

India

HOLD (no change)

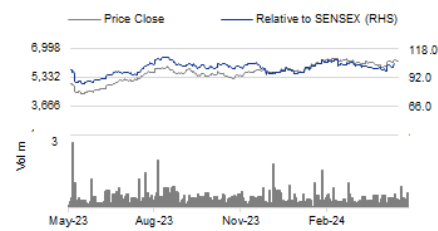
Consensus ratings*: Buy 16 Hold 11 Sell 14

Current price:	Rs6,258
Target price:	Rs6,339
Previous target:	Rs6,339
Up/downside:	1.3%
InCred Research / Consensus:	4.1%
Reuters:	REDY.NS
Bloomberg:	DRRD IN
Market cap:	US\$12,499m
	Rs1,043,833m
Average daily turnover:	US\$29.9m
	Rs2496.6m
Current shares o/s:	166.4m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- No change in our estimates, rating and target price,



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.3	1.3	26.6
Relative (%)	3.0	(1.6)	6.4

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
Yogesh SONI
 T (91) 8850099267
 E yogesh.soni@incredresearch.com

Dr Reddy's Laboratories Ltd

In-line 4Q performance; retain HOLD

- Dr Reddy's Laboratories posted in-line 4Q performance led by strong growth in India and moderate growth in the US & Russia. Margins in line at 25.4%.
- Not much clarity on the near-to-medium term drivers ex-gRevlimid, although management remains confident of sustaining the growth momentum.
- Our FY25F/26F EPS estimates remain unchanged. Retain HOLD rating on the stock with a target price of Rs6,339.

In-line 4QFY24 performance; US business declines by 3% QoQ

Dr Reddy's Laboratories (DRL) posted a broadly in-line 4QFY24 performance with revenue/EBITDA growth of 12%/19%, respectively, and margins at 25.4% (our estimate: 26.1%). US revenue stood at US\$393m (-3% QoQ, our estimate: US\$398m) due to price erosion in select products. India business (adjusted for sale of brands in 4QFY23) grew by 11% YoY. Russia/CIS business declined by 12% QoQ owing to adverse forex movement and volume decline in the base business. Gross margin was flat QoQ. Gross margin (GM) in the generics business was broadly flat QoQ while PSAI business saw an 80bp decline QoQ. SG&A expenses were flat QoQ but increased sharply in the last two quarters, given the ongoing investments in its Horizon-2 strategy.

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

DRL's management highlighted around 20+ 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.

Other conference-call highlights

a) The R&D spending in FY25F will be likely in the range of 8.5-9% out of which 60% will be towards small molecules, 20% towards biosimilars and the remaining towards APIs and other initiatives. b) The effective tax rate for FY25F will be 24-25%, c) In China, it is consistently submitting 14-15 products p.a. and is looking to continue its double-digit growth. d) The joint venture with Nestle will start contributing from FY26F-27F.

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

Our estimates remain broadly unchanged. 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 target price of Rs6,339 (unchanged). 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-24A	Mar-25F	Mar-26F
Revenue (Rsm)	214,391	245,879	279,163	299,184	310,667
Operating EBITDA (Rsm)	46,054	63,873	78,384	83,714	82,985
Net Profit (Rsm)	23,568	45,067	55,683	58,685	58,839
Core EPS (Rs)	186.8	270.8	334.6	352.6	353.5
Core EPS Growth	19.9%	45.0%	23.6%	5.4%	0.3%
FD Core P/E (x)	33.51	23.11	18.70	17.75	17.70
DPS (Rs)	30.0	70.0	40.0	40.0	40.0
Dividend Yield	0.48%	1.12%	0.64%	0.64%	0.64%
EV/EBITDA (x)	22.27	15.45	12.43	11.22	10.67
P/FCFE (x)	22.92	13.09	14.88	12.74	9.32
Net Gearing	(6.5%)	(21.5%)	(22.0%)	(29.0%)	(38.9%)
P/BV (x)	5.47	4.51	3.71	3.13	2.70
ROE	17.0%	21.4%	21.8%	19.1%	16.4%
% Change In Core EPS Estimates				0.74%	0.79%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	12%	-2%
Consumption of raw materials as % of sales	25,810 40.9%	27,607 40.8%	26,971 42.8%	27,831 41.3%	28,434 41.3%	29,945 41.5%	29,347 41.4%	9%	-2%
R&D expenditure as % of sales	4869 7.7%	4821 7.1%	5366 8.5%	4984 7.4%	5447 7.9%	5565 7.7%	6877 9.7%	28%	24%
Other expenditure as % of sales	13435 21.3%	14844 21.9%	15501 24.6%	14130 21.0%	15060 21.9%	16568 23.0%	16591 23.4%	7%	0%
EBITDA	18,943	20,428	15,130	20,439	19,861	20,070	18,014	19%	-10%
Margins (%)	30.0%	30.2%	24.0%	30.3%	28.9%	27.8%	25.4%		
Depreciation	3,150	3,271	3,031	3,583	3,790	3,770	3,712		
Other income	487	-453	1,434	1,935	3,374	2,324	2,271		
Interest	309	418	354	371	353	394	593		
PBT	15,971	16,286	13,179	18,420	19,092	18,230	15,980	21%	-12%
Total Tax	4,983	3,875	3,663	4,438	4,334	4,468	2,946		
Tax Rate (%)	31.2%	23.8%	27.8%	24.1%	22.7%	24.5%	18.4%		
PAT before MI	10,988	12,411	9,516	13,982	14,758	13,762	13,034	37%	-5%
Minority interest (MI)	140	60	76	43	42	27	35		
Adj. PAT before extraordinary items	11,128	12,471	9,592	14,025	14,800	13,789	13,069	36%	-5%
Extraordinary expenses	0	0	0	0	0	0	0		
Reported PAT	11,128	12,471	9,592	14,025	14,800	13,789	13,069	36%	-5%
No. of shares	166.5	166.5	166.5	166.6	166.8	166.5	166.5		
EPS	66.5	74.5	57.3	83.8	88.3	82.4	78.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)									
Gross	59%	59%	57%	59%	59%	58%	59%	140	7
EBITDA	30%	30%	24%	30%	29%	28%	25%	141	-238
Adj. PAT	18%	18%	15%	21%	22%	19%	18%	322	-66
Effective tax rate	31%	24%	28%	24%	23%	25%	18%	-936	-607

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	28,001	30,567	25,321	31,978	31,700	33,492	32,626	29%	-3%
% total revenue	44.4%	45.2%	40.2%	47.5%	46.1%	46.4%	46.1%		
Europe INR	4,199	4,303	4,960	5,071	5,286	4,970	5,208	5%	5%
% total revenue	6.7%	6.4%	7.9%	7.5%	7.7%	6.9%	7.4%		
Russia CIS INR	8,100	9,100	7,500	7,600	8,000	8,200	7,200	-4%	-12%
% total revenue	12.8%	13.4%	11.9%	11.3%	11.6%	11.4%	10.2%		
India	11,500	11,274	12,834	11,482	11,860	11,800	11,265	-12%	-5%
% total revenue	18.2%	16.7%	20.4%	17.0%	17.2%	16.4%	15.9%		
RoW	4,100	4,000	3,700	4,000	4,200	4,633	4,891	32%	6%
% total revenue	6.5%	5.9%	5.9%	5.9%	6.1%	6.4%	6.9%		
PSAI INR	6,434	7,758	7,787	6,709	7,034	7,839	8,219	6%	5%
% total revenue	10.2%	11.5%	12.4%	10.0%	10.2%	10.9%	11.6%		
Prop products/ other	723	698	866	544	722	1,214	1,420	64%	17%
% total revenue	1.1%	1.0%	1.4%	0.8%	1.0%	1.7%	2.0%		
Total revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	12%	-2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

Actuals versus Estimates	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	70,829	70,906	0%	70,265	1%
EBITDA (Rsm)	18,014	18,499	-3%	18,097	0%
Margin (%)	25.4	26.1		25.8	
PAT (Rsm)	13,069	13,012	0%	12,149	8%

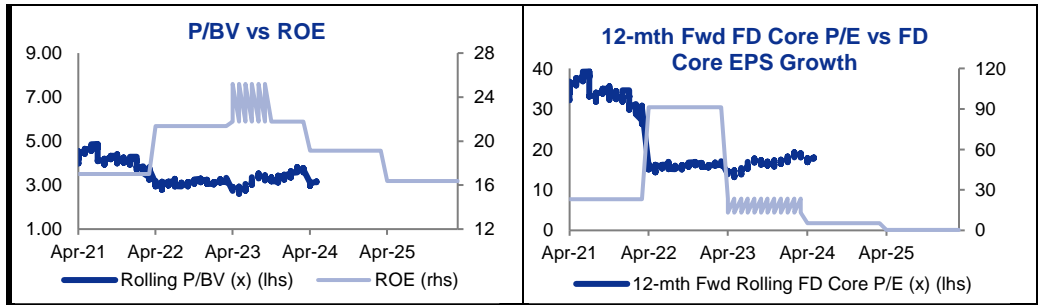
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Change in our earnings estimates

Change in Earnings Estimates	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	2,98,751	2,99,184	0%	3,10,194	3,10,667	0%
EBITDA (Rsm)	83,135	83,714	1%	82,369	82,985	1%
Margin (%)	27.8	28.0		26.6	26.7	
PAT (Rsm)	58,252	58,685	1%	58,377	58,839	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	214,391	245,879	279,163	299,184	310,667
Gross Profit	113,840	139,343	163,606	175,858	179,441
Operating EBITDA	46,054	63,873	78,384	83,714	82,985
Depreciation And Amortisation	(11,824)	(12,636)	(14,855)	(15,500)	(16,000)
Operating EBIT	34,230	51,237	63,529	68,214	66,985
Financial Income/(Expense)	(958)	(1,428)	(1,711)	(1,500)	(1,500)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,838	10,188	9,904	11,000	12,000
Profit Before Tax (pre-EI)	39,110	59,997	71,722	77,714	77,485
Exceptional Items					
Pre-tax Profit	39,110	59,997	71,722	77,714	77,485
Taxation	(8,730)	(15,300)	(16,186)	(19,428)	(19,371)
Exceptional Income - post-tax	(7,515)				
Profit After Tax	22,865	44,697	55,536	58,285	58,114
Minority Interests	703	370	147	400	725
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,568	45,067	55,683	58,685	58,839
Recurring Net Profit	31,083	45,067	55,683	58,685	58,839
Fully Diluted Recurring Net Profit	31,083	45,067	55,683	58,685	58,839

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	46,054	63,873	78,384	83,714	82,985
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,894)	(7,845)	(20,182)	(21,359)	(2,625)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	22,456	66,704	68,394	73,355	92,360
Net Interest (Paid)/Received	(958)	(1,428)	(1,711)	(1,500)	(1,500)
Tax Paid	6,610	(6,401)	(21,250)	(28,528)	(29,146)
Cashflow From Operations	28,108	58,875	45,433	43,326	61,714
Capex	(14,290)	(11,241)	(15,339)	(11,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow		(7,543)	(11,032)		
Cash Flow From Investing	13,818	40,091	19,062	31,826	49,714
Debt Raised/(repaid)	3,520	(19,382)	5,493	6,586	327
Proceeds From Issue Of Shares	334	368	805		
Shares Repurchased					
Dividends Paid	(4,146)	(4,979)	(6,648)	(6,661)	(6,661)
Preferred Dividends					
Other Financing Cashflow	(1,828)	660	(102)	9,500	10,500
Cash Flow From Financing	(2,120)	(23,333)	(452)	9,425	4,166
Total Cash Generated	11,698	16,758	18,610	41,251	53,879
Free Cashflow To Equity	45,446	79,584	69,988	81,738	111,754
Free Cashflow To Firm	42,884	100,394	66,206	76,652	112,927

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	46,271	63,029	81,639	122,890	176,770
Total Debtors	66,764	72,485	80,298	86,763	90,093
Inventories	50,884	48,670	63,552	68,812	71,453
Total Other Current Assets	17,187	22,756	26,278	29,918	31,067
Total Current Assets	181,106	206,940	251,767	308,384	369,383
Fixed Assets	62,169	66,462	76,886	72,886	68,886
Total Investments	3,668	5,362	5,255	5,255	5,255
Intangible Assets	36,036	35,094	41,204	41,204	41,204
Total Other Non-Current Assets	13,675	7,996	12,406	12,406	12,406
Total Non-current Assets	115,548	114,914	135,751	131,751	127,751
Short-term Debt	28,099	12,194	14,030	14,030	14,030
Current Portion of Long-Term Debt					
Total Creditors	25,572	26,444	30,919	26,606	28,178
Other Current Liabilities	44,171	47,207	51,090	49,410	52,331
Total Current Liabilities	97,842	85,845	96,039	90,046	94,540
Total Long-term Debt	5,746	1,278	5,990	12,576	12,903
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,539	3,740	4,939	4,939	4,939
Total Non-current Liabilities	8,285	5,018	10,929	17,515	17,842
Total Provisions					
Total Liabilities	106,127	90,863	106,968	107,561	112,382
Shareholders Equity	190,527	230,991	280,550	332,974	385,877
Minority Interests				(400)	(1,125)
Total Equity	190,527	230,991	280,550	332,574	384,752

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	13.0%	14.7%	13.5%	7.2%	3.8%
Operating EBITDA Growth	2.9%	38.7%	22.7%	6.8%	(0.9%)
Operating EBITDA Margin	21.5%	26.0%	28.1%	28.0%	26.7%
Net Cash Per Share (Rs)	74.66	297.75	370.22	578.49	900.24
BVPS (Rs)	1,144.71	1,387.82	1,685.58	2,000.55	2,318.40
Gross Interest Cover	35.73	35.88	37.13	45.48	44.66
Effective Tax Rate	22.3%	25.5%	22.6%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	99.09	103.36	99.88	101.91	103.89
Inventory Days	174.78	170.54	177.23	195.87	195.07
Accounts Payables Days	86.19	89.11	90.59	85.13	76.19
ROIC (%)	14.5%	21.3%	21.7%	21.6%	21.4%
ROCE (%)	16.0%	21.9%	23.3%	20.7%	17.4%
Return On Average Assets	11.1%	14.8%	16.0%	14.4%	12.6%

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.