

Retail Equity Research

Dr. Reddy's Laboratories Limited

Pharmaceuticals

BSE CODE: 500124

NSE CODE: DRREDDY

Bloomberg CODE: DRRD:IN

SENSEX: 50,193

BUY

12Month Investment period Rating as per Large Cap
CMP Rs. 5,215 TARGET Rs. 6,209 RETURN 19% ↑
(Closing: 18-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Outlook promising with Sputnik V launch

Dr. Reddy's Laboratories is an Indian pharmaceutical manufacturer. The company is engaged in manufacturing and marketing of 190+ medications, 60+ APIs, as well as diagnostic kits and other biotechnology products.

- Q4FY21 revenue rose 7.2% YoY but saw 3.5% QoQ decline. Downswing in the main business of Global Generics (-4.3% QoQ) offset the growth momentum in PSAI business (+12.2% QoQ).
- EBITDA grew 11.0% YoY (-7.2% QoQ) with margin expanding 70bps YoY to 22.1%. R&D cost totaled Rs. 410cr (8.7% of sales vs. 8.3% in Q3FY21).
- Excluding the effects of impairment, adj. PAT stood at Rs.559cr (-10.6% QoQ, -28.5% YoY).
- The Cost synergies from Wockhardt acquisition and strong product pipeline should help improve margins in the long term. Biosimilar products and cell therapies (for oncology patients) are expected to act as long-term growth catalysts for the company. Hence, we reiterate our BUY rating on the stock with revised target price of Rs. 6,209 based on 26x FY23E adj. EPS.

Topline driven by API business

For Q4FY21, Consolidated revenue reached Rs. 4,768cr (+7.2% YoY, -3.5% QoQ) due to contribution from portfolio acquired from Wockhardt, new product launches, improvement in volumes and favorable forex. These drivers were partly offset by the price erosion from increased competition. By business division, Global Generics revenue totaled Rs. 3,901cr (+7.0%YoY, -4.3% QoQ) while PSAI business reached Rs. 992cr (+13.0% YoY, +12.2% QoQ). By geography, North America Generics was largely flat at Rs. 1,749cr (+0.6%QoQ). However, outlook remains strong with 6 new product launches in the region. India revenues was at Rs. 845cr (-11.9% QoQ) affected by reduced COVID drug sales and seasonality. Russia followed similar track at Rs. 400cr (-11.0% QoQ). Europe also fell to Rs. 396cr (-4.5% QoQ) with lower volumes.

Margins weighed down by acquisition integration costs

In Q4FY21, gross profit was down to Rs. 3,227cr (-2.3% QoQ, +10.6% YoY), while margin improved to 67.7% (+81bps QoQ, +209bps YoY) due to increased leverage from manufacturing overheads. Resultantly, EBITDA declined to Rs. 1,055cr (-7.2% QoQ, +11.1% YoY) with margin of 22.1% (-90bps QoQ, +70bps YoY) on account of integration costs of Wockhardt. R&D for quarter stood at Rs.410cr (8.7% of revenues).

Key concall highlights

- Sputnik V vaccine demonstrated 91.6% efficacy and received emergency use authorization in April 2021. Rights are for 250mn doses (i.e. 125mn patients).
- During Q4FY21, Dr. Reddy's Labs launched 6/3/4/1/2 new products in North America/Germany/UK/Italy/Spain respectively.
- During the quarter, 57 drug master files, 60 formulation products, including 11 ANDAs and 1 NDA were filed in the US.

Valuation

Cost synergies from Wockhardt acquisition should help improve margins over long-term. With 92 ANDAs and 3NDAs, US product pipeline remains strong. Biosimilar products and cell therapies (for oncology patients) are expected to act as long-term growth catalysts for the company. Hence, we reiterate our BUY rating on the stock with revised target price of Rs. 6,209 based on 26x FY23E adj. EPS.

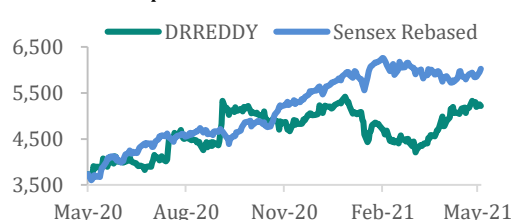
Company Data

Market Cap (cr)	Rs. 86,731
Enterprise Value (cr)	Rs. 88,681
Outstanding Shares (cr)	16.6
Free Float	73.0%
Dividend Yield	0.5%
52 week high	Rs. 5,515
52 week low	Rs. 3,663
6m average volume (lacs)	0.6
Beta	0.4
Face value	Rs. 5

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	26.7	26.7	26.7
FII's	29.6	29.1	29.0
MFs/Insti	14.2	15.0	15.2
Public	21.6	20.9	20.5
Others	8.0	8.3	8.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	12.9%	10.9%	41.8%
Absolute Sensex	-2.2%	13.6%	67.1%
Relative Return*	15.1%	-2.7%	-25.3%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	19,048	23,771	24,974
Growth (%)	8.7	24.8	5.1
EBITDA	4,547	5,485	6,376
EBITDA Margin (%)	23.9	23.1	25.5
Adj. PAT	2,628	3,337	3,972
Growth (%)	(29.0)	27.0	19.0
Adj. EPS	158.0	200.6	238.8
Growth (%)	(29.1)	27.0	19.0
P/E	28.6	26.0	21.8
P/B	4.3	4.2	3.6
EV/EBITDA	16.8	16.2	13.7
ROE (%)	11.1	16.3	16.6
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	% YoY Growth	Q3FY21	% QoQ Growth	FY21	FY20	% YoY Growth
Revenue	4,768	4,449	7.2	4,942	(3.5)	19,048	17,517	8.7
EBITDA	1,055	950	11.0	1,137	(7.2)	4,547	4,147	9.6
EBITDA margins	22.1	21.4	70bps	23.0	(90bps)	23.9	23.7	20bps
Depreciation	309	274	12.7	311	(0.8)	1,229	1,163	5.6
EBIT	746	676	10.4	825	(9.6)	3,318	2,984	11.2
Interest	30	23	29.1	19	58.0	97	98	(1.3)
Other Income	83	74	12.2	71	17.2	291	621	(53.0)
Exceptional Items	(1)	(1)	114.3	(597)	(99.7)	(677)	(1,677)	59.6
PBT	797	726	9.9	280	185.0	2,836	1,830	55.0
Tax	258	(45)	674.4	267	(3.4)	932	(140)	764.2
Sh. of profit from Associate	18	11	70.5	15	18.5	48	56	(3.4)
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	557	781	(28.7)	28	n.m.	1,952	2,026	(3.7)
Adjustments	1	1	114.3	597	n.m.	677	1,677	(59.6)
Adj. PAT	559	782	(28.5)	625	(10.6)	2,628	3,703	(29.0)
No. of shares	16.6	16.6	0.1	16.6	(0.5)	16.6	16.6	0.1
Adj. EPS (Rs.)	33.7	47.2	(28.5)	37.7	(10.5)	158.0	222.9	(29.1)

Business performance

	Q4FY21	Q4FY20	% YoY Growth	Q3FY21	% QoQ Growth	FY2021	FY2020	% YoY Growth
Global Generics	3,901	3,646	7.0	4,078	(4.3)	15,476	13,826	11.9
Pharmaceutical Services and Active Ingredients	992	878	13.0	884	12.2	3,928	3,209	22.4
Proprietary Products	24	0	n.m.	12	96.0	52	795	-93.4
Others	39	72	(46.1)	141	(72.4)	281	278	1.2
Intersegment revenue	(188)	(148)	27.3	(174)	8.4	(691)	(591)	16.8
Total revenue	4,768	4,449	7.2	4,942	(3.5)	19,048	17,517	8.7

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	22,215	24,660	23,771	24,974	7.0	1.3
EBITDA	5,435	6,157	5,485	6,376	0.9	3.6
Margins (%)	24.5	25.0	23.1	25.5	(140bps)	50bps
Adj. PAT	3,280	3,953	3,337	3,972	1.7	0.5
Adj. EPS	197.5	238.0	200.6	238.8	1.6	0.3

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	15,448	17,517	19,048	23,771	24,974
% change	8.2	13.4	8.7	24.8	5.1
EBITDA	3,190	4,147	4,547	5,485	6,376
% change	38.7	32.4	10.4	22.4	18.6
Depreciation	1,135	1,163	1,229	1,336	1,369
EBIT	2,055	2,984	3,318	4,149	5,007
Interest	89	98	97	73	78
Other Income	326	(1,056)	(385)	475	499
PBT	2,292	1,830	2,836	4,551	5,429
% change	69.7	(20.2)	55.0	60.5	19.3
Tax	386	(140)	932	1,274	1,520
Tax Rate (%)	16.8	(7.7)	32.9	28.0	28.0
Reported PAT	1,950	2,026	1,952	3,337	3,972
Adj*	12	1,677	677	-	-
Adj PAT	1,962	3,703	2,628	3,337	3,972
% change	107.2	88.8	(29.0)	27.0	19.0
No. of shares (cr)	16.6	16.6	16.6	16.6	16.6
Adj EPS (Rs.)	118.0	222.9	158.0	200.6	238.8
% change	107.2	88.9	(29.1)	27.0	19.0
DPS (Rs.)	20.0	25.0	25.0	30.0	35.0
CEPS (Rs.)	186.3	293.0	231.9	280.9	321.1

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	3,085	3,189	3,180	4,672	5,341
Non-cash adj.	416	1,031	884	(94)	(137)
Changes in W.C	(630)	(1,236)	(494)	(2,702)	(1,068)
C.F. Operation	2,870	2,984	3,570	1,876	4,137
Capital exp.	(623)	(573)	(1,248)	(683)	(749)
Change in inv.	(228)	(21)	411	(1,100)	(1,100)
Other invest.CF	78	102	(1,429)	(0)	(0)
C.F - Investment	(773)	(492)	(2,266)	(1,783)	(1,849)
Issue of equity	(54)	(47)	(92)	-	-
Issue/repay debt	(1,518)	(1,868)	609	(70)	(500)
Dividends paid	(400)	(392)	(415)	(499)	(582)
Other finance.CF	(161)	(209)	(132)	(73)	(78)
C.F - Finance	(2,133)	(2,516)	(30)	(642)	(1,160)
Chg. in cash	(35)	(24)	1,275	(548)	1,128
Closing cash	223	205	1,483	935	2,063

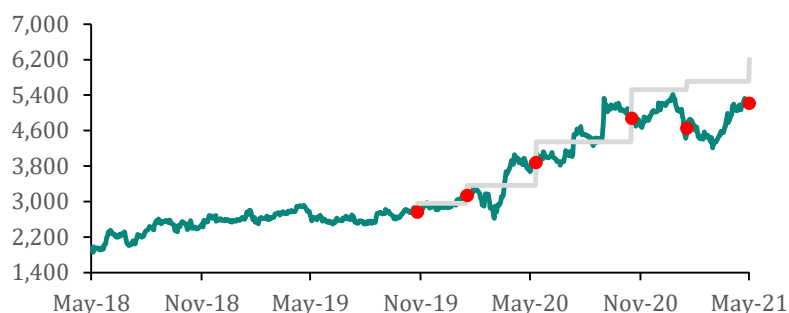
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	223	205	1,483	935	2,063
Accounts Receivable	3,987	5,028	4,964	6,670	7,383
Inventories	3,358	3,507	4,541	5,964	6,330
Other Cur. Assets	3,543	3,859	3,562	3,832	4,160
Investments	334	309	833	1,993	3,156
Gross Fixed Assets	10,125	10,698	11,945	12,628	13,377
Net Fixed Assets	4,913	4,778	4,732	4,110	3,490
CWIP	473	436	954	954	954
Intangible Assets	4,739	3,171	4,085	4,054	4,054
Def. Tax (Net)	432	1,220	1,069	1,122	1,178
Other Assets	465	712	394	416	441
Total Assets	22,466	23,225	26,617	30,051	33,209
Current Liabilities	4,685	5,561	5,789	6,440	6,689
Provisions	79	75	51	61	73
Debt Funds	3,423	1,784	2,944	2,875	2,375
Other Liabilities	255	207	191	196	203
Equity Capital	83	83	83	83	83
Reserves & Surplus	13,941	15,516	17,559	20,396	23,786
Shareholder's Fund	14,024	15,599	17,642	20,480	23,869
Minority Interest	-	-	-	-	-
Total Liabilities	22,466	23,225	26,617	30,051	33,209
BVPS (Rs.)	844	939	1,061	1,231	1,435

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	20.6	23.7	23.9	23.1	25.5
EBIT margin (%)	13.3	17.0	17.4	17.5	20.0
Net profit mgn.(%)	12.6	11.6	10.2	14.0	15.9
ROE (%)	13.9	13.0	11.1	16.3	16.6
ROCE (%)	11.8	17.2	16.1	17.8	19.1
W.C & Liquidity					
Receivables (days)	94.2	104.8	95.1	102.4	107.9
Inventory (days)	272.7	230.4	272.7	280.0	285.4
Payables (days)	111.0	100.2	108.7	105.1	101.4
Current ratio (x)	1.9	1.7	1.8	2.0	2.2
Quick ratio (x)	1.1	1.1	1.0	1.1	1.3
Turnover & Leverage					
Gross asset T.O (x)	1.4	1.7	1.7	1.9	1.9
Total asset T.O (x)	0.7	0.8	0.8	0.8	0.8
Int. coverage ratio (x)	23.1	30.4	34.2	56.8	64.5
Adj. debt/equity (x)	0.2	0.1	0.2	0.1	0.1
Valuation					
EV/Sales (x)	3.1	3.0	4.0	3.7	3.5
EV/EBITDA (x)	15.1	12.9	16.8	16.2	13.7
P/E (x)	22.8	14.0	28.6	26.0	21.8
P/BV (x)	3.2	3.3	4.3	4.2	3.6

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
12-Nov-19	HOLD	2,961
3-Feb-20	HOLD	3,364
28-May-20	BUY	4,344
3-Nov-20	BUY	5,519
4-Feb-21	BUY	5,712
19-May-21	BUY	6,209

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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