

India

**HOLD** (no change)

Consensus ratings\*: Buy 34 Hold 6 Sell 2

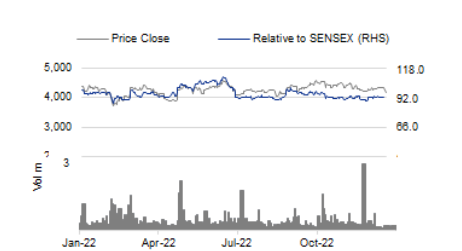
Current price:	Rs4,201
Target price: ▲	Rs4,556
Previous target:	Rs4,435
Up/downside:	8.5%
InCred Research / Consensus:	-8.5%

Reuters:	
Bloomberg:	DRRD IN
Market cap:	US\$9,634m
	Rs699,558m
Average daily turnover:	US\$25.7m
	Rs1866.8m
Current shares o/s:	166.4m
Free float:	73.0%

\*Source: Bloomberg

**Key changes in this note**

- Raise FY23F-25F core earnings by 15-22%.
- Raise target price to Rs4,556 from Rs4,201 earlier.
- Maintain HOLD rating.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(2.5)	(5.4)	(4.6)
Relative (%)	(3.1)	(6.5)	(8.3)

<b>Major shareholders</b>	% held
Promoters	27.0
LIC	8.9
First State	2.5

**Analyst(s)**



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# Dr Reddy's Laboratories Ltd

## gRevlimid magic continues

- 3QFY23 revenue and EBITDA beat our estimates by 11% and 42%, respectively; the entire beat comes from higher gRevlimid sales.
- Our analysis suggests that EBITD margin is well below the 20% level, excluding gRevlimid.
- However, we see a limited upside to the stock price over the next three years from the current level. Maintain HOLD rating on it with a higher TP of Rs4,556.

### gRevlimid upside continues in 3QFY23

Dr Reddy's Laboratories' 3QFY23 revenue and EBITDA beat our estimates by 11% and 42%, respectively. Our analysis suggests that the entire beat comes from higher gRevlimid sales in the US. 3Q had US\$130m of gRevlimid sales, as per our estimate, in line with 2Q and against US\$30m that we had built in.

### Ex-gRevlimid business remains muted

Our analysis indicates that EBITDA margin is well below the 20% level, excluding gRevlimid, which is well below FY22's 21.5% level. If gRevlimid is excluded, the company could have reported a 10% YoY decline in EBITDA vs. a 71% growth.

### Performance in other segments remains lacklustre

Domestic business growth of 10% was poor as it included the benefit of recent acquisitions and in-licensing; excluding that the business was flat YoY, as per our analysis. Russia business was flat YoY as well; the entire 28% INR growth YoY came from appreciation of the Rouble against the INR. Europe business growth at 8.4% YoY (in Euro terms) was the only bright spot.

### Downside protected by high gRevlimid profits

The gRevlimid opportunity will continue for three years and may increase YoY, but it will end in FY27F. The stock's valuation will look cheap based on overall profits for an extended period. Given the long duration of the opportunity and the lack of exact details of profits made from it will mean that the stock price will remain buoyant, despite the one-off nature of the gRevlimid upside.

### No major upside, but trading opportunities could show up

We have revised our FY23F-25F core earnings estimates upwards by 15-22% as we build in higher-than-anticipated gRevlimid sales. Still, we see a limited upside to the stock price over the next three years from the current level. We maintain our HOLD rating on it. Our revised target price of Rs4,556 (Rs4,435 earlier) is 15x our FY25F core earnings plus cash per share. The more than 40% contribution of gRevlimid to profits explain the lower multiple. A significant decline in gRevlimid sales from the current level will be the key downside risk. High-value product launches in the US market, that have not yet been disclosed, will be the key upside risk.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	189,722	214,391	240,802	259,054	277,185
Operating EBITDA (Rsm)	44,775	46,054	60,338	68,116	74,106
Net Profit (Rsm)	19,149	23,568	43,761	42,224	46,330
Core EPS (Rs)	155.7	186.8	215.2	253.7	278.4
Core EPS Growth	(20.4%)	19.9%	15.2%	17.9%	9.7%
FD Core P/E (x)	26.98	22.49	19.52	16.56	15.09
DPS (Rs)	25.0	30.0	30.0	35.0	40.0
Dividend Yield	0.60%	0.71%	0.71%	0.83%	0.95%
EV/EBITDA (x)	15.43	14.83	10.92	9.18	7.94
P/FCFE (x)	10.63	15.39	14.14	8.53	7.60
Net Gearing	(2.9%)	(6.5%)	(15.9%)	(25.9%)	(34.3%)
P/BV (x)	4.00	3.67	3.04	2.61	2.26
ROE	15.7%	17.0%	17.0%	17.0%	16.1%
% Change In Core EPS Estimates			16.59%	18.60%	15.09%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: 3QFY23 results snapshot**

(Rs m)	3QFY23	3QFY22	yoy(%)	2QFY23	qoq(%)
Revenue	67,700	53,197	27%	63,057	7%
EBITDA	20,562	12,018	71%	18,943	9%
EBITDA Margin (%)	30%	23%	8%	30%	0%
PAT	12,471	7,065	77%	11,128	12%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Actual vs. estimates**

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	67,700	60,747	11%
EBITDA	20,562	14,530	42%
EBITDA Margin (%)	30%	24%	27%
PAT	12,471	8,966	39%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Actual vs. Bloomberg consensus estimates**

(Rs m)	3QFY23A	3QFY23F	Variation (%)
Revenue	67,700	60,367	12%
EBITDA	20,562	15,020	37%
EBITDA Margin (%)	30%	25%	22%
PAT	12,471	9,450	32%

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	2,40,802	2,59,054	2,31,432	2,47,355	4%	5%
EBITDA	60,338	68,116	52,033	58,544	16%	16%
EBITDA Margin (%)	25%	26%	22%	24%	3%	11%
PAT	43,761	42,224	30,822	35,601	42%	19%

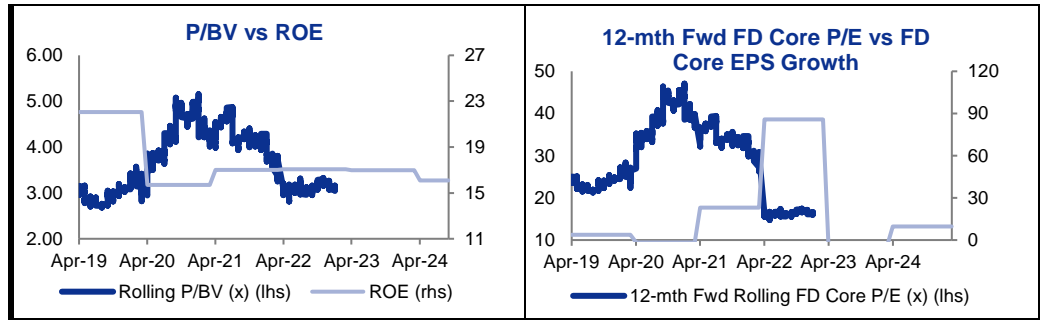
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Core valuation table**

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	139.1	158.8	197.8	239.4	264.0
Core EPS growth	-9.3%	14.2%	24.6%	21.0%	10.3%
Cash per share (Rs)	206.7	276.7	400.1	596.7	816.9
Current Core P/E (Rs)	27.4	24.0	19.2	15.9	14.4
Core ROIC	21.8%	20.2%	26.6%	28.4%	30.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>189,722</b>	<b>214,391</b>	<b>240,802</b>	<b>259,054</b>	<b>277,185</b>
<b>Gross Profit</b>	<b>103,077</b>	<b>113,840</b>	<b>134,251</b>	<b>147,573</b>	<b>159,125</b>
<b>Operating EBITDA</b>	<b>44,775</b>	<b>46,054</b>	<b>60,338</b>	<b>68,116</b>	<b>74,106</b>
Depreciation And Amortisation	(12,798)	(11,824)	(12,955)	(13,400)	(13,800)
<b>Operating EBIT</b>	<b>31,977</b>	<b>34,230</b>	<b>47,383</b>	<b>54,716</b>	<b>60,306</b>
Financial Income/(Expense)	(970)	(958)	(1,374)	(800)	(800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,605	5,838	3,866	3,000	3,000
<b>Profit Before Tax (pre-EI)</b>	<b>34,612</b>	<b>39,110</b>	<b>49,875</b>	<b>56,916</b>	<b>62,506</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>34,612</b>	<b>39,110</b>	<b>49,875</b>	<b>56,916</b>	<b>62,506</b>
Taxation	(9,175)	(8,730)	(14,496)	(15,367)	(16,877)
Exceptional Income - post-tax	(6,768)	(7,515)	7,938		
<b>Profit After Tax</b>	<b>18,669</b>	<b>22,865</b>	<b>43,317</b>	<b>41,549</b>	<b>45,630</b>
Minority Interests	480	703	444	675	700
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>19,149</b>	<b>23,568</b>	<b>43,761</b>	<b>42,224</b>	<b>46,330</b>
Recurring Net Profit	25,917	31,083	35,823	42,224	46,330
<b>Fully Diluted Recurring Net Profit</b>	<b>25,917</b>	<b>31,083</b>	<b>35,823</b>	<b>42,224</b>	<b>46,330</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>44,775</b>	<b>46,054</b>	<b>60,338</b>	<b>68,116</b>	<b>74,106</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,288)	(13,894)	(12,019)	(7,127)	(6,385)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	24,627	22,456	46,071	49,297	54,545
Net Interest (Paid)/Received	(970)	(958)	(1,374)	(800)	(800)
Tax Paid	12,046	6,610	(10,430)	(2,200)	(2,200)
<b>Cashflow From Operations</b>	<b>35,703</b>	<b>28,108</b>	<b>34,267</b>	<b>46,297</b>	<b>51,545</b>
Capex	(12,476)	(14,290)	(10,000)	(11,000)	(11,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(5,625)		
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>23,227</b>	<b>13,818</b>	<b>18,642</b>	<b>35,297</b>	<b>40,045</b>
Debt Raised/(repaid)	6,848	3,520	(3,453)	372	405
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)	10,430	2,200	2,200
<b>Cash Flow From Financing</b>	<b>(14,394)</b>	<b>(2,120)</b>	<b>1,984</b>	<b>(2,420)</b>	<b>(3,220)</b>
Total Cash Generated	8,833	11,698	20,626	32,877	36,825
<b>Free Cashflow To Equity</b>	<b>65,778</b>	<b>45,446</b>	<b>49,455</b>	<b>81,966</b>	<b>91,995</b>
<b>Free Cashflow To Firm</b>	<b>59,900</b>	<b>42,884</b>	<b>54,282</b>	<b>82,394</b>	<b>92,390</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	34,573	46,271	66,897	99,774	136,599
Total Debtors	49,641	66,764	69,833	75,126	80,384
Inventories	45,412	50,884	55,384	59,583	63,753
Total Other Current Assets	18,623	17,187	24,080	25,905	27,719
<b>Total Current Assets</b>	<b>148,249</b>	<b>181,106</b>	<b>216,194</b>	<b>260,387</b>	<b>308,453</b>
Fixed Assets	57,111	62,169	59,214	56,814	54,514
Total Investments	3,375	3,668	3,668	3,668	3,668
Intangible Assets	40,216	36,036	41,661	41,661	41,661
Total Other Non-Current Assets	16,540	13,675	13,675	13,675	13,675
<b>Total Non-current Assets</b>	<b>117,242</b>	<b>115,548</b>	<b>118,218</b>	<b>115,818</b>	<b>113,518</b>
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	25,265	26,731	28,431
Other Current Liabilities	36,420	44,171	46,921	49,644	52,800
<b>Total Current Liabilities</b>	<b>81,472</b>	<b>97,842</b>	<b>100,285</b>	<b>104,474</b>	<b>109,331</b>
Total Long-term Debt	6,299	5,746	2,293	2,665	3,070
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,739	2,539	2,539	2,539	2,539
<b>Total Non-current Liabilities</b>	<b>9,038</b>	<b>8,285</b>	<b>4,832</b>	<b>5,204</b>	<b>5,609</b>
Total Provisions					
<b>Total Liabilities</b>	<b>90,510</b>	<b>106,127</b>	<b>105,117</b>	<b>109,679</b>	<b>114,940</b>
Shareholders Equity	174,981	190,527	229,740	267,646	308,851
Minority Interests			(444)	(1,119)	(1,819)
<b>Total Equity</b>	<b>174,981</b>	<b>190,527</b>	<b>229,296</b>	<b>266,527</b>	<b>307,032</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	8.7%	13.0%	12.3%	7.6%	7.0%
Operating EBITDA Growth	19.7%	2.9%	31.0%	12.9%	8.8%
Operating EBITDA Margin	23.6%	21.5%	25.1%	26.3%	26.7%
Net Cash Per Share (Rs)	30.87	74.66	219.33	414.62	633.43
BVPS (Rs)	1,051.31	1,144.71	1,380.31	1,608.05	1,855.62
Gross Interest Cover	32.97	35.73	34.49	68.40	75.38
Effective Tax Rate	26.5%	22.3%	29.1%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	96.12	99.09	103.52	102.12	102.39
Inventory Days	169.51	174.78	182.02	188.21	190.65
Accounts Payables Days	81.25	86.19	87.07	85.12	85.27
ROIC (%)	14.1%	14.5%	18.5%	20.8%	22.5%
ROCE (%)	17.0%	16.0%	19.6%	19.6%	19.0%
Return On Average Assets	10.5%	11.1%	11.5%	11.9%	11.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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