

DR. REDDY'S LABORATORIES

ADD

Choice

Dr. Reddy's quarterly earnings were in-line with our expectations. Healthy performance on the revenue front (at INR 72,368mn), up 4.8% QoQ and 6.6% YoY was driven by generics business in US and Europe with contribution from both base business and new product launches. EBITDA reported at INR 20,231mn (+4.4% YoY and flattish sequentially) and margin reduced by 59bps YoY and 114bps QoQ to 28% on account of investment in sales and marketing activities, digitalization capabilities and new business and innovation initiatives. PAT grew 11% YoY / -6.8% QoQ and stood at INR 13,809mn for the quarter. The company has plans to launch about 26 products in the US in next 2 years having meaningful contribution. With regards to biosimilar, it expects to come up with 6 products by April 2030 and the first to come in the beginning of CY27.

- US and Europe drove overall performance:** In US, the growth was supported by the benefit of market share expansion in certain existing key products, revenue from new launches and integration of acquired portfolio which was partially offset by price erosion due to competitive environment. The company launched 4 new products in Q3FY24. The price erosion is lower compared to earlier. The company has plans to launch 26 products in the next 2 years which will have meaningful contribution (i.e. having opportunity size of tens of millions and beyond). In the Europe, during the quarter, the company launched a total of 6 products across market. Earlier this month, it entered the UK OTC consumer health market with the launch of brand allergy medication Histallay.
- India business yet to show healthy performance :** During the quarter, India business grew 4.7% YoY and flattish QoQ due to lower volumes in base business. The company anticipates the base business to deliver double-digit growth in the coming quarters.
- R&D in full swing:** The R&D spend for the quarter is INR 5,570mn, (USD 67mn), at 7.7% of sales (+60bps YoY and -20bps QoQ). The investments are focused on developing complex value-accretive products including several generic injectable and biosimilar, in line with patient-centric strategy to enable access and affordability. The company has done 9 global generic filing including 2 ANDAs in the US in Q3FY24.
- Bio-similars, an engine for long-term growth:** The company expects to come up with 6 products by April 2030 and the first to come in the beginning of CY27. With regards to Rituximab, the FDA inspection completed on time in October 2023. The company addressed the FDA observation and did not received any additional information. It expects, the earliest approval by the end of April 2024.
- Outlook & Valuation:** Dr. Reddy's growth story is based on the following premise: 1) Sustained performance in the US and Europe on the back of new launches, growth in injectables portfolio, volume based growth in base business and moderation in price erosion; 2) Focus on the India business to deliver double digit growth and building innovative products portfolio (through in-licensing, acquisition and partnerships). We expect Dr Reddy's Revenue/EBITDA/PAT to grow at a CAGR of 11.9%/15.5%/14.3% over FY23-26E. We value the stock at Sep-25E EPS and arrive at a TP of Rs. 6,416 (17x Sep-FY25E EPS) and maintain **ADD** rating.

Financial Snapshot

Year end: March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR Mn.)	2,15,452	2,46,697	2,81,662	3,13,015	3,45,959
Gross Profit (INR Mn.)	1,41,030	1,70,119	1,98,252	2,21,297	2,45,801
EBITDA (INR Mn.)	37,677	63,489	80,450	86,388	97,731
EBITDA Margin (%)	17.5	25.7	28.6	27.6	28.2
Adj. EPS (INR)	131.2	270.5	336.0	350.3	404.5

Source: Company, CEBPL

Jan 31 st , 2024	
CMP (Rs)	5,846
Target Price (Rs)	6,416
Potential Upside (%)	9.7

CMP as on 30th Jan 2024

Company Info

BB Code	DRRD IN EQUITY
ISIN	INE089A01023
Face Value (Rs.)	5
52 Week High (Rs.)	5,986
52 Week Low (Rs.)	4,281
Mkt Cap (Rs bn.)	974.1
Mkt Cap (\$ bn.)	11.7
Shares o/s (Mn.)/F.Float (%)	166.8/73
TTM EPS (Rs)	313.6
EPS Sep-25E (Rs)	377.4

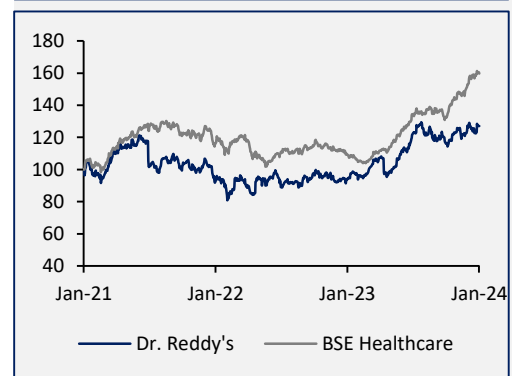
Shareholding Pattern (%)

	Dec-23	Sep-23	Dec-22
Promoters	26.65	26.66	26.69
FII's	28.62	28.19	27.29
DII's	18.65	21.04	23.38
Public	26.08	24.11	22.64

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE healthcare	59.66	36.64	45.94
Dr. Reddy's	26.99	35.68	34.83

Rebased Price Performance



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Quarterly performance

Rs. In Mn.	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	72,368	67,898	6.6	69,026	4.8
Cost of Goods Sold	21,760	20,014	8.7	20,030	8.6
Gross Margin (%)	69.9	70.5	(59) bps	71.0	(105) bps
Employee Expenses	12,764	11,732	8.8	12,803	(0.3)
EBITDA	20,231	19,385	4.4	20,083	0.7
EBITDA Margin (%)	28.0	28.6	(59) bps	29.1	(114) bps
Depreciation	3,735	3,237	15.4	3,755	(0.5)
EBIT	16,496	16,148	2.2	16,328	1.0
Interest	394	418	(5.7)	353	11.6
PBT	18,291	16,377	11.7	19,167	(4.6)
Tax	4,482	3,938	13.8	4,345	3.2
Adj. PAT	13,809	12,439	11.0	14,822	(6.8)
Adj. PAT Margin (%)	19.1	18.3	76 bps	21.5	(239) bps
Adj. EPS	82.8	74.7	10.9	88.9	(6.8)

Source: Company, CEBPL

Geographical Revenue Contribution

Rs. In Mn.	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
USA	33,492	30,567	9.6	31,700	5.7
% of sales	46.3	45.0		45.9	
Europe	4,970	4,303	15.5	5,286	(6.0)
% of sales	6.9	6.3		7.7	
India	11,800	11,274	4.7	11,860	(0.5)
% of sales	16.3	16.6		17.2	
Russia & other CIS	8,200	9,097	(9.9)	8,000	2.5
% of sales	11.3	13.4		11.6	
RoW	4,633	4,000	15.8	4,163	11.3
% of sales	6.4	5.9		6.0	
Global Generics	63,095	59,241	6.5	61,009	3.4
% of sales	87.2	87.2		88.4	
PSAI	7,839	7,758	1.0	7,034	11.4
% of sales	10.8	11.4		10.2	
Proprietary Products & others	1,434	899	59.5	983	45.9
% of sales	2.0	1.3		1.4	
Total Sales	72,368	67,898	6.6	69,026	4.8

CEBPL Estimates vs Actual

Rs. In Mn.	Actual	Estimates	% Change
Sales	72,368	71,773	0.8
EBITDA	20,231	20,281	(0.2)
EBITDA Margin (%)	28.0	28.3	(30) bps
Adj. PAT	13,809	13,507	2.2
Adj. EPS	82.8	81.0	2.2

Source: Company, CEBPL

Change in estimates for FY24E & FY25E

Income Statement (INR Mn.)	FY25E			FY26E		
	New	Previous	Dev. (%)	New	Previous	Dev. (%)
Net sales	3,13,015	3,14,933	(0.6)	3,45,959	3,48,245	(0.7)
EBITDA	86,388	86,272	0.1	97,731	97,219	0.5
EBITDA margin(%)	27.6	27.4	20 bps	28.2	27.9	33 bps
Adj. PAT	58,356	58,721	(0.6)	67,392	66,925	0.7
Adj. EPS	350.3	352.5	(0.6)	404.5	402	0.7

Source: Company, CEBPL

Management Call - Highlights

US Business

- The US FDA completed a routine cGMP inspection of formulation manufacturing facility FTO-3 in October 2023 as well as GMP and pre-approval inspection, at R&D facility in December 2023.
- The USFDA issued with 10 observation at FTO-3 and 3 observation at R&D facility. The company has submitted a response within the stipulated timeframe.
- The recent acquisition of MenoLabs portfolio, a women health and dietary supplement brands in the US, complements company's US healthcare and wellness business portfolio. The acquisition was done so as to focus on OTC in several areas with a franchise in women health supplements.
- The US OTC business, on an annual basis is about 10%, of the overall US business.
- The price erosion continues to happen, however lower than earlier.
- The company plans about 26 products to be launched in the next 2 years which will have meaningful contribution (i.e. having opportunity size of tens of millions and beyond).
- There are 8 new ANDA filings during the year focusing on products that will have meaningful contribution to revenue. In the coming few months more filings are expected to happen.
- On the product launches, it is on-track to have more than 20 product this year.

Emerging Market

- The company is on the track to deliver double-digit growth for the year.
- Launched 30 new products during the quarter across various countries of the emerging markets.

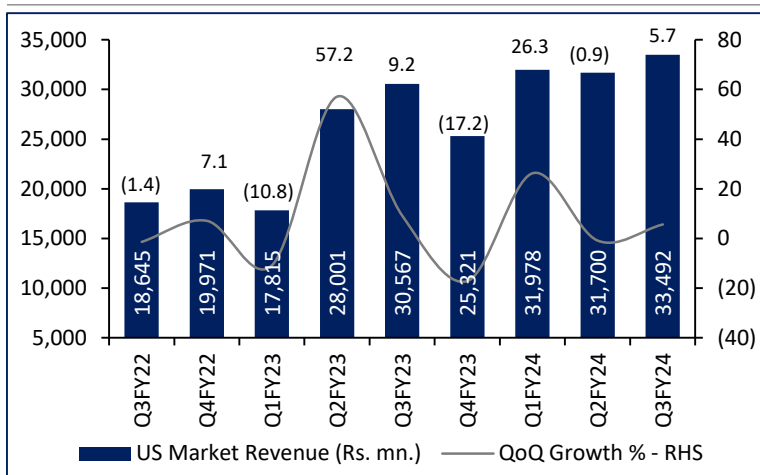
Bio-similars

- The company expects to come up with 6 products by April 2030 and the first to come in the beginning of CY27.
- With regards to Rituximab, the FDA inspection completed on time in October 2023. The company addressed the FDA observation and did not received any additional information. It expects, the earliest approval by the end of April 2024.

Others

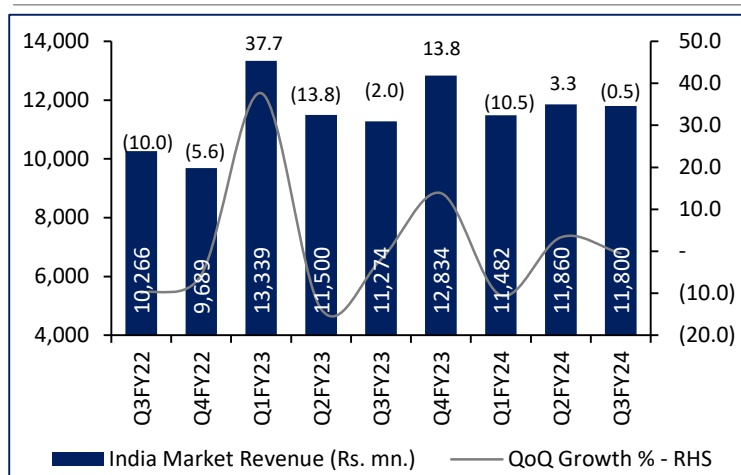
- In China, the company is seeing very good tracking of approvals. The company has got 9 approvals since the beginning of FY24 and 3 in the last quarter.
- Supply Chain – The company have been recently ramping up inventory to reduce the risk of supply chain disruption and building inventory for the pipeline products. It is also strengthening its position by building best-in-class capability in commercial infrastructure to leverage portfolio to expand further.
- Gross margin for the global generics and PSAI businesses were at 61.9% and 29.4% respectively.
- The R&D spend for the quarter was INR 5570mn, (USD67mn), at 7.7% of sales (higher by 60bps YoY and lower by 20bps QoQ).
- The investments in R&D are focused on developing complex value-accretive products including several generic injectables and biosimilars, in line with patient-centric strategy to enable access and affordability.
- The company has done 9 global generic filing including 2 ANDAs in the US in Q3FY24.
- The company continues to invest in innovative solutions through strategic partnerships such as recent collaboration with Coya Therapeutics on investigational therapy.
- Foreign currency cash flow hedges in the form of derivatives for the US dollar are approx. USD672mn hedged around the range of INR 83.4 to INR 84.6 to the dollar and AUD 1.1 mn at the rate of INR58.3 to Australian dollar maturing in the next 15 months.

US market Revenue (Rs. mn) and QoQ Growth (%)



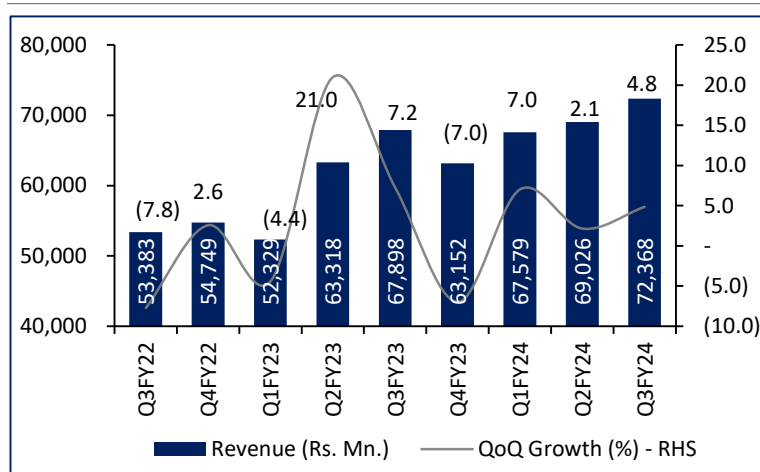
Source: Company, CEBPL

India market Revenue (Rs. mn) and QoQ Growth (%)



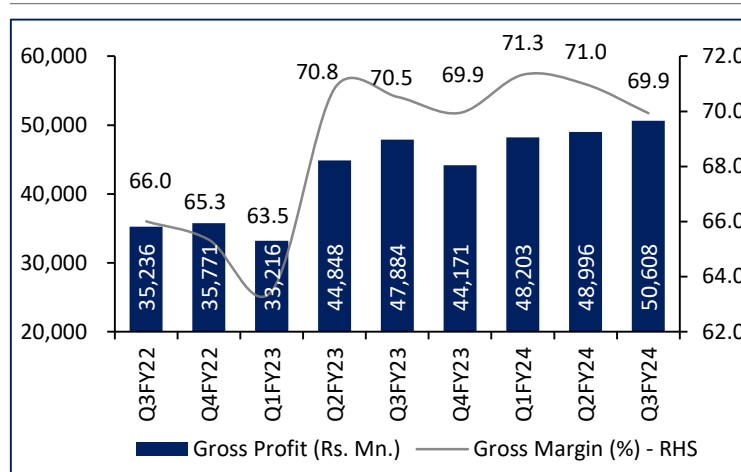
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



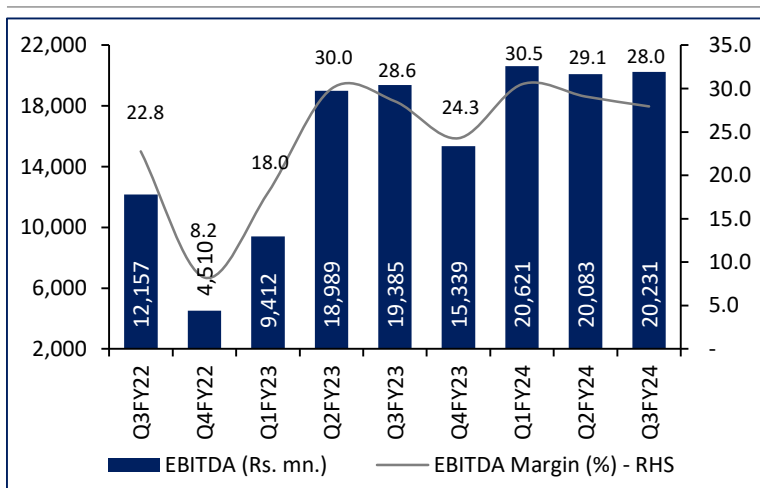
Source: Company, CEBPL

Gross profit (Rs. mn) and Margin (%)



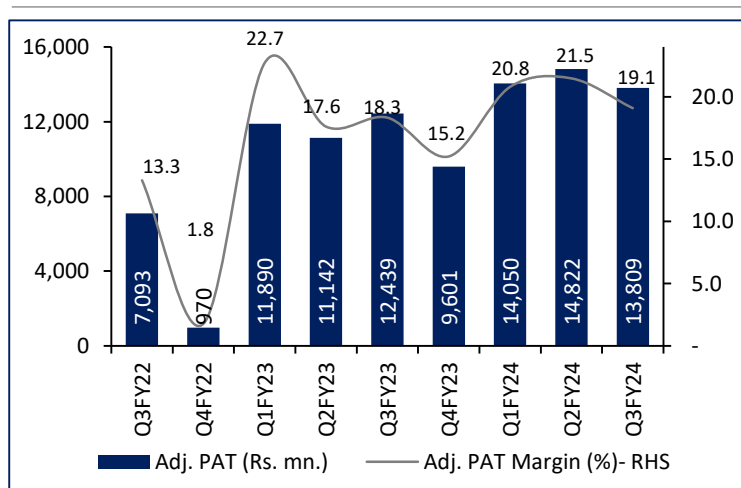
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



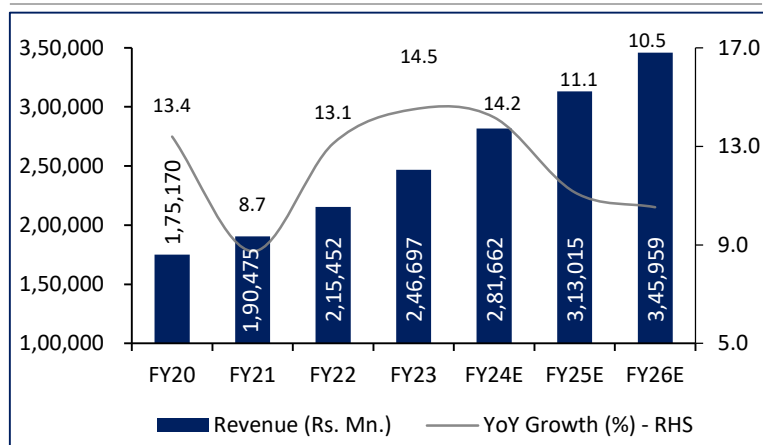
Source: Company, CEBPL

Adj. PAT (Rs. mn) and Margin (%)



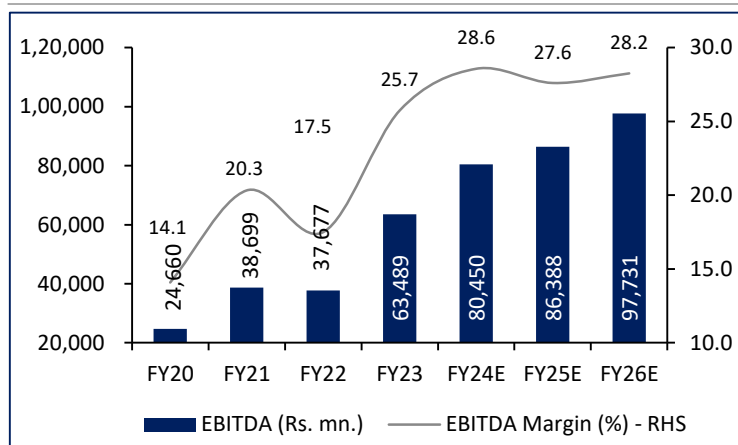
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



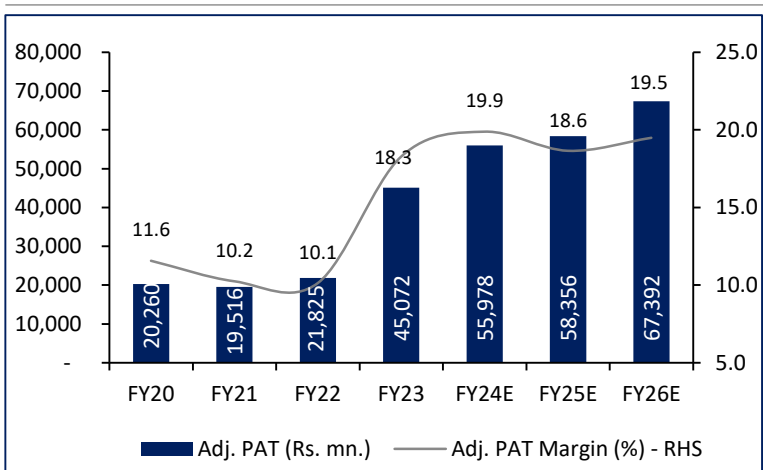
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



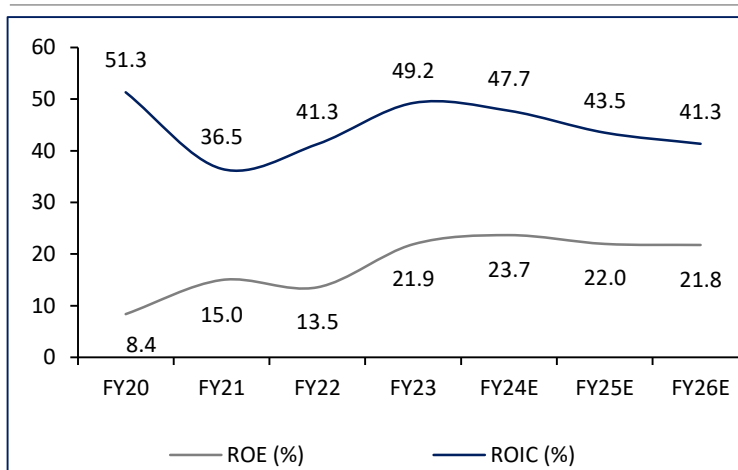
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



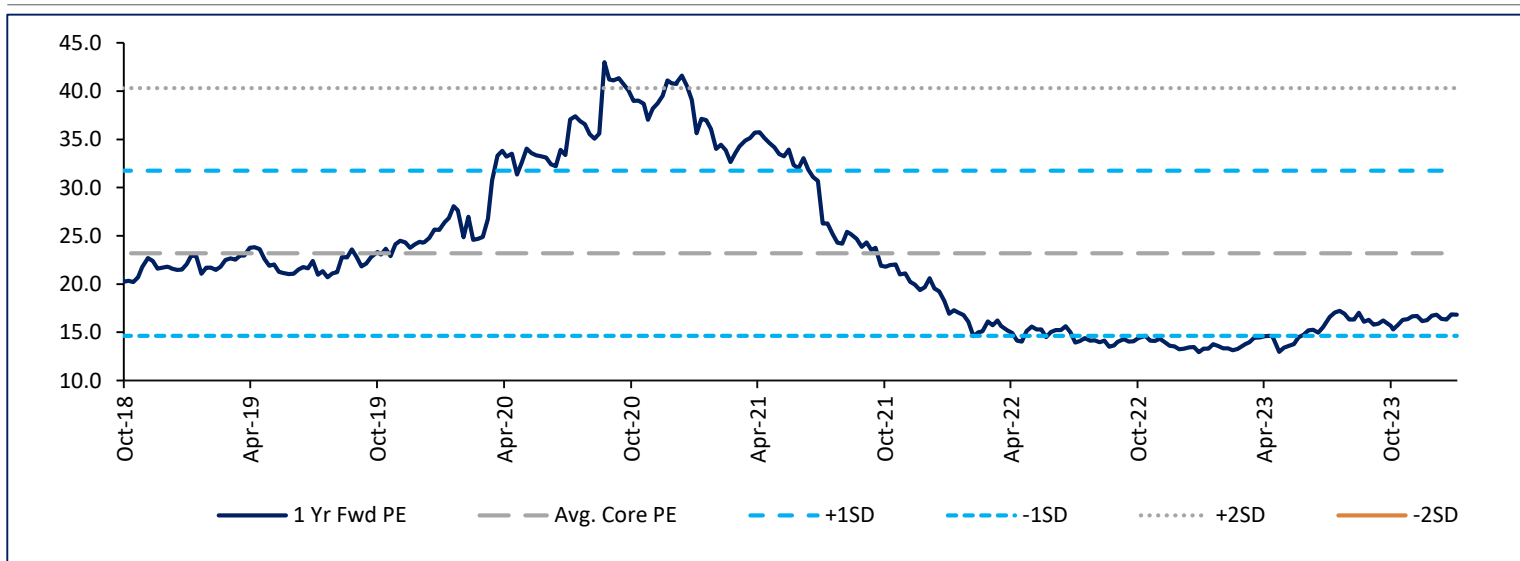
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,15,452	2,46,697	2,81,662	3,13,015	3,45,959
Gross profit	1,41,030	1,70,119	1,98,252	2,21,297	2,45,801
EBITDA	37,677	63,489	80,450	86,388	97,731
Depreciation	11,652	12,502	14,717	15,142	15,420
EBIT	26,025	50,987	65,734	71,246	82,310
Other income	4,844	10,555	9,233	7,199	7,957
Interest expense	958	1,428	1,472	1,088	881
PBT	30,614	60,484	73,687	77,808	89,856
Reported PAT	21,825	45,072	55,978	58,356	67,392
EPS (INR)	131.2	270.5	336.0	350.3	404.5

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24E	FY25E	FY26E
Net worth	1,92,124	2,32,861	2,77,643	3,24,328	3,78,241
Borrowings	33,845	13,472	12,798	10,879	9,791
Trade Payables	22,662	22,684	25,465	28,300	29,383
Other non-current liabilities	1,941	2,991	4,443	3,167	2,762
Other current liabilities	46,897	50,843	53,441	53,687	59,023
Total Net Worth & liabilities	2,97,469	3,22,851	3,73,791	4,20,361	4,79,200
Net Block	48869	56542	51825	46684	40264
Capital WIP	12,796	9,752	12,000	14,500	12,500
Goodwill & intangible assets	32,484	36,198	38,474	40,674	42,874
Investments	26,159	49,858	88,442	1,14,250	1,57,757
Trade Receivables	66,764	72,485	81,026	88,330	97,627
Cash & Cash equivalents	24,192	17,302	16,481	15,643	19,386
Other non-current assets	19,511	10,742	10,408	14,465	12,184
Other current assets	66,694	69,972	75,134	85,814	96,609
Total Assets	2,97,469	3,22,851	3,73,791	4,20,361	4,79,200

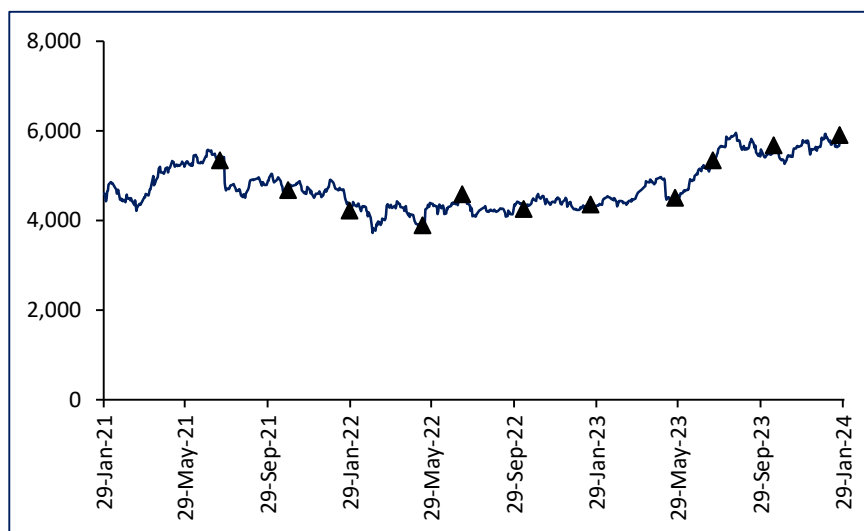
Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
CFO	28,108	58,873	68,932	54,838	70,591
CFI	(26,387)	(41,371)	(46,585)	(40,509)	(52,707)
CFF	(2,422)	(26,861)	(11,644)	(15,167)	(14,142)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	13.1	14.5	14.2	11.1	10.5
Gross Profit	8.7	20.6	16.5	11.6	11.1
EBITDA	(2.6)	68.5	26.7	7.4	13.1
EBIT	(1.5)	95.9	28.9	8.4	15.5
PBT	6.2	97.6	21.8	5.6	15.5
PAT	11.8	106.5	24.2	4.2	15.5
Margins (%)	-	-	-	-	-
Gross Profit	65.5	69.0	70.4	70.7	71.0
EBITDA	17.5	25.7	28.6	27.6	28.2
EBIT	12.1	20.7	23.3	22.8	23.8
PBT	14.2	24.5	26.2	24.9	26.0
Tax rate	28.7	25.5	24.0	25.0	25.0
PAT	10.1	18.3	19.9	18.6	19.5
Profitability (%)	-	-	-	-	-
ROE	13.5	21.9	23.7	22.0	21.8
ROIC	41.3	49.2	47.7	43.5	41.3
ROCE	11.5	20.7	22.6	21.3	21.2
Financial leverage (x)	-	-	-	-	-
Pre-tax OCF/EBITDA	1.0	1.2	1.1	0.9	1.0
OCF / Net profit	1.3	1.3	1.2	0.9	1.0
EV/EBITDA	24.0	14.1	11.1	10.3	9.9
Earnings	-	-	-	-	-
EPS	131.2	270.5	336.0	350.3	404.5
Shares outstanding	166	167	167	167	167
Working Capital (x)	-	-	-	-	-
Inventory days	86	72	70	69	70
Receivable days	113	107	105	103	103
Creditor days	38	34	33	33	31
Working Capital Days	161	146	142	139	142

Source: Company, CEBPL

Historical recommendations and target price: Dr. Reddy's Laboratories



Dr. Reddy's Laboratories

1.	17-07-2021	BUY / ADD,	Target Price Rs.6,142
2.	29-07-2021	ADD,	Target Price Rs.4,844
3.	30-10-2021	ADD,	Target Price Rs.5,200
4.	31-01-2022	ADD,	Target Price Rs.4,435
5.	23-05-2022	ADD,	Target Price Rs.4,747
6.	28-07-2022	ADD,	Target Price Rs.4,736
7.	31-10-2022	OUTPERFORM,	Target Price Rs.5,385
8.	26-01-2023	OUTPERFORM,	Target Price Rs.5,031
9.	11-05-2023	ADD,	Target Price Rs.5,290
10.	27-07-2023	ADD,	Target Price Rs.5,968
11.	29-10-2023	ADD,	Target Price Rs.6,033
12.	30-01-2024	ADD,	Target Price Rs.6,416

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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