

Dr Reddy's Laboratories

ADD

CMP Rs5,197

Target Rs5,580

Upside 7%

Result Highlights

- ✓ Revenue for the quarter increased by 7.2% YoY led by India (+23.5% YoY, driven by revenues from the acquired Wockhardt business and contribution from new launches), Europe (14.8% YoY), Emerging markets (+10% YoY), PSAI (+10% YoY). US again disappointed with flat QoQ and decline of 3.2% YoY- decline was primarily on account of higher volumes during Q4 last year due to COVID-19 related stocking up and price erosion
- ✓ Gross margins expanded by 209 bps YoY, staff cost reduced by 50bps YoY, other expenses increased by 180bps YoY to 26.8% which led to EBITDA margin expansion by 78bps YoY to 22.1%.
- ✓ PAT for the quarter decreased by 29% YoY to Rs 5.5 bn vs. our estimate of de-growth of 18.7% YoY.
- ✓ R&D expenses for the quarter stood at Rs 4.1 bn (8.7% of sales).
- ✓ Capex for the quarter stood at Rs 2.9 bn (for FY21 it stood at Rs 9.7 bn).

Our view: Our view: Dr Reddys' US business has disappointed in the past 2 quarters though key launches like Vascepa, Remodulin (not approved yet) and spate of 30 launches would drive growth in FY22/23. Domestic business would continue to clock 9% growth on an underlying basis ex-Wockhardt. We note the robust cost control over FY19-21 (just 2% cagr in staff costs, flat other expenses and decline in absolute R&D) which may not be repeated over next 2 years. Expect costs to inch up as company continues to invest in marketing and digital means; albeit, better revenue growth (compared to FY21) and decline in R&D (as % of sales) to result in ~25% margin for FY22 followed by another 100bps gain in FY23 on back of sustained US growth. Sputnik supply for 250mn doses would represent additional revenue upside not factored in our estimates. Be as it may, US growth and margin trajectory remain key catalysts. Marginally revise FY23 EPS (+2%) and hence TP to Rs5,580. ADD stays.

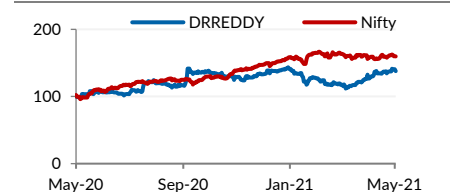
Exhibit 1: Result table

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Revenues	47,682	49,419	(3.5)	44,489	7.2
RM + inventory changes	(8,647)	(9,574)	(9.7)	(9,436)	(8.4)
Purchase of goods	(6,768)	(6,803)	(0.5)	(5,875)	15.2
Staff	(8,930)	(9,157)	(2.5)	(8,555)	4.4
Other expenses	(12,790)	(12,520)	2.2	(11,131)	14.9
Operating profit	10,547	11,365	(7.2)	9,492	11.1
OPM (%)	22.1	23.0	-88 bps	21.3	78 bps
Depreciation	(3,088)	(3,112)	(0.8)	(2,741)	12.7
Interest	(297)	(188)	58.0	(230)	29.1
Other income	826	705	17.2	736	12.2
Tax	(2,579)	(2,670)	(3.4)	449	(674.4)
Effective tax rate (%)	31.6	90.5	-5890 bps	(6.1)	3774 bps
Minority/Associate	164	(5,821)	(102.8)	105	56.2
PAT	5,573	279	-	7,811	(28.7)

Stock data (as on May 14, 2021)

Nifty:	14,678
52 Week h/l (Rs)	5513 /3614
Market cap (Rs/USD mn)	864195/11790
Outstanding Shares	166
6m Avg t/o (Rs mn):	6,051
Div yield (%):	0.5
Bloomberg code:	DRRD IN
NSE code:	DRREDDY

Stock performance



	1M	3M	1Y
Absolute return	8.8%	8.4%	40.1%

Shareholding pattern (As of Mar'21 end)

Promoter	26.7%
FII+DII	43.9%
Others	29.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,580	5,370

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	179.1	214.6
EPS (Old)	188.9	210.6
% change	-5%	2%

Financial Summary

	FY21	FY22	FY23
Net Revenue	190,475	209,932	230,668
YoY Growth	8.7	10.2	9.9
EBIDTA	45,467	52,206	61,186
YoY Growth	9.6	14.8	17.2
PAT	19,516	29,734	35,627
YoY Growth	(3.7)	52.4	19.8
ROE	15.5	15.5	16.2
EPS	117.3	179.1	214.6
P/E	44.3	29.0	24.2
BV	1060.2	1212.6	1398.0
P/BV	4.9	4.3	3.7

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CON-CALL HIGHLIGHTS

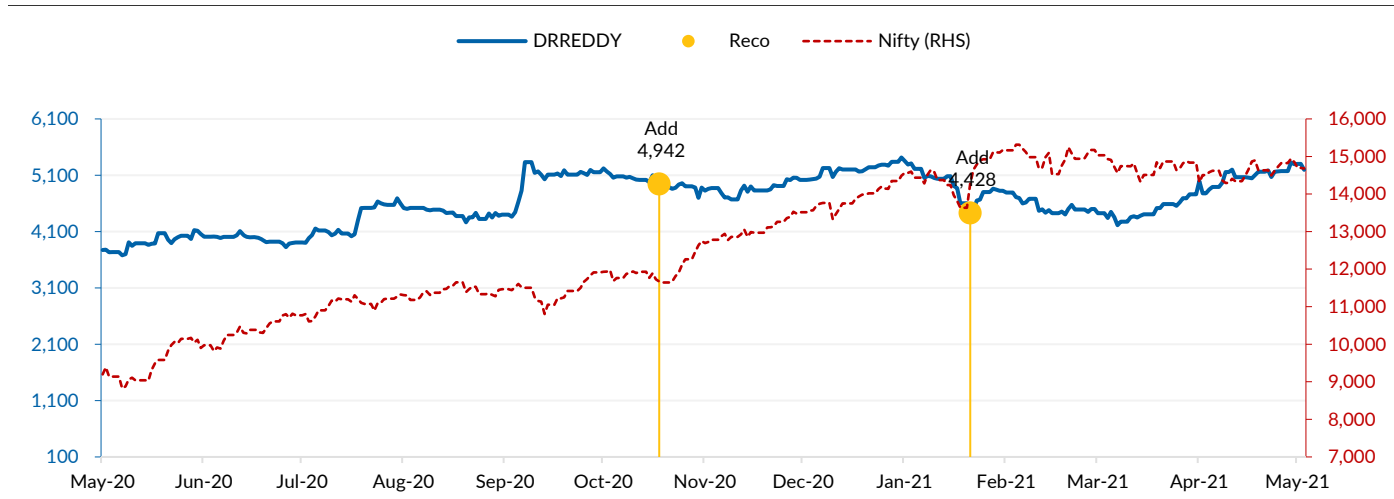
- ✓ Company has launched Sputnik V vaccine; also have ramped up our supplies to meet with the higher demand due to surge of the COVID cases in India
- ✓ Sputnik V- the company has the right for the 250 mn doses for India sales. The company is in discussions with RDIF for quantities which will be supplied to other countries. Till July, supply will come from Russia and primary supply from local players is expected to come from September.
- ✓ Vascepa launch in about 2 months backed by good quality of API supplies
- ✓ Generic Kuvan 100mg oral approval not in the next 2 quarters but sometime later in H2 FY22
- ✓ Nuvaring – Responded to CRL in Dec'20. Copaxone – Working on CRL received in Jan. Both unlikely to be FY22 launches
- ✓ Gross margin expansion is mostly attributable to product mix and increased leverage from manufacturing overheads.
- ✓ US generics business decline was due to primarily higher volumes during Q4 last year due to COVID-19 related stocking up and price erosion
- ✓ Company doesn't have a dedicated facility for penems and hence launched it in collaboration with Gland Pharma; there would always be products which can be done in partnerships
- ✓ PSAI business growth was driven by new products, increase in volumes of key products of API business and favorable forex partially offset by price erosion.
- ✓ EBITDA margin- the company is planning to increase the productivity of the existing portfolio which will help in the expansion of the margins.
- ✓ Incurred capex in FY21 to scale up injectables facility
- ✓ SG&A expenses- It has gone up in last 2 quarters, due to Covid impact the freight cost is higher and higher investment in digitalization.
- ✓ Russia business- There was disruption in the quarter due to less demand from the customers.
- ✓ Capex will be around little bit higher than FY21 level(Rs9.7bn in FY21)
- ✓ Expect tax rate to be around 25-26% going forward.

FINANCIALS

Exhibit 2: Financial summary

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Revenues	154,482	175,170	190,475	209,932	230,668
yoy growth (%)	8.2	13.4	8.7	10.2	9.9
Operating profit	31,782	41,471	45,467	52,206	61,186
OPM (%)	20.6	23.7	23.9	24.9	26.5
Reported PAT	19,500	20,260	19,516	29,734	35,627
yoy growth (%)	106.0	3.9	(3.7)	52.4	19.8
EPS (Rs)	117.5	122.0	117.3	179.1	214.6
P/E (x)	44.2	42.6	44.3	29.0	24.2
P/BV (x)	6.1	5.5	4.9	4.3	3.7
EV/EBITDA (x)	27.1	20.1	18.4	15.8	13.1
Debt/Equity (x)	0.2	0.0	0.0	0.0	0.0
ROE (%)	14.3	24.6	15.5	15.5	16.2
ROCE (%)	14.4	22.5	19.5	19.3	20.2

Recommendation Tracker



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