

Sales Note

DR. REDDY LABORATORIES Ltd.
CMP: Rs. 5,583 | TARGET PRICE: Rs. 6,666 (19.40%)

Company Profile

Dr. Reddy Lab is a prominent pharmaceutical company with a global presence. Its major revenue driver is global generics, contributing to about 79% of its overall sales. The company offers over 400 high-quality generic drugs across various therapeutic areas, such as gastrointestinal ailments, cardiovascular disease, pain management, oncology, and more. Additionally, DRL is a leading API manufacturer, partnering with generic formulator companies worldwide. The proprietary products segment constitutes approximately 6% of the company's sales and focuses on innovative formulations to address unmet patient needs. DRL's subsidiary, Aurigene Discovery, specializes in developing novel therapeutics for cancer and inflammation, boasting a comprehensive drug discovery and development infrastructure. They have pioneered custom drug discovery collaborations with pharmaceutical companies of different sizes.

Investment Rationale

Strong product pipeline to drive US Segment Growth: In FY2023, the company has an impressive total of 85 ANDA filings awaiting USFDA approval. Among them, 43 are Para IV filings, and a notable 17 are expected to have First-to-File (FTF) status. Additionally, the company has three NDAs pending approval under the 505(b)(2) route. The company's strong pipeline is highlighted by nearly 54% of these filings, mainly comprising complex generics, including numerous FTFs and novel drugs. This robust pipeline is expected to fuel profitable revenue growth over the next 4-5 years. In FY2024, the company is geared up to launch approximately 25-30 products, with injectable and more. To boost its offerings, the company has acquired Mayne Pharma's prescription product portfolio. This acquisition includes 45 products that are already in commercial circulation, 4 products in the pipeline, and 40 approved but not yet marketed products. Among these are several generic products catering to women's health, such as a hormonal vaginal ring and a birth control pill, along with a cardiovascular product specifically for the U.S. market. Which is expected to drive substantial growth in the U.S. over the short to medium term.

Foray into trade generic business to boost Indian business segment: The Company experienced steady growth of approximately 17% in the Indian market in FY2023, contributing 20% to total revenue. The growth in FY2023 was primarily driven by increased pricing of existing products, revenue from new product launches of 9 new brands, and divestment of non-core brands. The core growth, excluding these factors, was slower at around 2.5%, with Dr. Reddy's India segment underperforming the India Pharma Market's growth of approximately 7.9% year-on-year for FY2023, mainly due to a decline in volumes according to IQVIA. The company's recent entry into the trade generics business in India with the new division 'RGenX,' launched in June 23, is expected to have a positive impact by driving higher volumes. This move has the potential to elevate the company from being the tenth player to becoming the fifth largest pharmaceutical player in India. Trade generics offer reduced investments and a low-profitability model but can significantly boost volumes, leading to improved operating leverage and higher profitability over the medium to long term.

Company Detail

Industry	Pharma
BSE Code	500124
NSE Code	DRREDDY
Bloomberg Code	DRRD IN
Market Cap (INR Cr)	92,979
Promoter Holding (%)	26.69%
52wk Hi/Lo	5,618 / 3,996
Avg. 20 Daily Volume (NSE)	4,56,991

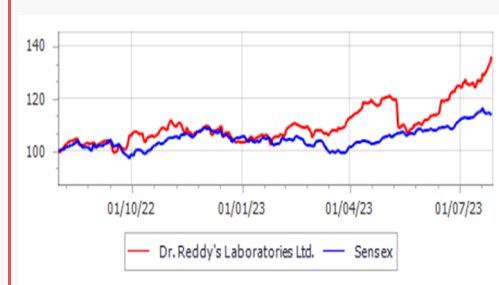
Shareholding Pattern (%)

Category	Dec-2022	Jun-2023
Promoter	26.69	26.69
Public	22.78	24.11

Public Holding More than 1% (Jun-23)

Name	% of Shares
J.P Morgan Chase Bank	12.54%
LIC Fund	9.72%
FIRST SENTIER INVESTORS ICVC	2.2%
HDFC ETF Fund	1.77%
HDFC Life Insurance Co. Ltd	1.04%
SBI-ETF Nifty 50	1.68%

Share Price Performance



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Dr. Reddy's Laboratories Ltd (DRRD)

Date: 03 July, 2023

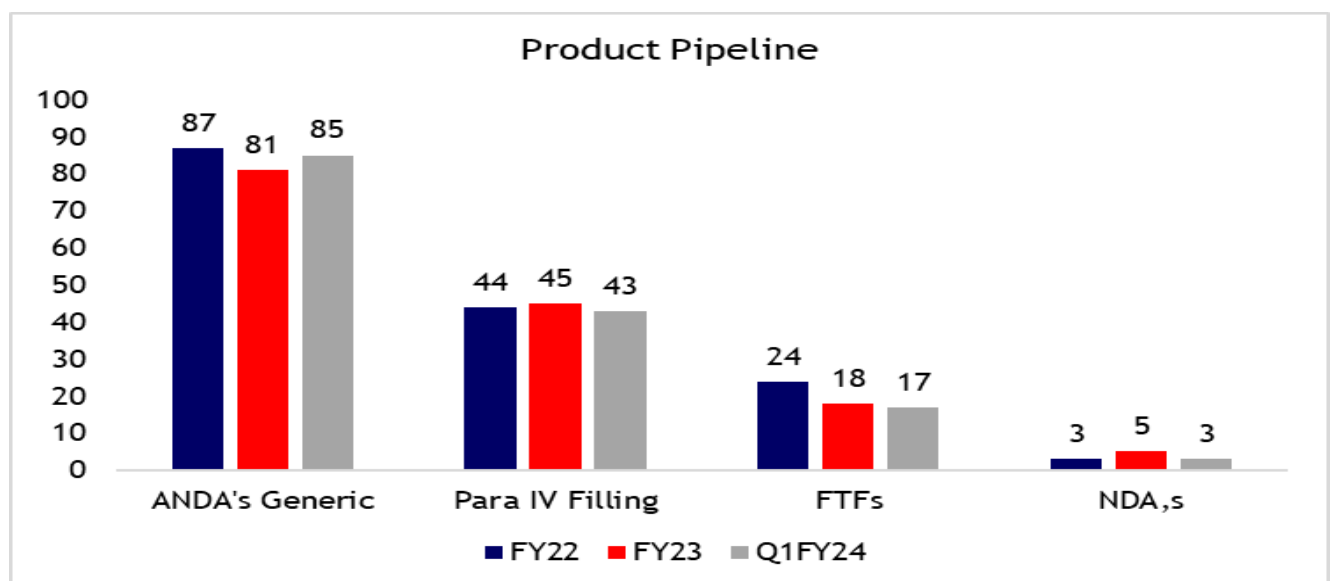
Launched of gRevlimid lead to strong growth in North America: In FY2023, the company witnessed 35.8% growth in revenue for the U.S. market to Rs. 10,170 crore, which contribute 41% of the total revenue, growth was driven by new product launches such as lenalidomide (gRevlimid), sorafenib (gNexavar), and pemetrexed injection (gAlimta), increased volumes for certain products such as Icosapent ethyl (gVascepa) and daptomycin, and partially offset by pricing pressure in the base business. However, In Q1FY24, the company earning has exceeded the consensus estimate and grew by 79% YoY and 26% QoQ largely driven by gRevlimid sale and volume growth in existing product. Nevertheless, it can be noted that for March 2023, Dr. Reddy's market share for gRevlimid increased to 4.9% in March 2023 vs. 3.1% in Feb 2023 and 1.5% in September 2022. We believe gRevlimid will continue to remain a key product for the U.S. market until the settlement agreement ending in January 2026. We expect the base business to continue to witness price erosion due to competitive intensity in the U.S. market.

Capacity Expansion to scale Growth: The company invested in increasing the production capacity of multiple products at its API Srikakulam plant (SEZ) in Andhra Pradesh, India. They also spent money on improving their oncology formulations' injectables facility at Srikakulam Plant 11, Andhra Pradesh, which was established in FY2022. As of FY2023, the company has capital work in progress of Rs. 996 crore and a capital investment commitment of Rs. 834 crore for expanding their manufacturing and research facilities in India and Mexico. These investments aim to enhance the capacity of the formulation injectable facility at Srikakulam, Andhra Pradesh, and establish a new capacity at its Biologics facility in Hyderabad, Telangana, India. The company believes it can fund these expansion plans through internal accruals. Most of these projects are expected to be completed by FY2024E and FY2025E, leading to stronger profitable growth in the medium to long term.

VALUATION & RECOMMENDATION

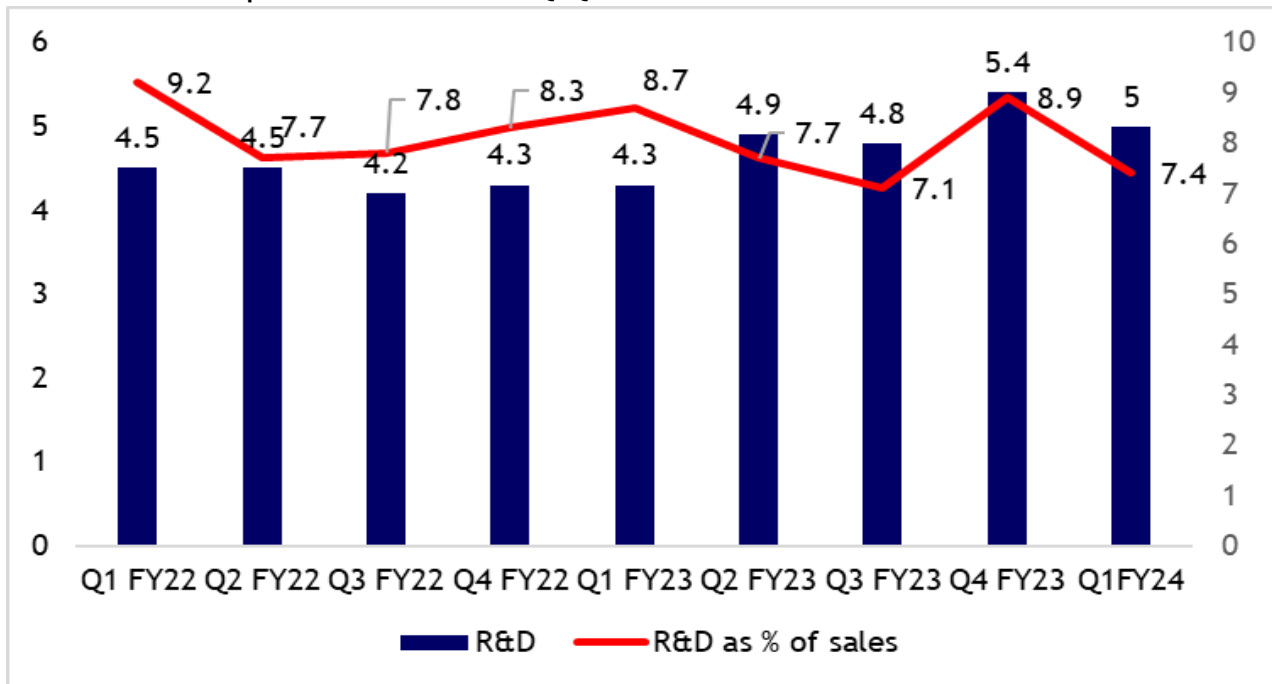
- DRRD LTD. Stock is trading at forward PE multiple of 18(x)FY25E.
- We estimate a CAGR of 11% growth in revenue during FY23 - FY25 period.
- Profit after tax of Rs 5,046 Cr. crore is estimated for FY25E. We Applied a PE (x) multiple of 22(x) and arrive at a market Capitalization of Rs. 1,11,018 Cr. Vs current Market Capitalization Rs 92,979 Cr.
- A 19.40% upside is visible as per valuations.
- We maintain on 'DRRD Ltd' with 'BUY' rating and a target price of Rs. 6,666/share .

Exhibit 1: Pending USFDA Approval.



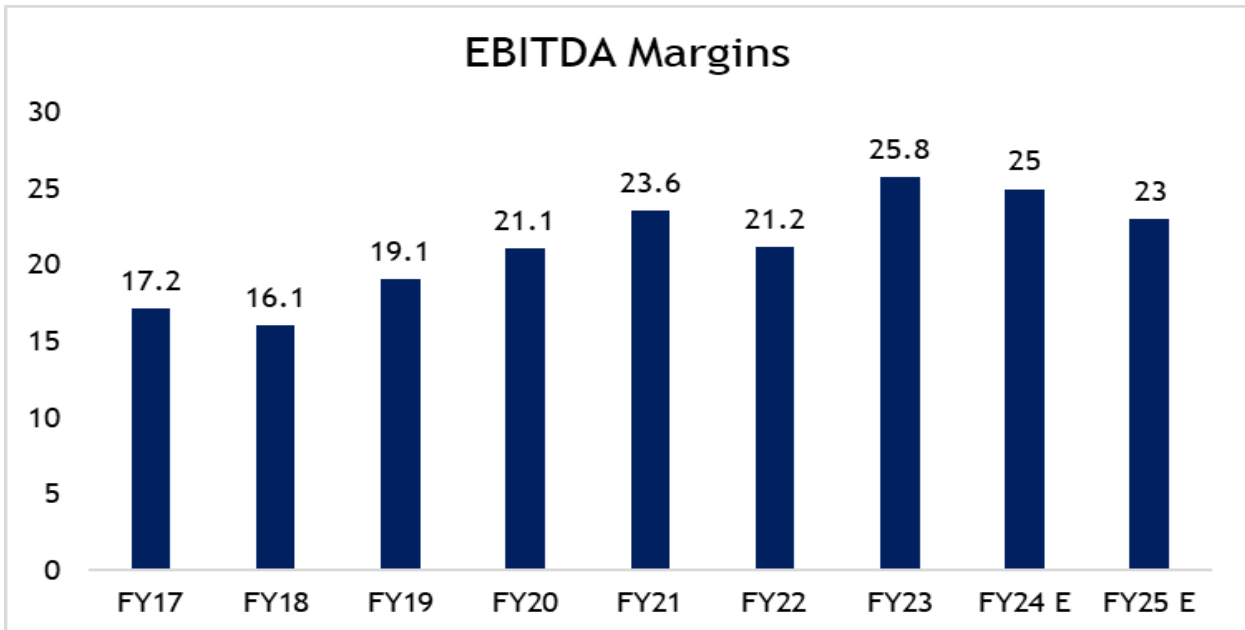
Sources: Company Data , GEPL Research

Exhibit 2: R&D spend remain stable on QoQ basis



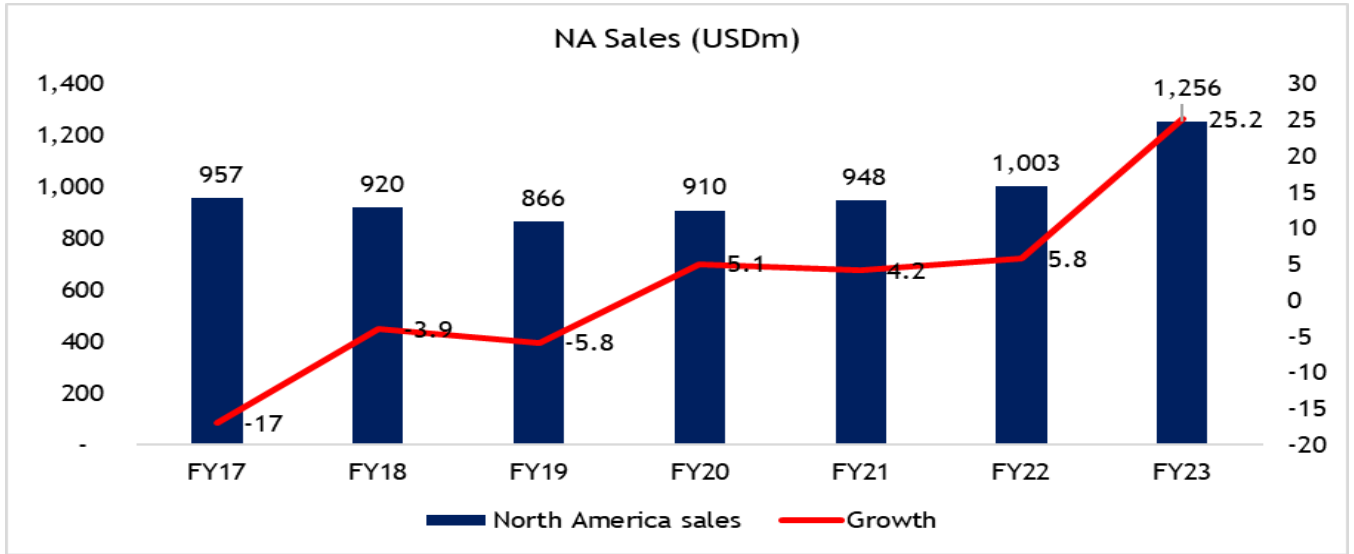
Sources: Company Data , GEPL Research

Exhibit 3: EBITA Margins to be stable over FY23 to FY25.



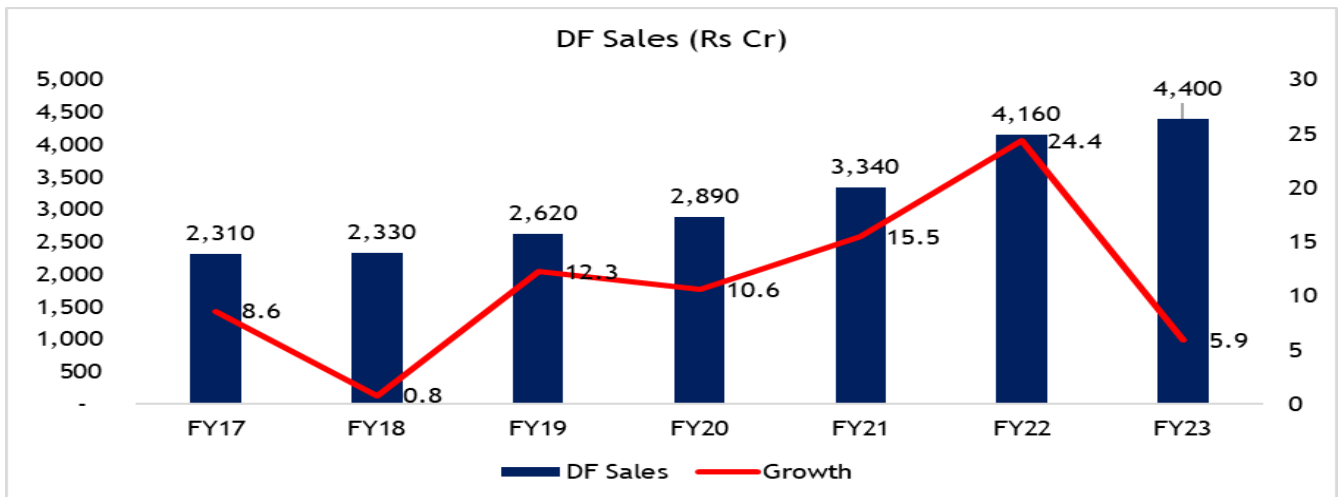
Sources: Company Data , GEPL Research

Exhibit 4: North America Sales



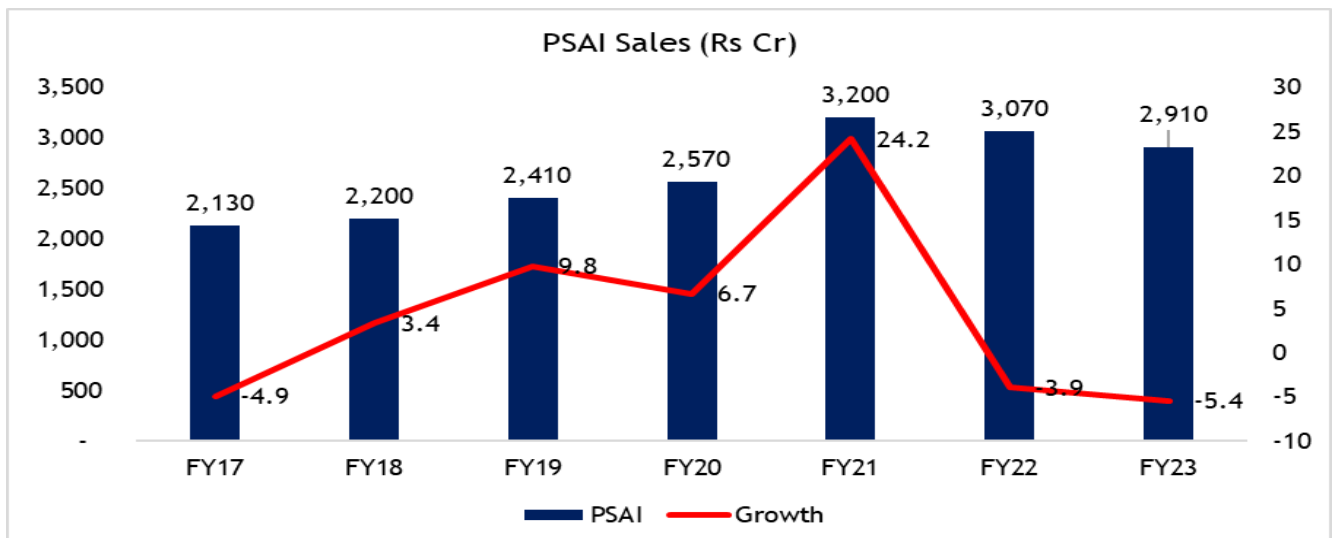
Sources: Company Data , GEPL Research

Exhibit 5: DF Sales remain stable from FY19 to FY22



Sources: Company Data , GEPL Research

Exhibit 6: PSAI Sales remain stable from FY19 to FY22



Sources: Company Data , GEPL Research

Dr. Reddy Laboratories Ltd. (DRRD)



Date: 31 July, 2023

Exhibit 6: All time high valuations corrected to historical low levels aids comfort.

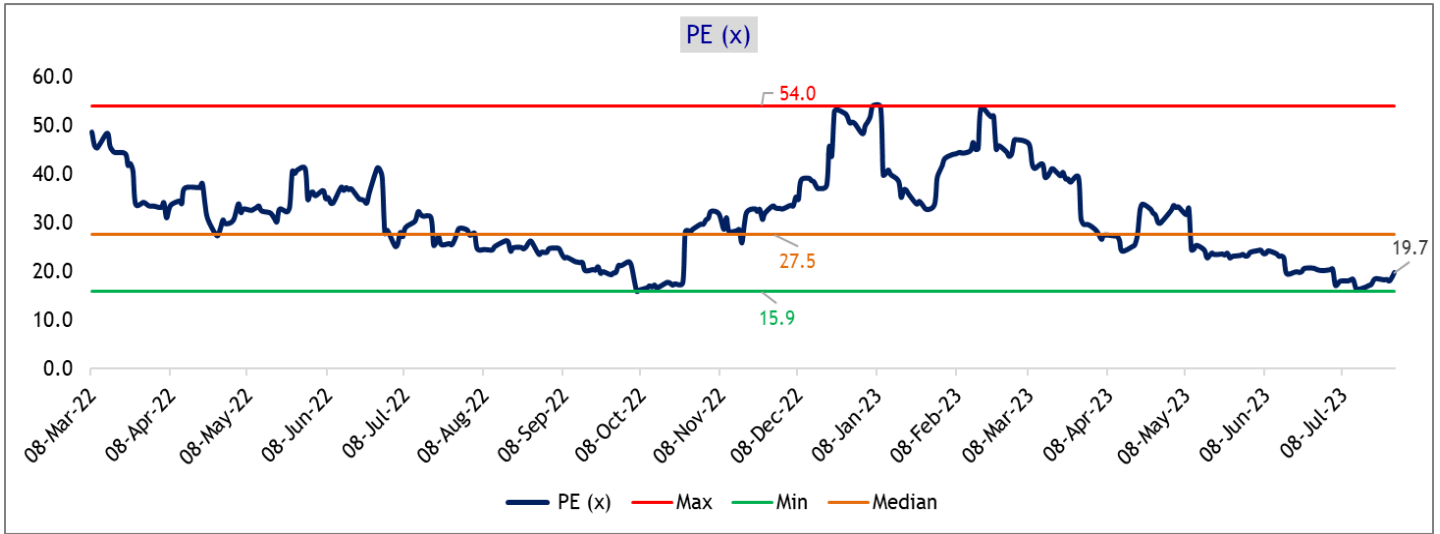


Exhibit 7: EV/ EBITDA trading at historical low levels

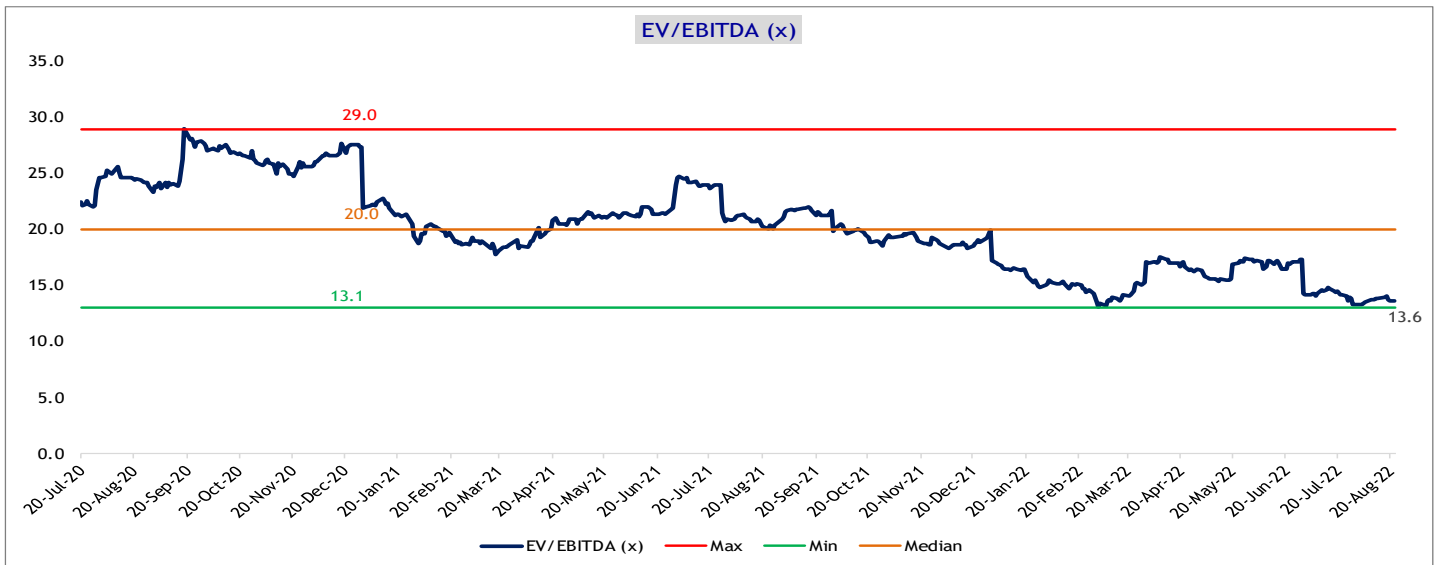
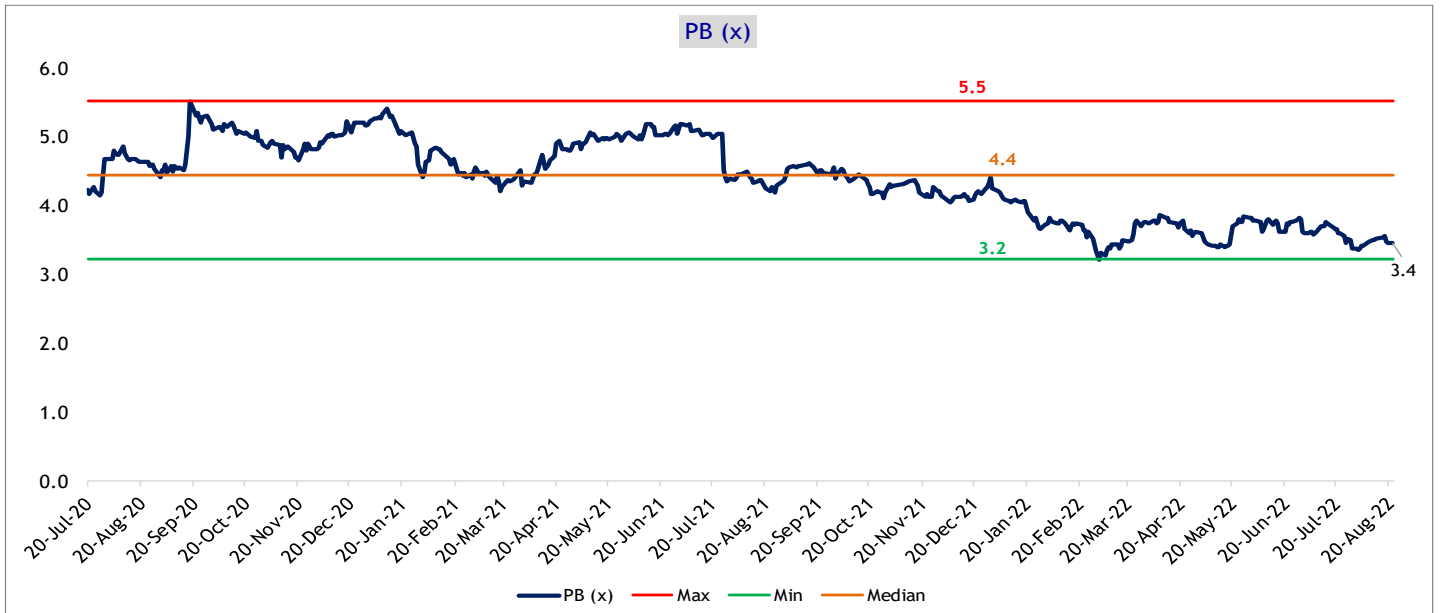


Exhibit 8: Premium to equity has corrected to 3.4(X) from Highs of 4.4 (x)



Dr. Reddy Laboratories Ltd. (DRRD)



Date: 31 July, 2023

Exhibit 9: Profit and Loss Statement

In Rs. Cr.	FY 21	FY 22	FY 23	FY 24E	FY 25E
Net Operating Revenue	19,048	21,545	24,670	27,630	30,393
%growth		13%	15%	12%	10%
COGS	7,974	9,435	9,874	11,605	12,765
Gross Profit	11,074	12,110	14,796	16,025	17,628
Operating Expense	7,204	8,343	8,447	9,118	10,638
EBITDA	3,870	3,767	6,349	6,908	6,990
EBITDAM%	20.3%	17.5%	25.7%	25.0%	23.0%
Other Income	291	485	1,056	1,056	1,056
Depreciation & Amr.	1,229	1,165	1,250	1,210	1,227
EBIT	2,933	3,087	6,154	6,753	6,819
Interest	97	96	143	145	91
Exceptional items	-	-	-	-	-
Pre-Tax Profit	2,836	2,991	6,012	6,608	6,728
Tax Rate%	32.9%	29.4%	25.6%	25.0%	25.0%
Tax Provision	932	879	1,541	1,652	1,682
Profit After Tax	1,904	2,112	4,470	4,956	5,046
PATM%	10.0%	9.8%	18.1%	17.9%	16.6%
%growth	-3%	11%	112%	11%	2%

Exhibit 10: Balance Sheet

In Rs Cr.	FY 21	FY 22	FY 23	FY 24E	FY 25E
Shareholder's Fund	17,642	19,212	23,286	27,746	32,288
Equity Share Capital	83	83	83	83	83
Reserves and Surplus	17,559	19,129	23,203	27,663	32,205
Non-Current Liabilities	(197)	(508)	(278)	410	445
Long Term Borrowings	630	575	128	134	141
Other Long Term Liabilities	(827)	(1,083)	(406)	276	304
Current Liabilities	8,104	9,766	8,572	4,791	5,151
Short Term Borrowings	2,315	2,708	739	1,934	2,128
Trade Payables	1,811	2,266	2,268	2,299	2,719
Other Current Liabilities	3,978	4,791	5,565	558	304
Total Equity & Liabilities	25,548	28,470	31,580	32,948	37,884
Non-Current Assets	10,998	10,682	11,264	10,796	12,161
Net Fixed Assets	8,817	8,135	9,274	8,899	9,021
Capital Work In Progress	954	1,280	975	975	975
Non-Current Investments	833	593	646	646	646
Other Non-Current Assets	394	674	369	276	1,520
Current Assets	14,535	17,788	20,316	22,152	25,722
Inventories	4,541	5,088	4,867	5,850	6,435
Trade Receivables	4,964	6,676	7,249	7,343	7,911
Cash And Cash Equivalents	2,079	2,419	1,730	2,536	3,842
Other Current Assets	2,951	3,604	6,470	6,424	7,534
Total Assets	25,533	28,470	31,580	32,948	37,883

Exhibit 11: Cash Flow Statement

In Rs Cr.	FY 21	FY 22	FY 23	FY 24E	FY 25E
Reported PBT	2,836	2,991	6,048	6,608	6,728
Non-operating & EO items	761	1,142	303	-	-
Interest expense	97	96	143	145	91
Depreciation	1,229	1,165	1,250	1,210	1,227
Working capital changes	(829)	(1,841)	(786)	(1,047)	(732)
Taxes Paid	(572)	(744)	(1,071)	(1,652)	(1,682)
Operating Cash Flow (a)	3,522	2,810	5,887	5,264	5,631
Capex	(1,256)	(1,905)	(1,887)	(1,934)	(2,128)
Free Cash Flow	2,266	905	4,000	3,330	3,504
Others	(30)	(734)	(2,251)	(198)	(202)
Investing Cash Flow (b)	(1,286)	(2,639)	(4,137)	(2,132)	(2,329)
Interest expense	(132)	(135)	(185)	(145)	(91)
Dividend	(415)	(415)	(498)	(545)	(555)
Others	517	307	(2,003)	(1,301)	(1,350)
Financing Cash Flow (c)	(30)	(242)	(2,686)	(1,991)	(1,996)
Net Cash Flow (a+b+c)	2,207	(71)	(937)	1,141	1,306
Closing Cash Balance	2,403	2,331	1,395	2,536	3,842

Notes

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

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Analyst Certification

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