

DR. REDDY'S LABORATORIES

HOLD

Choice

Dr. Reddy's quarterly earnings were above our expectations on the revenue front but lower on earnings. On the revenue front, DRRD reported the highest-ever quarterly revenue of INR 80,382mn, with a robust YoY growth of 16.5% and 4.4% QoQ, the increase was mainly driven by growth in the global generic business. EBITDA reported at INR 20,765mn (+3.4% YoY and -2.5%QoQ) and the margin saw a decline of 326bps YoY and 184bps QoQ to 25.8% on account of change in the mix and one-time acquisition-related cost. PAT saw a decline of 9.5% YoY and 3.6% QoQ and stood at INR 13,419mn for the quarter. The company is focusing on strengthening its core business across the markets with a robust product portfolio.

- **India business:** During the quarter, India's business grew by 17.8% YoY and 5.4% QoQ to INR 13,971mn due to the revenues from the vaccine portfolio in-licensed from Sanofi, new products launched, price increases, and increase in the sale volume. 3 new brands were launched and also integrated the nutraceutical products under the Nestle Health Science Ltd. during the quarter.
- **US & Europe business:** In the US, the reported revenue was INR 37,281mn with a growth of 17.6% YoY and de-growth of 3.1% QoQ, growth was supported by the increase in the sales volume, offsetting the price pressure on certain products. The price erosion was single digits during the quarter. The company expects to launch 16-20 new products in FY25. The European business saw a growth of 9.2% YoY and 9.6% QoQ, which was primarily driven by leveraging the portfolio of new products, which partly offset the price erosion.
- **Margin performance:** During the quarter, Gross margin came at 70.6% (-43bps YoY/-110bps QoQ). EBITDA margin at 25.8% (-326bps YoY/-184bps QoQ), impacted by the change in the product mix and one-time acquisition-related cost. The management expects SG&A spend is expected to be in the range of 27.5%-28% and R&D to be around 8.5-9% for FY25. The R&D efforts are focused on developing complex value products, including generic injectables, peptides, and biosimilars.
- During the quarter, DRRD completed the acquisition of the Nicotine Replacement Therapy portfolio outside of the US and paid a cash consideration of GBP 458mn. The acquired portfolio consists of Nicotinell, a global leader in the NRT category with an extensive footprint in over 30 countries spanning Europe, Asia including Japan, and Latin America.
- **Outlook & Valuation:** Dr. Reddy's growth story is based on the growth in the base business and high quality R&D efforts towards developing complex value products, including generic injectables, peptides, and biosimilars. We expect Dr Reddy's Revenue/EBITDA/PAT to grow at a CAGR of 11.6%/11.5%/11.2% over FY24-27E. We have introduced FY27E and valued the stock at Sep-26E EPS and arrived at a TP of INR 1,449 (17x) with a **HOLD** rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	2,15,452	2,45,879	2,79,163	3,20,777	3,51,605	3,87,885
Gross Profit (INR Mn.)	1,41,030	1,69,301	1,97,076	2,26,723	2,50,484	2,76,911
EBITDA (INR Mn.)	37,677	62,671	78,383	87,827	97,536	1,08,568
EBITDA Margin (%)	17.5	25.5	28.1	27.4	27.7	28.0
Adj. EPS (INR)	26.2	53.1	65.7	72.3	80.0	90.5

Source: Company, CEBPL

November 6th, 2024

CMP (Rs)	1,273
Target Price (Rs)	1,449
Potential Upside (%)	13.9

*CMP as on 5th Nov 2024

Company Info

BB Code	DRRD IN EQUITY
ISIN	INE089A01031
Face Value (Rs.)	1
52 Week High (Rs.)	1,420
52 Week Low (Rs.)	1,058
Mkt Cap (Rs bn.)	1,062.7
Mkt Cap (\$ bn.)	12.6
Shares o/s (Mn.)/F.Float (%)	834/73
TTM EPS (Rs)	194.6
EPS FY27E (Rs)	90.5

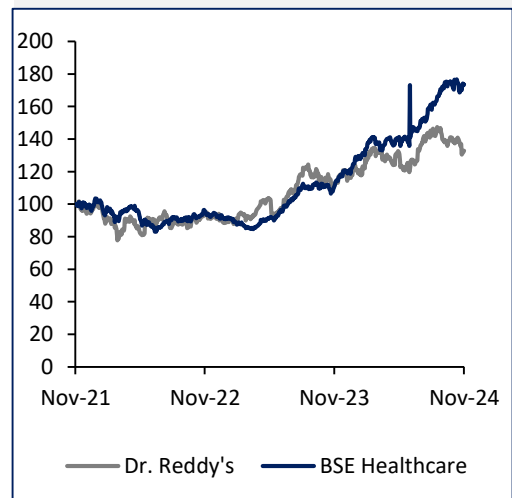
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	26.64	26.65	26.65
FII's	27.53	27.68	29.13
DII's	21.48	20.72	18.31
Public	24.36	24.95	25.91

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE healthcare	32.8	38.5	20.9
Dr. Reddy's	73.5	81.1	56.4

Rebased Price Performance



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Quarterly performance

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	80,382	69,026	16.5	76,961	4.4
Cost of Goods Sold	23,667	20,030	18.2	21,817	8.5
Gross Margin (%)	70.6	71.0	(43) bps	71.7	(110) bps
Employee Expenses	13,992	12,803	9.3	14,137	(1.0)
EBITDA	20,765	20,083	3.4	21,299	(2.5)
EBITDA Margin (%)	25.8	29.1	(326) bps	27.7	(184) bps
Depreciation	3,970	3,755	5.7	3,806	4.3
EBIT	16,795	16,328	2.9	17,493	(4.0)
Interest	757	353	114.4	598	26.6
PBT	19,174	19,167	0.0	18,826	1.8
Tax	5,755	4,345	32.5	4,902	17.4
Adj. PAT	13,419	14,822	(9.5)	13,924	(3.6)
Adj. PAT Margin (%)	16.7	21.5	(478) bps	18.1	(140) bps
Adj. EPS	15.1	17.8	(15.3)	16.7	(9.8)

Source: Company, CEBPL

Geographical Revenue Contribution

Rs. In Mn.	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
USA	37,281	31,700	17.6	38,462	(3.1)
% of sales	46.4	45.9		50.0	
Europe	5,770	5,286	9.2	5,265	9.6
% of sales	7.2	7.7		6.8	
India	13,971	11,860	17.8	13,252	5.4
% of sales	17.4	17.2		17.2	
Emerging Markets	14,554	12,163	19.7	11,878	22.5
% of sales	18.1	17.6		15.4	
Global Generics	71,576	61,009	17	68,857	4
% of sales	89.0	88.4		89.5	
PSAI	8,407	7,034	19.5	7,657	9.8
% of sales	10.5	10.2		9.9	
Proprietary Products & others	399	983	(59.4)	447	(10.7)
% of sales	0.5	1.4		0.6	
Total Sales	80,382	69,026	16.5	76,961	4.4

Source: Company, CEBPL

CEBPL Estimates vs Actual

Rs. In Mn.	Actual	Estimates	% Change
Sales	80,382	76,025	5.7
EBITDA	20,765	20,990	(1.1)
EBITDA Margin (%)	25.83	27.61	(178) bps
Adj. PAT	13,419	14,140	(5.1)
Adj. EPS	15.1	17.0	(11.2)

Source: Company, CEBPL

Change in estimates for FY25E & FY26E

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Previous	Dev. (%)	New	Previous	Dev. (%)	New
Net sales	3,20,777	3,20,777	-	3,51,605	3,57,832	(1.7)	3,87,885
EBITDA	87,827	89,110	(1.4)	97,536	98,873	(1.4)	1,08,568
EBITDA margin(%)	27.4	27.8	(40) bps	27.7	27.6	11 bps	28.0
Adj. PAT	60,326	61,653	(2.2)	66,738	69,609	(4.1)	75,438
Adj. EPS	72.3	73.9	(2.2)	80.0	83.5	(4.1)	90.5

Source: Company, CEBPL

Management Call - Highlights

North America & Europe

- In North America, four new products were launched in the quarter, totaling 15-20 launches for the full year.
- In Europe, growth driven by revenues from new product launches, partially offset by pricing pressure on certain products.
- Secured European Commission marketing authorization for a rituximab biosimilar, marking the company's first biosimilar launch in Europe.

Emerging Markets

- Expanded market share and revenue from new product launches offset unfavorable foreign exchange impacts.
- Launched 22 new products across various countries in emerging markets during the quarter.

India

- Three brands launched this quarter, alongside the integration of the pharmaceutical portfolio.
- Operationalized a joint venture with Nestle for nutraceutical products in August.
- Completed acquisition of Nicotinell and related nicotine replacement therapy brands in September.

Margin

- Gross margin increased due to an improved product mix and manufacturing overhead leverage, partially offset by minor price erosion in generic markets.
- SG&A rose due to investments in new business initiatives.
- A robust pipeline of small molecules, biosimilars, and novel oncology assets is under development through internal and collaborative efforts for future growth.
- CapEx was reported at INR 7,350 mn.

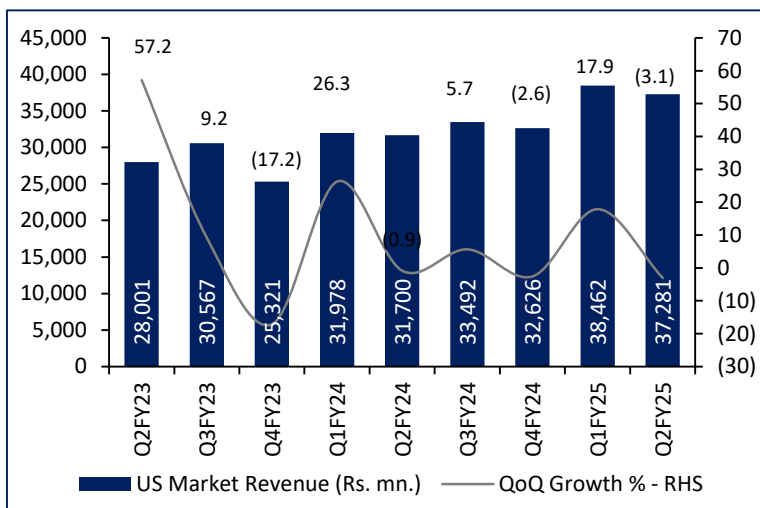
Others

- The company remains focused on core businesses, including generics and APIs, while investing in pipeline and future growth drivers.
- Subsidiary Origin Oncology reported promising Phase 1 results for India's first trial of novel autologous CAR-T cell therapy for multiple myeloma. The US FDA also approved the IND for AUR-112, a treatment for lymphoid malignancies.
- Entered a voluntary license agreement with Gilead Sciences to manufacture and commercialize HIV treatment lenacapavir in over 120 countries.
- The company is targeting high-quality R&D for selective, high-value products rather than quantity. Ongoing investment in biologics and biosimilars with anticipated significant launches.
- Three facilities in the US and India received VAI (Voluntary Action Indicated) status from the US FDA.
- Received US FDA and European Commission approvals for various biosimilar and innovative products, with significant launches expected in 2025-2027.

Outlook

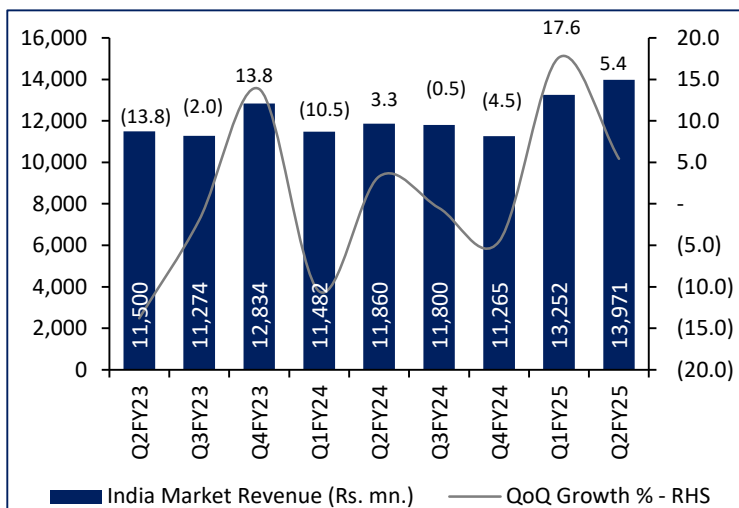
- R&D investment is expected to be 8.5-9% of sales for FY25.
- Effective tax rate anticipated at 25%.

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



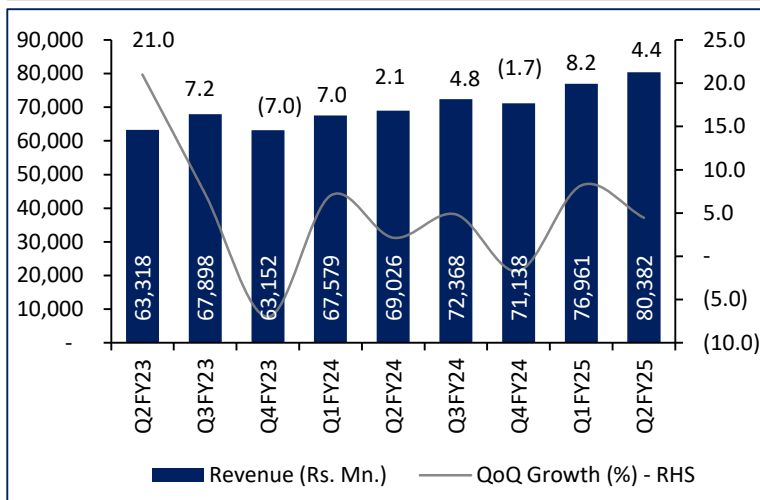
Source: Company, CEBPL

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



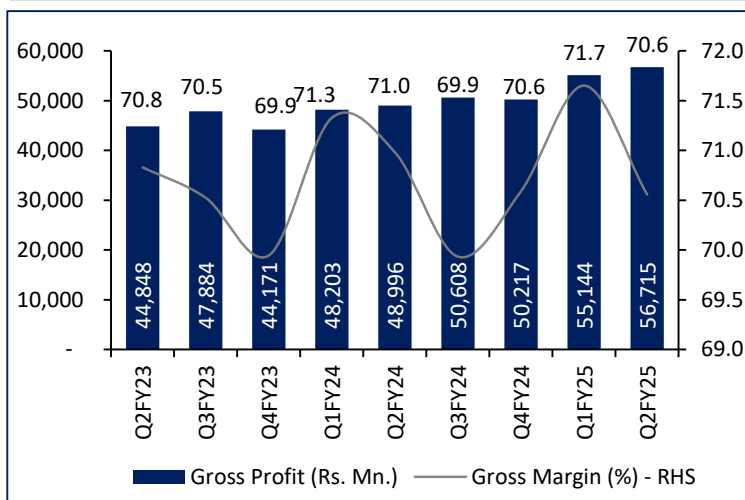
Source: Company, CEBPL

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



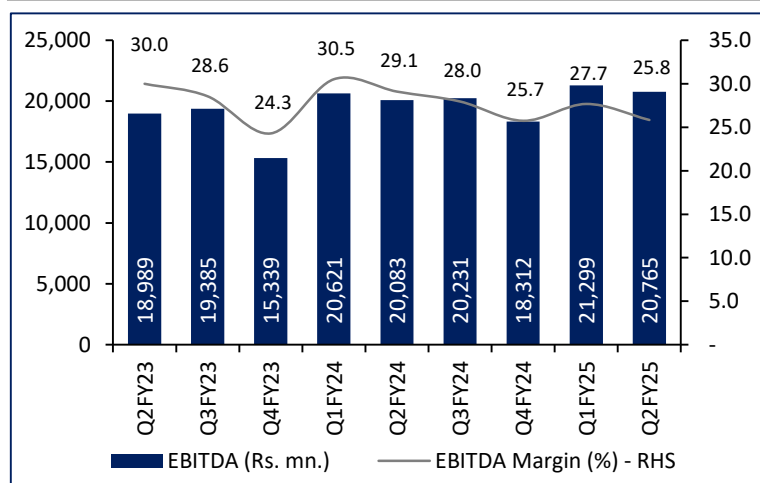
Source: Company, CEBPL

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



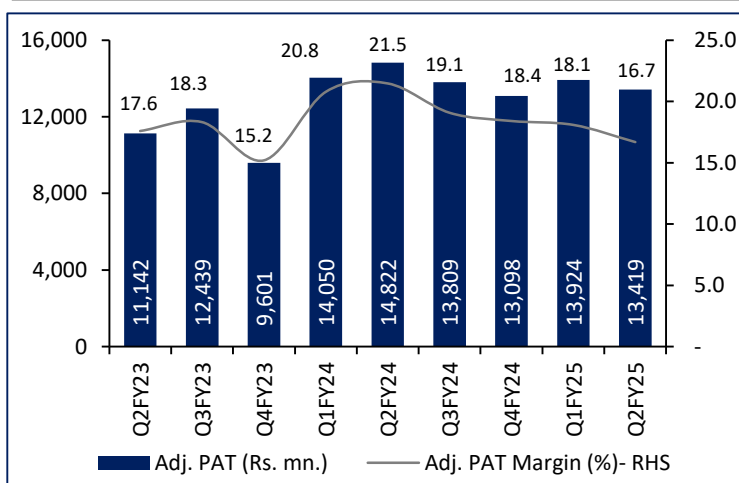
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



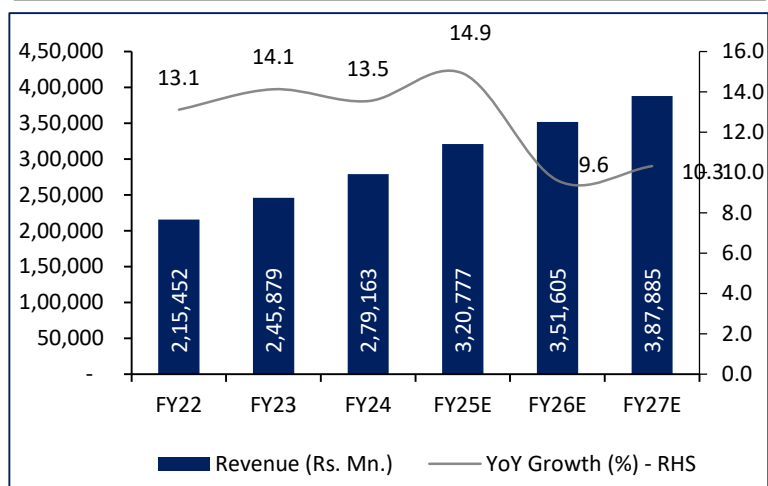
Source: Company, CEBPL

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



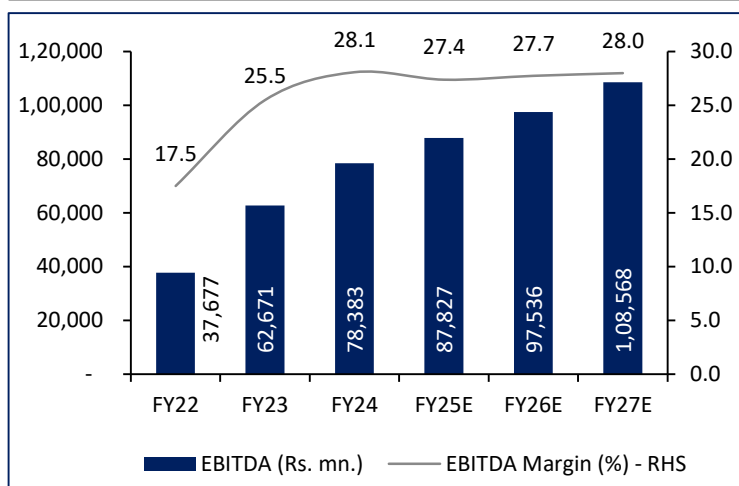
Source: Company, CEBPL

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



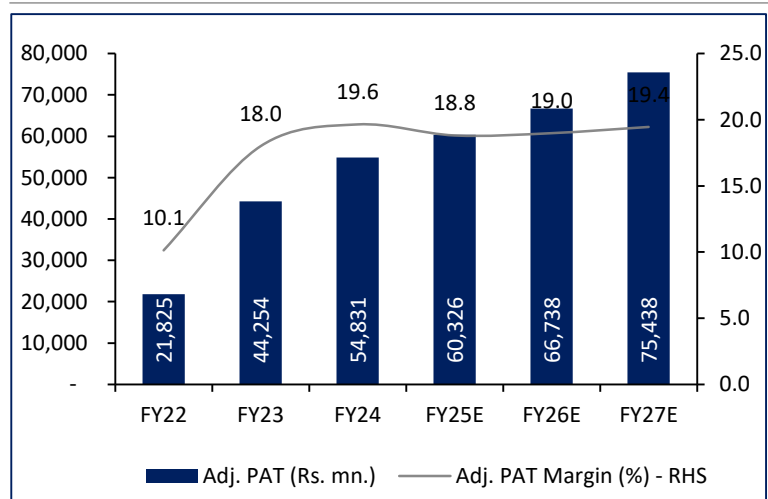
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



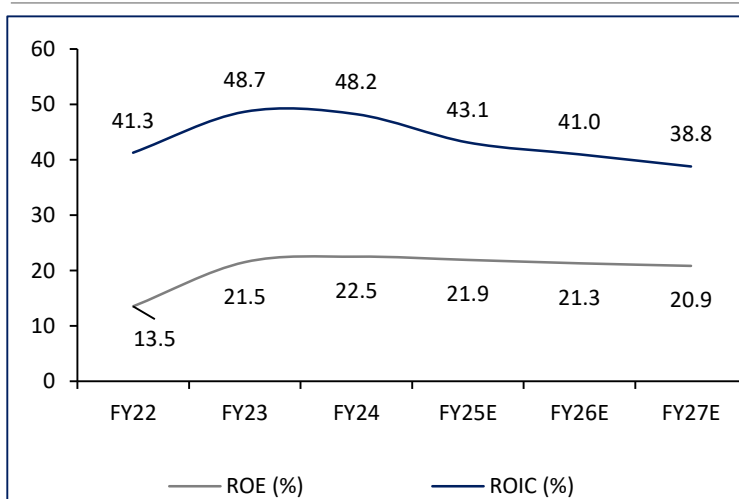
Source: Company, CEBPL

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



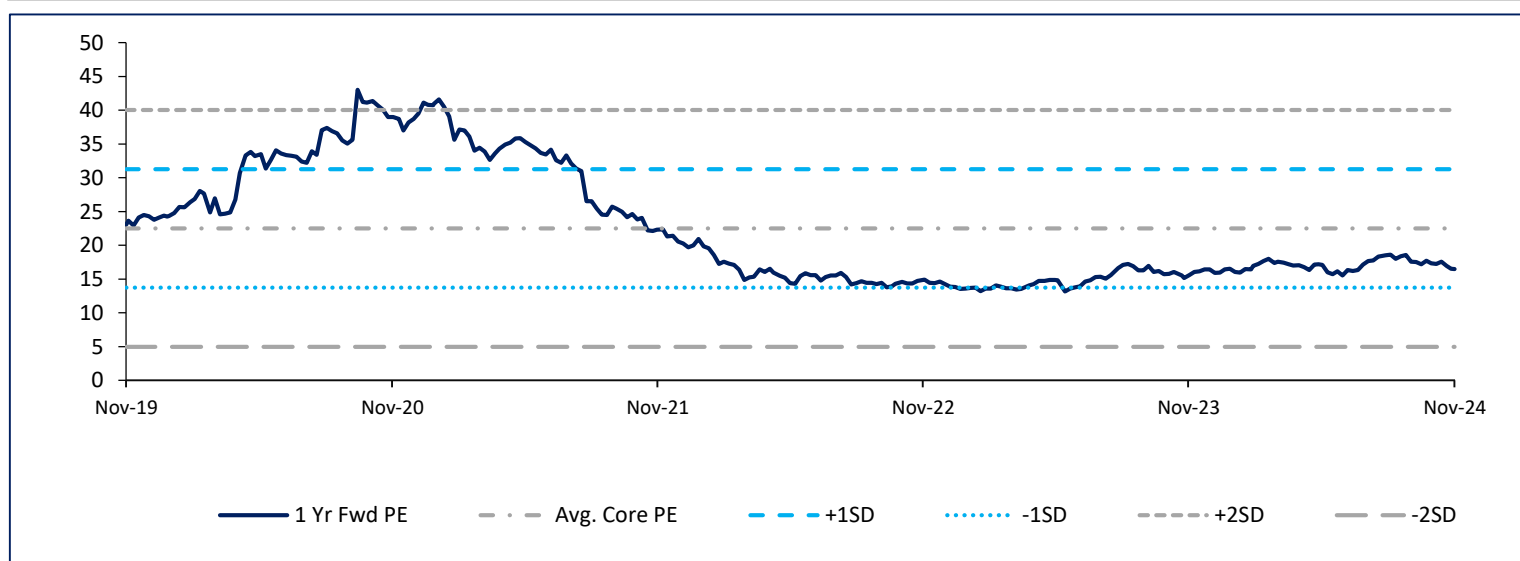
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,15,452	2,45,879	2,79,163	3,20,777	3,51,605	3,87,885
Gross profit	1,41,030	1,69,301	1,97,076	2,26,723	2,50,484	2,76,911
EBITDA	37,677	62,671	78,383	87,827	97,536	1,08,568
Depreciation	11,652	12,502	14,700	15,217	15,561	15,801
EBIT	26,025	50,169	63,683	72,610	81,975	92,767
Other income	4,844	10,555	8,943	9,623	8,790	9,697
Interest expense	958	1,428	1,711	1,982	1,965	2,064
PBT	30,614	59,666	71,062	80,435	88,984	1,00,585
Reported PAT	21,825	44,254	54,831	60,326	66,738	75,438
EPS (INR)	26.2	53.1	65.7	72.3	80.0	90.5

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	1,92,124	2,32,861	2,82,548	3,30,809	3,84,199	4,44,550
Borrowings	33,845	13,472	20,020	22,022	23,123	24,279
Trade Payables	22,662	22,684	26,144	29,002	31,789	35,069
Other non-current liabilities	1,941	2,991	4,220	3,879	4,208	4,607
Other current liabilities	46,897	50,843	55,706	64,514	62,740	68,835
Total Net Worth & liabilities	2,97,469	3,22,851	3,88,638	4,50,225	5,06,059	5,77,340
Net Block	48869	56542	62487	61270	59709	55908
Capital WIP	12,796	9,752	13,510	14,500	12,500	12,500
Goodwill & intangible assets	32,484	36,198	42,452	39,869	42,069	42,069
Investments	26,159	49,858	49,305	67,363	86,495	1,07,056
Trade Receivables	66,764	72,485	80,298	94,915	1,05,963	1,22,210
Cash & Cash equivalents	24,192	17,302	17,277	20,705	21,814	21,366
Other non-current assets	19,511	10,742	16,881	14,504	12,206	12,352
Other current assets	66,694	69,972	1,06,428	1,37,099	1,65,302	2,03,879
Total Assets	2,97,469	3,22,851	3,88,638	4,50,225	5,06,059	5,77,340

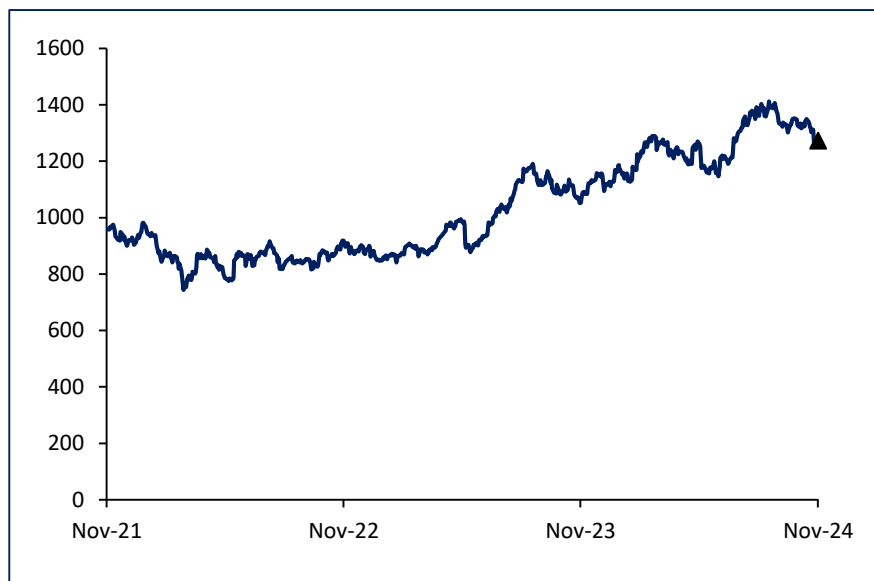
Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E	FY27E
CFO	28,108	58,875	45,433	50,576	58,387	60,253
CFI	(26,387)	(41,373)	(40,283)	(18,815)	(33,332)	(32,562)
CFF	(2,422)	(26,861)	(3,763)	(18,164)	(23,946)	(28,140)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	13.1	14.1	13.5	14.9	9.6	10.3
Gross Profit	8.7	20.0	16.4	15.0	10.5	10.5
EBITDA	(2.6)	66.3	25.1	12.0	11.1	11.3
EBIT	(1.5)	92.8	26.9	14.0	12.9	13.2
PBT	6.2	94.9	19.1	13.2	10.6	13.0
PAT	11.8	102.8	23.9	10.0	10.6	13.0
Margins (%)	-	-	-	-	-	-
Gross Profit	65.5	68.9	70.6	70.7	71.2	71.4
EBITDA	17.5	25.5	28.1	27.4	27.7	28.0
EBIT	12.1	20.4	22.8	22.6	23.3	23.9
PBT	14.2	24.3	25.5	25.1	25.3	25.9
Tax rate	28.7	25.8	22.8	25.0	25.0	25.0
PAT	10.1	18.0	19.6	18.8	19.0	19.4
Profitability (%)	-	-	-	-	-	-
ROE	13.5	21.5	22.5	21.9	21.3	20.9
ROIC	41.3	48.7	48.2	43.1	41.0	38.8
ROCE	11.5	20.4	21.0	20.6	20.1	19.8
Financial leverage (x)						
Pre-tax OCF/EBITDA	1.0	1.2	0.8	0.8	0.8	0.8
OCF / Net profit	1.3	1.3	0.8	0.8	0.9	0.8
EV/EBITDA	28.4	16.9	13.6	12.1	10.9	9.8
Earnings						
EPS	26.2	53.1	65.7	72.3	80.0	90.5
Shares outstanding	832	833	834	834	834	834
Working Capital (x)						
Inventory days	86	72	83	83	84	86
Receivable days	113	108	105	108	110	115
Creditor days	38	34	34	33	33	33
Working Capital Days	161	146	154	158	161	168

Source: Company, CEBPL

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



Dr. Reddy's Laboratories

1.	30-10-2021	ADD,	Target Price Rs.1,040
2.	31-01-2022	ADD,	Target Price Rs.887
3.	23-05-2022	ADD,	Target Price Rs.949
4.	28-07-2022	ADD,	Target Price Rs.947
5.	31-10-2022	OUTPERFORM,	Target Price Rs.1,077
6.	26-01-2023	OUTPERFORM,	Target Price Rs.1,006
7.	11-05-2023	ADD,	Target Price Rs.1,058
8.	27-07-2023	ADD,	Target Price Rs.1,194
9.	29-10-2023	ADD,	Target Price Rs.1,207
10.	30-01-2024	ADD,	Target Price Rs.1,283
11.	08-05-2024	BUY,	Target Price Rs.1,431
12.	29-07-2024	BUY,	Target Price Rs.1,502
13.	06-11-2024	HOLD,	Target Price Rs.1,449

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BUY	The security is expected to generate greater than or = 15% over the next 12 months
HOLD	The security expected to show upside or downside returns by 14% to -5% over the next 12 months
SELL	The security expected to show Below -5% next 12 months

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