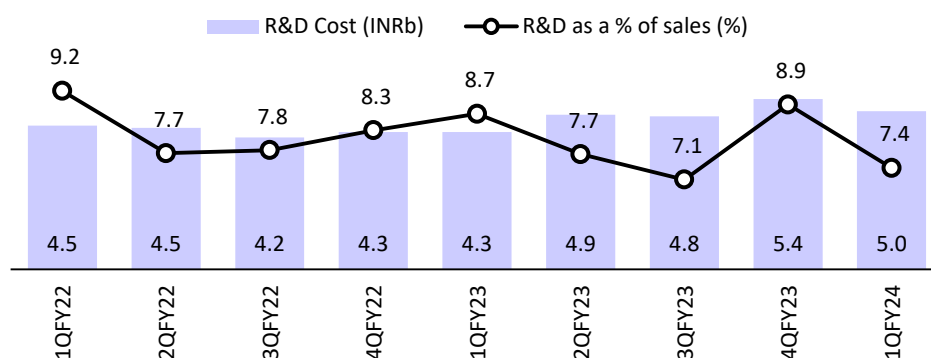


Source: Company, MOFSL

Exhibit 4: EBITDA grew 98% YoY in 1QFY24



Source: Company, MOFSL

Exhibit 5: R&D spend stable QoQ at ~INR5b

Source: MOFSL, Company

NA/EM/DF outperforms; PSAI underperforms

NA – Sales run-rate strengthens further on the back of robust base business

- In 1QFY24, DRRD's NA sales witnessed a robust 69% YoY growth (up 25% QoQ) to USD390m, primarily driven by the strong performance of the base business and successful new product launches. Additionally, the company benefitted from reduced price erosion, which further supported the overall growth during the period.
- During the quarter, DRRD launched six new products in the US, which were added to their portfolio following the acquisition from Mayne Pharma. It also launched two new products in Canada during the same period.
- DRRD has a robust pipeline of 82 ANDAs and 3 NDAs under the 505(b)(2) route awaiting approval, which is likely to bolster its US business significantly. Moreover, out of these ANDAs, 43 are Para IVs, and 17 have the potential to secure 'First to File' status.
- We expect the US segment to witness a 15% sales CAGR over FY23-25 to ~INR135b (USD1.7b).

DF – Focus on key therapies/entry into trade generics to drive growth

- In 1QFY24, India sales grew 4% YoY to INR11.5b. However, excluding brand divestment income and the sales of the divested portfolio, as well as accounting for the impact of NLEM-related price reductions, the DF business achieved a high single-digit YoY growth.
- In 1QFY24, DRRD witnessed healthy growth in therapy areas of gastro, derma, respiratory. New launches/price hike was partly offset by the reduction in volumes for certain products.
- We expect a sales CAGR of 10% over FY23-25 to reach INR53b.

EM – Robust pace of launches and increased penetration to sustain better outlook

- In 1QFY24, EM sales grew 28% YoY to INR11.5b, led by an increase in base business volumes, new launches, and favorable FX movement in the RoW market.
- Within the emerging market, Russia sales grew 76% YoY due to favorable seasonality, higher biosimilars offtake, and price hike in certain products.

- DRRD is planning to launch new products and enter new therapies such as allergy in the EM. We expect a sales CAGR of 8% over FY23-25 to reach INR35b.

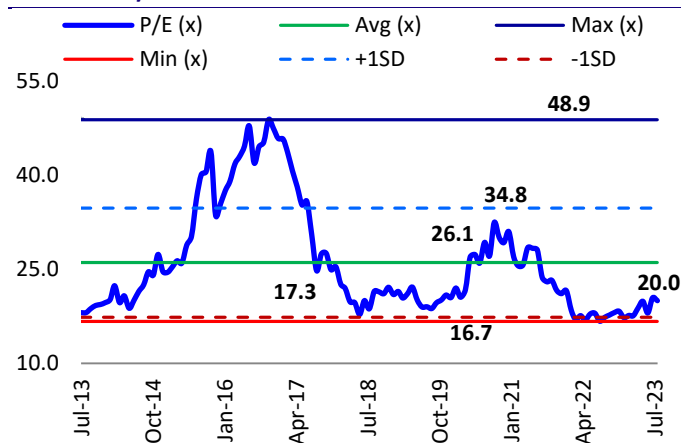
PSAI segment: Outlook on revival mode

- In 1QFY24, the PSAI segment's revenue declined 5% YoY to INR6.7b, due to a decline in base business volumes, which was slightly offset by favorable forex movement.
- Moreover, the GM of the PSAI segment contracted 270bp YoY to 10.9% in 1QFY24.
- However, the outlook for PSAI is getting better on account of a volume uptick in the base portfolio and new launches.
- We expect the PSAI business to post a 4% sales CAGR to INR31b over FY23-25.

Reiterate Neutral

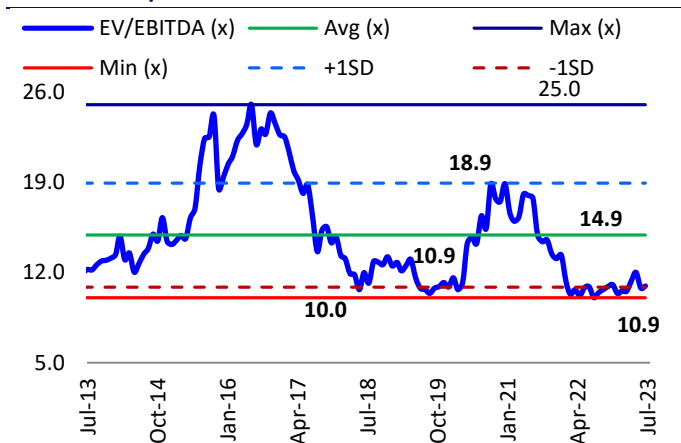
- We raise our EPS estimate by 15%/9% for FY24/FY25 factoring a) improving outlook for NA/China business, b) increased pace of launches in emerging markets, and c) better growth prospects in domestic formulation (DF) segment. We value DRRD at 22x 12M forward earnings and add NPV of INR140 related to g-Revlimid to arrive at a price target of INR5,240.
- We expect 10% earnings CAGR over FY23-25, led by 15% sales CAGR in NA, 10% sales CAGR in DF/EU segment, and consistent profitability across the company's operations. Given the current valuation adequately factors the upside potential in earnings, we reiterate our Neutral stance on the stock.

Exhibit 6: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 7: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 8: Expect sales CAGR of ~11% over FY23–25

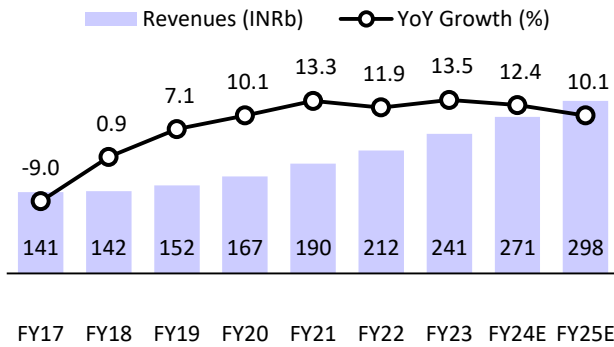


Exhibit 9: NA sales to see ~15% CAGR over FY23–25

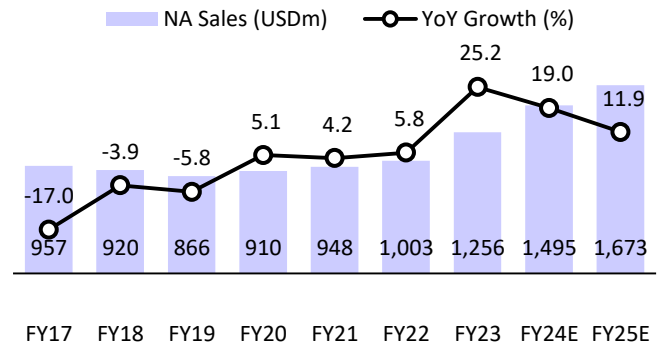


Exhibit 10: DF sales to exhibit 10% CAGR over FY23–25

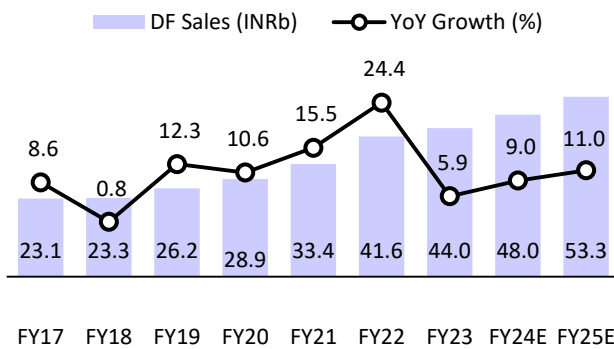


Exhibit 11: PSAI to see 4% sales CAGR over FY23–25

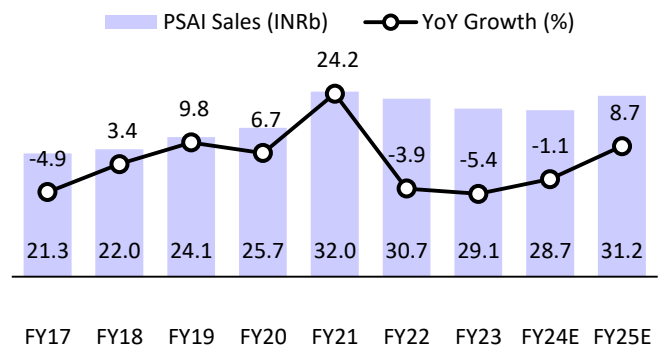


Exhibit 12: EBITDA margin to be stable over FY23–25

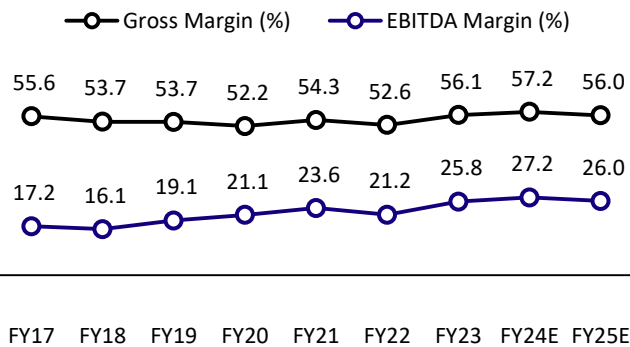


Exhibit 13: Expect EBITDA CAGR of ~12% over FY23–25

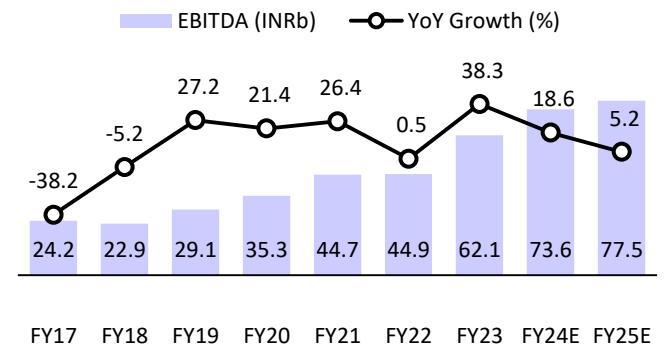


Exhibit 14: R&D expense to settle at ~8% of sales by FY25

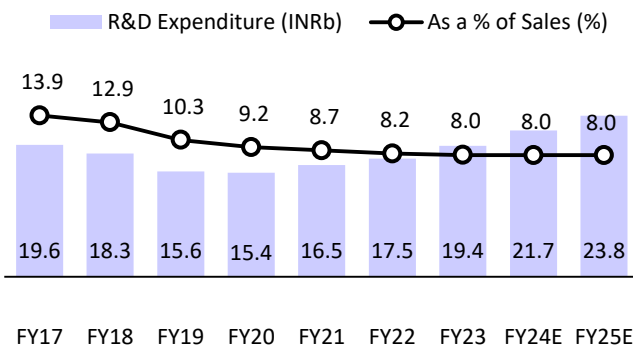
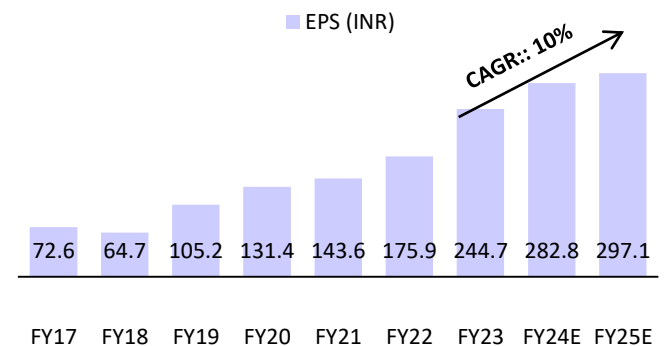


Exhibit 15: Expect EPS CAGR of 10% over FY23–25



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	140,809	142,028	152,051	167,400	189,722	212,227	240,936	270,771	298,088
Change (%)	-9.0	0.9	7.1	10.1	13.3	11.9	13.5	12.4	10.1
Total Expenditure	116,654	119,137	122,938	132,058	145,038	167,306	178,813	197,121	220,585
EBITDA	24,155	22,891	29,113	35,342	44,684	44,921	62,123	73,650	77,503
Change (%)	-38.2	-5.2	27.2	21.4	26.4	0.5	38.3	18.6	5.2
Margin (%)	17.2	16.1	19.1	21.1	23.6	21.2	25.8	27.2	26.0
Depreciation & Amort.	11,722	11,762	11,980	12,472	12,798	11,825	12,663	14,892	15,501
Net Interest Exp	0	817	1,163	983	-1,653	-2,119	-2,853	-1,095	-1,043
One-off (Gains)/Losses	0	0	-1,800	7,718	7,700	6,381	-5,445	0	0
PBT before EO Expense	14,653	14,341	22,443	25,749	35,001	38,679	53,943	62,653	64,946
Change (%)	-46.0	-2.1	56.5	14.7	35.9	10.5	39.5	16.1	3.7
PBT after EO Expense	14,653	14,341	22,443	18,033	27,298	32,298	59,388	62,653	64,946
Tax	2,614	4,535	3,648	-1,466	9,175	8,730	15,300	15,663	15,457
Tax Rate (%)	17.8	31.6	16.3	-8.1	33.6	27.0	25.8	25.0	23.8
Reported PAT	12,039	9,806	18,795	19,499	18,123	23,568	44,088	46,990	49,489
Adjusted Net Profit	12,039	10,736	17,459	21,807	23,834	29,265	40,775	47,107	49,489
Change (%)	-46.7	-10.8	62.6	24.9	9.3	22.8	39.3	15.5	5.1
Margin (%)	8.5	7.6	11.5	13.0	12.6	13.8	16.9	17.4	16.6

E: MOSFL Estimates

Balance Sheet								(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	829	830	830	830	830	832	833	833	833
Reserves	121,792	124,886	139,406	155,158	175,587	189,695	230,158	272,969	318,280
Net Worth	122,621	125,716	140,236	155,988	176,417	190,527	230,991	273,802	319,113
Loans	49,075	50,651	34,125	17,836	29,444	33,845	13,472	12,472	11,472
Deferred Liabilities/Tax	-5,164	-3,455	-3,844	-12,179	-10,397	-12,721	-6,363	-6,363	-6,363
Capital Employed	166,532	172,912	170,517	161,645	195,464	211,651	238,100	279,911	324,222
Gross Block	92,605	99,286	115,385	126,148	143,664	160,797	177,753	190,841	199,703
Less: Accum. Deprn.	42,324	49,553	61,533	74,005	86,803	98,628	111,291	126,183	141,684
Net Fixed Assets	56,376	57,411	53,852	52,143	56,861	62,169	66,462	64,657	58,019
Investments	26,317	28,935	30,769	33,264	33,115	38,393	62,180	62,180	62,180
Goodwill/Intangibles	46,176	46,974	47,393	31,711	40,847	31,664	35,094	35,094	35,094
Curr. Assets	82,512	86,718	88,325	102,936	124,659	151,647	150,922	165,458	222,529
Inventory	28,528	29,089	33,579	35,067	45,412	50,884	48,670	50,992	59,021
Account Receivables	38,196	40,696	39,982	52,015	49,759	66,818	72,485	74,808	82,355
Cash and Bank Balance	3,865	2,638	2,228	2,053	14,829	14,852	5,779	15,289	54,325
Others	11,923	14,295	12,536	13,801	14,659	19,093	23,988	24,369	26,828
Curr. Liability & Prov.	44,849	47,126	49,822	58,409	60,018	72,222	76,558	47,478	53,600
Account Payables	10,569	13,345	13,671	15,248	18,109	25,572	26,444	18,658	21,117
Other Current Liabilities	34,280	33,781	36,151	43,161	41,909	46,650	50,114	28,819	32,483
Net Current Assets	37,663	39,592	38,503	44,527	64,641	79,425	74,364	117,980	168,929
Appl. of Funds	166,532	172,912	170,517	161,645	195,464	211,651	238,100	279,911	324,222

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	72.6	64.7	105.2	131.4	143.6	175.9	244.7	282.8	297.1
Cash EPS	143.3	135.5	177.3	206.5	220.7	246.9	320.8	372.1	390.1
BV/Share	739.6	757.3	844.8	939.7	1,062.8	1,145.0	1,386.5	1,643.5	1,915.4
DPS	20.0	20.0	20.0	23.6	25.0	20.4	20.4	21.4	21.4
Payout (%)	33.1	40.7	21.3	23.5	26.8	16.9	9.0	8.9	8.4
Valuation (x)									
P/E	75.4	84.7	52.1	41.7	38.1	31.1	22.4	19.4	18.4
PEG (x)	NA	-7.8	0.8	1.7	4.1	1.4	0.6	1.2	3.6
P/BV	7.4	7.2	6.5	5.8	5.2	4.8	3.9	3.3	2.9
EV/Sales	6.6	6.5	6.0	5.3	4.7	4.2	3.5	3.1	2.7
EV/EBITDA	38.4	40.5	31.3	25.2	19.9	19.8	13.8	11.5	10.4
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.4
Return Ratios (%)									
ROIC	8.9	5.8	10.8	21.9	17.0	18.0	23.1	25.1	24.3
RoE	9.7	8.6	13.1	14.7	14.3	16.0	19.3	18.7	16.7
RoCE	6.4	4.8	8.9	17.4	11.8	12.3	15.9	17.5	15.9
Working Capital Ratios									
Fixed Asset Turnover (x)	1.6	1.5	1.4	1.4	1.4	1.4	1.4	1.5	1.5
Debtor (Days)	103	101	97	100	98	100	106	99	96
Inventory (Days)	70	74	75	75	77	83	75	67	67
Leverage Ratio									
Net Debt/Equity (x)	0.1	0.1	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.5

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Op. Profit/(Loss) before Tax	14,653	14,341	22,443	25,749	35,001	38,679	53,943	62,653	64,946
Depreciation	11,722	11,762	11,980	12,472	12,798	11,825	12,663	14,892	15,501
Interest/Dividends Recd.	-2,220	-4,029	-6,473	4,839	6,238	2,917	-7,075	-2,801	-1,901
Direct Taxes Paid	-2,614	-4,535	-3,648	1,466	-9,175	-8,730	-15,300	-15,663	-15,457
(Inc)/Dec in WC	-192	-3,156	679	-6,199	-7,338	-14,761	-4,012	-34,106	-11,914
CF from Operations	21,349	14,383	24,981	38,327	37,524	29,930	40,219	24,975	51,175
EO Expense	0	0	0	0	-6,105	-4,559	0	0	0
CF from Operations	21,444	18,030	28,704	38,542	43,629	34,489	40,219	24,975	51,175
(inc)/dec in FA	-40,922	-13,595	-8,840	4,919	-26,652	-7,950	-20,386	-13,088	-8,863
Free Cash Flow	-19,573	788	16,141	43,246	10,872	21,980	19,833	11,887	42,313
(Pur)/Sale of Investments	17,757	1,411	2,839	-2,495	149	-5,278	-23,787	0	0
CF from Investments	-18,404	-14,883	-7,727	-4,923	-26,503	-26,387	-44,173	-13,088	-8,863
Change in net worth	-11,130	-2,719	-273	835	1,653	-5,479	355	0	0
(Inc)/Dec in Debt	15,672	1,576	-16,526	-16,289	11,608	4,401	-20,373	-1,000	-1,000
Dividend Paid	-3,986	-3,992	-4,002	-4,582	-4,852	-3,979	-3,877	-4,076	-4,076
CF from Fin. Activity	-3,692	-4,440	-21,326	-25,159	-4,545	3,959	-22,797	-3,278	-3,277
Inc/Dec of Cash	-652	-1,293	-349	8,460	12,581	12,061	-26,751	8,610	39,035
Add: Beginning Balance	4,921	3,865	2,638	2,228	2,053	14,829	14,852	5,779	15,289
Closing Balance	4,269	2,572	2,289	10,688	14,634	26,890	-11,899	14,389	54,325
FX impact net of bank balances	-404	66	-61	-8,635		-12,038	17,678	900	0
Closing Balance	3,865	2,638	2,228	2,053	14,829	14,852	5,779	15,289	54,325

E: MOFSL Estimates

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