

India

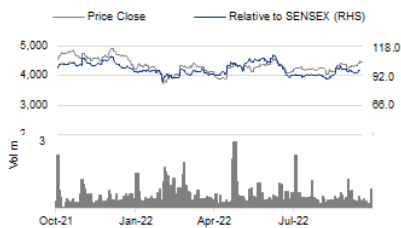
HOLD (no change)

Consensus ratings*: Buy 36 Hold 6 Sell 1

Current price:	Rs4,460
Target price: ▲	Rs4,435
Previous target:	Rs4,172
Up/downside:	-0.6%
InCred Research / Consensus:	-9.6%
Reuters:	REDY.NS
Bloomberg:	DRRD IN
Market cap:	US\$9,004m
	Rs742,570m
Average daily turnover:	US\$23.4m
	Rs1929.8m
Current shares o/s:	166.4m
Free float:	73.0%
*Source: Bloomberg	

Key changes in this note

- Raise FY23F core earnings estimate by 5%.
- Maintain FY24F-25F estimates.
- Raise target price to Rs4,435 from Rs4,172.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.3	9.0	(4.3)
Relative (%)	(2.0)	4.7	(5.3)

Major shareholders	% held
Promoters	27.0
LIC	7.6
First State	3.8

Analyst(s)



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Dr Reddy's Laboratories Ltd

Revlimid generic bonanza

- 2QFY23 EBITDA beat our estimate by 20%, thanks mainly to gRevlimid in the US market; we estimate around US\$130m of gRevlimid sales for the quarter.
- We estimate that overall business, excluding gRevlimid, has improved significantly from the lows of 1QFY23 but is still not in a great shape.
- Raise our FY23F core earnings estimate by 5%; maintain FY24F-25F estimates. Raise target price to Rs4,435 from Rs4,172. Maintain HOLD rating.

gRevlimid bonanza

Dr Reddy's Laboratories reported 2QFY23 revenue in line with our estimate; EBITDA beat our estimate by 20%. EBITDA margin at 30% was helped by higher contribution of gRevlimid in the US market and governmental grant of Rs1.93bn. We estimate around US\$130m of gRevlimid sales in 3QFY23F vs. US\$25-30m that we had built into our estimate.

Rest of business not yet in great shape

Our estimates suggest that the company's business, excluding gRevlimid, improved significantly from the lows of 1QFY23 but is still not in a great shape. We estimate EBITDA margin in the 18% range, better than 14% in 1QFY23 but below 21.5% registered in FY22. Russia business was down 20% yoy in Rouble terms; India business grew by only 1% yoy and the PSAI (pharmaceutical services & active ingredients) segment had only a 4% gross margin.

Will wait for gRevlimid colour from other players

We had built in only about US\$80m revenue from gRevlimid for FY23F. Having booked US\$130m in 2QFY23 itself (in our estimate), we are now doubling our FY23F estimate to US\$160m. However, we maintain our gRevlimid revenue estimates for FY24F and FY25F at about US\$160m and US\$210m, respectively. We will have a relook at these estimates after getting colour from other players (Zydus Lifesciences & Cipla) in that market.

Raise FY23F earnings estimate but maintain FY24F-25F estimates

We raise our FY23 core earnings estimate by 5% as we build in a higher contribution from gRevlimid while reducing the profit from rest of the business. We maintain our FY24F and FY25F core earnings estimates. Contribution from gRevlimid in core earnings goes up to 25-30% for each year vs. 15-25% earlier.

Maintain HOLD rating; raise target price to Rs4,435

Dr Reddy's Laboratories trades at 20.2x our FY24F core earnings estimate. Our revised target price of Rs4,435 (Rs4,172 earlier) is 17x our FY25F core earnings estimate plus cash per share. We believe that multiples will remain subdued, given high gRevlimid contribution to the earnings, which will cause a potential dip in earnings in FY27F. Maintain HOLD rating; we would view any major upswing in the stock price as a selling opportunity. Large price erosion in gRevlimid is a downside risk. Significant improvement in ex-gRevlimid business profitability is key upside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	189,722	214,391	231,198	247,355	265,908
Operating EBITDA (Rsm)	44,775	46,054	51,905	58,544	65,284
Net Profit (Rsm)	19,149	23,568	38,665	35,601	40,254
Core EPS (Rs)	155.7	186.8	184.6	213.9	241.9
Core EPS Growth	(20.4%)	19.9%	(1.1%)	15.9%	13.1%
FD Core P/E (x)	28.64	23.88	24.16	20.85	18.44
DPS (Rs)	25.0	30.0	30.0	35.0	40.0
Dividend Yield	0.56%	0.67%	0.67%	0.78%	0.90%
EV/EBITDA (x)	16.39	15.77	13.50	11.51	9.86
P/FCFE (x)	11.29	16.33	15.65	10.68	9.52
Net Gearing	(2.9%)	(6.5%)	(16.7%)	(25.0%)	(32.3%)
P/BV (x)	4.24	3.90	3.30	2.90	2.55
ROE	15.7%	17.0%	14.8%	14.8%	14.7%
% Change In Core EPS Estimates			3.65%	0.16%	(0.16%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY23 results snapshot

(Rs m)	2QFY23	2QFY22	yoy(%)	1QFY23	qoq(%)
Revenue	63,057	57,632	9%	49,854	26%
EBITDA	18,943	13,357	42%	6,938	173%
EBITDA Margin (%)	30%	23%	7%	14%	16%
PAT	11,128	9,920	12%	3,938	183%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs. estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	63,057	62,315	1%
EBITDA	18,943	15,803	20%
EBITDA Margin (%)	30%	25%	18%
PAT	11,128	9,982	11%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs. Bloomberg consensus estimates

(Rs m)	2QFY23A	2QFY23F	Variation (%)
Revenue	63,057	57,595	9%
EBITDA	18,943	12,388	53%
EBITDA Margin (%)	30%	22%	40%
PAT	11,128	7,648	45%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 4: Our revised estimates

(Rs m)	New Estimates		Old Estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	2,31,198	2,47,355	2,30,830	2,50,515	0%	-1%
EBITDA	51,905	58,544	48,950	57,823	6%	1%
EBITDA Margin (%)	22%	24%	21%	23%	1%	3%
PAT	30,727	35,601	29,644	35,546	4%	0%

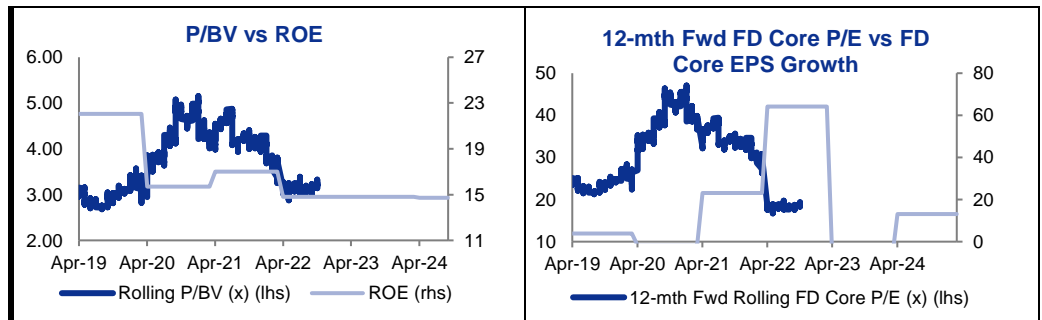
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	139.1	158.8	162.6	199.8	227.6
Core EPS growth	-9.3%	14.2%	2.4%	22.9%	13.9%
Cash per share (Rs)	206.7	276.7	405.9	565.0	743.2
Current core P/E (Rs)	29.0	25.4	24.8	20.2	17.7
Core ROIC	21.8%	20.2%	22.1%	24.5%	27.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	189,722	214,391	231,198	247,355	265,908
Gross Profit	103,077	113,840	123,692	135,356	147,472
Operating EBITDA	44,775	46,054	51,905	58,544	65,284
Depreciation And Amortisation	(12,798)	(11,824)	(12,600)	(12,900)	(13,300)
Operating EBIT	31,977	34,230	39,305	45,644	51,984
Financial Income/(Expense)	(970)	(958)	(1,056)	(800)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,605	5,838	5,069	3,000	3,000
Profit Before Tax (pre-EI)	34,612	39,110	43,318	47,844	54,184
Exceptional Items					
Pre-tax Profit	34,612	39,110	43,318	47,844	54,184
Taxation	(9,175)	(8,730)	(13,150)	(12,918)	(14,630)
Exceptional Income - post-tax	(6,768)	(7,515)	7,938		
Profit After Tax	18,669	22,865	38,106	34,926	39,554
Minority Interests	480	703	559	675	700
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,149	23,568	38,665	35,601	40,254
Recurring Net Profit	25,917	31,083	30,727	35,601	40,254
Fully Diluted Recurring Net Profit	25,917	31,083	30,727	35,601	40,254

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	44,775	46,054	51,905	58,544	65,284
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,288)	(13,894)	(6,534)	(6,210)	(6,778)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	24,627	22,456	45,787	43,091	47,577
Net Interest (Paid)/Received	(970)	(958)	(1,056)	(800)	(800)
Tax Paid	12,046	6,610	(11,951)	(2,200)	(2,200)
Cashflow From Operations	35,703	28,108	32,780	40,091	44,577
Capex	(12,476)	(14,290)	(10,000)	(11,000)	(11,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(4,636)		
Other Investing Cashflow					
Cash Flow From Investing	23,227	13,818	18,144	29,091	33,077
Debt Raised/(repaid)	6,848	3,520	(3,504)	306	344
Proceeds From Issue Of Shares	(924)	334			
Shares Repurchased					
Dividends Paid	(4,147)	(4,146)	(4,993)	(4,993)	(5,825)
Preferred Dividends					
Other Financing Cashflow	(16,171)	(1,828)	11,951	2,200	2,200
Cash Flow From Financing	(14,394)	(2,120)	3,454	(2,487)	(3,280)
Total Cash Generated	8,833	11,698	21,599	26,605	29,796
Free Cashflow To Equity	65,778	45,446	47,420	69,489	77,998
Free Cashflow To Firm	59,900	42,884	51,980	69,982	78,453

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	34,573	46,271	67,870	94,474	124,271
Total Debtors	49,641	66,764	67,047	71,733	77,113
Inventories	45,412	50,884	53,176	56,892	61,159
Total Other Current Assets	18,623	17,187	23,120	24,735	26,591
Total Current Assets	148,249	181,106	211,212	247,834	289,134
Fixed Assets	57,111	62,169	59,569	57,669	55,869
Total Investments	3,375	3,668	3,668	3,668	3,668
Intangible Assets	40,216	36,036	40,672	40,672	40,672
Total Other Non-Current Assets	16,540	13,675	13,675	13,675	13,675
Total Non-current Assets	117,242	115,548	117,584	115,684	113,884
Short-term Debt	23,136	28,099	28,099	28,099	28,099
Current Portion of Long-Term Debt					
Total Creditors	21,916	25,572	25,101	26,433	28,087
Other Current Liabilities	36,420	44,171	46,616	49,091	52,162
Total Current Liabilities	81,472	97,842	99,816	103,623	108,349
Total Long-term Debt	6,299	5,746	2,242	2,548	2,892
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,739	2,539	2,539	2,539	2,539
Total Non-current Liabilities	9,038	8,285	4,781	5,087	5,431
Total Provisions					
Total Liabilities	90,510	106,127	104,597	108,710	113,780
Shareholders Equity	174,981	190,527	224,758	256,042	291,172
Minority Interests			(559)	(1,234)	(1,934)
Total Equity	174,981	190,527	224,199	254,808	289,238

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	8.7%	13.0%	7.8%	7.0%	7.5%
Operating EBITDA Growth	19.7%	2.9%	12.7%	12.8%	11.5%
Operating EBITDA Margin	23.6%	21.5%	22.5%	23.7%	24.6%
Net Cash Per Share (Rs)	30.87	74.66	225.48	383.48	560.43
BVPS (Rs)	1,051.31	1,144.71	1,350.38	1,538.33	1,749.40
Gross Interest Cover	32.97	35.73	37.22	57.06	64.98
Effective Tax Rate	26.5%	22.3%	30.4%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	96.12	99.09	105.63	102.39	102.16
Inventory Days	169.51	174.78	176.65	179.35	181.91
Accounts Payables Days	81.25	86.19	86.02	83.97	84.01
ROIC (%)	14.1%	14.5%	15.8%	18.0%	20.0%
ROCE (%)	17.0%	16.0%	16.4%	16.9%	17.2%
Return On Average Assets	10.5%	11.1%	9.9%	10.3%	10.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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