

Research Report

Dr. Reddy's Laboratories



Prepared By-

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EQUITY RESEARCH ANALYST

About

Dr. Reddy's Laboratories Ltd. is a global pharmaceutical company headquartered in Hyderabad, India. Established in 1984, we are committed to providing access to affordable and innovative medicines. Driven by our purpose of 'Good Health Can't Wait', we offer a portfolio of products and services including APIs, generics, branded generics, biosimilars and OTC. Our major therapeutic areas of focus are gastrointestinal, cardiovascular, diabetology, oncology, pain management and dermatology. Major markets include – USA, India, Russia & CIS countries, China, Brazil and Europe. As a company with a history of deep science that has led to several industry firsts, we continue to plan ahead and invest in businesses of the future.

Key Business

- Generics
- OTC
- Branded Generics
- API
- BioSimilar

Synopsis of Financials

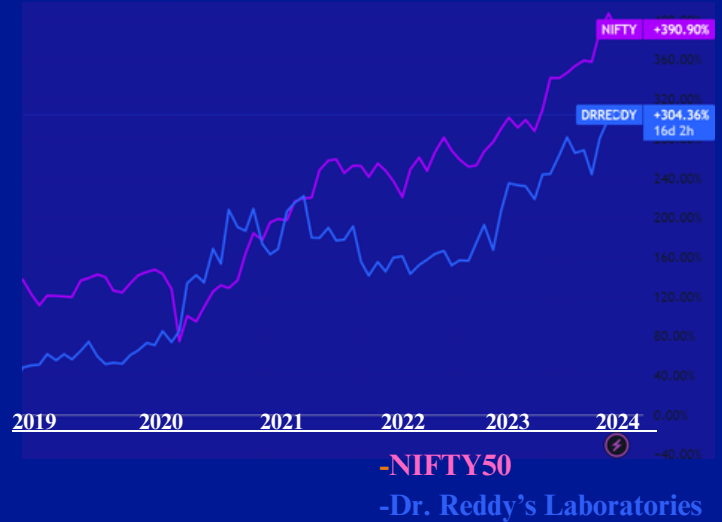
- EBITDA: Reported at ₹2,160 crores (\$259 million), a 15% QoQ growth and 1% YoY growth, with EBITDA margin at 28.2%.
- Profit After Tax: ₹1,392 crores (\$167 million), with a net margin of 18.1%.
- Operating Working Capital: Increased to ₹11,555 crores (\$1,387 million), up ₹262 crores (\$31 million) from the previous quarter.
- Free Cash Flow: Generated ₹227 crores (\$27 million), with a net surplus cash of ₹6,731 crores (\$808 million).

Source: Company Annual Report

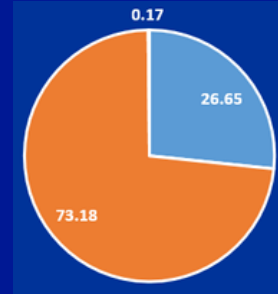
Stock data (as 14th August 2024)

Nifty Price	: 24,154.60
52 week High (in Rs.)	: 7,036
52 week Low (in Rs.)	: 5,206
Market Cap. (in Crore)	: 1,13,985
NSE Code	: <u>DRREDDY</u>

Stock data



Shareholding Pattern (March 2024)



-PUBLIC GROUP
-PROMOTER GROUP
-Employee Trust

Financial Summary

Particulars	March 2024	March 2023	March 2022
Sales	28,011	24,670	21,545
Sales Growth %	13.54%	14.50%	13.11%
Expenses	20,078	18,200	17,778
Operating Profit	7,933	6,470	3,768
OPM %	28%	26%	17%
Net Profit	5,578	4,507	2,182
EPS in Rs	334.37	270.66	131.14

Quarterly Results

Particular	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Sales	6,790	6,315	6,758	6,903	7,237	7,114	7,696
Expenses	4,851	4,781	4,696	4,894	5,214	5,283	5,566
Operating Profit	1,939	1,534	2,062	2,008	2,023	1,831	2,130
OPM %	29%	24%	31%	29%	28%	26%	28%
Other Income	65	146	178	319	219	201	193
Interest	42	35	37	35	39	59	60
Depreciation	324	316	353	376	374	368	381
Profit before tax	1,638	1,329	1,850	1,917	1,829	1,605	1,883
Tax %	24%	28%	24%	23%	24%	18%	26%
Net Profit	1,244	960	1,405	1,482	1,381	1,310	1,392

Source: Screener

Key Ratios

Year ending March 31	2023	2022	2021	2020	2019
Profitability Ratios					
EBITDA margin %	30%	24%	25%	27%	22%
Gross Margin %	57%	53%	54%	54%	54%
Global Generics	62%	58%	59%	57%	59%
PSAI	16%	22%	29%	24%	25%
Adjusted PAT* margin (%)	19%	15%	14%	21%	12%
Net Profit Margin (%)	18.3%	11.0%	9.1%	11.2%	12.2%
Return on Net Worth (%)	20%	12%	10%	13%	13%
Asset Productivity Ratios					
Fixed Asset Turnover	3.8	3.6	3.5	3.3	2.7
Total Assets Turnover	0.8	0.8	0.8	0.8	0.7
Working Capital Ratios					
Working Capital Days	182	214	188	188	180
Inventory Days	163	184	177	154	163
Debtors Days	103	108	91	100	90
Creditor Days	84	79	80	67	73
Gearing Ratios					
Net Debt/Equity^	(0.21)	(0.08)	(0.04)	(0.03)	0.09
Interest Coverage	40.3	31.5	25.5	16.8	18.3
Current Ratio	2.4	1.9	1.8	1.8	1.9
Valuation Ratios					
Earnings per share (₹)	270.9	141.7	103.6	117.4	113.1
Book Value per share (₹)	1,388	1,145	1,041	933	844
Dividend Payout	15%	21%	24%	21%	18%
Trailing Price/Earnings Ratio	17.1	30.3	43.6	26.6	24.6

Source: Annual Report

Yearly Results

Particulars	March 2024	March 2023	March 2022
Equity Capital	83	83	83
Reserves	28,171	23,203	19,129
Borrowings	2,002	1,347	3,384
Other Liabilities	8,523	7,576	7,149
Total Liabilities	38,780	32,209	29,746
Fixed Assets	10,426	9,219	8,122
CWIP	1,419	1,030	1,293
Investments	4,930	4,986	2,616
Other Assets	22,004	16,974	17,715
Total Assets	38,780	32,209	29,746

Synopsis Quater Results

Con-Call Q1 FY'24: Key Highlights

Financial Performance:

- **Q1FY25 Results:** Consolidated revenues stood at ₹7,673 crores (\$921 million), reflecting a 14% YoY growth and 8% sequential growth.
- **Gross Profit Margin:** Increased to 60.4%, up 170 basis points YoY, driven by favorable product mix and overhead leverage, despite price erosion in generics.
- **SG&A Expenses:** ₹2,269 crores (\$272 million), a 28% YoY increase, attributed to investments in new business initiatives, increased freight rates, and annual merit increases. SG&A as a percentage of sales was 29.6%, higher by 330 basis points YoY.
- **Acquisition of Nicotinell®:** A significant milestone in building a global consumer healthcare business, expected to close in early Q4 2024.
- **Joint Venture with Nestlé:** The nutraceuticals JV is expected to go live soon, enhancing the consumer healthcare segment.

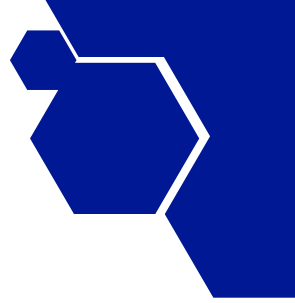
Collaborations and Partnerships:**

- Licensed Takeda's novel gastrointestinal drug, Vonoprazan, for commercialization in India.
- Partnered with Novartis Pharma for distributing Galvus® and Galvus Met® in Russia.
- Exclusive rights to commercialize Cyclophosphamide Injection in the US from Ingenus Pharmaceuticals.
- Collaboration with Alvotech for the commercialization of a denosumab biosimilar candidate in the US and Europe.

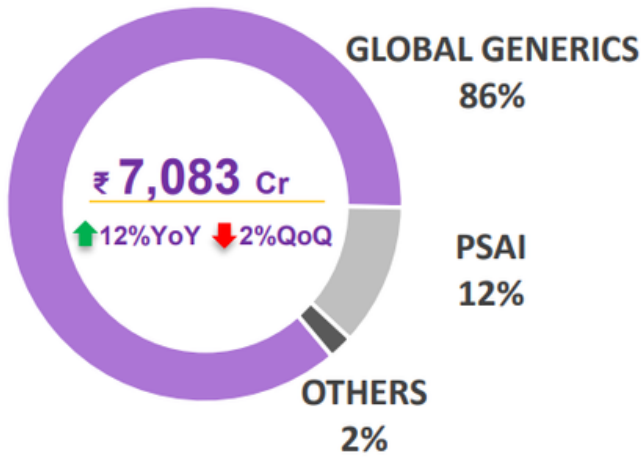
Business Segmentation Highlights:

- **North America Generics:** Revenues of \$463 million, up 19% YoY and 18% QoQ, primarily volume-driven with three new product launches.
- **European Generics:** Revenues of €59 million, with 4% YoY growth and 1% sequential growth, helped by base business volumes and new launches.
- **Emerging Markets Generics:** Revenues of ₹1,188 crores, showing 3% YoY growth, with market share expansion offsetting unfavorable forex.
- **India Business:** Revenues of ₹1,325 crores, reflecting 15% YoY growth, driven by the in-licensed vaccine portfolio from Sanofi and new launches.

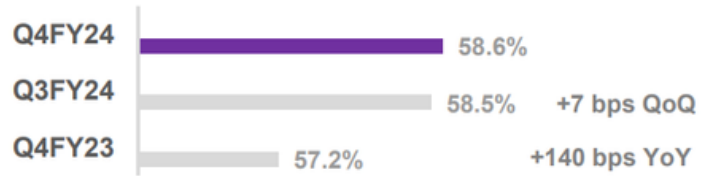
Revenue Highlights



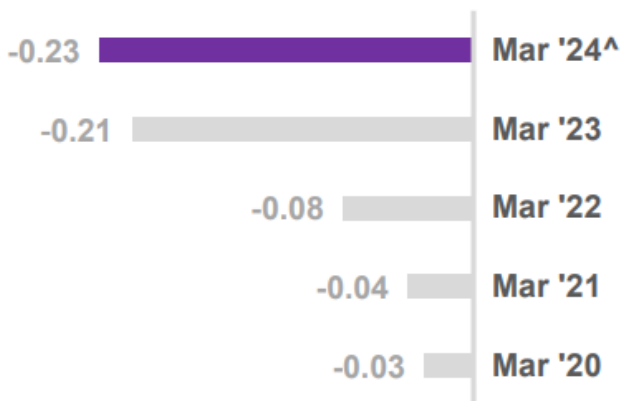
REVENUE BY SEGMENT



GROSS MARGINS (% of Revenue)

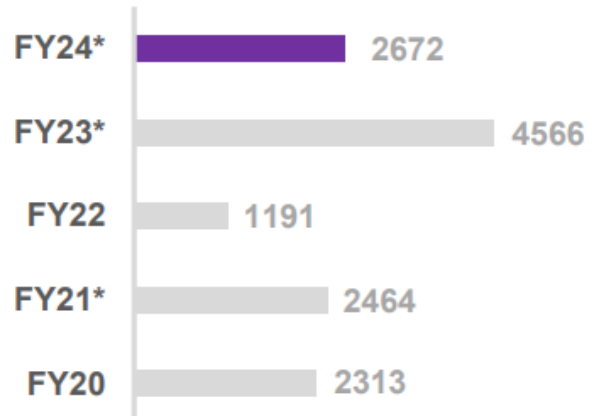


NET DEBT / EQUITY



[^]Net Cash Surplus (Adjusted for non-current cash & borrowings) stood at ₹ 6,459 Cr. as on 31st Mar 2024

FREE CASH FLOW (₹ Cr)

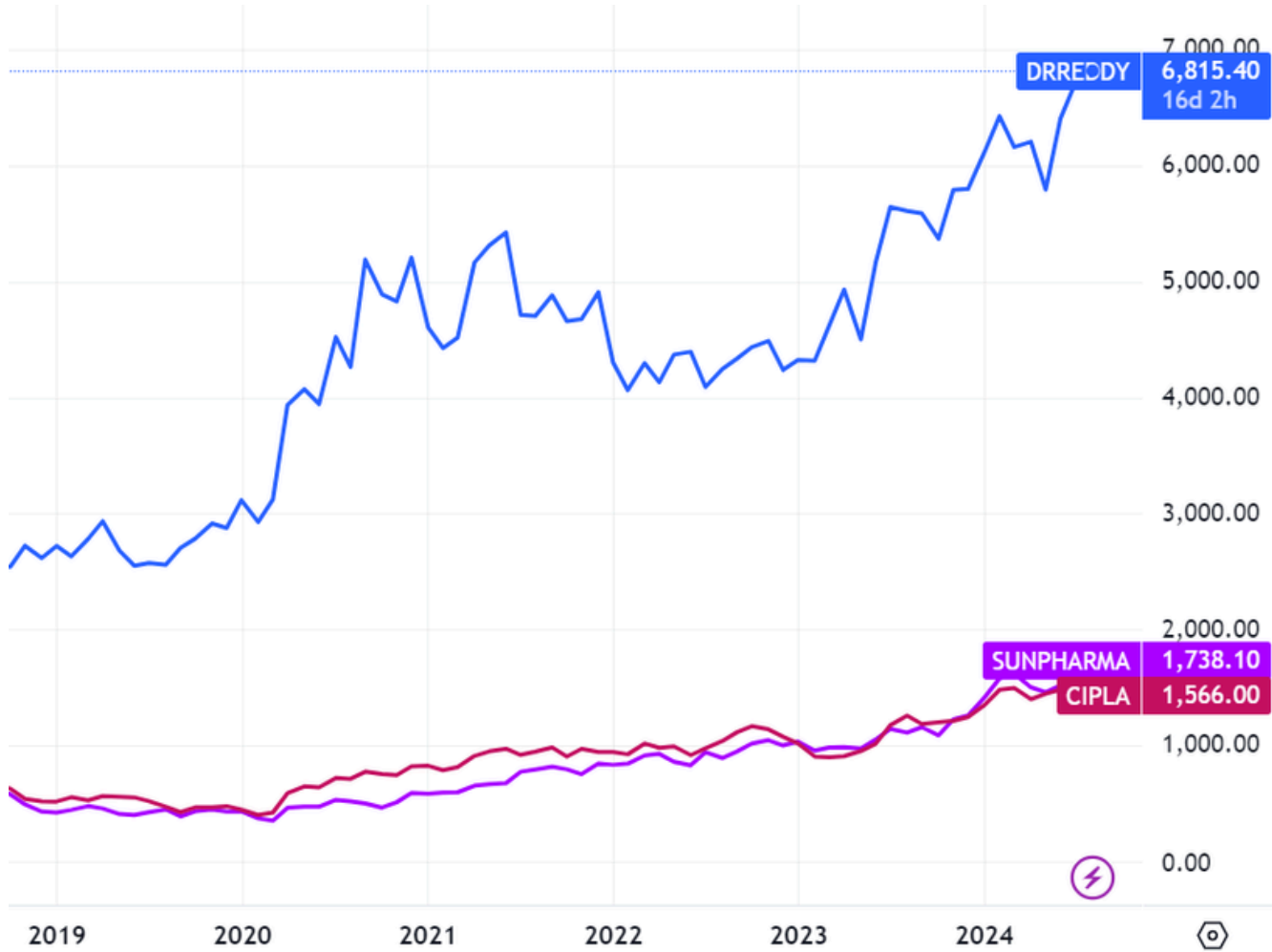


*Before acquisition related payouts

Peer Comparison



Peer Stock Performance (5Y) Indexed



Source: Trading View

Peer Financial Performance

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	Sun Pharma.Inds.	1740.05	39.62	417496.33	0.77	2860.51	25.05	12652.75	5.96	17.32
2.	Cipla	1574.90	28.77	127181.59	0.82	1175.46	18.05	6693.94	5.77	22.80
3.	Zydus Lifesci.	1171.25	28.33	117855.21	0.25	1482.50	29.66	6207.50	20.78	22.34
4.	Dr Reddy's Labs	6832.40	20.43	113984.74	0.57	1392.40	-0.90	7696.10	13.88	26.53
5.	Lupin	2080.00	41.92	94851.40	0.39	805.54	77.18	5600.33	16.33	15.72

Source: Screener

Final Outlook

DRREDDY: HOLD | LTP: 6,832

- India sales grew by 10.5% year-over-year to reach INR 11.3 billion, accounting for 16% of total sales.
 - The gross margin increased by 330 basis points year-over-year to 58.6%.
 - For the fourth quarter of FY24, the gross margins for global generics and PSAI improved by 60 basis points and 130 basis points, respectively, compared to the previous year.
 - EBITDA rose by 34% year-over-year to INR 17.7 billion.
 - Research and development expenses were INR 6.9 billion, representing 9.7% of sales.
 - Underperformance in the India business was on account of lower base business volumes while the company launched 3 new brands in Q4FY24.
 - Segment-wise, PSAI margins were 28.6%, down from 29.4% in Q3FY24, while generic margins were 62%, up slightly from 61.9% in Q3FY24.
 - Reported EPS for the quarter is Rs. 78.4 and that for the year is Rs. 334 for FY 24.
- Thin US pipeline in near term and competition in certain key products remains a key risk.

Key risks include significant ANDA approvals and a sharp recovery in base business margins.

Earnings growth to moderate to a 3.5% CAGR from FY24 to FY26, partly due to the gradual market share increase of g-Revlimid.

§The joint venture with Nestle and investments in the biosimilar segment are expected to yield commercial benefits after FY26.

HOLD the stock due to cautious about unstable core margins, reliance on one-time profit boosters like Production Linked Incentive (PLI) benefits, a slowdown in Indian operations, and regulatory uncertainties,