

India

HOLD (no change)

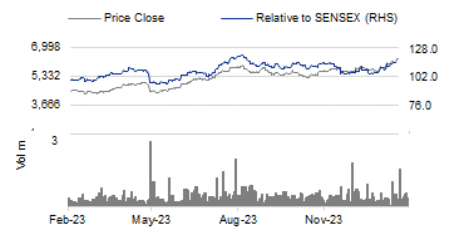
Consensus ratings*: Buy 17 Hold 11 Sell 14

Current price:	Rs6,335
Target price: ▲	Rs6,339
Previous target:	Rs5,415
Up/downside:	0.1%
InCred Research / Consensus:	8.1%
Reuters:	REDY.NS
Bloomberg:	DRRD IN
Market cap:	US\$12,730m Rs1,056,747m
Average daily turnover:	US\$31.8m Rs2639.8m
Current shares o/s:	166.4m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- Target price upgrade on FY26F rollover.
- EPS cut for FY24F/25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.4	16.9	40.0
Relative (%)	12.9	6.1	18.3

Major shareholders	% held
Promoters	26.7
LIC	9.7
First State	2.7

Research Analyst(s)



Praful BOHRA

T (91) 22 4161 1552

E praful.bohra@incredresearch.com

Dr Reddy's Laboratories Ltd

Limited visibility on catalysts; retain HOLD

- Posts an in-line 3QFY24 performance led by strong growth in the US market and moderate growth in India and Russia. Margins were in line at 27.8%.
- Not much clarity on the near-to-medium term drivers ex-gRevlimid, although management remains confident of sustaining the growth momentum.
- Our FY24F/25F EPS estimates stand reset by -1%/-8%, respectively. Retain HOLD rating with a higher target price of Rs6,339 on rollover to FY26F.

In-line 3QFY24 performance; positive surprise in the US market

Despite increased competition in two key products, Dr Reddy's Laboratories or DRL posted better 3QFY24 US revenue at US\$401m (our estimate: US\$373m), led by improvement in the base US portfolio. India and Russia sales, however, were tepid with a 5% growth/10% decline, respectively. Gross margin (GM) in the generics business declined by 180bp QoQ, negating the sharp improvement in the PSAI business GM (+1,160bp QoQ), and thereby keeping the overall GM flat. SG&A expenses increased sharply QoQ (+10%), given the ongoing investments in its Horizon-2 strategy.

Limited visibility on near-to medium-term drivers beyond gRevlimid

DRL's management highlighted around 26 meaningful product launches in the US, which should help bridge the gRevlimid gap, once the settlement period ends, and sustain the momentum. While we don't have any better handle on this, we acknowledge the company's R&D efforts in biosimilars/peptides etc. Further, DRL has stepped up investments, on the back of cash flows from gRevlimid, into other branded generic markets, which should hopefully step up growth in these markets. The VAI status at Bachupally plant takes away a key compliance risk.

India growth weak – recovery elusive so far despite increased focus

DRL's India business growth was weak at 5% YoY, below industry growth. Despite the increased focus and resource allocation over the last few years, India business growth has failed to show any major improvement. The company has a higher proportion of acute therapy business (~65%), which has been dragging overall growth. DRL is focusing on partnerships/in-licensing opportunities and its focus portfolio to revive India business growth.

Retain HOLD rating on the stock with a higher target price of Rs6,339

We have adjusted our FY24F/25F EPS estimates by -1%/-8%, respectively. We have valued the gRevlimid opportunity at 10x EPS to arrive at a valuation of Rs1,110. We have valued the stock at 22x FY26F core EPS, in line with its historical range, to arrive at our higher target price of Rs6,339 from Rs5,415 earlier. We retain our HOLD rating on the stock. Faster-than-expected improvement in the base business profitability is an upside risk while deterioration in the base business margin is a key downside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	214,391	245,879	279,549	298,751	310,194
Operating EBITDA (Rsm)	46,054	63,873	79,105	83,135	82,369
Net Profit (Rsm)	23,568	45,067	55,830	58,252	58,377
Core EPS (Rs)	186.8	270.8	335.4	350.0	350.7
Core EPS Growth	19.9%	45.0%	23.9%	4.3%	0.2%
FD Core P/E (x)	33.92	23.40	18.89	18.10	18.06
DPS (Rs)	30.0	70.0	40.0	40.0	40.0
Dividend Yield	0.47%	1.10%	0.63%	0.63%	0.63%
EV/EBITDA (x)	22.55	15.65	12.53	11.34	10.79
P/FCFE (x)	23.20	13.25	19.95	10.14	9.51
Net Gearing	(6.5%)	(21.5%)	(21.0%)	(32.5%)	(42.1%)
P/BV (x)	5.53	4.56	3.83	3.22	2.78
ROE	17.0%	21.4%	22.1%	19.3%	16.5%
% Change In Core EPS Estimates			0.62%	8.29%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	63,057	67,700	62,968	67,384	68,802	72,148	7%	5%
Consumption of RM	25,810	27,607	26,971	27,831	28,434	29,945	8%	5%
<i>as % of sales</i>	<i>40.9%</i>	<i>40.8%</i>	<i>42.8%</i>	<i>41.3%</i>	<i>41.3%</i>	<i>41.5%</i>		
Other expenditure	13435	14844	15501	14130	15060	16568	12%	10%
<i>as % of sales</i>	<i>21.3%</i>	<i>21.9%</i>	<i>24.6%</i>	<i>21.0%</i>	<i>21.9%</i>	<i>23.0%</i>		
EBITDA	18,943	20,428	15,130	20,439	19,861	20,070	-2%	1%
<i>Margins (%)</i>	<i>30.0%</i>	<i>30.2%</i>	<i>24.0%</i>	<i>30.3%</i>	<i>28.9%</i>	<i>27.8%</i>		
Depreciation	3,150	3,271	3,031	3,583	3,790	3,770		
Other income	487	-453	1,434	1,935	3,374	2,324		
Interest	309	418	354	371	353	394		
PBT	15,971	16,286	13,179	18,420	19,092	18,230	12%	-5%
Total tax	4,983	3,875	3,663	4,438	4,334	4,468		
<i>Tax rate (%)</i>	<i>31.2%</i>	<i>23.8%</i>	<i>27.8%</i>	<i>24.1%</i>	<i>22.7%</i>	<i>24.5%</i>		
PAT before MI	10,988	12,411	9,516	13,982	14,758	13,762	11%	-7%
Minority interest (MI)	140	60	76	43	42	27		
Adj. PAT before extraordinary items	11,128	12,471	9,592	14,025	14,800	13,789	11%	-7%
Extraordinary expenses	0	0	0	0	0	0		
Reported PAT	11,128	12,471	9,592	14,025	14,800	13,789	11%	-7%
No. of shares	166.5	166.5	166.5	166.6	166.8	166.5		
EPS	66.5	74.5	57.3	83.8	88.3	82.4		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)								
Gross	59%	59%	57%	59%	59%	58%	-1%	0%
EBITDA	30%	30%	24%	30%	29%	28%	-8%	-4%
Adj. PAT	18%	18%	15%	21%	22%	19%	4%	-11%
Effective tax rate	31%	24%	28%	24%	23%	25%	3%	8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	28,001	30,567	25,321	31,978	31,700	33,492	10%	6%
<i>% total revenue</i>	<i>44.4%</i>	<i>45.2%</i>	<i>40.2%</i>	<i>47.5%</i>	<i>46.1%</i>	<i>46.4%</i>		
Europe INR	4,199	4,303	4,960	5,071	5,286	4,970	16%	-6%
<i>% total revenue</i>	<i>6.7%</i>	<i>6.4%</i>	<i>7.9%</i>	<i>7.5%</i>	<i>7.7%</i>	<i>6.9%</i>		
Russia CIS INR	8,100	9,100	7,500	7,600	8,000	8,200	-10%	2%
<i>% total revenue</i>	<i>12.8%</i>	<i>13.4%</i>	<i>11.9%</i>	<i>11.3%</i>	<i>11.6%</i>	<i>11.4%</i>		
India	11,500	11,274	12,834	11,482	11,860	11,800	5%	-1%
<i>% total revenue</i>	<i>18.2%</i>	<i>16.7%</i>	<i>20.4%</i>	<i>17.0%</i>	<i>17.2%</i>	<i>16.4%</i>		
RoW	4,100	4,000	3,700	4,000	4,200	4,633	16%	10%
<i>% total revenue</i>	<i>6.5%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>6.1%</i>	<i>6.4%</i>		
PSAI INR	6,434	7,758	7,787	6,709	7,034	7,839	1%	11%
<i>% total revenue</i>	<i>10.2%</i>	<i>11.5%</i>	<i>12.4%</i>	<i>10.0%</i>	<i>10.2%</i>	<i>10.9%</i>		
Prop products/ other	723	698	866	544	722	1,214	74%	68%
<i>% total revenue</i>	<i>1.1%</i>	<i>1.0%</i>	<i>1.4%</i>	<i>0.8%</i>	<i>1.0%</i>	<i>1.7%</i>		
Total revenue	63,057	67,700	62,968	67,384	68,802	72,148	7%	5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incared Estimates	Variance (%)
Revenue (Rsm)	72,148	69,095	4%
EBITDA (Rsm)	20,070	19,275	4%
Margin (%)	27.8	27.9	
PAT (Rsm)	13,789	13,568	2%

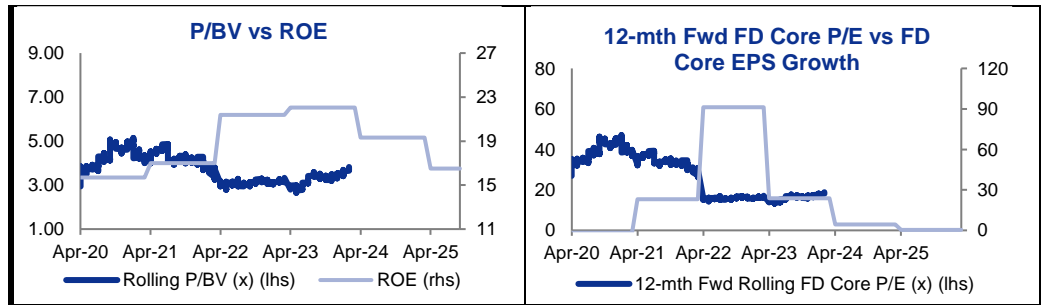
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Change in our earnings estimates

	FY24F			FY25F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	2,76,009	2,79,549	-1%	2,90,889	2,98,751	-3%
EBITDA (Rsm)	77,534	79,105	-2%	79,488	83,135	-4%
Margin (%)	28.1	28.3		27.3	27.8	
PAT (Rsm)	55,486	55,830	-1%	53,791	58,252	-8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	214,391	245,879	279,549	298,751	310,194
Gross Profit	113,840	139,343	163,839	175,602	179,162
Operating EBITDA	46,054	63,873	79,105	83,135	82,369
Depreciation And Amortisation	(11,824)	(12,636)	(14,943)	(15,500)	(16,000)
Operating EBIT	34,230	51,237	64,162	67,635	66,369
Financial Income/(Expense)	(958)	(1,428)	(1,493)	(1,500)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,838	10,188	10,133	11,000	12,000
Profit Before Tax (pre-EI)	39,110	59,997	72,802	77,135	76,869
Exceptional Items					
Pre-tax Profit	39,110	59,997	72,802	77,135	76,869
Taxation	(8,730)	(15,300)	(17,164)	(19,284)	(19,217)
Exceptional Income - post-tax	(7,515)				
Profit After Tax	22,865	44,697	55,638	57,852	57,652
Minority Interests	703	370	192	400	725
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,568	45,067	55,830	58,252	58,377
Recurring Net Profit	31,083	45,067	55,830	58,252	58,377
Fully Diluted Recurring Net Profit	31,083	45,067	55,830	58,252	58,377

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	46,054	63,873	79,105	83,135	82,369
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,894)	(7,845)	(31,702)	(7,175)	(2,600)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	22,456	66,704	57,536	86,961	91,769
Net Interest (Paid)/Received	(958)	(1,428)	(1,493)	(1,500)	(1,500)
Tax Paid	6,610	(6,401)	(25,612)	(28,384)	(28,992)
Cashflow From Operations	28,108	58,875	30,431	57,077	61,277
Capex	(14,290)	(11,241)	(11,000)	(11,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(8,300)		
Other Investing Cashflow		(7,543)			
Cash Flow From Investing	13,818	40,091	11,131	45,577	49,277
Debt Raised/(repaid)	3,520	(19,382)	11,293	1,376	353
Proceeds From Issue Of Shares	334	368			
Shares Repurchased					
Dividends Paid	(4,146)	(4,979)	(11,657)	(6,661)	(6,661)
Preferred Dividends					
Other Financing Cashflow	(1,828)	660	8,640	9,500	10,500
Cash Flow From Financing	(2,120)	(23,333)	8,276	4,215	4,192
Total Cash Generated	11,698	16,758	19,407	49,792	53,468
Free Cashflow To Equity	45,446	79,584	52,854	104,030	110,906
Free Cashflow To Firm	42,884	100,394	43,055	104,154	112,054

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	46,271	63,029	82,436	132,227	185,696
Total Debtors	66,764	72,485	81,069	86,638	89,956
Inventories	50,884	48,670	64,296	68,713	71,345
Total Other Current Assets	17,187	22,756	27,955	29,875	31,019
Total Current Assets	181,106	206,940	255,756	317,453	378,016
Fixed Assets	62,169	66,462	62,519	58,519	54,519
Total Investments	3,668	5,362	5,362	5,362	5,362
Intangible Assets	36,036	35,094	43,394	43,394	43,394
Total Other Non-Current Assets	13,675	7,996	7,996	7,996	7,996
Total Non-current Assets	115,548	114,914	119,271	115,271	111,271
Short-term Debt	28,099	12,194	12,194	12,194	12,194
Current Portion of Long-Term Debt					
Total Creditors	25,572	26,444	24,975	26,631	28,204
Other Current Liabilities	44,171	47,207	46,383	49,458	52,379
Total Current Liabilities	97,842	85,845	83,552	88,283	92,777
Total Long-term Debt	5,746	1,278	12,571	13,946	14,299
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,539	3,740	3,740	3,740	3,740
Total Non-current Liabilities	8,285	5,018	16,311	17,686	18,039
Total Provisions					
Total Liabilities	106,127	90,863	99,863	105,969	110,816
Shareholders Equity	190,527	230,991	275,356	327,347	379,788
Minority Interests			(192)	(592)	(1,317)
Total Equity	190,527	230,991	275,164	326,755	378,471

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	13.0%	14.7%	13.7%	6.9%	3.8%
Operating EBITDA Growth	2.9%	38.7%	23.8%	5.1%	(0.9%)
Operating EBITDA Margin	21.5%	26.0%	28.3%	27.8%	26.6%
Net Cash Per Share (Rs)	74.66	297.75	346.49	637.38	956.51
BVPS (Rs)	1,144.71	1,387.82	1,654.38	1,966.74	2,281.82
Gross Interest Cover	35.73	35.88	42.98	45.09	44.25
Effective Tax Rate	22.3%	25.5%	23.6%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	99.09	103.36	100.25	102.45	103.90
Inventory Days	174.78	170.54	178.17	197.11	195.07
Accounts Payables Days	86.19	89.11	81.10	76.48	76.37
ROIC (%)	14.5%	21.3%	22.2%	23.1%	22.8%
ROCE (%)	16.0%	21.9%	23.6%	20.7%	17.5%
Return On Average Assets	11.1%	14.8%	16.3%	14.6%	12.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.