

Retail Equity Research

Dr. Reddy's Laboratories Limited

Pharmaceuticals

BSE CODE: 500124

NSE CODE: DRREDDY

Bloomberg CODE: DRRD:IN

SENSEX: 60,546

BUY

12 Months Investment period Rating as per Large Cap

CMP Rs. 4,789 TARGET Rs. 5,437 RETURN 14%
(Closing: 08-11-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Resilient performance; Outlook promising

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.

- Q2FY22 revenue rose 17.8% YoY to Rs. 5,787cr, driven by higher revenue from Global Generics (+19.0% YoY to Rs. 4,747cr).
- As a result, EBITDA grew 10.2% YoY, although EBITDA margin contracted 160bps YoY to 23.5% due to weaker mix and higher SG&A expenses (+22.0% YoY to Rs. 1,600cr). PAT rose 29% YoY to Rs. 996cr.
- Company is expected to fare well on the back drop of continued growth in revenue along with innovation of new drugs and medications. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 5,437 using a target multiple of 23x FY23E adj. EPS.

Topline aided by new Medications

Q2FY22 revenue grew 17.8% YoY to Rs. 5,787cr, driven by significant growth in Global Generics segment (+19.0% YoY to Rs. 4,747cr) and robust performance from Proprietary Products segment (Rs. 123cr vs Rs. 10cr in Q2FY21, on the account of recognition of new license fee). This was partly offset by weaker Pharma Services and Active Ingredients segment (-1.6% YoY to Rs. 1,019cr, due to lower volumes and decrease in sales price). Resultantly, EBITDA grew 10.2% YoY to Rs. 1,360cr, although EBITDA margin contracted 160bps YoY to 23.5% dragged down by low margin product mix and higher costs. PAT registered a healthy growth of 29.0% YoY to Rs. 996cr, further helped by higher other income (Rs. 206cr vs. Rs. 27cr loss in Q2FY21).

Key Financial highlights

- Shareholding of mutual funds and institutional investors increased by 34.9% QoQ to 21.7%, offset by other shareholders that reduced to 3.6% from 8.3% previous quarter.
- Revenues from Emerging Markets at Rs. 1,300cr (+50% YoY and +42% QoQ) particularly from Russia, Romania, CIS countries.
- Dr. Reddy launched two new products this quarter i.e., Melotryp and Baricax meeting the emerging needs of the market.

COVID-19 Updates

Dr. Reddy has commercialized all its COVID-19 products launched until now, including Sputnik V vaccine, Remdesivir, Avigan (Favipiravir) and 2-deoxy-D-glucose (2-DG) in India as well as overseas. Currently, the company is conducting clinical trials for Sputnik Light, Molnupiravir and is also developing several other COVID drugs for treatment ranging from mild to severe conditions.

Valuation

Dr. Reddy is expected to fare much better backed by continued growth in revenue from COVID portfolio, contribution from new product launches and increase in sales price from current products. We expect the earnings to grow at healthy 23% CAGR over FY21-23E. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 5,437 using a target multiple of 23x FY22E adj. EPS.

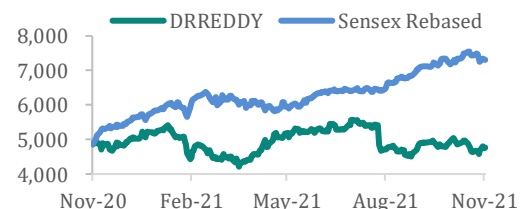
Company Data

Market Cap (cr)	Rs. 79,303
Enterprise Value (cr)	Rs. 80,699
Outstanding Shares (cr)	16.6
Free Float	73.0%
Dividend Yield	0.5%
52 week high	Rs. 5,614
52 week low	Rs. 4,136
6m average volume (lacs)	0.5
Beta	0.3
Face value	Rs. 5

Shareholding %	Q4FY21	Q1FY22	Q2FY22
Promoters	26.7	26.7	26.7
FII's	29.0	29.0	27.8
MFs/Insti	15.2	16.1	21.7
Public	20.5	19.9	20.2
Others	8.5	8.3	3.6
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	1.0%	-8.0%	-2.2%
Absolute Sensex	11.1%	22.7%	48.5%
Relative Return*	-10.0%	-30.7%	-50.7%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	19,048	21,844	24,664
Growth (%)	8.7	14.7	12.9
EBITDA	4,547	5,040	6,297
EBITDA Margin (%)	23.9	23.1	25.5
Adj. PAT	2,628	2,984	3,932
Growth (%)	(29.0)	13.5	31.8
Adj. EPS	158.0	179.4	236.4
Growth (%)	(29.1)	13.5	31.8
P/E	28.6	26.6	20.2
P/B	4.3	3.9	3.4
EV/EBITDA	16.8	16.0	12.7
ROE (%)	11.1	14.8	16.7
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY22	Q2FY21	% YoY Growth	Q1FY22	% QoQ Growth	H1FY22	H1FY21	% YoY Growth
Revenue	5,787	4,911	17.8	4,945	17.0	10,732	9,337	14.9
EBITDA	1,360	1,234	10.2	918	48.1	2,278	2,356	(3.3)
EBITDA margins	23.5	25.1	(160bps)	18.6	490bps	21.2	25.2	(400bps)
Depreciation	294	317	(7.1)	284	3.6	578	609	(5.1)
EBIT	1,066	918	16.1	634	68.0	1,700	1,747	(2.7)
Interest	23	25	(7.1)	19	21.2	43	49	(12.0)
Other Income	206	(27)	863.9	(76)	370.8	130	60	115.3
Exceptional Items	-	-	-	-	-	-	-	-
PBT	1,248	866	44.2	539	131.4	1,787	1,758	1.6
Tax	277	101	173.7	175	57.8	452	407	11.1
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	996	772	29.0	380	161.8	1,376	1,366	0.7
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	996	772	29.0	380	161.8	1,376	1,366	0.7
No. of shares	16.6	16.6	(0.0)	16.6	0.1	16.6	16.6	(0.0)
Adj. EPS (Rs.)	59.9	46.4	29.1	22.9	161.6	82.8	82.1	0.7

Business performance

	Q2FY22	Q2FY21	% YoY Growth	Q1FY22	% QoQ Growth	H1FY22	H1FY21	% YoY Growth
Global Generics	4,747	3,988	19.0	4,125	15.1	8,872	7,497	18.3
Pharmaceutical Services and Active Ingredients	1,019	1,036	(1.6)	898	13.4	1,917	2,052	(6.6)
Proprietary Products	123	10	1,132.0	6	1,988.1	129	16	727.6
Others	60	52	14.0	48	23.4	108	101	6.6
Intersegment revenue	(162)	(175)	n.m.	(132)	n.m.	(294)	(329)	n.m.
Total revenue	5,787	4,911	17.8	4,945	17.0	10,732	9,337	14.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	23,771	24,974	21,844	24,664	(8.1)	(1.2)
EBITDA	5,485	6,376	5,040	6,297	(8.1)	(1.2)
Margins (%)	23.1	25.5	23.1	25.5	0bps	0bps
Adj. PAT	3,337	3,972	2,984	3,932	(10.6)	(1.0)
Adj. EPS	200.6	238.8	179.4	236.4	(10.6)	(1.0)

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	15,448	17,517	19,048	21,844	24,664
% change	8.2	13.4	8.7	14.7	12.9
EBITDA	3,190	4,147	4,547	5,040	6,297
% change	38.7	32.4	10.4	12.5	27.6
Depreciation	1,135	1,163	1,229	1,336	1,360
EBIT	2,055	2,984	3,318	3,704	4,937
Interest	89	98	97	73	55
Other Income	326	(1,056)	(385)	437	493
PBT	2,292	1,830	2,836	4,068	5,375
% change	69.7	(20.2)	55.0	43.5	32.1
Tax	386	(140)	932	1,139	1,505
Tax Rate (%)	16.8	(7.7)	32.9	28.0	28.0
Reported PAT	1,950	2,026	1,952	2,984	3,932
Adj*	12	1,677	677	-	-
Adj PAT	1,962	3,703	2,628	2,984	3,932
% change	107.2	88.8	(29.0)	13.5	31.8
No. of shares (cr)	16.6	16.6	16.6	16.6	16.6
Adj EPS (Rs.)	118.0	222.9	158.0	179.4	236.4
% change	107.2	88.9	(29.1)	13.5	31.8
DPS (Rs.)	20.0	25.0	25.0	30.0	35.0
CEPS (Rs.)	186.3	293.0	231.9	259.7	318.2

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	3,085	3,189	3,180	4,320	5,292
Non-cash adj.	416	1,031	884	(90)	(158)
Changes in W.C	(630)	(1,236)	(494)	(1,859)	(1,768)
C.F. Operation	2,870	2,984	3,570	2,371	3,366
Capital exp.	(623)	(573)	(1,248)	(625)	(740)
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)	(1,725)	(1,840)
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)	(55)
C.F - Finance	(2,133)	(2,516)	(30)	(642)	(1,138)
Chg. in cash	(35)	(24)	1,275	5	389
Closing cash	223	205	1,483	1,488	1,876

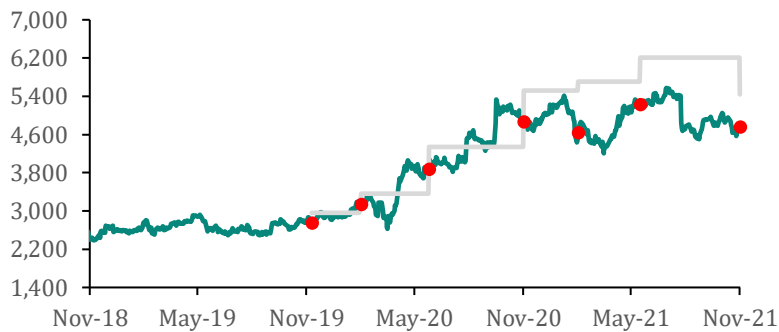
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	223	205	1,483	1,488	1,876
Accounts Receivable	3,987	5,028	4,964	6,130	7,291
Inventories	3,358	3,507	4,541	5,481	6,252
Other Cur. Assets	3,543	3,859	3,562	3,832	4,160
Investments	334	309	833	1,988	3,150
Gross Fixed Assets	10,125	10,698	11,945	12,570	13,310
Net Fixed Assets	4,913	4,778	4,732	4,052	3,432
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	29,517	32,789
Current Liabilities	4,685	5,561	5,789	6,258	6,661
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	20,044	23,394
Shareholder's Fund	14,024	15,599	17,642	20,127	23,477
Minority Interest	-	-	-	-	-
Total Liabilities	22,466	23,225	26,617	29,517	32,789
BVPS (Rs.)	844	939	1,061	1,210	1,412

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	17.0	20.0
Net profit mgn.(%)	12.6	11.6	10.2	13.7	15.9
ROE (%)	13.9	13.0	11.1	14.8	16.7
ROCE (%)	11.8	17.2	16.1	16.1	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	1.2
Turnover & Leverage					
Gross asset T.O (x)	1.4	1.7	1.7	1.8	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	50.7	89.0
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	3.2
EV/EBITDA (x)	15.1	12.9	16.8	16.0	12.7
P/E (x)	22.8	14.0	28.6	26.6	20.2
P/BV (x)	3.2	3.3	4.3	3.9	3.4

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
12-Nov-19	HOLD	2,961
03-Feb-20	HOLD	3,364
28-May-20	BUY	4,344
03-Nov-20	BUY	5,519
03-Feb-21	BUY	5,712
19-May-21	BUY	6,209
09-Nov-21	BUY	5,437

Source: Bloomberg, Geojit research

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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