

Investment Idea

Pharma

12th February, 2013

Dr. Reddy's Lab

BUY

CMP	:	1,916
MBP	:	1,918
Target	:	2,425
Allocation	:	5%

	FY13E	FY14E	FY15E
EPS(₹)	89.2	103.7	121.0
PE(X)	21.5	18.5	15.8

- Dr. Reddy's (DRRD) is a vertically integrated pharmaceutical major with presence across value chain through its core businesses of Global Generics, Pharmaceutical Services & Active Ingredients (PSAI), and Proprietary Products. The company is currently developing biogenerics and NCEs. Key focus markets include India, US, Europe and Russia.

Key investment positives

- Dr. Reddy's derives more than 75% of its revenues from exports and less than 20% of its raw material costs constitute of imports. As per its hedging policy, Dr. Reddy's covers receivables for the upcoming 18 months and classifies these hedges as cash-flow hedges. Its outstanding cash flow hedge position, as of September 2012, stood at ~USD600m. Company has not been able to realize the full benefit of Rupee depreciation as some of its cash flow hedges were booked at appreciated INR/USD rate. We believe that Dr.Reddy's will continue to see the benefit of INR depreciation in its top line as new hedges get locked at current INR/USD rates.
- The company continues to focus on its five key markets - US, India, Russia, Germany and UK. The US market will be a key growth driver in FY14 led by the commercialization of its pipeline of 80 ANDAs (pending approval) and the contribution from FTF/ low-competition opportunities. At least one limited competition product approval is due in Q4, which should add to revenues in FY14.

Valuation and View:

- We expect core EPS CAGR of 17% for FY13-15. DRRD stock trades at 18.5x FY14E and 15.8x FY15E core earnings. Buy with a target price of INR2,425.

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Performance Summary as of Monday February 11, 2013

Account Summary

Cash Market	(₹)	Return %
Model Corpus Value	1000000	
Total Return till date	174037	17.4%
Booked Profit	183542	18.4%
Unrealised Profit	-9504	-1.0%

Benchmarks Comparison

Index	9th Sep 2011	CMP	Benchmark (%)	Relative Performance
BSE 200	2088.0	2402.4	15.1%	2.3%

Stock Name	Sector Name	Reco Date	Buy/Sell	Wtg. (%)	No. of Shares	Reco Price	CMP	Mark to Market	Remarks
HINDALCO	METAL	31-Oct-12	BUY	7.5%	655	115	112	-1657	
ICICI BANK	BANKING	12-Nov-12	BUY	5.0%	44	1132	1123	-396	Avg Price
MCLEODRUSS	FMCG	19-Nov-12	BUY	7.5%	220	341	360	4224	Avg Price
MARUTI	AUTO	27-Dec-12	BUY	5.0%	32	1519	1559	1280	Avg Price
INDUSIND BANK	BANKING	2-Jan-13	BUY	5.0%	116	431	429	-229	
SBI	BANKING	4-Jan-13	BUY	5.0%	20	2480	2294	-3720	Avg Price
INFY	IT	16-Jan-13	BUY	5.0%	18	2769	2792	413	
ACC	CEMENT	16-Jan-13	BUY	5.0%	36	1381	1258	-4428	
LUPIN	PHARMA	18-Jan-13	BUY	7.5%	127	591	594	381	
IDEA	TELECOM	23-Jan-13	BUY	5.0%	411	122	110	-4776	
DABUR	FMCG	1-Feb-13	BUY	5.0%	377	133	131	-596	
Cash									37.5%
Total				100.0%				-9504	