

October 29, 2023

Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	REDUCE		REDUCE	
Target Price	5,300		5,150	
Sales (Rs.m)	2,73,375	2,92,677	2,69,006	2,89,125
% Chng.	1.6	1.2		
EBITDA (Rs.m)	78,575	81,258	71,076	75,650
% Chng.	10.6	7.4		
EPS (Rs.)	327.5	331.0	288.6	307.4
% Chng.	13.5	7.6		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	246	273	293	316
EBITDA (Rs. bn)	65	79	81	83
Margin (%)	26.3	28.7	27.8	26.2
PAT (Rs. bn)	45	55	55	57
EPS (Rs.)	270.5	327.5	331.0	341.4
Gr. (%)	91.0	21.1	1.1	3.1
DPS (Rs.)	46.0	46.0	51.8	51.8
Yield (%)	0.9	0.9	1.0	1.0
RoE (%)	21.4	21.4	18.3	16.3
RoCE (%)	22.2	23.9	20.9	18.2
EV/Sales (x)	3.5	3.0	2.7	2.4
EV/EBITDA (x)	13.2	10.5	9.7	9.0
PE (x)	20.0	16.5	16.3	15.8
P/BV (x)	3.9	3.2	2.8	2.4

Key Data

REDY.BO | DRRD IN

52-W High / Low	Rs.5,990 / Rs.4,175
Sensex / Nifty	63,783 / 19,047
Market Cap	Rs.900bn/ \$ 10,813m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.2864.81m

Shareholding Pattern (%)

Promoter's	26.84
Foreign	42.21
Domestic Institution	21.04
Public & Others	9.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.8)	9.7	20.2
Relative	1.8	4.3	12.6

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Dr. Reddy's Laboratories (DRRD IN)

Rating: REDUCE | CMP: Rs5,397 | TP: Rs5,300

In line EBITDA aided by gRevlimid and PLI incentives

Quick Pointers:

- Margins came in at 26.6%; down 270 bps QoQ adjusted for PLI incentives.
- India formulation grew in high single digit, adj for divestment and NLEM.

We increase our FY24/25E EPS estimates by 13.5%/7.6% aided by higher gRevlimid sales, however base business profitability continues to remain moderate. Dr. Reddy's (DRRD) Q2FY24 EBITDA was largely in-line with our estimate, while base business margins ex of Revlimid and PLI incentives continued to remain muted below ~19-20%. Further thin US pipeline in near term remains a key risk. At CMP, DRRD is trading at expensive valuations of 24x P/E on FY25E adjusted for gRevlimid. We maintain our 'Reduce' rating with revised TP of Rs5,300/share (Rs5,150 earlier) as we roll forward; valuing at 23x Sept 2025E EPS for base business. Any big ticket ANDA approvals and sharp recovery in base business margins are key risks to our call.

- **Revenue growth aided by US generics:** DRRD's sales grew by 9% YoY at Rs 69bn; largely in-line with our estimate. The growth momentum continued, mainly by gRevlimid sales. US revenue came in at \$384mn (\$389mn in Q1FY24) vs our est of \$380mn. Domestic business adjusted for divestment and NLEM price impact grew in high single digit. PSAl sales grew by 9% YoY. EU increased 26% YoY, while Russia sales declined by 2% YoY.
- **EBITDA adjusted for PLI incentives came lower than est:** DRRD reported EBITDA at Rs 20bn; Adj for PLI incentives; EBITDA came in at Rs18.3bn; down 7% QoQ. Ex Revlimid and PLI incentives, we believe EBITDA came in at Rs9-10bn. Adj OPM for PLI incentives came in at 26.6% down 270bps QoQ, we est 29%. Segment wise PSAl margins were at 17.8% (15% in Q1FY24) and generic margins were at 63.6% (63.9% in Q1FY24).
- **Key concall takeaways: (1) US business:** Filed 2 and launched 4 ANDAs in US during quarter. Guided for 25-30 new launches in FY24. The price erosion in this quarter was in single digits. Q2FY24 sales was aided by market share expansion in core portfolio and integration of Mayne acquisition. On gNuvaring market share should ramp up in coming quarters (2) **Biosimilars:** Overall 20-25% of R&D spend is towards biosimilar. Expect first wave of launch from FY27. Filed for Rituximab and may launch in FY25 (3) **Domestic business:** Mgt expects to beat the IPM growth going ahead. Chronic therapies contribute 35% of the India business. Will be partnering with innovators and have closed 10 such licensing deals with focus areas like Cardiovascular, Diabetic, CNS, and Oncology (4) **Europe:** Base volumes and growth from injectables and tender wins supported performance. Launched 20 products (5) **Russia** business declined YoY due to currency devaluation. The YoY growth in CIS and EM sales was on account of price increases. (6) **PSAl:** Growth was largely due to new launches. Profitability to improve as volume picks up. (7) **Company** expects growth to accelerate in China as approvals are picking up (8) **Tax** rate likely to be in range of 24-25% (9) **PLI** incentives to be higher for FY24. H1FY24 reported Rs2.3bn of incentives from PLI booked as reduction from COGS.

Exhibit 1: 2QFY24 Result Overview (Rs mn)- EBITDA was in line with our estimates aided by gRevlimid

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	68,802	63,057	9.1	67,384	2.1	1,36,186	1,15,211	18.2
COGS	28,434	25,810	10.2	27,831	2.2	56,265	51,958	8.3
<i>% of Net Sales</i>	<i>41.3</i>	<i>40.9</i>		<i>41.3</i>		<i>41.3</i>	<i>45.1</i>	
SGA	15,005	13,435	11.7	14,119	6.3	29,124	25,878	12.5
<i>% of Net Sales</i>	<i>21.8</i>	<i>21.3</i>		<i>21.0</i>		<i>21.4</i>	<i>22.5</i>	
R&D	5,447	4,869	11.9	4,984	9.3	10,431	9,194	13.5
<i>% of Net Sales</i>	<i>7.9</i>	<i>7.7</i>		<i>7.4</i>		<i>7.7</i>	<i>8.0</i>	
Total Expenditure	48,886	44,114	10.8	46,934	4.2	95,820	87,030	10.1
EBITDA	19,916	18,943	5.1	20,450	(2.6)	40,366	28,181	43.2
<i>Margin (%)</i>	<i>28.9</i>	<i>30.0</i>		<i>30.3</i>		<i>29.6</i>	<i>24.5</i>	
Depreciation	3,790	3,125	21.3	3,583	5.8	7,373	6,175	19.4
EBIT	16,126	15,818	1.9	16,867	(4.4)	32,993	22,006	49.9
Other Income	1,796	334	437.7	780	130.3	2,576	6,358	(59.5)
Interest	(1,225)	156	(885.3)	(784)	56.3	(2,009)	(2,193)	(8.4)
PBT	19,147	15,996	19.7	18,431	3.9	37,578	30,557	23.0
Share of Profit of Equity	42	140		43		85	234	
Exceptional Items	55	25		11		66	25	
Total Taxes	4,334	4,983	(13.0)	4,438	(2.3)	8,772	7,762	13.0
<i>ETR (%)</i>	<i>22.6</i>	<i>31.2</i>		<i>24.1</i>		<i>23.3</i>	<i>25.4</i>	
Reported PAT	14,800	11,128	33.0	14,025	5.5	28,825	23,004	25.3

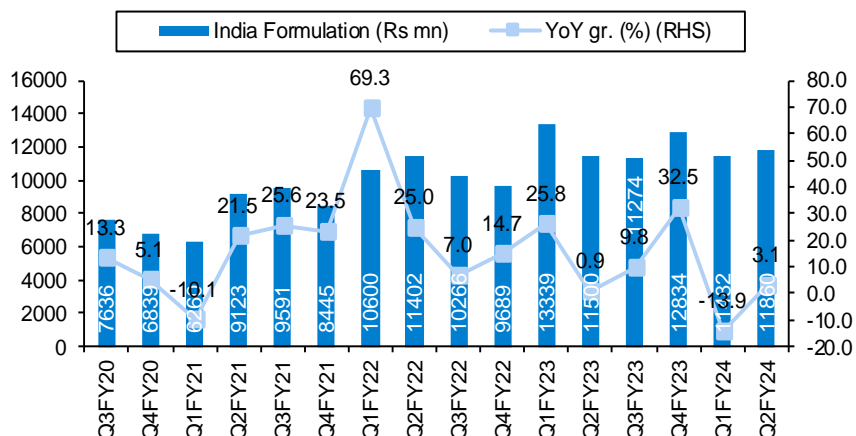
Source: Company, PL

Exhibit 2: US sales was down 1% QoQ

Major Sources of Revenues	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
PSAI (CPS & API)	7,034	6,434	9.3	6,709	4.8	13,743	13,524	1.6
<i>% of Net Sales</i>	<i>10.2</i>	<i>10.2</i>		<i>10.0</i>		<i>10.1</i>	<i>11.7</i>	
Branded Formulation	61,009	55,946	9.0	60,083	1.5	1,21,092	1,00,269	20.8
India	11,860	11,500	3.1	11,482	3.3	23,342	24,839	(6.0)
<i>% of Net Sales</i>	<i>17.3</i>	<i>18.2</i>		<i>17.0</i>		<i>17.1</i>	<i>21.6</i>	
International	49,149	44,446	10.6	48,601	1.1	97,750	75,430	29.6
<i>% of Net Sales</i>	<i>71.5</i>	<i>70.5</i>		<i>72.1</i>		<i>71.8</i>	<i>65.5</i>	
Russia & CIS	8,000	8,100	(1.2)	7,600	5.3	15,600	13,200	18.2
<i>% of Net Sales</i>	<i>11.6</i>	<i>12.8</i>		<i>11.3</i>		<i>11.5</i>	<i>11.5</i>	
Europe	5,286	4,199	25.9	5,071	4.2	10,357	8,340	24.2
<i>% of Net Sales</i>	<i>7.7</i>	<i>6.7</i>		<i>7.5</i>		<i>7.6</i>	<i>7.2</i>	
North America Generics	31,700	28,001	13.2	31,978	(0.9)	63,678	45,816	39.0
<i>% of Net Sales</i>	<i>46.1</i>	<i>44.4</i>		<i>47.5</i>		<i>46.8</i>	<i>39.8</i>	
Emerging Mkt Generics	4,163	4,146	0.4	3,952	5.3	8,115	8,074	0.5
<i>% of Net Sales</i>	<i>6.1</i>	<i>6.6</i>		<i>5.9</i>		<i>6.0</i>	<i>7.0</i>	
Innovative Prod. (Proprietary Prod.)	684	677	1.0	592	15.5	1,276	1,417	(10.0)
<i>% of Net Sales</i>	<i>1.0</i>	<i>1.1</i>		<i>0.9</i>		<i>0.9</i>	<i>1.2</i>	

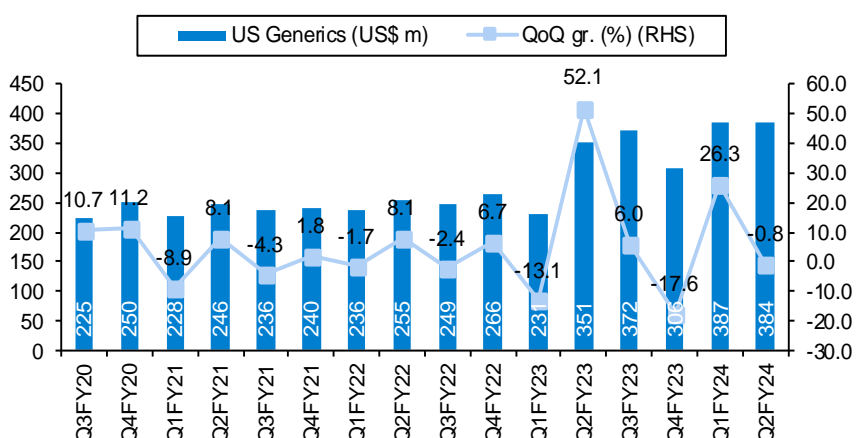
Source: Company, PL

Exhibit 3: India Formulation (Rs mn):- Adj for divestment and NLEM growth was in high single digit



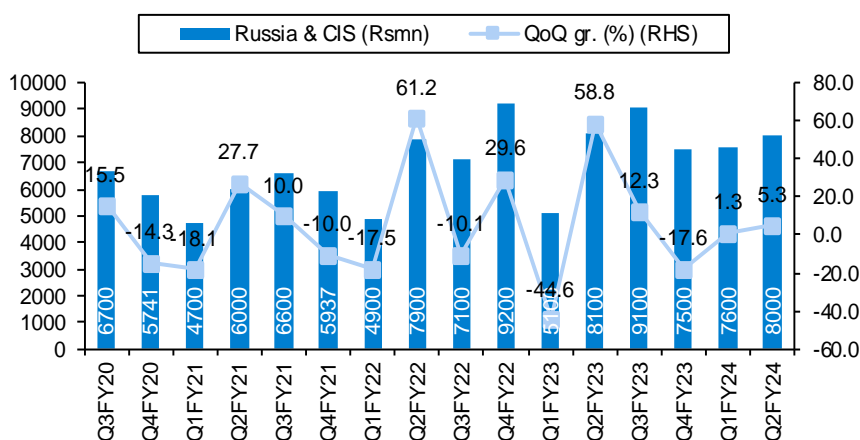
Source: Company, PL

Exhibit 4: US Generic (US\$ m): Growth aided by gRevlimid sales

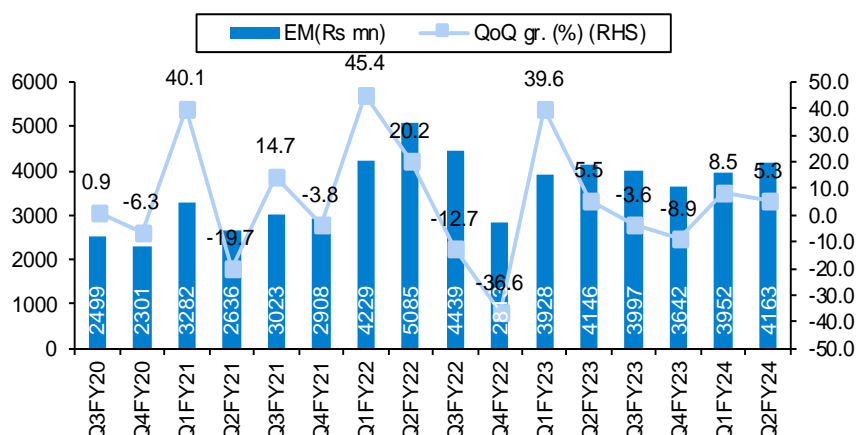


Source: Company, PL

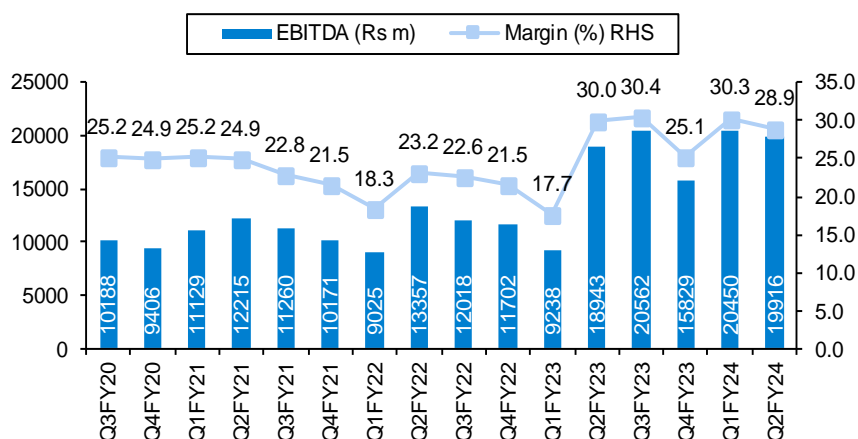
Exhibit 5: Russia & CIS (Rs mn) : Currency devaluation impacted growth



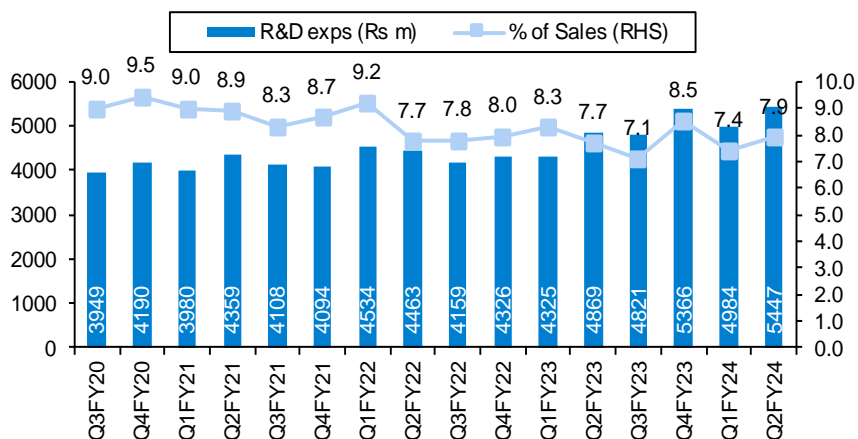
Source: Company, PL

Exhibit 6: Emerging Markets: Growth was flat YoY


Source: Company, PL

Exhibit 7: Ex Revlimid and PLI; margins were at 16-17%


Source: Company, PL

Exhibit 8: R&D: Continue to invest and strengthen pipeline


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,45,879	2,73,375	2,92,677	3,15,669
YoY gr. (%)	14.7	11.2	7.1	7.9
Cost of Goods Sold	1,06,536	1,15,626	1,26,496	1,41,965
Gross Profit	1,39,342	1,57,749	1,66,181	1,73,704
Margin (%)	56.7	57.7	56.8	55.0
Employee Cost	-	-	-	-
Other Expenses	19,381	20,738	22,397	24,188
EBITDA	64,571	78,575	81,258	82,612
YoY gr. (%)	40.1	21.7	3.4	1.7
Margin (%)	26.3	28.7	27.8	26.2
Depreciation and Amortization	12,636	14,502	15,540	16,583
EBIT	51,935	64,073	65,718	66,029
Margin (%)	21.1	23.4	22.5	20.9
Net Interest	(8,760)	(8,000)	(7,000)	(9,000)
Other Income	-	-	-	-
Profit Before Tax	60,695	72,073	72,718	75,029
Margin (%)	24.7	26.4	24.8	23.8
Total Tax	15,300	18,018	18,179	18,757
Effective tax rate (%)	25.2	25.0	25.0	25.0
Profit after tax	45,395	54,055	54,538	56,272
Minority interest	-	-	-	-
Share Profit from Associate	370	500	600	600
Adjusted PAT	45,066	54,555	55,138	56,872
YoY gr. (%)	91.2	21.1	1.1	3.1
Margin (%)	18.3	20.0	18.8	18.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	45,066	54,555	55,138	56,872
YoY gr. (%)	91.2	21.1	1.1	3.1
Margin (%)	18.3	20.0	18.8	18.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	45,066	54,555	55,138	56,872
Equity Shares O/s (m)	167	167	167	167
EPS (Rs)	270.5	327.5	331.0	341.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	2,14,260	2,23,260	2,32,020	2,40,533
Tangibles	1,64,901	1,81,901	1,98,901	2,15,901
Intangibles	49,358	41,358	33,118	24,631
Acc: Dep / Amortization	1,18,083	1,24,585	1,31,885	1,39,980
Tangibles	99,573	1,09,076	1,19,466	1,30,744
Intangibles	18,509	15,509	12,419	9,237
Net fixed assets	96,177	98,675	1,00,135	1,00,552
Tangibles	65,328	72,826	79,436	85,158
Intangibles	30,849	25,849	20,699	15,395
Capital Work In Progress	-	-	-	-
Goodwill	4,245	4,245	4,245	4,245
Non-Current Investments	5,362	5,362	5,362	5,362
Net Deferred tax assets	6,363	6,363	6,363	6,363
Other Non-Current Assets	800	800	800	800
Current Assets				
Investments	56,018	56,018	56,018	56,018
Inventories	48,670	64,547	69,104	74,533
Trade receivables	72,485	79,734	85,364	92,070
Cash & Bank Balance	5,779	30,992	70,544	1,12,184
Other Current Assets	23,988	25,187	26,447	27,769
Total Assets	3,13,524	3,65,560	4,18,019	4,73,534
Equity				
Equity Share Capital	833	833	833	833
Other Equity	2,30,158	2,77,049	3,23,566	3,71,816
Total Networth	2,30,991	2,77,882	3,24,399	3,72,649
Non-Current Liabilities				
Long Term borrowings	1,278	1,278	1,278	1,278
Provisions	-	-	-	-
Other non current liabilities	2,907	2,907	2,907	2,907
Current Liabilities				
ST Debt / Current of LT Debt	12,194	12,194	12,194	12,194
Trade payables	26,444	27,301	29,867	33,519
Other current liabilities	47,207	50,362	53,737	57,349
Total Equity & Liabilities	3,14,658	3,65,560	4,18,019	4,73,534

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	73,331	86,575	88,258	91,612
Add. Depreciation	12,636	14,502	15,540	16,583
Add. Interest	8,760	8,000	7,000	9,000
Less Financial Other Income	-	-	-	-
Add. Other	(21,396)	(22,502)	(22,540)	(25,583)
Op. profit before WC changes	73,331	86,575	88,258	91,612
Net Changes-WC	(3,918)	(20,315)	(5,505)	(6,193)
Direct tax	(10,714)	(18,018)	(18,179)	(18,757)
Net cash from Op. activities	58,699	48,242	64,573	66,662
Capital expenditures	(18,866)	(17,000)	(17,000)	(17,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	(18,866)	(17,000)	(17,000)	(17,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	(15,905)	-	-	-
Dividend paid	(4,979)	(7,664)	(8,622)	(8,622)
Interest paid	-	-	-	-
Others	(28,023)	1,634	600	600
Net cash from Fin. activities	(48,907)	(6,029)	(8,021)	(8,021)
Net change in cash	(9,073)	25,213	39,552	41,640
Free Cash Flow	47,376	31,242	47,573	49,662

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	67,700	62,968	67,384	68,802
YoY gr. (%)	27.3	15.8	29.2	9.1
Raw Material Expenses	27,607	26,971	27,831	28,434
Gross Profit	40,093	35,997	39,553	40,368
Margin (%)	59.2	57.2	58.7	58.7
EBITDA	20,562	15,829	20,450	19,916
YoY gr. (%)	71.1	35.3	121.4	5.1
Margin (%)	30.4	25.1	30.3	28.9
Depreciation / Depletion	3,271	3,190	3,583	3,790
EBIT	17,291	12,639	16,867	16,126
Margin (%)	25.5	20.1	25.0	23.4
Net Interest	139	(799)	(784)	(1,225)
Other Income	(732)	281	780	1,796
Profit before Tax	16,420	13,719	18,431	19,147
Margin (%)	24.3	21.8	27.4	27.8
Total Tax	3,875	3,663	4,438	4,334
Effective tax rate (%)	23.6	26.7	24.1	22.6
Profit after Tax	12,545	10,056	13,993	14,813
Minority interest	-	-	-	-
Share Profit from Associates	60	76	43	42
Adjusted PAT	12,471	9,592	14,025	14,800
YoY gr. (%)	76.5	996.2	18.1	33.0
Margin (%)	18.4	15.2	20.8	21.5
Extra Ord. Income / (Exp)	134	540	11	55
Reported PAT	12,605	10,132	14,036	14,855
YoY gr. (%)	77.2	20.8	18.2	33.2
Margin (%)	18.6	16.1	20.8	21.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,605	10,132	14,036	14,855
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	75.1	57.8	84.5	89.2

Source: Company Data, PL Research

Key Financial Metrics

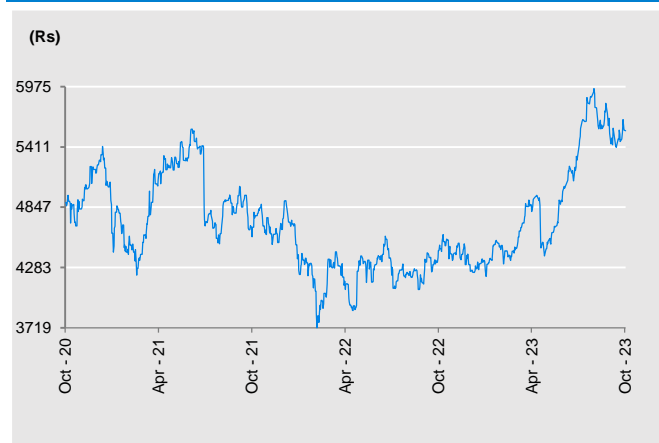
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	270.5	327.5	331.0	341.4
CEPS	346.4	414.5	424.2	440.9
BVPS	1,386.5	1,668.0	1,947.2	2,236.8
FCF	284.4	187.5	285.6	298.1
DPS	46.0	46.0	51.8	51.8
Return Ratio(%)				
RoCE	22.2	23.9	20.9	18.2
ROIC	20.6	23.0	22.5	21.6
RoE	21.4	21.4	18.3	16.3
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	141	156	155	154
Valuation(x)				
PER	20.0	16.5	16.3	15.8
P/B	3.9	3.2	2.8	2.4
P/CEPS	15.6	13.0	12.7	12.2
EV/EBITDA	13.2	10.5	9.7	9.0
EV/Sales	3.5	3.0	2.7	2.4
Dividend Yield (%)	0.9	0.9	1.0	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
India Formulations	48,932	48,325	54,124	60,619
US formulations	1,01,704	1,22,912	1,27,091	1,33,540
Russia	21,200	22,479	24,727	27,200
PSAI	29,069	30,232	32,650	35,262

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Reduce	5,150	5,425
2	27-Jul-23	Reduce	5,150	5,476
3	06-Jul-23	Reduce	4,500	5,232
4	11-May-23	Reduce	4,500	4,867
5	06-Apr-23	BUY	4,900	4,683
6	27-Jan-23	BUY	4,900	4,201
7	06-Jan-23	BUY	4,900	4,295
8	31-Oct-22	BUY	4,900	4,460

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	5,800	5,060
2	Aster DM Healthcare	BUY	345	327
3	Aurobindo Pharma	Accumulate	900	901
4	Cipla	BUY	1,220	1,163
5	Divi's Laboratories	Reduce	3,000	3,722
6	Dr. Reddy's Laboratories	Reduce	5,150	5,425
7	Eris Lifesciences	BUY	910	900
8	Fortis Healthcare	BUY	365	328
9	Glenmark Pharmaceuticals	Reduce	570	794
10	HealthCare Global Enterprises	BUY	385	361
11	Indoco Remedies	BUY	385	350
12	Ipca Laboratories	Hold	880	934
13	J.B. Chemicals & Pharmaceuticals	BUY	1,500	1,500
14	Krishna Institute of Medical Sciences	BUY	2,000	1,918
15	Lupin	Hold	1,010	1,155
16	Max Healthcare Institute	BUY	610	561
17	Narayana Hrudayalaya	BUY	1,110	1,092
18	Sun Pharmaceutical Industries	BUY	1,265	1,127
19	Sunteck Realty	BUY	565	436
20	Torrent Pharmaceuticals	BUY	2,250	1,877
21	Zydus Lifesciences	Accumulate	650	604

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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