

India

HOLD (no change)

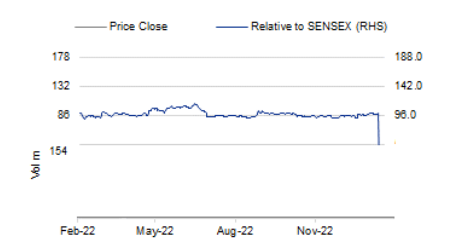
Consensus ratings*: Buy 31 Hold 8 Sell 3

Current price:	Rs4,491
Target price:	Rs4,556
Previous target:	Rs4,556
Up/downside:	1.4%
InCred Research / Consensus:	-7.2%
Reuters:	
Bloomberg:	DRRD IN
Market cap:	US\$10,299m Rs747,881m
Average daily turnover:	US\$24.0m Rs1740.8m
Current shares o/s:	166.4m
Free float:	73.0%

*Source: Bloomberg

Key changes in this note

- Raise FY24F-25F core earnings by 3-4%.
- Maintain HOLD rating on the stock with an unchanged target price of Rs4,556.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.1	1.7	7.5
Relative (%)	3.9	6.5	1.0

Major shareholders	% held
Promoters	27.0
LIC	8.9
First State	2.5

Analyst(s)



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Dr Reddy's Laboratories Ltd

Mayne's US generic biz buyout is right move

- Dr Reddy's Labs acquires Mayne's portfolio in the US; likely earnings-accretive and valuation seems reasonable; more upside likely if the synergies play out.
- We feel the peak pricing pressure/competitive intensity in the US generics market is behind us; we consider this buyout as a move in the right direction.
- Valuation likely to remain subdued given the 40%+ contribution from gRevlimid in the company's earnings; retain HOLD rating with a target price of Rs4,556.

Acquires Australia-based Mayne Pharma's US generic portfolio

Dr Reddy's Labs has announced the acquisition of the US generic portfolio of the Australia-based Mayne Pharma for around US\$100m. The portfolio registers full-year sales amounting to US\$111m and includes complex low-competition products such as hormonal vaginal ring, a birth control pill and a cardiovascular product. We find the portfolio very interesting and valuable which is broadly into branded hormonal products in women's health, CNS and controlled substances.

Acquisition is earnings-accretive and valuation seems reasonable

Dr Reddy's Labs has not revealed the current/expected profitability of the portfolio, but we tend to believe that it is reasonably profitable and that the company will have an opportunity to reduce costs further. We feel the acquisition should be earnings-accretive even at 10%+ EBITDA margin. Thus, the price paid, at around 1x sales, seems to be highly reasonable.

Additional benefits if synergies play out

There could be more synergistic benefits that could play out over time. Dr Reddy's Labs could shift the manufacturing in-house and improve profitability, over time. Mayne Pharma was a niche player in the US generics market; the muscle power of Dr Reddy's Labs can improve the distribution reach and bargaining power of the portfolio. The acquisition also gives Dr. Reddy's Labs a good standing in the above-mentioned attractive specialties.

US generics space bottoms out - the acquisition strategy is right

We maintain our view that peak pricing pressure/competitive intensity in the US generics market is behind us and we expect a steady improvement in the company's business profitability. We would not be surprised if we see a period of price appreciation soon at the weighted average level instead of price erosion. Hence, we consider this acquisition as a move in the right direction.

Upside to be limited as a major part of earnings is gRevlimid-driven

We raise our FY24F-25F core earnings estimates by 3-4% as we bake in the acquisition. While Dr Reddy's Labs trades at just 16.6x our FY24F core earnings, its valuation may remain subdued given the 40%+ contribution from gRevlimid in the earnings that will erode in FY27F. We retain HOLD rating on it with an unchanged target price of Rs4,556, or 14.9x FY25F core earnings plus cash per share. Downside risk: Further erosion in profitability ex-gRevlimid portfolio. Upside risk: Large product opportunities in the US market.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	189,722	214,391	240,802	268,101	286,503
Operating EBITDA (Rsm)	44,775	46,054	60,338	70,197	76,123
Net Profit (Rsm)	19,149	23,568	43,761	43,743	47,802
Core EPS (Rs)	155.7	186.8	215.2	262.8	287.2
Core EPS Growth	(20.4%)	19.9%	15.2%	22.1%	9.3%
FD Core P/E (x)	28.84	24.05	20.87	17.09	15.64
DPS (Rs)	25.0	30.0	30.0	35.0	40.0
Dividend Yield	0.56%	0.67%	0.67%	0.78%	0.89%
EV/EBITDA (x)	16.50	15.88	11.72	9.73	8.47
P/FCFE (x)	11.36	16.45	17.80	10.40	7.86
Net Gearing	(2.9%)	(6.5%)	(15.9%)	(22.2%)	(31.4%)
P/BV (x)	4.27	3.92	3.25	2.78	2.40
ROE	15.7%	17.0%	17.0%	17.5%	16.5%
% Change In Core EPS Estimates				3.60%	3.18%
InCred Research/Consensus EPS (x)					

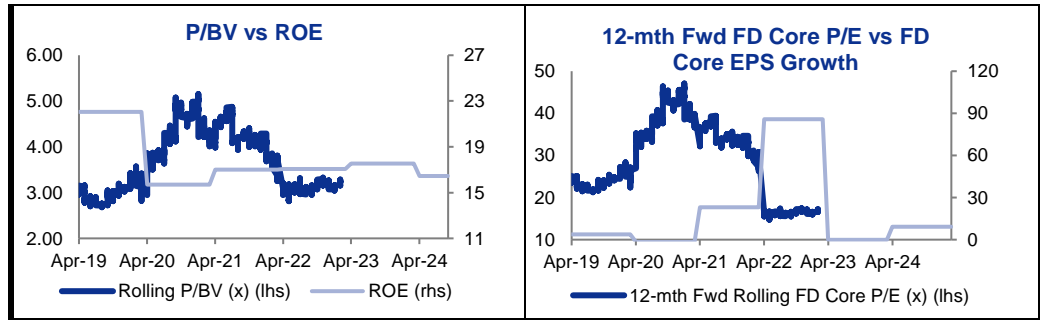
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Core valuation table

	FY21	FY22	FY23F	FY24F	FY25F
Core EPS (Rs)	139.1	158.8	197.8	248.5	272.8
Core EPS growth	-9.3%	14.2%	24.6%	25.6%	9.8%
Cash per share (Rs)	206.7	276.7	355.4	499.5	730.0
Current core P/E (Rs)	29.7	26.0	20.9	16.6	15.2
Core ROIC	21.8%	20.2%	26.6%	29.5%	29.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	189,722	214,391	240,802	268,101	286,503
Gross Profit	103,077	113,840	134,251	152,820	164,530
Operating EBITDA	44,775	46,054	60,338	70,197	76,123
Depreciation And Amortisation	(12,798)	(11,824)	(12,955)	(13,400)	(13,800)
Operating EBIT	31,977	34,230	47,383	56,797	62,323
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
Profit Before Tax (pre-EI)	34,612	39,110	49,875	58,997	64,523
Exceptional Items					
Pre-tax Profit	34,612	39,110	49,875	58,997	64,523
Taxation	(9,175)	(8,730)	(14,496)	(15,929)	(17,421)
Exceptional Income - post-tax	(6,768)	(7,515)	7,938		
Profit After Tax	18,669	22,865	43,317	43,068	47,102
Minority Interests	480	703	444	675	700
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,149	23,568	43,761	43,743	47,802
Recurring Net Profit	25,917	31,083	35,823	43,743	47,802
Fully Diluted Recurring Net Profit	25,917	31,083	35,823	43,743	47,802

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	44,775	46,054	60,338	70,197	76,123
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,288)	(13,894)	(12,019)	(9,949)	(6,419)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	24,627	22,456	46,071	47,993	55,983
Net Interest (Paid)/Received	(970)	(958)	(1,374)	(800)	(800)
Tax Paid	12,046	6,610	(10,430)	(2,200)	(2,200)
Cashflow From Operations	35,703	28,108	34,267	44,993	52,983
Capex	(12,476)	(14,290)	(10,000)	(11,000)	(11,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(5,625)	(8,300)	
Other Investing Cashflow					
Cash Flow From Investing	23,227	13,818	18,642	25,693	41,483
Debt Raised/(repaid)	6,848	3,520	(10,915)	1,195	678
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
Cash Flow From Financing	(14,394)	(2,120)	(5,478)	(1,598)	(2,947)
Total Cash Generated	8,833	11,698	13,164	24,095	38,536
Free Cashflow To Equity	65,778	45,446	41,993	71,881	95,143
Free Cashflow To Firm	59,900	42,884	54,282	71,486	95,266

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	34,573	46,271	59,435	83,530	122,066
Total Debtors	49,641	66,764	69,833	77,749	83,086
Inventories	45,412	50,884	55,384	61,663	65,896
Total Other Current Assets	18,623	17,187	24,080	26,810	28,650
Total Current Assets	148,249	181,106	208,732	249,752	299,697
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	49,961	49,961
Total Other Non-Current Assets	16,540	13,675	13,675	13,675	13,675
Total Non-current Assets	117,242	115,548	118,218	124,118	121,818
Short-term Debt	23,136	28,099	20,000	20,000	20,000
Current Portion of Long-Term Debt					
Total Creditors	21,916	25,572	25,265	27,707	29,453
Other Current Liabilities	36,420	44,171	46,921	51,455	54,699
Total Current Liabilities	81,472	97,842	92,186	99,162	104,152
Total Long-term Debt	6,299	5,746	2,930	4,124	4,802
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	5,469	6,663	7,341
Total Provisions					
Total Liabilities	90,510	106,127	97,654	105,825	111,493
Shareholders Equity	174,981	190,527	229,740	269,165	311,842
Minority Interests			(444)	(1,119)	(1,819)
Total Equity	174,981	190,527	229,296	268,046	310,023

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	8.7%	13.0%	12.3%	11.3%	6.9%
Operating EBITDA Growth	19.7%	2.9%	31.0%	16.3%	8.4%
Operating EBITDA Margin	23.6%	21.5%	25.1%	26.2%	26.6%
Net Cash Per Share (Rs)	30.87	74.66	219.33	356.92	584.37
BVPS (Rs)	1,051.31	1,144.71	1,380.31	1,617.18	1,873.59
Gross Interest Cover	32.97	35.73	34.49	71.00	77.90
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	100.46	102.45
Inventory Days	169.51	174.78	182.02	185.30	190.86
Accounts Payables Days	81.25	86.19	87.07	83.86	85.52
ROIC (%)	14.1%	14.5%	18.5%	20.5%	22.0%
ROCE (%)	17.0%	16.0%	19.9%	20.9%	19.9%
Return On Average Assets	10.5%	11.1%	11.7%	12.5%	12.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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