

India

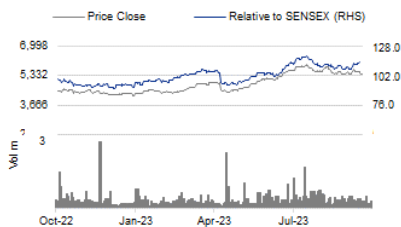
**HOLD** (previously REDUCE)

Consensus ratings\*: Buy 18 Hold 10 Sell 12

Current price: Rs5,397  
 Target price: ▲ Rs5,415  
 Previous target: Rs5,270  
 Up/downside: 0.3%  
 InCred Research / Consensus: -2.1%

Reuters:  
 Bloomberg: DRRD IN  
 Market cap: US\$12,396m  
 Rs900,144m  
 Average daily turnover: US\$34.1m  
 Rs2479.8m  
 Current shares o/s: 166.4m  
 Free float: 73.3%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.8)	(2.0)	20.2
Relative (%)	1.3	1.7	13.0

Major shareholders	% held
Promoters	26.7
LIC	9.7
First State	2.7

**Analyst(s)**



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# Dr Reddy's Laboratories Ltd

## Slight 2Q beat; gRevlimid largely sustains

- Dr. Reddy's Laboratories' 2QFY24 results saw a 5% EBITDA beat led by strong Russia/in-line US market performance & 100bp higher-than expected margins.
- gRevlimid contribution seems to have declined only marginally QoQ. India business growth was weak at 3% YoY (vs. estimated: 7% YoY growth).
- We raise FY24F/25F EPS estimates by 13%/3%, largely driven by gRevlimid's sustenance. Upgrade the stock to HOLD with a higher target price of Rs5,415.

### Margins hold firm; Russia business outperforms

Dr. Reddy's Laboratories or DRL's 2QFY24 EBITDA was 5% above our estimate led by strong sales in Russia (flat QoQ vs. our expectation of a decline) and better-than-expected margins (100bp above our estimate). The US business was flat QoQ (at US\$383m, in line with our estimate); we believe gRevlimid sales have declined marginally QoQ while the full-quarter integration of Mayne portfolio and the likely higher demand due to seasonality in gCiprodex has more than offset this. DRL expects 25-30 material drug launches in the US in the next three years.

### India business weak - recovery elusive so far despite increased focus

DRL's India business growth was weak at 3% YoY, below industry growth of 4% YoY. 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 saw tepid growth in 2Q. DRL is focusing on partnerships/in-licensing opportunities and its focus portfolio to revive India business growth.

### We believe core margins are in the 19-21% zone

Ex-gRevlimid, we believe core margins are in the 19-21% zone since the last two-to-three quarters. After an elongated period of cost rationalization/reduced investments (flat SG&A spending during FY15-21), DRL has stepped up its long-term investments, given the large cash flow from gRevlimid. We acknowledge the strong cash flow that gRevlimid generates (US\$1bn+ since its launch) and also the flexibility that DRL has to pursue inorganic opportunities. but believe the pressure on the core business is likely to keep the stock price in check in the interim.

### Upgrade to HOLD rating with a higher target price of Rs5,415

We increase our FY24F/25F EPS estimates by 13%/3%, respectively, largely on account of higher other income and sustenance of gRevlimid sales. We valued the gRevlimid opportunity at 10x EPS to arrive at a valuation of Rs1,380/share. We valued the stock at 22x FY25F core EPS, in line with its historical range, to arrive at our higher target price of Rs5,415 from Rs5,270 earlier. We upgraded the stock to a HOLD rating (REDUCE rating earlier). 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-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	189,722	214,391	245,879	276,009	290,889
Operating EBITDA (Rsm)	44,775	46,054	63,873	77,534	79,488
Net Profit (Rsm)	19,149	23,568	45,067	55,486	53,791
Core EPS (Rs)	155.7	186.8	270.8	333.4	323.2
Core EPS Growth	(20.4%)	19.9%	45.0%	23.1%	(3.1%)
FD Core P/E (x)	34.66	28.90	19.93	16.19	16.70
DPS (Rs)	25.0	30.0	70.0	40.0	40.0
Dividend Yield	0.46%	0.56%	1.30%	0.74%	0.74%
EV/EBITDA (x)	19.87	19.16	13.20	10.76	9.94
P/FCFE (x)	13.66	19.77	11.29	16.84	8.67
Net Gearing	(2.9%)	(6.5%)	(21.5%)	(21.1%)	(31.8%)
P/BV (x)	5.13	4.71	3.89	3.27	2.78
ROE	15.7%	17.0%	21.4%	21.9%	18.0%
% Change In Core EPS Estimates				14.57%	3.88%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY24 results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Revenue	63,057	67,700	62,968	67,384	68,802	9%	2%
Consumption of raw materials	25,810	27,607	26,971	27,831	28,434	10%	2%
<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>		
Other expenditure	13,435	14,710	15,501	14,119	15,005	12%	6%
<i>as % of sales</i>	<i>21.3%</i>	<i>21.7%</i>	<i>24.6%</i>	<i>21.0%</i>	<i>21.8%</i>		
EBITDA	18,943	20,562	15,130	20,450	19,916	5%	-3%
<i>Margins (%)</i>	<i>30.0%</i>	<i>30.4%</i>	<i>24.0%</i>	<i>30.3%</i>	<i>28.9%</i>		
Depreciation	3,150	3,405	3,031	3,594	3,845		
Other income	487	-453	1,434	1,935	3,374		
Interest	309	418	354	371	353		
PBT	15,971	16,286	13,179	18,420	19,092	20%	4%
Total Tax	4,983	3,875	3,663	4,438	4,334		
<i>Tax Rate (%)</i>	<i>31.2%</i>	<i>23.8%</i>	<i>27.8%</i>	<i>24.1%</i>	<i>22.7%</i>		
PAT before MI	10,988	12,411	9,516	13,982	14,758	34%	6%
Minority interest (MI)	140	60	76	43	42		
Adj. PAT before extraordinary items	11,128	12,471	9,592	14,025	14,800	33%	6%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	11,128	12,471	9,592	14,025	14,800	33%	6%
No. of shares	166.5	166.5	166.5	166.6	166.8		
EPS (Rs)	66.5	74.5	57.3	83.8	88.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Margins (%)							
Gross	59%	59%	57%	59%	59%	-1%	0%
EBITDA	30%	30%	24%	30%	29%	-4%	-5%
Adj. PAT	18%	18%	15%	21%	22%	22%	3%
Effective tax rate	31%	24%	28%	24%	23%	-27%	-6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
US formulations (INR)	28,001	30,567	25,321	31,978	31,700	13%	-1%
<i>% total revenue</i>	<i>44.4%</i>	<i>45.2%</i>	<i>40.2%</i>	<i>47.5%</i>	<i>46.1%</i>		
Europe (INR)	4,199	4,303	4,960	5,071	5,286	26%	4%
<i>% total revenue</i>	<i>6.7%</i>	<i>6.4%</i>	<i>7.9%</i>	<i>7.5%</i>	<i>7.7%</i>		
Russia-CIS (INR)	8,100	9,100	7,500	7,600	8,000	-1%	5%
<i>% total revenue</i>	<i>12.8%</i>	<i>13.4%</i>	<i>11.9%</i>	<i>11.3%</i>	<i>11.6%</i>		
India	11,500	11,274	12,834	11,482	11,860	3%	3%
<i>% total revenue</i>	<i>18.2%</i>	<i>16.7%</i>	<i>20.4%</i>	<i>17.0%</i>	<i>17.2%</i>		
RoW	4,100	4,000	3,700	4,000	4,200	2%	5%
<i>% total revenue</i>	<i>6.5%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>6.1%</i>		
PSAI (INR)	6,434	7,758	7,787	6,709	7,034	9%	5%
<i>% total revenue</i>	<i>10.2%</i>	<i>11.5%</i>	<i>12.4%</i>	<i>10.0%</i>	<i>10.2%</i>		
Prop products/ other	723	698	866	544	722	0%	33%
<i>% total revenue</i>	<i>1.1%</i>	<i>1.0%</i>	<i>1.4%</i>	<i>0.8%</i>	<i>1.0%</i>		
Total revenue	63,057	67,700	62,968	67,384	68,802	9%	2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Incred and Bloomberg consensus estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	68,802	67,467	2%	68,445	1%
EBITDA	19,916	18,906	5%	19,146	4%
EBITDA margin (%)	29%	28%	-92bp	28%	-97bp
PAT	14,800	12,646	17%	12,904	15%

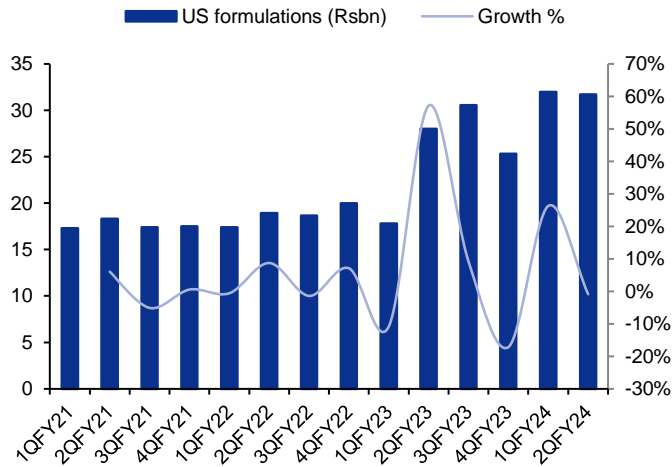
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

(Rs m)	Old Estimates		New Estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	2,72,561	2,90,967	2,76,009	2,90,889	1%	0%
EBITDA	72,477	76,799	77,534	79,488	7%	4%
EBITDA margin (%)	27%	26%	28%	27%	150	93
PAT	47,942	51,774	55,486	53,791	16%	4%

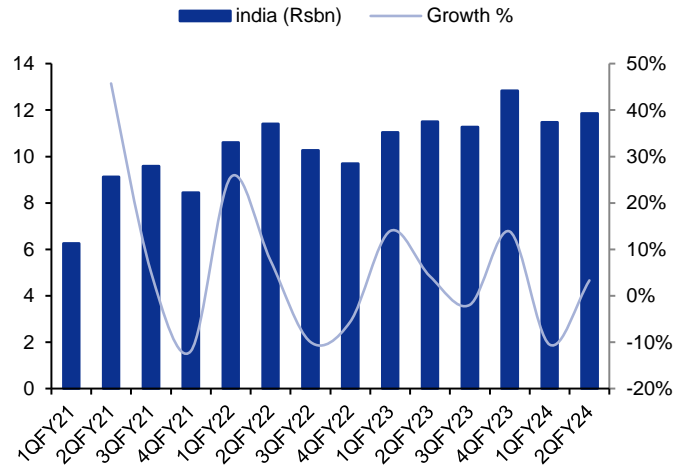
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: US market performance over the past few quarters - the pick-up reflects from gRevlimid sales.**



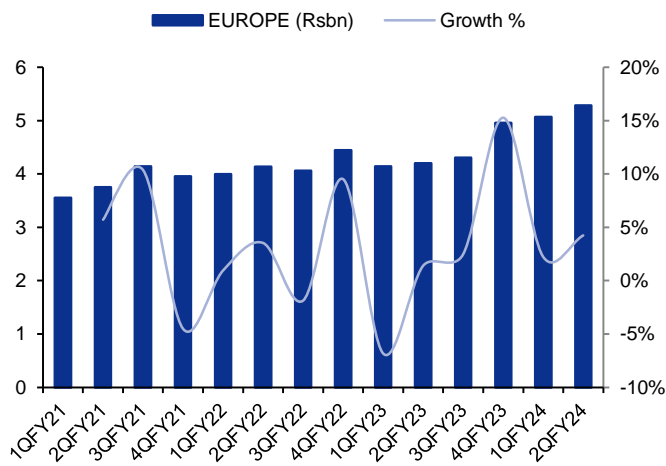
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: DRL's domestic business still languishing despite increased focus.**



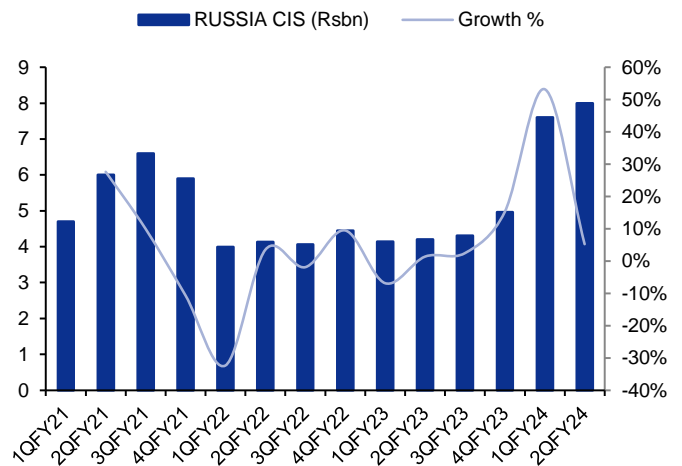
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Europe's revenue has been stable**



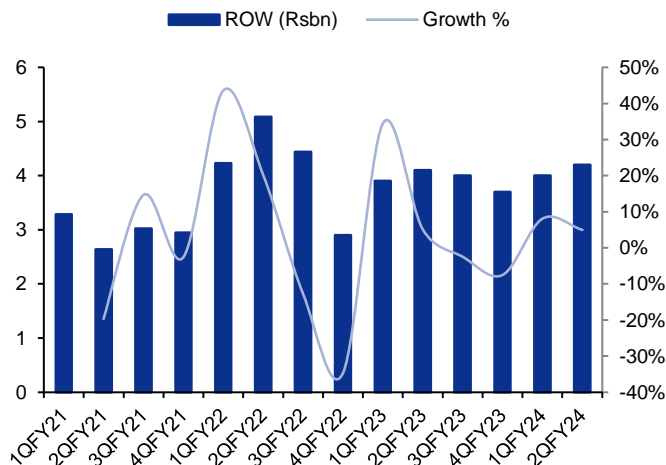
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Russia-CIS revenue performance has shown an uptrend in the last two quarters**



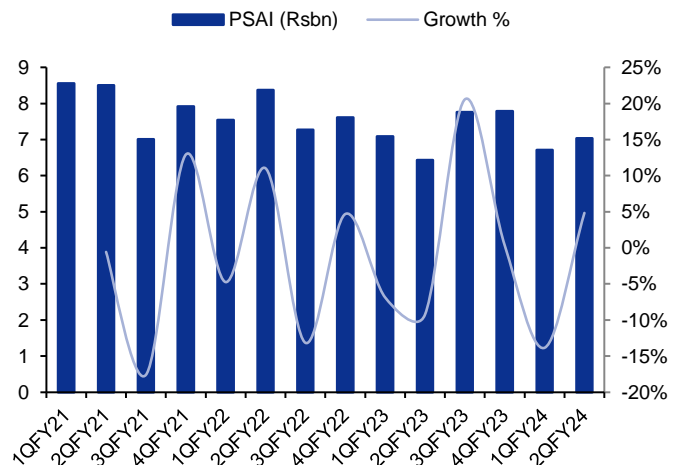
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: ROW performance has been stable**



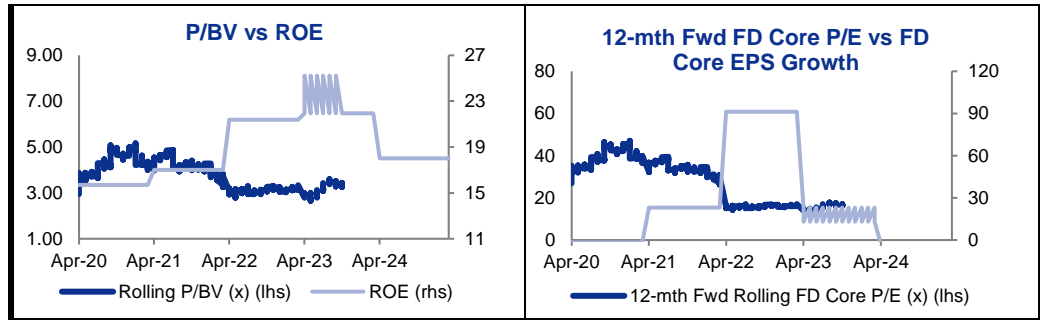
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 11: PSAI performance has also been stable**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>189,722</b>	<b>214,391</b>	<b>245,879</b>	<b>276,009</b>	<b>290,889</b>
<b>Gross Profit</b>	<b>103,077</b>	<b>113,840</b>	<b>139,343</b>	<b>161,405</b>	<b>170,078</b>
<b>Operating EBITDA</b>	<b>44,775</b>	<b>46,054</b>	<b>63,873</b>	<b>77,534</b>	<b>79,488</b>
Depreciation And Amortisation	(12,798)	(11,824)	(12,636)	(14,439)	(13,800)
<b>Operating EBIT</b>	<b>31,977</b>	<b>34,230</b>	<b>51,237</b>	<b>63,095</b>	<b>65,688</b>
Financial Income/(Expense)	(970)	(958)	(1,428)	(1,474)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,605	5,838	10,188	10,309	7,000
<b>Profit Before Tax (pre-EI)</b>	<b>34,612</b>	<b>39,110</b>	<b>59,997</b>	<b>71,930</b>	<b>71,188</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>34,612</b>	<b>39,110</b>	<b>59,997</b>	<b>71,930</b>	<b>71,188</b>
Taxation	(9,175)	(8,730)	(15,300)	(16,688)	(17,797)
Exceptional Income - post-tax	(6,768)	(7,515)			
<b>Profit After Tax</b>	<b>18,669</b>	<b>22,865</b>	<b>44,697</b>	<b>55,241</b>	<b>53,391</b>
Minority Interests	480	703	370	245	400
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>19,149</b>	<b>23,568</b>	<b>45,067</b>	<b>55,486</b>	<b>53,791</b>
Recurring Net Profit	25,917	31,083	45,067	55,486	53,791
<b>Fully Diluted Recurring Net Profit</b>	<b>25,917</b>	<b>31,083</b>	<b>45,067</b>	<b>55,486</b>	<b>53,791</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>44,775</b>	<b>46,054</b>	<b>63,873</b>	<b>77,534</b>	<b>79,488</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,288)	(13,894)	(7,845)	(30,402)	(5,019)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	24,627	22,456	66,704	57,441	81,469
Net Interest (Paid)/Received	(970)	(958)	(1,428)	(1,474)	(1,500)
Tax Paid	12,046	6,610	(6,401)	(25,278)	(22,897)
<b>Cashflow From Operations</b>	<b>35,703</b>	<b>28,108</b>	<b>58,875</b>	<b>30,689</b>	<b>57,072</b>
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)		
<b>Cash Flow From Investing</b>	<b>23,227</b>	<b>13,818</b>	<b>40,091</b>	<b>11,389</b>	<b>45,572</b>
Debt Raised/(repaid)	6,848	3,520	(19,382)	11,262	1,022
Proceeds From Issue Of Shares	(924)	334	368		
Shares Repurchased					
Dividends Paid	(4,147)	(4,146)	(4,979)	(11,657)	(6,661)
Preferred Dividends					
Other Financing Cashflow	(16,171)	(1,828)	660	8,835	5,500
<b>Cash Flow From Financing</b>	<b>(14,394)</b>	<b>(2,120)</b>	<b>(23,333)</b>	<b>8,440</b>	<b>(139)</b>
Total Cash Generated	8,833	11,698	16,758	19,829	45,433
<b>Free Cashflow To Equity</b>	<b>65,778</b>	<b>45,446</b>	<b>79,584</b>	<b>53,339</b>	<b>103,666</b>
<b>Free Cashflow To Firm</b>	<b>59,900</b>	<b>42,884</b>	<b>100,394</b>	<b>43,551</b>	<b>104,144</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-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	34,573	46,271	63,029	82,858	128,291
Total Debtors	49,641	66,764	72,485	80,043	84,358
Inventories	45,412	50,884	48,670	63,482	66,905
Total Other Current Assets	18,623	17,187	22,756	27,601	29,089
<b>Total Current Assets</b>	<b>148,249</b>	<b>181,106</b>	<b>206,940</b>	<b>253,983</b>	<b>308,642</b>
Fixed Assets	57,111	62,169	66,462	63,023	60,723
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
<b>Total Non-current Assets</b>	<b>117,242</b>	<b>115,548</b>	<b>114,914</b>	<b>119,775</b>	<b>117,475</b>
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	24,662	26,135
Other Current Liabilities	36,420	44,171	47,207	45,802	48,536
<b>Total Current Liabilities</b>	<b>81,472</b>	<b>97,842</b>	<b>85,845</b>	<b>82,658</b>	<b>86,864</b>
Total Long-term Debt	6,299	5,746	1,278	12,540	13,562
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,739	2,539	3,740	3,740	3,740
<b>Total Non-current Liabilities</b>	<b>9,038</b>	<b>8,285</b>	<b>5,018</b>	<b>16,280</b>	<b>17,302</b>
Total Provisions					
<b>Total Liabilities</b>	<b>90,510</b>	<b>106,127</b>	<b>90,863</b>	<b>98,938</b>	<b>104,166</b>
Shareholders Equity	174,981	190,527	230,991	275,066	322,596
Minority Interests				(245)	(645)
<b>Total Equity</b>	<b>174,981</b>	<b>190,527</b>	<b>230,991</b>	<b>274,821</b>	<b>321,951</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	8.7%	13.0%	14.7%	12.3%	5.4%
Operating EBITDA Growth	19.7%	2.9%	38.7%	21.4%	2.5%
Operating EBITDA Margin	23.6%	21.5%	26.0%	28.1%	27.3%
Net Cash Per Share (Rs)	30.87	74.66	297.75	349.21	616.04
BVPS (Rs)	1,051.31	1,144.71	1,387.82	1,652.63	1,938.20
Gross Interest Cover	32.97	35.73	35.88	42.80	43.79
Effective Tax Rate	26.5%	22.3%	25.5%	23.2%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	96.12	99.09	103.36	100.85	103.14
Inventory Days	169.51	174.78	170.54	178.60	196.97
Accounts Payables Days	81.25	86.19	89.11	81.38	76.74
ROIC (%)	14.1%	14.5%	21.3%	21.9%	22.6%
ROCE (%)	17.0%	16.0%	21.9%	23.2%	20.3%
Return On Average Assets	10.5%	11.1%	14.8%	16.2%	13.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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