

DR. REDDY'S LABORATORIES LTD.

Buy at CMP: Rs 5820 | Target: Rs 6781 (17%) | SL: Rs 5320

Sector

Healthcare

Sep 18, 2023

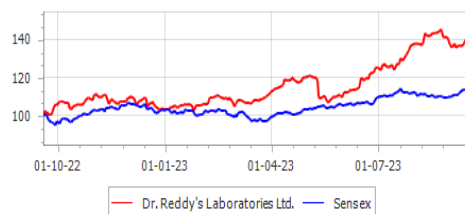
Dr.Reddy's

Script Details

BSE Group	A
BSE Code	500124
NSE Code	DRREDDY
Bloomberg Code	DRRD IN
Market Cap (INR Cr.)	93,657
Free Float (%)	73.3%
52wk Low/High	5660/3996
Beta (1yr Nifty 50)	0.41
Face Value (INR)/ D. Yield (%)	5/0.7
Total paid Up Shares (Mn.)	166.8

Share Holding Pattern (%)

Promoters	Public	Others
26.7%	73.3%	-

Share Price Relative Performance

Dr Reddy's Laboratories has been catering to the needs of the pharmaceutical sector for over two decades. Active Pharmaceutical Ingredients (API) are their core strength, having a wide range of portfolio. The company also manufactures generic medicines with business spread across India, Russia, US and Germany as well as Proprietary Products which includes NCE research, biologics business and differentiated formulations conducted in the US. Under this the company has launched Grafeel (Filgrastim) and Reditux (Rituximab).

Investment Rationale

- ◆ **Gross Margins Guidance Improved :** The company use to guide margins gross margins of 53% before launch of Revlimid, however post launch of the same, DRREDDY now guides for 59% margins in FY24 on the back of higher realizations, softening freight rates and changing product mix, thus higher margins for FY24 to provide operating leverage in net earnings.
- ◆ **Strong Product Pipeline to Drive Growth:** Dr Reddy's has prepared a strong portfolio for new launches as inFY2023, It has 85 ANDA filings awaiting US FDA approval, with 43 Para IV and 17 expected First-to-File (FTF) status. These pipelines are composed of 54% complex generics fueling growth for next 4-5 years. In FY24, 25-30 product launches are planned, including injectable, this products to drive.
- ◆ **Capacity Expansion to cement Growth:** The company is investing in expanding its production capabilities in India, particularly in Andhra Pradesh, and also in Mexico. These investments include improving their oncology formulations facility and establishing new capacity for biologics. They plan to fund these expansions through their own earnings and expect most of the projects to be completed by 2024 and 2025, leading to stronger long-term revenue visibility.
- ◆ **Outlook and Valuations:** We estimate DRREDDY to report PAT of INR 7171 Cr of PAT by FY26E. Which implies forward PE of 13.1(x) for FY26E. We value it with a Price to Earnings of 17.5x to FY25E EPS which results per share value of INR 6781. We recommend BUY on DRREDDY at CMP of INR 5820 with Target price of INR 6781 (17%).

Financial Snapshot

Year	Revenue	EBITDA	PAT	PE Ratio (x)	EV/EBITDA (x)
FY23	26,195	7,433	4,723	19.8	11.9
FY24E	30,124	8,585	5,422	17.3	10.8
FY25E	34,642	9,873	6,236	15.0	9.4
FY26E	39,839	11,354	7,171	13.1	8.2

Source: Company Data, Ace Equity, GEPL Research

TECHNICAL VIEW

Observation

- Recently, DRREDDY's shares have crossed the pivotal mark of 5566, which now appears to be a foundational support, given the subsequent positive movement.
- In the late July 2023, the stock demonstrated a prominent breakout from its rounding bottom formation, signaling a potential commencement of a bullish phase. This trend is accompanied by a noticeable surge in trading volumes, suggesting strong buying interest.
- Throughout this timeframe, DRREDDY's stock has consistently held above the 12-Week Exponential Moving Average (EMA), which acts as a dynamic cushion for the stock.
- Adding to this bullish narrative, the weekly Relative Strength Index (RSI) is on an upward trajectory and has comfortably remained above the 60 level, pointing to a sustained positive momentum.



Inference & Expectations

- Considering these factors, it can be inferred that DRREDDY stock is set to begin uptrend.
- Going ahead we expect the prices to move higher till 6800 level.
- The stop loss must be at 5320 level, strictly on the closing basis.

Source: Tradingview.in, GEPL Research



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