

January 30, 2024

**RESULT REPORT Q3 FY24** | Sector: Pharmaceuticals & Healthcare

# Dr Reddys'

## Yet another Revlimid-led boost

### Result Synopsis

Dr Reddys' continues to benefit from Revlimid, potentially better traction in acquired Mayne Pharma portfolio amidst a backdrop of benign pricing environment in US. Management continues to hunt for assets as well as increase R&D (absolute + % of sales) to make use of Revlimid cash. Biosimilar monetization remains far out, beginning FY27 to make up for the likely loss of Revlimid sales in FY25 and FY26 compared to run rate in current fiscal. Domestic business is expected to emerge from brand rationalization phase in Q4 and would clock double digit growth from next year. Near term prognosis is completely linked to Revlimid which would be keenly eyed as other peers (notably Aurobindo) are set to enter the market. We tweak FY24/25 estimates and introduce FY26 forecasts but lower our rating to Reduce based on an unchanged target PE of 19x on FY25 EPS. We lower Revlimid contribution beyond FY25 with a likely paucity of similar sized large product/s that can fill the void (reckon will open up in FY26).

### Result Highlights

- Revlimid drives beat yet again as contribution remains meaningful QoQ coupled with new launches
- Lower volumes in core business led to ~5% YoY growth in domestic business
- Favourable exchange rates and new launches aided Europe which grew 16% YoY
- PSAI business was up in double digit YoY excluding covid product sales in base quarter
- Margin at 28% was below our estimate on lower gross margin and higher SG&A along with increased R&D

### Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	72,148	71,244	70,220	1.3	2.7	Revlimid drives the beat yet again with margin lagging on lower gross margin, higher R&D and SG&A spends
EBITDA	20,121	20,564	17,993	-2.2	11.8	
EBITDA Margin (%)	27.9	28.9	25.6	-98 bps	227 bps	
Adjusted PAT	14,687	14,676	12,634	0.1	16.2	

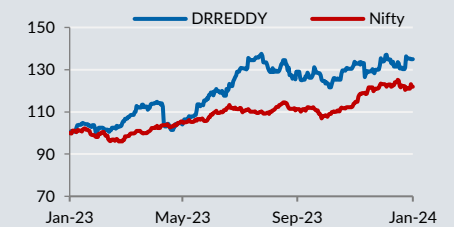
Source: Company, YES Sec

Reco	: <b>REDUCE</b>
CMP	: Rs 5,846
Target Price	: Rs 5,580
Potential Return	: -4.9%

### Stock data (as on January 30, 2024)

Nifty	21,522
52 Week h/l (Rs)	5990 / 4285
Market cap (Rs/USD mn)	973054 / 11707
Outstanding Shares (mn)	167
6m Avg t/o (Rs mn):	2,438
Div yield (%):	0.7
Bloomberg code:	DRRD IN
NSE code:	DRREDDY

### Stock performance



	1M	3M	1Y
Absolute return	1.5%	10.1%	36.0%

### Shareholding pattern (As of Dec'23 end)

Promoter	26.7%
FII+DII	62.6%
Others	10.7%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	5,580	5,580

### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	321.4	292.6	275.3
EPS (Old)	326.7	292.9	-
% change	-1.6%	-0.1%	-

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	276,697	281,800	288,424
YoY Growth	12.2	1.8	2.4
EBITDA	77,911	72,064	68,996
YoY Growth	21.4	-7.5	-4.3
PAT	53,349	48,569	45,698
YoY Growth	18.4	(9.0)	(5.9)
ROE	20.8	16.1	13.4
EPS	321.4	292.6	275.3
P/E	18.2	20.0	21.2
BV	1684.1	1936.7	2172.0
EV/EBITDA	11.3	11.7	11.6

### BHAVESH GANDHI

Lead Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Rs mn	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	y/y (%)	q/q (%)
Revenue	67,898	63,152	67,579	69,026	72,368	6.6	4.8
Expenditure	48,379	47,273	46,947	48,888	52,027	7.5	6.4
- RM	20,014	18,981	19,376	20,030	21,760	8.7	8.6
- Staff Cost	11,732	12,760	11,897	12,803	12,764	8.8	(0.3)
- Other exp	16,633	15,532	15,674	16,055	17,503	5.2	9.0
Operating Profit	19,519	15,879	20,632	20,138	20,341	4.2	1.0
OPM(%)	28.7	25.1	30.5	29.2	28.1	-64 bps	-107 bps
Other Income	587	1,385	1,740	3,150	2,162	268	(31)
Depreciation	3,237	3,155	3,533	3,755	3,735	15	(1)
Interest	418	354	371	353	394	(6)	12
PBT	16,451	13,755	18,468	19,180	18,374	11.7	(4.2)
Tax	3,938	3,690	4,450	4,345	4,482	13.8	3.2
PAT	12,513	10,065	14,018	14,835	13,892	11.0	(6.4)
Exceptional	134	540	11	55	110	(99)	(98)
Minority Int	(60)	(76)	(43)	(42)	(27)	(55.0)	(35.7)
Reported PAT	12,439	9,601	14,050	14,822	13,809	11.0	(6.8)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Investing in new product pipeline and due to sea route disruption, which has impacted cash flow conversion
- Expect increased number of filings in coming months and about 26 total launches in FY25 and FY26
- First biosimilar launch in CY2027 and 6 biosimilar launches by FY30 subject to approval and litigation outcome
- Looking to create women's health franchise through acquisition of MenoLabs; sales are relatively small at US\$2mn
- OTC wellness should be ~10% of US business revenues
- Worked with consultants and remediation for FTO 3 and completed CAPA. Most of the new launches are not from FTO 3 so any adverse outcome not a risk
- Earliest approval expected for Rituximab can be from April'24
- Revlimid should continue to be meaningful in FY25
- Timing issues and not any increase in price erosion is behind the decline in gross margin QoQ
- Excluding covid products in base quarter, PSAl business grew in high single digit
- Increased gross margin in PSAl is due to mix and nothing unusual in the business
- Got a total 12 approvals in China and expect momentum to continue
- Identified brands in domestic business that can grow 1.5x the underlying market.
- Expect double digit growth in India from FY25
- Investing in lab and commercial capacity expansion in CDMO; capital allocation should not be big. Should be a business that can grow from a magnitude of US\$10s of millions to US\$100s of millions

## FINANCIALS

### Exhibit 3: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	832	833	830	830	830
Reserves	191,292	232,028	278,737	320,666	359,724
Net worth	<b>192,124</b>	<b>232,861</b>	<b>279,567</b>	<b>321,496</b>	<b>360,554</b>
Debt	7,673	3,509	3,509	3,509	3,509
Deferred tax liab (net)	14	760	760	760	760
<b>Total liabilities</b>	<b>199,811</b>	<b>237,130</b>	<b>283,836</b>	<b>325,765</b>	<b>364,823</b>
Fixed Asset	94,150	104,298	106,036	106,014	104,232
Investments	12,727	9,052	9,052	9,052	9,052
Net Working Capital	<b>80,164</b>	<b>116,728</b>	<b>161,696</b>	<b>203,647</b>	<b>244,487</b>
Inventories	50,884	48,670	54,589	55,595	56,902
Sundry debtors	66,764	72,485	81,300	82,799	84,745
Cash	44,364	59,992	92,320	132,785	171,697
Other current assets	15,810	21,302	23,519	23,953	24,516
Sundry creditors	(22,662)	(22,684)	(25,443)	(25,912)	(26,521)
Other CL	(74,996)	(63,037)	(64,589)	(65,574)	(66,852)
Misc exp	12,770	7,052	7,052	7,052	7,052
<b>Total Assets</b>	<b>199,811</b>	<b>237,130</b>	<b>283,836</b>	<b>325,765</b>	<b>364,823</b>

Source: Company, YES Sec

### Exhibit 4: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	215,452	246,697	276,697	281,800	288,424
Operating profit	<b>46,981</b>	<b>64,189</b>	<b>77,911</b>	<b>72,064</b>	<b>68,996</b>
Depreciation	(11,652)	(12,502)	(14,262)	(16,022)	(17,782)
Interest expense	(958)	(1,428)	(1,470)	(1,470)	(1,470)
Other income	4,844	10,555	9,000	10,000	11,000
Profit before tax	<b>39,215</b>	<b>60,814</b>	<b>71,180</b>	<b>64,572</b>	<b>60,744</b>
Taxes	(8,789)	(15,412)	(17,795)	(16,143)	(15,186)
Adj. profit	<b>30,426</b>	<b>45,402</b>	<b>53,385</b>	<b>48,429</b>	<b>45,558</b>
Exceptional items	(9,304)	(699)	(176)	0	0
Associate share	703	370	140	140	140
Net profit	<b>21,825</b>	<b>45,073</b>	<b>53,349</b>	<b>48,569</b>	<b>45,698</b>

Source: Company, YES Sec

## Exhibit 5: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	39,215	60,814	71,180	64,572	60,744
Depreciation	11,652	12,502	14,262	16,022	17,782
Misc exp w/o	(2,084)	5,718	-	-	-
Def tax assets (net)	(275)	746	-	-	-
Tax paid	(8,789)	(15,412)	(17,795)	(16,143)	(15,186)
Working capital Δ	(5,908)	(20,936)	(12,640)	(1,486)	(1,928)
Other operating items	703	370	140	140	140
Operating cashflow	34,514	43,802	55,147	63,105	61,552
Capital expenditure	(8,094)	(22,650)	(16,000)	(16,000)	(16,000)
Free cash flow	26,420	21,152	39,147	47,105	45,552
Equity raised	(10,430)	1,629	(179)	0	0
Investments	(456)	3,675	-	-	-
Debt financing/disposal	(751)	(4,164)	-	-	-
Dividends paid	(4,992)	(6,664)	(6,640)	(6,640)	(6,640)
Net Δ in cash	9,791	15,628	32,328	40,465	38,912

Source: Company, YES Sec

## Exhibit 6: Du-pont analysis

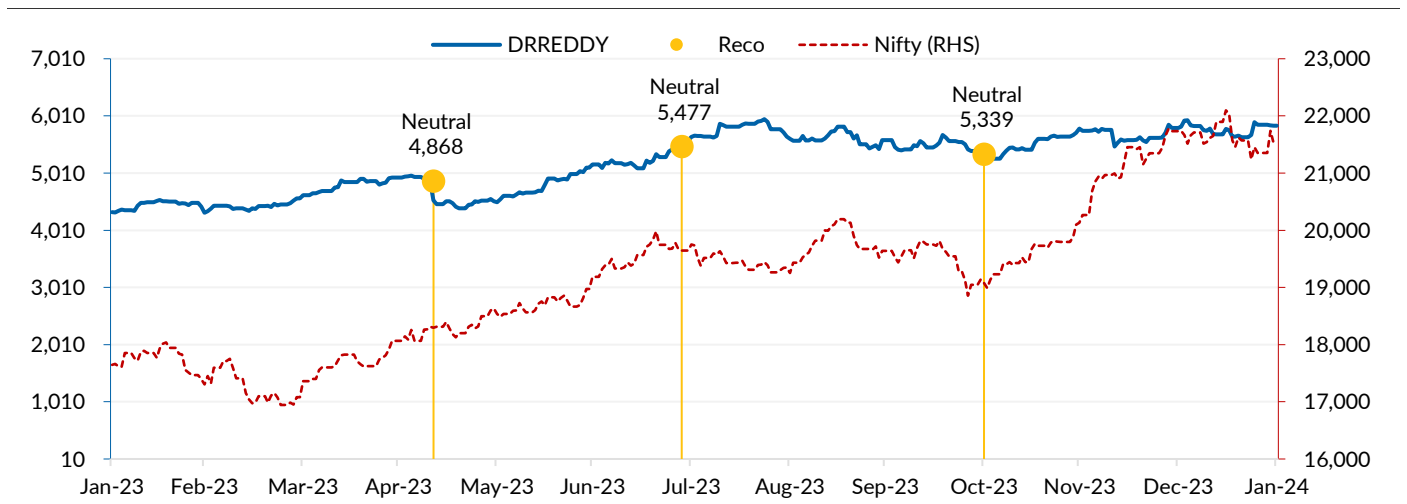
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.78	0.75	0.75	0.75	0.75
Interest burden (x)	0.98	0.98	0.98	0.98	0.98
EBIT margin (x)	0.19	0.25	0.26	0.23	0.22
Asset turnover (x)	0.80	0.82	0.81	0.73	0.67
Financial leverage (x)	1.47	1.41	1.33	1.29	1.26
RoE (%)	16.5	21.4	20.8	16.1	13.4

## Exhibit 7: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	13.1	14.5	12.2	1.8	2.4
Op profit growth	3.3	36.6	21.4	(7.5)	(4.3)
EBIT growth	11.3	54.9	16.7	(9.1)	(5.8)
Net profit growth	11.8	106.5	18.4	(9.0)	(5.9)
<b>Profitability ratios (%)</b>					
OPM	21.8	26.0	28.2	25.6	23.9
EBIT margin	18.6	25.2	26.3	23.4	21.6
Net profit margin	14.1	18.4	19.3	17.2	15.8

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
RoCE	20.9	28.5	27.9	21.7	18.0
RoNW	16.5	21.4	20.8	16.1	13.4
RoA	11.3	15.1	15.6	12.5	10.6
<b>Per share ratios</b>					
EPS	131.2	270.5	321.4	292.6	275.3
Dividend per share	30.0	40.0	40.0	40.0	40.0
Cash EPS	252.9	347.6	407.5	388.3	381.6
Book value per share	1,154.6	1,397.7	1,684.1	1,936.7	2,172.0
<b>Valuation ratios</b>					
P/E	44.6	21.6	18.2	20.0	21.2
P/CEPS	5.1	4.2	3.5	3.0	2.7
P/B	4.5	3.9	3.5	3.4	3.4
EV/EBIDTA	19.9	14.3	11.3	11.7	11.6
<b>Payout (%)</b>					
Dividend payout	22.4	25.3	25.0	25.0	25.0
Tax payout	22.9	14.8	12.4	13.7	14.5
<b>Liquidity ratios</b>					
Debtor days	113	107	107	107	107
Inventory days	86	72	72	72	72
Creditor days	38	34	34	34	34

## Recommendation Tracker



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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

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