

India

REDUCE (no change)

Consensus ratings*: Buy 20 Hold 9 Sell 11

Current price:	Rs5,476
Target price: ▲	Rs5,270
Previous target:	Rs4,556
Up/downside:	-3.8%
InCred Research / Consensus:	4.7%
Reuters:	REDY.NS
Bloomberg:	DRRD IN
Market cap:	US\$11,123m Rs912,001m
Average daily turnover:	US\$23.0m Rs1887.4m
Current shares o/s:	166.4m
Free float:	73.3%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.0	11.3	27.8
Relative (%)	3.6	1.2	6.9

Major shareholders	% held
Promoters	26.7
LIC	9.7
First State	2.6

Analyst(s)



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Dr Reddy's Laboratories Ltd

gRevlimid drives 1Q beat

- A strong set of 1QFY24 numbers, with 5% revenue beat and 30% EBITDA beat against our expectations. The beat is largely driven by higher gRevlimid sales.
- Core margins (ex-gRevlimid) are around 20-21%, as per our estimate. gRevlimid sales to mask the weakness in core margins in the medium term.
- Upgrade gRevlimid estimates after a strong 1Q & a new Rs5,270 TP. We await improvement in core margins before turning constructive. Retain REDUCE.

gRevlimid surprises positively and drives 1QFY24 earnings beat

The sharp ramp-up in gRevlimid sales (US\$110-115m vs. our estimate of US\$85m) drove a 30% beat in Dr Reddy's Laboratories or DRL's 1QFY24 EBITDA vs. our estimate. Sales were 5% higher, led by sales in the US (+25%QoQ; Our estimate: 13%QoQ growth) led by higher gRevlimid sales, integration of Mayne portfolio and a benign US environment led by lower price erosion and short-term product supply opportunities. India growth was healthy (+12%QoQ ex-divestment income) while Russia sales were much stronger (+75% YoY) in a seasonally weak quarter led by price hikes and strong ramp-up in the base business.

Ex-gRevlimid, we believe margins may remain under pressure

Excluding the one-time brand divestment income in 4QFY23, we believe gross margin (GM) improved by 340bp QoQ, largely led by gRevlimid. Gross margin in the generics business stood at 63.9% (+700bp QoQ) while APIs' GM declined to 15% (-1,030bp QoQ). Adjusted for gRevlimid sales, base business margins are around 20-21%, as per our estimate. With a likely increase in investments in branded markets and competition in key products like gVascepa and gCiprodex, we believe the base business margins can come under pressure, although they will be masked by gRevlimid sales in the medium term.

Await signs of improvement in core business; retain REDUCE rating

After an elongated period of cost rationalization/reduced investments (flat SG&A spending from FY15-21), the spending is picking up pace again, thereby exerting pressure on the base business profitability. While strong gRevlimid sales will mask the weak base business profitability in the medium term, we await signs of an improvement in core margins before turning constructive. We believe gRevlimid sales are likely to be lumpy and 1Q sales should not be entirely extrapolated. We reset our gRevlimid estimates, valuing the opportunity at 10x EPS to arrive at a value of Rs1,283. We have valued the stock at 22x FY25F core EPS, in line with its historical range, to arrive at our new target price of Rs5,270. Retain REDUCE rating on the stock. Faster-than-expected improvement in the base business profitability is an upside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	189,722	214,391	245,879	273,811	290,967
Operating EBITDA (Rsm)	44,775	46,054	63,873	73,130	76,811
Net Profit (Rsm)	19,149	23,568	45,067	48,431	51,783
Core EPS (Rs)	155.7	186.8	270.8	291.0	311.1
Core EPS Growth	(20.4%)	19.9%	45.0%	7.5%	6.9%
FD Core P/E (x)	35.17	29.32	20.22	18.82	17.60
DPS (Rs)	25.0	30.0	70.0	35.0	40.0
Dividend Yield	0.46%	0.55%	1.28%	0.64%	0.73%
EV/EBITDA (x)	20.16	19.44	13.41	11.66	10.55
P/FCFE (x)	13.86	20.05	11.45	18.22	9.36
Net Gearing	(2.9%)	(6.5%)	(21.5%)	(19.7%)	(30.3%)
P/BV (x)	5.21	4.78	3.95	3.40	2.90
ROE	15.7%	17.0%	21.4%	19.4%	17.8%
% Change In Core EPS Estimates				10.72%	8.33%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 1QFY24 results snapshot

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	49,854	63,057	67,700	62,968	67,384	35%	7%
Consumption of raw materials	26,148	25,810	27,607	26,971	27,831	6%	3%
<i>as % of sales</i>	<i>52.4%</i>	<i>40.9%</i>	<i>40.8%</i>	<i>42.8%</i>	<i>41.3%</i>		
Other expenditure	12443	13435	14710	15501	14119	13%	-9%
<i>as % of sales</i>	<i>25.0%</i>	<i>21.3%</i>	<i>21.7%</i>	<i>24.6%</i>	<i>21.0%</i>		
EBITDA	6,938	18,943	20,562	15,130	20,450	195%	35%
<i>Margins (%)</i>	<i>13.9%</i>	<i>30.0%</i>	<i>30.4%</i>	<i>24.0%</i>	<i>30.3%</i>		
Depreciation	3,050	3,150	3,405	3,031	3,594		
Other income	3,082	487	-453	1,434	1,935		
Interest	347	309	418	354	371		
PBT	6,623	15,971	16,286	13,179	18,420	178%	40%
Total tax	2,779	4,983	3,875	3,663	4,438		
<i>Tax Rate (%)</i>	<i>42.0%</i>	<i>31.2%</i>	<i>23.8%</i>	<i>27.8%</i>	<i>24.1%</i>		
PAT before MI	3,844	10,988	12,411	9,516	13,982	264%	47%
Minority interest (MI)	94	140	60	76	43		
Adj. PAT before extraordinary items	3,938	11,128	12,471	9,592	14,025	256%	46%
Extraordinary expenses	7,938	0	0	0	0		
Reported PAT	11,876	11,128	12,471	9,592	14,025	18%	46%
No. of shares	166.4	166.5	166.5	166.5	166.6		
EPS	23.5	66.5	74.5	57.3	83.8		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross	48%	48%	59%	59%	59%
EBITDA	14%	14%	30%	30%	30%
Adj. PAT	8%	18%	18%	15%	21%
Effective tax rate	42%	42%	31%	24%	24%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Geography-wise revenue breakup

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Y-o-Y (%)	Q-o-Q (%)
US formulations (INR)	17,815	17,815	28,001	30,567	31,978	80%	5%
<i>% total revenue</i>	<i>35.7%</i>	<i>35.7%</i>	<i>44.4%</i>	<i>45.2%</i>	<i>47.5%</i>		
Europe (INR)	4,141	4,141	4,199	4,303	5,071	22%	18%
<i>% total revenue</i>	<i>8.3%</i>	<i>8.3%</i>	<i>6.7%</i>	<i>6.4%</i>	<i>7.5%</i>		
Russia CIS (INR)	5,100	5,100	8,100	9,100	7,600	49%	-16%
<i>% total revenue</i>	<i>10.2%</i>	<i>10.2%</i>	<i>12.8%</i>	<i>13.4%</i>	<i>11.3%</i>		
India	11,039	11,039	11,500	11,274	11,482	4%	2%
<i>% total revenue</i>	<i>22.1%</i>	<i>22.1%</i>	<i>18.2%</i>	<i>16.7%</i>	<i>17.0%</i>		
RoW	3,900	3,900	4,100	4,000	4,000	3%	0%
<i>% total revenue</i>	<i>7.8%</i>	<i>7.8%</i>	<i>6.5%</i>	<i>5.9%</i>	<i>5.9%</i>		
PSAI INR	7,090	7,090	6,434	7,758	6,709	-5%	-14%
<i>% total revenue</i>	<i>14.2%</i>	<i>14.2%</i>	<i>10.2%</i>	<i>11.5%</i>	<i>10.0%</i>		
Prop products/ other	769	769	723	698	544	-29%	-22%
<i>% total revenue</i>	<i>1.5%</i>	<i>1.5%</i>	<i>1.1%</i>	<i>1.0%</i>	<i>0.8%</i>		
Total revenue	49,854	49,854	63,057	67,700	67,384	35%	0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. estimates

(Rs m)	1QFY24A	IncRed Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	67,384	64,312	5%	67,567	0%
EBITDA	20,450	15,769	30%	18,491	11%
EBITDA Margin (%)	30%	25%	-500bp	27%	-300 bp
PAT	14,025	10,276	36%	10,058	39%

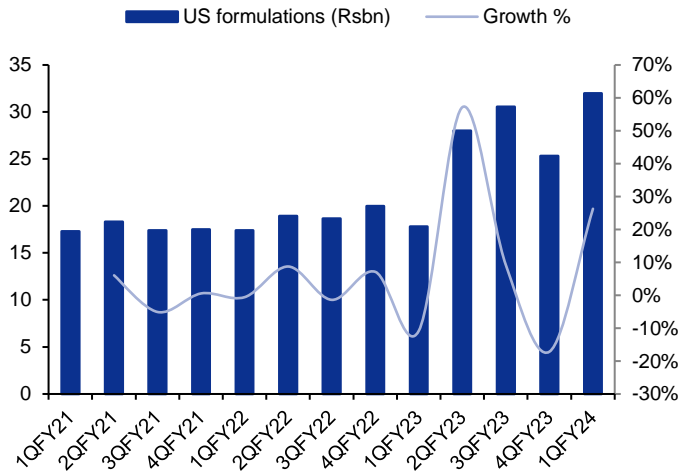
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised estimates

(Rs m)	Old Estimates		New Estimates		Change(%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	2,63,503	2,79,036	2,73,811	2,90,967	4%	4%
EBITDA	63,308	66,299	73,130	76,811	16%	16%
EBITDA Margin (%)	24%	24%	27%	26%	300bp	200bp
PAT	41,276	43,899	48,431	51,783	17%	18%

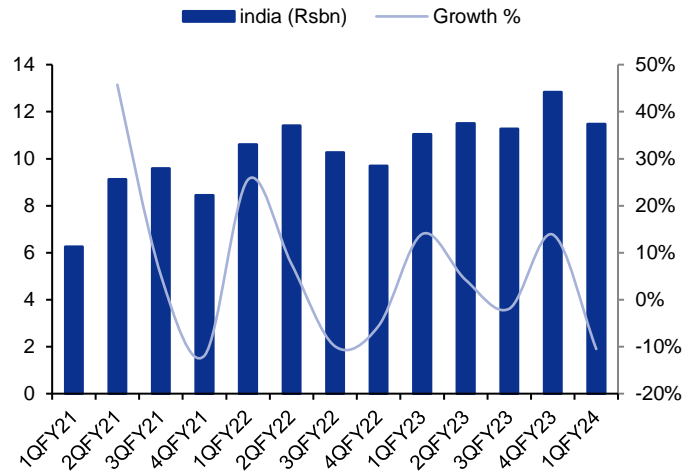
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: US market performance over the past few quarters – the pick-up reflects in gRevlimid sales



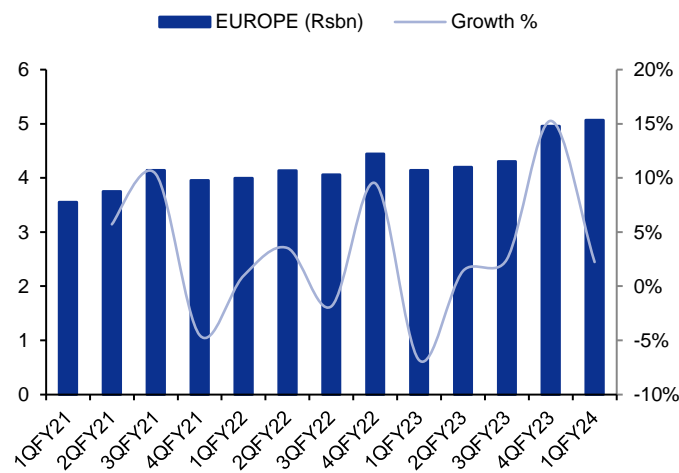
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: DRL's domestic business has been doing well of late, with increased focus



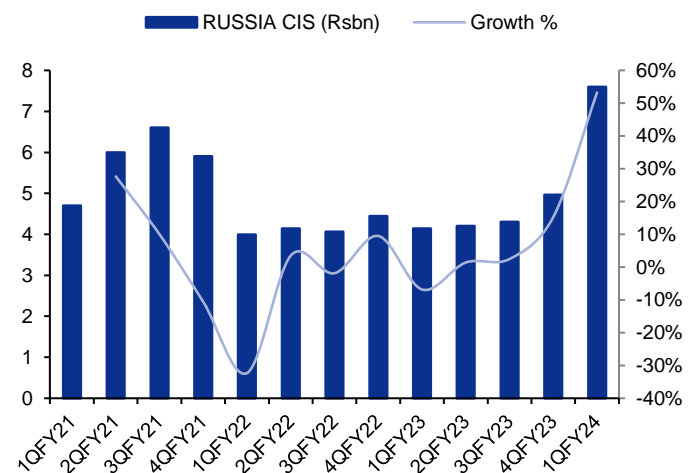
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Europe revenue performance



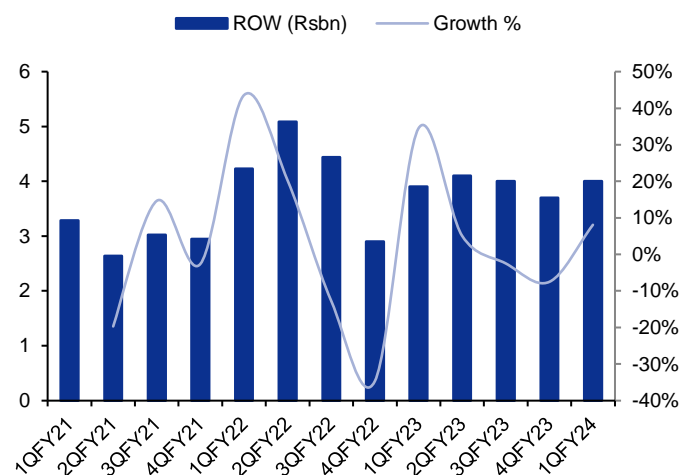
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Russia-CIS revenue performance



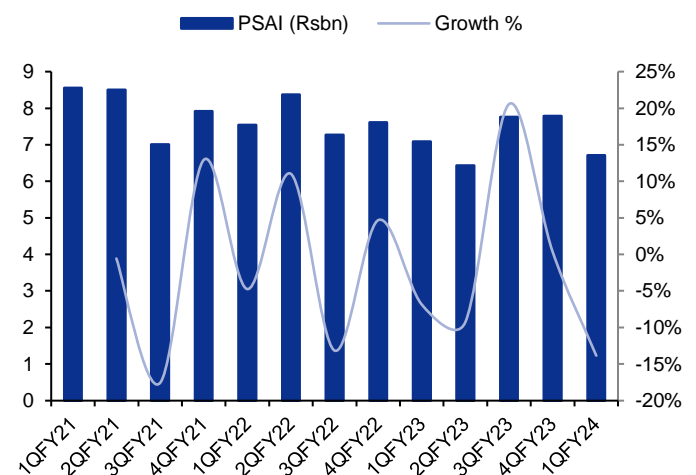
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: ROW revenue performance



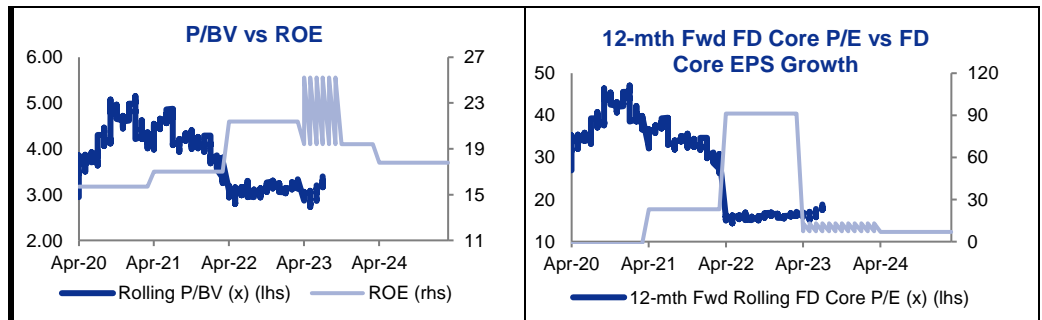
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: PSAI revenue performance



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	189,722	214,391	245,879	273,811	290,967
Gross Profit	103,077	113,840	139,343	159,073	169,395
Operating EBITDA	44,775	46,054	63,873	73,130	76,811
Depreciation And Amortisation	(12,798)	(11,824)	(12,636)	(14,094)	(13,800)
Operating EBIT	31,977	34,230	51,237	59,036	63,011
Financial Income/(Expense)	(970)	(958)	(1,428)	(1,496)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,605	5,838	10,188	6,435	7,000
Profit Before Tax (pre-EI)	34,612	39,110	59,997	63,975	68,511
Exceptional Items					
Pre-tax Profit	34,612	39,110	59,997	63,975	68,511
Taxation	(9,175)	(8,730)	(15,300)	(15,827)	(17,128)
Exceptional Income - post-tax	(6,768)	(7,515)			
Profit After Tax	18,669	22,865	44,697	48,148	51,383
Minority Interests	480	703	370	283	400
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,149	23,568	45,067	48,431	51,783
Recurring Net Profit	25,917	31,083	45,067	48,431	51,783
Fully Diluted Recurring Net Profit	25,917	31,083	45,067	48,431	51,783

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	44,775	46,054	63,873	73,130	76,811
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,288)	(13,894)	(7,845)	(28,242)	(6,128)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	24,627	22,456	66,704	51,323	77,684
Net Interest (Paid)/Received	(970)	(958)	(1,428)	(1,496)	(1,500)
Tax Paid	12,046	6,610	(6,401)	(20,483)	(22,228)
Cashflow From Operations	35,703	28,108	58,875	29,344	53,956
Capex	(12,476)	(14,290)	(11,241)	(11,000)	(11,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments				(8,300)	
Other Investing Cashflow			(7,543)		
Cash Flow From Investing	23,227	13,818	40,091	10,044	42,456
Debt Raised/(repaid)	6,848	3,520	(19,382)	10,627	999
Proceeds From Issue Of Shares	(924)	334	368		
Shares Repurchased					
Dividends Paid	(4,147)	(4,146)	(4,979)	(11,657)	(5,828)
Preferred Dividends					
Other Financing Cashflow	(16,171)	(1,828)	660	4,939	5,500
Cash Flow From Financing	(14,394)	(2,120)	(23,333)	3,909	670
Total Cash Generated	8,833	11,698	16,758	13,953	43,126
Free Cashflow To Equity	65,778	45,446	79,584	50,015	97,410
Free Cashflow To Firm	59,900	42,884	100,394	40,884	97,912

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	34,573	46,271	63,029	76,982	120,108
Total Debtors	49,641	66,764	72,485	79,405	84,380
Inventories	45,412	50,884	48,670	62,976	66,922
Total Other Current Assets	18,623	17,187	22,756	27,381	29,097
Total Current Assets	148,249	181,106	206,940	246,744	300,507
Fixed Assets	57,111	62,169	66,462	63,368	61,068
Total Investments	3,375	3,668	5,362	5,362	5,362
Intangible Assets	40,216	36,036	35,094	43,394	43,394
Total Other Non-Current Assets	16,540	13,675	7,996	7,996	7,996
Total Non-current Assets	117,242	115,548	114,914	120,120	117,820
Short-term Debt	23,136	28,099	12,194	12,194	12,194
Current Portion of Long-Term Debt					
Total Creditors	21,916	25,572	26,444	24,941	26,519
Other Current Liabilities	36,420	44,171	47,207	46,319	49,250
Total Current Liabilities	81,472	97,842	85,845	83,454	87,963
Total Long-term Debt	6,299	5,746	1,278	11,905	12,904
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,739	2,539	3,740	3,740	3,740
Total Non-current Liabilities	9,038	8,285	5,018	15,645	16,644
Total Provisions					
Total Liabilities	90,510	106,127	90,863	99,099	104,607
Shareholders Equity	174,981	190,527	230,991	268,048	314,403
Minority Interests				(283)	(683)
Total Equity	174,981	190,527	230,991	267,765	313,720

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	8.7%	13.0%	14.7%	11.4%	6.3%
Operating EBITDA Growth	19.7%	2.9%	38.7%	14.5%	5.0%
Operating EBITDA Margin	23.6%	21.5%	26.0%	26.7%	26.4%
Net Cash Per Share (Rs)	30.87	74.66	297.75	317.73	570.84
BVPS (Rs)	1,051.31	1,144.71	1,387.82	1,610.47	1,888.98
Gross Interest Cover	32.97	35.73	35.88	39.46	42.01
Effective Tax Rate	26.5%	22.3%	25.5%	24.7%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	96.12	99.09	103.36	101.24	102.73
Inventory Days	169.51	174.78	170.54	177.58	195.00
Accounts Payables Days	81.25	86.19	89.11	81.73	77.25
ROIC (%)	14.1%	14.5%	21.3%	20.7%	21.7%
ROCE (%)	17.0%	16.0%	21.9%	22.0%	20.0%
Return On Average Assets	10.5%	11.1%	14.8%	14.3%	13.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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
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been engaged in market making activity for the subject company	NO	NO

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