

Dr Reddys Laboratories | BUY

Sustained US momentum; domestic growth to improve hereon

DRRD's US business has sustained its strong momentum led by gRevlimid, ramp-up in base business and Mayne portfolio. On an elevated FY24 base, we expect DRRD to grow its US business in single digits over the next 2 years. A part of this will be driven by higher gRevlimid volumes and new launches, in our view. We acknowledge that 25+ meaningful launches over FY25-27 may not entirely offset gRevlimid cliff but it will drive healthy ex-Revlimid earnings. India business growth has remained tepid this year due to NLEM impact, brand divestments and price erosion in acquired portfolio; with base reset next quarter, we expect this to improve going forward. The management aspires to deliver IPM-beating growth via innovation / licensing deals (10 signed so far). Europe's strong performance was driven by new launches and new tender wins. PSAl gross margin continues to improve. We continue to believe that DRRD's strong compliance, prudent capital allocation and diversified geographic mix with a thrust on India and US will continue to create value. We assume coverage with BUY with a Dec'24 TP of INR 6585 (including gRevlimid option value of INR 410).

- US delivers steady performance:** US business reported sales of INR 33.5bn (8% beat) growing 10% YoY and 6% QoQ. The improvement was largely driven by an increase in market share (ms) of key products, volume growth and Mayne Pharma portfolio. We believe gRevlimid contribution is ~USD 105mn-115mn with EBITDA margin (ex-Revlimid) at c.22%. DRRD launched two products during the quarter and is on track to launch 20+ products in FY24. The management mentioned that the ramp-up of Mayne portfolio, is as per expectation. DRRD has an attractive US pipeline including 79 pending filings (including 41 Para IVs and 21 FTFs) of which 25+ products are meaningful products expected to be launched over FY25-27. DRRD received a PAI for bRituximab and expects approval earliest by April '24.
- India aspirations high on innovation, Europe reports 16% YoY growth:** Domestic sales grew at a tepid 5%YoY to INR 11.8bn (in line), partly subdued due to NLEM impact, brand divestments and price erosion in acquired portfolio (double digit growth excluding these adjustments). DRDD reiterated its commitment to outperform IPM, this will largely be driven by innovation / licensing deals (10 deals signed so far). They aim to build brands that will grow 1.5x the market and expect meaningful growth from FY25. EM revenue grew of -2% YoY/ +6% QoQ to INR 12.8bn with Russia revenue declining 14% YoY due to unfavourable forex movement and high base business. The company expects significant growth from China and have received 9 approvals in the current fiscal. Europe grew 16% YoY (6% miss) to INR 5bn driven by new product launches, improvement in base business partly offsetting price erosion.
- PSAl recovering:** PSAl gross margin came in at 29% (vs. 4%YoY; 18%QoQ); it continues to be in double digits as indicated by the management earlier. PSAl revenue increased 1%YoY /1%QoQ (broadly in line) to INR 7.9bn driven by new product launches, and favourable forex movement partly offset by price erosion. The management expects volume ramp-up and collaborations to improve revenue going forward as new products


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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	6,585
Upside/(Downside)	12.7%
Previous Price Target	6,055
Change	8.8%

Key Data – DRRD IN

Current Market Price	INR5,841
Market cap (bn)	INR974.3/US\$11.7
Free Float	67%
Shares in issue (mn)	165.9
Diluted share (mn)	165.9
3-mon avg daily val (mn)	INR2,511.4/US\$30.2
52-week range	5,990/4,281
Sensex/Nifty	71,140/21,522
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	0.7	4.6	34.9
Relative*	2.3	-2.7	12.9

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	2,14,391	2,45,879	2,79,371	3,04,359	3,25,840
Sales Growth (%)	13.0	14.7	13.6	8.9	7.1
EBITDA	46,101	64,572	79,902	83,010	84,082
EBITDA Margin (%)	21.5	26.3	28.6	27.3	25.8
Adjusted Net Profit	28,861	39,510	55,284	55,866	56,443
Diluted EPS (INR)	174.0	238.2	333.2	336.7	340.2
Diluted EPS Growth (%)	14.6	36.9	39.9	1.1	1.0
ROIC (%)	16.0	22.3	27.0	26.4	25.5
ROE (%)	15.8	18.7	21.7	18.5	16.1
P/E (x)	33.6	24.5	17.5	17.3	17.2
P/B (x)	5.1	4.2	3.5	3.0	2.6
EV/EBITDA (x)	20.8	14.3	11.1	10.2	9.5
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 30/Jan/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
 Bloomberg - JMFR <GO>,
 Thomson Publisher & Reuters,
 S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

substitute older ones.

- **Key financials:** Revenue/EBITDA/APAT of INR 72.2bn/20.2bn/13.8bn grew +7%/-2%/+11% YoY respectively and were +4%/+4%/+8% vs. our expectations and +3%/+2%/+13% vs. Street expectations. Gross margin was 58% (vs. 59% YoY; vs. 59% QoQ). EBITDA margin declined to 28% vs. 30.4% YoY/28.9% QoQ (JMFe: 28.1%). Ex-Revlimid EBITDA margin was ~22% for the base business. R&D expense was INR 5.6bn (8% of sales), with ongoing clinical trials on differentiated assets driving expense. Capex for the quarter was INR 3.1bn while FCF was INR 0.2bn. Net cash surplus as of 31th Dec'23 was INR 59.1bn. This cash surplus will be used to drive inorganic growth to achieve short-term and long-term objectives. ETR guidance remains 24-25%.

Exhibit 1. Valuation



Source: Bloomberg, JM Financial

Exhibit 2. Ex revlimid EBITDA margin at c. 22%

Revlimid	Scenario 1	Scenario 2
Sales (USD mn)	105	115
USD/INR	82	82
Sales (INR mn)	8610	9430
EBITDA %	70%	70%
EBITDA	6,027	6,601
Ex-Revlimid		
Sales	63,538	62,718
EBITDA	14153	13579
EBITDA %	22.3%	21.7%

Source: JM Financial

Exhibit 3. 3QFY24 review sheet

Dr. (INR mn)	Reddy's	P&L	3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons.)	% Delta vs cons	2Q2FY4A	% QoQ
Net Sales			67,700	72,148	7%	69,083	4%	69,820	3%	68,802	5%
Cost of goods sold			27,607	29,945	8%	29,015	3%			28,434	5%
Gross Profit			40,093	42,203	5%	40,068				40,368	
% Margin			59%	58%	-73 bps	58%				59%	
SG&A (excl. amort)			16,955	18,895	11%	17,547	8%			17,442	8%
Amortization			1,026	1,333	30%	1,350	-1%			1,353	-1%
R&D			4,821	5,565	15%	5,527	1%			5,447	2%
Impairment charges			134	110		0				55	
EBITDA*			20562	20180	-2%	19439	4%			19916	
% Margin			30.4%	28.0%		28.1%				28.9%	
Adjusted EBITDA**			20562	20180	-2%	19439	4%	19,840	2%	19916	1%
% Margin			30.4%	28.0%	-240 bps	28.1%	-17 bps	28.4%	-45 bps	28.9%	-98 bps
D&A			2,245	2,437	9%	2,444	0%			2,437	0%
Op. Income			17,291	16410	-5%	15,644	5%			16,126	2%
% Margin			25.5%	22.7%	-280 bps	22.6%	10 bps			23.4%	-69 bps
Equity in affiliates			60	27	-55%	66				42	-36%
Other Income/(Expenses)			-732	967	-232%	800				1,796	-46%
Net Finance Expense/(Income)			139	(963)		(500)				(1225)	
Profit Before Tax			16346	18257	12%	17010				19134	-5%
Tax			3875	4468		4253				4334	
Adj. Net Profit			12471	13,789	11%	12758	8%	12,250	13%	14800	-7%
Adj. EPS			75.2	83.1		76.9				89.2	
% Cost Ratios			3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons.)	% Delta vs cons	2Q2FY4A	% QoQ
COGS			40.8	41.5	73 bps	42.0	-50 bps			41.3	18 bps
SG&A			25.0	26.2	114 bps	25.4	79 bps			25.4	84 bps
R&D			7.1	7.7	59 bps	8.0	-29 bps			7.9	-20 bps
Sales Break-up			3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons.)	% Delta vs cons	2Q2FY4A	% QoQ
Global Generics			59,241	63,095	7%	60,589	4%	62,380	1%	61,009	3%
North America			30,567	33,492	10%	31,044	8%			31,700	6%
Europe			4,303	4,970	16%	5,286	-6%			5,286	-6%
India			11,274	11,800	5%	11,838	0%			11,860	-1%
Russia & CIS			9,100	8,200	-10%	8,225	0%			8,000	2%
Others			3,997	4,633	16%	4,197	10%			4,163	11%
PSAI			7,758	7,839	1%	7,758	1%			7,034	11%
Prop products and Others			701	1,214	73%	736	65%			684	77%
Gross Margins			3QFY23A	3QFY24A	% YoY	3QFY24E	% Delta vs JMFe	3QFY24E (cons.)	% Delta vs cons	2Q2FY4A	% QoQ
Global Generics			65%	62%	-310 bps					64%	-170 bps
PSAI			18%	29%	1140 bps					18%	1160 bps

Source: Company, JM Financial

Exhibit 4. Cidmus declines for 8 consecutive months

BRANDS	THERAPY	MAT DEC'23	MAT DEC'23 % YoY	DEC'23	DEC'23 % YoY	3Q24	3Q24 %YoY	9M24	9M24 %YoY
DR REDDYS LABS		61,093	7%	5,273	3%	15,732	6%	46,775	7%
OMEZ	GASTRO INTESTINAL	2,062	4%	163	-6%	477	-7%	1,608	6%
VOVERAN	PAIN / ANALGESICS	1,999	-4%	177	11%	495	-1%	1,585	-3%
ATARAX	RESPIRATORY	1,976	7%	165	3%	507	-1%	1,534	4%
ECONORM	GASTRO INTESTINAL	1,900	19%	131	-3%	380	-1%	1,437	13%
KETOROL	PAIN / ANALGESICS	1,601	18%	151	13%	404	9%	1,218	16%
RAZO-D	GASTRO INTESTINAL	1,400	0%	113	-5%	330	-8%	1,062	1%
ZEDEX	RESPIRATORY	1,375	10%	126	-12%	388	5%	935	1%
BRO-ZEDEX	RESPIRATORY	1,341	7%	122	-11%	391	9%	940	5%
OMEZ-D	GASTRO INTESTINAL	1,336	-5%	55	-56%	229	-33%	987	-5%
VENUSIA	DERMA	1,259	27%	141	25%	381	21%	946	28%
Top 10		16,250	7%	1,343	-4%	3,982	-1%	12,252	6%
Top 11-25		15,110	1%	1,271	-5%	3,788	-6%	11,386	-2%
Top 26-50		10,166	12%	893	9%	2,699	12%	7,851	11%

Source: IQVIA, JM Financial

Exhibit 5. US Complex Gx pipeline

Complex Gx	Innovator	US Sales CY2022
Semaglutide	Novo Nordisk	7,488
Teriparatide	Eli Lilly	367
Octreotide	Novartis	800
Liraglutide	Novo Nordisk	1,525
Dasatinib	BMS	1,497

Source: Company, JM Financial

Exhibit 6. US biosimilars pipeline

Biosimilars	Innovator	US Sales CY2022
Pegfilgrastim	Amgen	959
Rituximab	Roche	1,379
Tocilizumab	Roche	1,253
Abatacept	BMS	2,638

Source: Company, JM Financial

Exhibit 7. Europe R&D pipeline

Biosimilars (US & Europe)	Complex Generics	Other Generics
Pegfilgrastim	Liraglutide	Apixaban
Rituximab	Doxorubicin liposomal	Rivaroxaban
Tocilizumab		DMF
Abatacept		Sacubitril

Source: Company

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	2,14,391	2,45,879	2,79,371	3,04,359	3,25,840	
Sales Growth	13.0%	14.7%	13.6%	8.9%	7.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	2,14,391	2,45,879	2,79,371	3,04,359	3,25,840	
Cost of Goods Sold/Op. Exp	1,00,551	1,06,536	1,16,498	1,30,874	1,43,369	
Personnel Cost	0	0	0	0	0	
Other Expenses	67,739	74,771	82,971	90,475	98,388	
EBITDA	46,101	64,572	79,902	83,010	84,082	
EBITDA Margin	21.5%	26.3%	28.6%	27.3%	25.8%	
EBITDA Growth	21.5%	40.1%	23.7%	3.9%	1.3%	
Depn. & Amort.	11,824	12,636	15,166	15,777	16,735	
EBIT	34,277	51,936	64,736	67,233	67,347	
Other Income	4,880	8,760	7,795	6,502	7,126	
Finance Cost	0	0	0	0	0	
PBT before Excep. & Forex	39,157	60,696	72,531	73,735	74,473	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	39,157	60,696	72,531	73,735	74,473	
Taxes	8,730	15,300	17,267	18,129	18,316	
Extraordinary Inc./Loss(-)	-7,562	-699	0	0	0	
Assoc. Profit/Min. Int.(-)	703	370	200	260	286	
Reported Net Profit	23,568	45,067	55,464	55,866	56,443	
Adjusted Net Profit	28,861	39,510	55,284	55,866	56,443	
Net Margin	13.5%	16.1%	19.8%	18.4%	17.3%	
Diluted Share Cap. (mn)	165.9	165.9	165.9	165.9	165.9	
Diluted EPS (INR)	174.0	238.2	333.2	336.7	340.2	
Diluted EPS Growth	14.6%	36.9%	39.9%	1.1%	1.0%	
Total Dividend + Tax	5,367	6,441	7,612	7,612	7,612	
Dividend Per Share (INR)	27.5	33.0	39.0	39.0	39.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	39,860	61,066	72,731	73,995	74,759	
Depn. & Amort.	11,824	12,636	15,166	15,777	16,735	
Net Interest Exp. / Inc. (-)	-284	248	948	1,366	1,529	
Inc (-) / Dec in WCap.	-13,914	-7,855	-11,871	-7,648	-6,575	
Others	-1,941	3,494	-180	0	0	
Taxes Paid	-7,437	-10,714	-17,267	-18,129	-18,316	
Operating Cash Flow	28,108	58,875	59,527	65,361	68,133	
Capex	-19,049	-18,866	-14,527	-15,827	-16,292	
Free Cash Flow	9,059	40,009	44,999	49,535	51,841	
Inc (-) / Dec in Investments	-10,831	-23,284	0	0	0	
Others	3,493	777	3,424	2,568	2,799	
Investing Cash Flow	-26,387	-41,373	-11,104	-13,259	-13,493	
Inc / Dec (-) in Capital	334	157	0	0	0	
Dividend + Tax thereon	-4,146	-4,979	-7,612	-7,612	-7,612	
Inc / Dec (-) in Loans	2,735	-20,397	-5,278	-4,000	-3,000	
Others	-612	-1,356	-4,371	-3,934	-4,327	
Financing Cash Flow	-1,689	-26,575	-17,261	-15,546	-14,940	
Inc / Dec (-) in Cash	32	-9,073	31,162	36,556	39,700	
Opening Cash Balance	14,820	14,852	5,779	36,941	73,497	
Closing Cash Balance	14,852	5,779	36,941	73,497	1,13,197	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	1,90,527	2,30,991	2,78,663	3,26,916	3,75,748	
Share Capital	832	833	833	833	833	
Reserves & Surplus	1,90,527	2,30,991	2,78,663	3,26,916	3,75,748	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	32,828	13,472	8,194	4,194	1,194	
Def. Tax Liab. / Assets (-)	-12,721	-6,363	-6,363	-6,363	-6,363	
Total - Equity & Liab.	2,10,634	2,38,100	2,80,494	3,24,747	3,70,579	
Net Fixed Assets	93,833	1,01,556	1,00,917	1,00,967	1,00,524	
Gross Fixed Assets	1,28,593	1,42,313	1,54,047	1,66,830	1,79,863	
Intangible Assets	1,11,874	1,22,997	1,25,791	1,28,834	1,32,093	
Less: Depn. & Amort.	-1,59,939	-1,73,710	-1,88,876	-2,04,653	-2,21,388	
Capital WIP	13,305	9,956	9,956	9,956	9,956	
Investments	37,499	61,380	61,380	61,380	61,380	
Current Assets	1,52,541	1,51,722	2,01,238	2,52,417	3,04,688	
Inventories	50,884	48,670	55,874	60,872	65,168	
Sundry Debtors	66,764	72,485	80,367	87,555	93,735	
Cash & Bank Balances	14,852	5,779	36,941	73,497	1,13,197	
Loans & Advances	0	0	0	0	0	
Other Current Assets	20,041	24,788	28,055	30,493	32,589	
Current Liab. & Prov.	73,239	76,558	83,041	90,017	96,014	
Current Liabilities	27,994	29,292	29,637	32,033	34,093	
Provisions & Others	45,245	47,266	53,404	57,984	61,921	
Net Current Assets	79,302	75,164	1,18,196	1,62,401	2,08,675	
Total - Assets	2,10,634	2,38,100	2,80,494	3,24,747	3,70,579	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		13.5%	16.1%	19.8%	18.4%	17.3%
Asset Turnover (x)		1.0	1.0	1.0	1.0	0.9
Leverage Factor (x)		1.2	1.1	1.1	1.0	1.0
RoE		15.8%	18.7%	21.7%	18.5%	16.1%

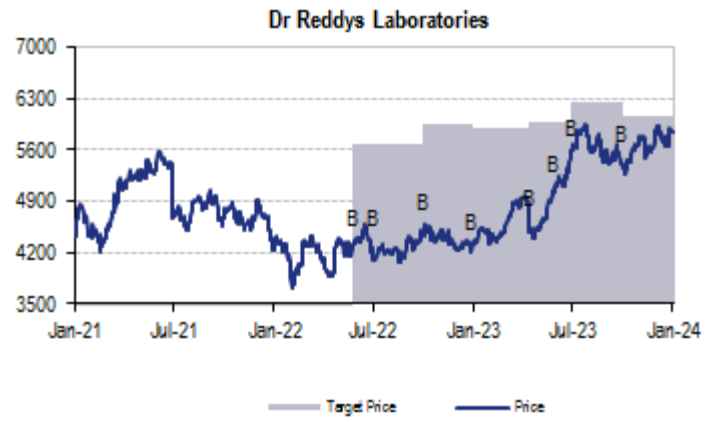
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		1,148.4	1,392.4	1,679.7	1,970.6	2,264.9
ROIC		16.0%	22.3%	27.0%	26.4%	25.5%
ROE		15.8%	18.7%	21.7%	18.5%	16.1%
Net Debt/Equity (x)		-0.1	-0.2	-0.3	-0.4	-0.4
P/E (x)		33.6	24.5	17.5	17.3	17.2
P/B (x)		5.1	4.2	3.5	3.0	2.6
EV/EBITDA (x)		20.8	14.3	11.1	10.2	9.5
EV/Sales (x)		4.5	3.7	3.2	2.8	2.5
Debtor days		114	108	105	105	105
Inventory days		87	72	73	73	73
Creditor days		55	53	49	48	47

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
22-Jun-22	Buy	5,685	
28-Jul-22	Buy	5,685	0.0
29-Oct-22	Buy	5,960	4.8
26-Jan-23	Buy	5,890	-1.2
11-May-23	Buy	5,980	1.5
25-Jun-23	Buy	5,980	0.0
26-Jul-23	Buy	6,260	4.7
29-Oct-23	Buy	6,055	-3.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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