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Q4FY21 result review  
and earnings revision

## Pharmaceuticals

Target price: Rs5,848

### Earnings revision

(%)	FY22E	FY23E
Sales	(0.2)	0.4
EPS	0.6	2.7

### Target price revision

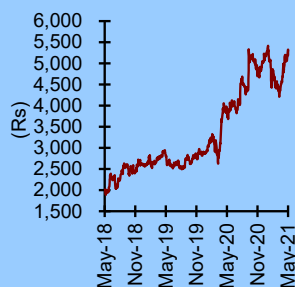
Rs5,848 from Rs5,528

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	26.7	26.7	26.7
Institutional investors	43.6	43.9	44.0
MFs and others	11.4	13.3	13.3
Insurance Cos.	2.4	1.1	1.0
FIIIs	29.8	29.5	29.7
Others	29.7	29.4	29.3

Source: BSE India

### Price chart



# Dr. Reddy's Laboratories

**ADD**

**Maintained**

**Rs5,196**

Steady quarter; outlook intact

Dr. Reddy's Laboratories' (DRL) reported Q4FY21 performance broadly in-line with our estimates. Revenue grew 6.7% YoY to Rs47.3bn (I-Sec: Rs48.5bn) driven by India, EU and ROW markets. EBITDA margin at 21.5% was lower 130bps QoQ due to lower sales. Adjusted PAT declined 13.1% to Rs5.5bn (I-Sec: Rs5.4bn) due to higher tax rate. US sales improved 1.7% QoQ to US\$239mn led by new launches. We expect the growth momentum in branded generics business (India & EMs) and new launches in US to continue in coming quarters supporting growth. Management expects to launch generic *Vascepa* in next two months with smooth API supplies. DRL has launched *Sputnik V* vaccine in India which would provide significant upside to earnings in near term. Retain ADD.

- **India remains strong, US stable:** India sales grew 23.5% YoY with consolidation of Wockhardt products which was completed in Jun'20 and recovery in industry growth. Adjusting for Wockhardt integration growth stood at ~8% during the quarter and ~2% for the year. US revenue improved 1.7% QoQ to US\$239mn vs estimated US\$240mn led by new product launches. We believe recent launch of *Ciprodex* and expectation of *Vascepa* launch in near term would help in improving revenue run-rate. PSAI business segmented reported growth of 10.0% YoY led by better volumes. EU generics reported strong 14.8% growth led by new launches and traction in volumes. EM revenues grew 10.0% led by CIS and ROW with new launches and strong traction in volumes.
- **Increase in cost base continued:** Gross margin was sequentially stable at 53.7%, in line with estimate and it has improved by 220bps YoY led by improved business and product mix. However, EBITDA margin dropped 130bps QoQ to 21.5% (I-Sec: 21.7%) due to lower sales and higher R&D spend. S,G&A expenses sequentially grew ~14% in Q3FY21 and this high base has sustained in Q4FY21 led by incremental expenses post Wockhardt acquisition and higher freight charges. Gross margin has been volatile on quarterly basis but we expect it to remain ~54-56%.
- **Outlook:** Overall, we expect revenues and earnings to grow at 14.3% and 35.4% CAGRs, respectively, over FY21-FY23E with 610bps EBITDA margin expansion. Our estimates include upside from *Revlimid* in H2FY23E. The focus of the management continues to improve EBITDA margin to ~25% and RoCE through better capital allocation. The company has launches *Sputnik V* in India and may export it as well. This can provide significant upside in near term to our estimates.
- **Valuations and risks:** We marginally raise earnings estimates by 1-3% for FY22E-FY23E to factor-in higher other income. We value *Sputnik V* opportunity at Rs144/share on NPV basis for next three years. Maintain **ADD** on the stock with a revised target price of Rs5,848/share based on 25x FY23E EPS, an additional Rs330/share for *Revlimid* and NPV of Rs144 for *Sputnik V* vaccine (earlier: Rs5,528/share). Key downside risks: delay in launching new products, regulatory hurdles and currency volatility.

Market Cap	Rs864bn/US\$11.8bn
Reuters/Bloomberg	REBY.BO/DRRD IN
Shares Outstanding (mn)	166.3
52-week Range (Rs)	5417/3679
Free Float (%)	73.3
FII (%)	29.7
Daily Volume (US\$/'000)	86,179
Absolute Return 3m (%)	8.4
Absolute Return 12m (%)	40.1
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	58.3

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	167,371	189,722	210,285	247,941
Net Income (Rs mn)	19,497	19,149	30,367	47,511
EPS (Rs)	112.0	156.1	182.9	286.2
% Chg YoY	9.7	39.4	17.2	56.5
P/E (x)	46.4	33.3	28.4	18.2
CEPS (Rs)	187.1	232.6	261.0	365.7
EV/E (x)	24.3	19.2	16.6	11.0
Dividend Yield (%)	0.4	0.5	0.6	1.0
RoCE (%)	10.3	13.4	13.8	19.0
RoE (%)	12.6	15.7	16.2	21.8

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## Highlights of Q4FY21 result and earnings call

- **Net sales** grew 6.7% YoY to Rs47.3bn.
  - **Global generics'** revenue grew 6.4% YoY driven by growth in India.

**North America** sales declined 3.2% YoY (+0.6% QoQ) to Rs17.5bn. In constant currency, it grew 1.7% QoQ to US\$239mn led by six new launches and traction in the existing portfolio. Cumulatively, the company has 95 ANDAs {including three NDAs under 505(b)(2)} pending for approval, of which 47 are Para IV, and 23 are believed to have First to File (FTF) status. Company is gearing up to launch generic *Vascepa* with smooth API supply. Company has responded to Nuvaring CRL and expects some feedback from the regulator by Q3FY22. Company is still working on the *Copaxone* CRL. It is unlikely that these two products will launch in FY22.
  - **India sales** grew 23.5% YoY (-11.9% QoQ) to Rs8.4bn. The growth was due to integration of Wockhardt India portfolio which was recently acquired. Adjusting for it, growth stood at ~8% during the quarter and ~2% for the year. Sequential decline was due to fall in demand for COVID-19 portfolio. Company has launched its *Sputnik V* vaccine in India. Company is entitled to sell 250mn doses in India and it believes that local manufacturing will start Aug'21 onwards. Till then the vaccine will be imported from Russia. Company is also in discussion with RDIF for *Sputnik Light* and permission to export the vaccines.
  - **Europe sales** grew 14.8% YoY (-4.5% QoQ) to Rs4.0bn with new launches and volume traction across markets. Company launched products in Germany, UK, Italy and Spain.
  - **Emerging markets (Russia, CIS and RoW)** sales grew 10.0% YoY.
    - **Russia and CIS sales:** Russia sales grew 2.6% YoY led by gradual recovery in volumes and new launches. CIS and Romania sales grew 5.6% to Rs1.9bn with new launches and higher volume.
    - **RoW sales** grew 25.7% YoY to Rs3.0bn led by new launches and volume traction in new markets as well as in base business.
  - **PSAI segment** grew 10.0% YoY (+12.9% QoQ) to Rs7.9bn supported by recovery in volumes, launch of new products and forex movement. The company filed 14 DMFs in the US during the year.
  - **PP segment** declined 12.8% YoY and 58.9% QoQ to Rs632mn.
- **Gross margin** was stable at 53.7% QoQ but it improved by 220bps YoY led by improved business and product mix. However, EBITDA margin dropped 130bps QoQ to 21.5% due to lower sales and higher R&D spend. **R&D expenses** stood at 8.7% of net sales.
- **Adjusted PAT** declined 13.1% YoY to Rs5.5bn. **Capex** during the quarter stood at Rs2.9bn.

**Table 1: Q4FY21 result review***(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
<b>Net Sales</b>	<b>47,284</b>	<b>44,318</b>	<b>6.7</b>	<b>49,296</b>	<b>(4.1)</b>
Gross Profit	25,375	22,808	11.3	26,538	(4.4)
<b>EBITDA</b>	<b>10,171</b>	<b>9,406</b>	<b>8.1</b>	<b>11,260</b>	<b>(9.7)</b>
Other income	766	273	180.6	279	174.6
<b>PBIDT</b>	<b>10,937</b>	<b>9,679</b>	<b>13.0</b>	<b>11,539</b>	<b>(5.2)</b>
Depreciation	3,169	2,965	6.9	3,217	(1.5)
Interest	(318)	(435)	(26.9)	(493)	(35.5)
Extra ordinary income/ (exp.)	(15)	1,257		(5,972)	
<b>PBT</b>	<b>8,071</b>	<b>8,406</b>	<b>(4.0)</b>	<b>2,843</b>	<b>183.9</b>
Tax	2,536	764	231.9	2,645	(4.1)
<b>Reported PAT</b>	<b>5,535</b>	<b>7,642</b>	<b>(27.6)</b>	<b>198</b>	<b>2,695.5</b>
<b>Adjusted PAT</b>	<b>5,545</b>	<b>6,384</b>	<b>(13.1)</b>	<b>6,170</b>	<b>(10.1)</b>
EBITDA margins (%)	21.5	21.2	30bps	22.8	(130)bps

Source: Company data, I-Sec research

**Table 2: Revenue mix***(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Global Generics	<b>38,737</b>	<b>36,399</b>	<b>6.4</b>	<b>40,751</b>	<b>(4.9)</b>
North America	17,491	18,072	(3.2)	17,394	0.6
Europe	3,956	3,446	14.8	4,143	(4.5)
India	8,445	6,839	23.5	9,591	(11.9)
Russia & Other CIS	5,900	5,700	3.5	6,600	(10.6)
ROW	2,945	2,342	25.7	3,023	(2.6)
PSAI	<b>7,915</b>	<b>7,195</b>	<b>10.0</b>	<b>7,009</b>	<b>12.9</b>
Proprietary Products & others	632	725	(12.8)	1,536	(58.9)
<b>Total</b>	<b>47,284</b>	<b>44,319</b>	<b>6.7</b>	<b>49,296</b>	<b>(4.1)</b>

Source: Company data, I-Sec research

**Table 3: Segment gross margin***(%, year ending March 31)*

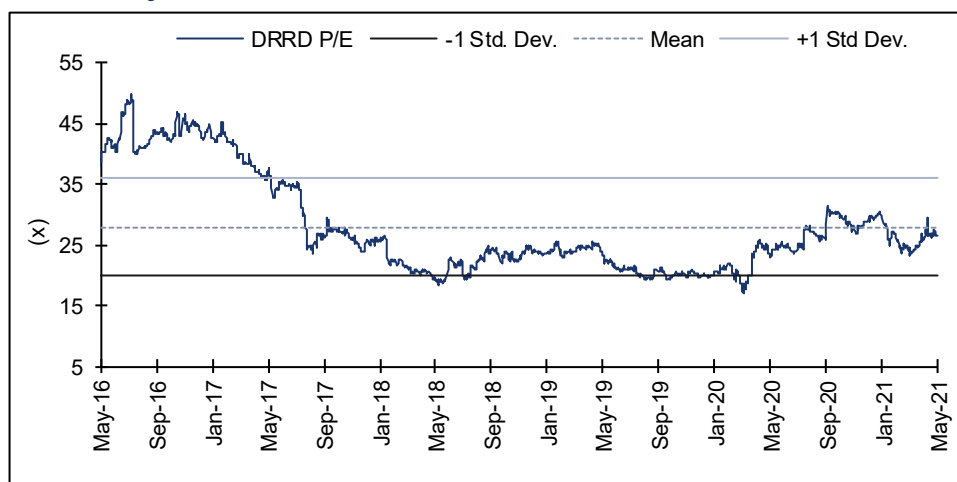
<b>Segment Gross Margin</b>	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Global Generics	57.9	55.9	200bps	57.6	30bps
PSAI	31.7	28.4	330bps	25.3	640bps

Source: Company data, I-Sec research

## Valuations

Overall, we expect revenues and earnings to grow at 14.3% and 35.4% CAGRs, respectively, over FY21-FY23E with 610bps EBITDA margin expansion. The stock currently trades at 28.4x FY22E and 18.2x FY23E earnings and EV/EBITDA multiple of 16.6x FY22E and 11.0x FY23E. We expect the growth momentum in branded generics business (India & EMs) and new launches in US to continue in coming quarters supporting growth. Management expects to launch generic *Vascepa* in next two months with smooth API supplies. DRL has launched *Sputnik V* vaccine in India which would provide significant upside to earnings in near term. We retain **ADD** with a revised target price of Rs5,848/share based on 25x FY23E EPS, an additional Rs330/share for *Revlimid* and NPV of Rs144 for *Sputnik V* vaccine (earlier: Rs5,528/share).

**Chart 1: 1-year forward P/E**



Source: Company data, I-Sec research

## Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Global Generics	138,123	154,404	170,733	204,634
PSAI	25,747	31,982	36,075	39,683
Proprietary Products	671	523	523	523
Others	2,830	2,813	2,954	3,101
<b>Net Sales</b>	<b>167,371</b>	<b>189,722</b>	<b>210,285</b>	<b>247,941</b>
<b>Total Revenue</b>	<b>167,371</b>	<b>189,722</b>	<b>210,285</b>	<b>247,941</b>
yoy Growth%	10.1	13.4	10.8	17.9
<b>Total Op. Exp.</b>	<b>132,047</b>	<b>145,049</b>	<b>160,028</b>	<b>174,655</b>
<b>EBITDA</b>	<b>35,324</b>	<b>44,673</b>	<b>50,257</b>	<b>73,286</b>
Margins %	21.1	23.5	23.9	29.6
yoy Growth%	19.6	26.5	12.5	45.8
Deprn. & Amortisation	12,472	12,696	12,955	13,204
<b>EBIT</b>	<b>22,852</b>	<b>31,977</b>	<b>37,301</b>	<b>60,083</b>
Other Inc/Interest (net)	2,869	3,115	3,188	3,265
Extraordinary Items	(7,690)	(6,768)	0	0
<b>PBT</b>	<b>18,031</b>	<b>28,324</b>	<b>40,490</b>	<b>63,347</b>
Tax	4,998	9,175	10,122	15,837
Tax Rate (%)	27.7	32.4	25.0	25.0
Minority Interest	(6,464)	-	-	-
<b>Reported PAT</b>	<b>19,497</b>	<b>19,149</b>	<b>30,367</b>	<b>47,511</b>
<b>Adjusted PAT</b>	<b>18,591</b>	<b>25,917</b>	<b>30,367</b>	<b>47,511</b>
Net Margins (%)	11.1	13.7	14.4	19.2

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	831	832	832	832
Reserves & Surplus	154,157	174,149	198,050	235,444
<b>Total Equity</b>	<b>154,988</b>	<b>174,981</b>	<b>198,882</b>	<b>236,276</b>
<b>Total Debt</b>	<b>22,102</b>	<b>30,308</b>	<b>30,308</b>	<b>30,308</b>
Other non-current liab.	2,860	2,401	2,401	2,401
<b>Capital Employed</b>	<b>179,950</b>	<b>207,690</b>	<b>231,591</b>	<b>268,985</b>
Total Cur. Lia. & Prov.	52,016	57,463	60,597	70,585
<b>Total Liabilities</b>	<b>231,966</b>	<b>265,153</b>	<b>292,188</b>	<b>339,570</b>
<b>Net Fixed Assets</b>	<b>83,985</b>	<b>97,327</b>	<b>96,372</b>	<b>95,168</b>
Deferred tax asset	11,939	10,292	10,292	10,292
Investments	3,091	8,333	8,333	8,333
Inventory	35,066	45,412	43,337	51,097
Debtors	50,278	49,641	55,658	65,625
Other Current Assets	21,867	19,575	21,267	24,366
Cash and Equivalents	25,740	34,573	56,930	84,689
<b>Total Cur. Assets</b>	<b>132,951</b>	<b>149,201</b>	<b>177,191</b>	<b>225,777</b>
<b>Total Assets</b>	<b>231,966</b>	<b>265,153</b>	<b>292,188</b>	<b>339,570</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for EO items)	18,031	28,324	40,490	63,347
Depreciation	12,472	12,696	12,955	13,204
Net Chg in WC	(12,357)	(4,939)	(4,688)	(15,359)
Taxes	(7,105)	(5,716)	(10,122)	(15,837)
Others	17,192	5,338	2,188	4,521
<b>CFO</b>	<b>28,233</b>	<b>35,703</b>	<b>40,823</b>	<b>49,876</b>
Capex	(5,725)	(27,990)	(12,000)	(12,000)
Net Investments made	(214)	4,110	-	-
Others	1,016	1,220	-	-
<b>CFI</b>	<b>(4,923)</b>	<b>(22,660)</b>	<b>(12,000)</b>	<b>(12,000)</b>
Change in Share capital	4	269	-	-
Change in Debts	(19,165)	1,947	-	-
Div. & Div Tax	(3,916)	(4,147)	(6,466)	(10,116)
Others	(408)	1,664	-	-
<b>CFF</b>	<b>(23,485)</b>	<b>(267)</b>	<b>(6,466)</b>	<b>(10,116)</b>
<b>Total Cash Generated</b>	<b>(175)</b>	<b>12,776</b>	<b>22,357</b>	<b>27,760</b>
<b>Cash Opening Balance</b>	<b>2,228</b>	<b>2,053</b>	<b>14,829</b>	<b>37,186</b>
<b>Cash Closing Balance</b>	<b>2,053</b>	<b>14,829</b>	<b>37,186</b>	<b>64,945</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	112.0	156.1	182.9	286.2
yoy Growth%	9.7	39.4	17.2	56.5
Cash EPS (Rs)	187.1	232.6	261.0	365.7
EBITDA - Core (%)	21.1	23.5	23.9	29.6
NPM (%)	11.1	13.7	14.4	19.2
Net Debt to Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)
P/E (x)	46.4	33.3	28.4	18.2
EV/EBITDA Core (x)	24.3	19.2	16.6	11.0
P/BV (x)	5.6	4.9	4.3	3.7
EV/Sales (x)	5.1	4.5	4.0	3.3
ROCE (%)	10.3	13.4	13.8	19.0
ROE (%)	12.6	15.7	16.2	21.8
ROIC (%)	11.9	15.8	17.4	26.4
Book Value (Rs)	933.7	1,054.1	1,198.1	1,423.4
DPS (Rs)	20.7	25.0	32.3	50.6
Dividend Payout (%)	17.7	21.7	17.7	17.7
Div Yield (%)	0.4	0.5	0.6	1.0
Asset Turnover Ratio	0.7	0.8	0.8	0.8
Avg Collection days	97	97	97	97
Avg Inventory days	75	75	75	75

Source: Company data, I-Sec research

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