

US growth drives numbers, profitability flat on a higher base...

About the stock: Dr Reddy's (DRL) business encompasses generic formulations sales across US, Europe, RoW markets and branded generics in India and Russia CIS. The business also comprises of API sales under the head PSAI. The company is increasingly looking to expand its global portfolio with biosimilar and complex formulation offerings.

- Revenue breakup FY24: US (47%), India (17%), Russia and CIS (11%), Europe (7%), RoW (6%), PSAI (11%)
- It owns 14 formulation facilities, 9 API manufacturing facilities, one biologics facility and several R&D centres across the globe.

Investment Rationale:

- Q1FY25- Beat on revenues front due to higher US sales- Revenues grew ~14 YoY to ₹ 7696 crore driven by growth 20% growth in the US to ₹ 3263 crore and 15% growth in India to ₹ 1325 crore. Growth in Europe was subdued at 4% to ₹ 527 crore due to significant decline in the UK and growth in Russia / CIS was negative 3% due to unfavourable currency impact. EBITDA grew 3% YoY to ₹ 2130 crore and margins declined 283 bps to 27.7% despite strong GPM (71.7%) mainly due to significant jump in SG&A expenses (up 28%) on account of investment in new business initiatives, higher freight costs, business integration costs, annual merit increases among others. Net profit was flat at ₹ 1392 crore.
- US launches, in-licensing deals, acquisitions to determine the growth path-US growth (on a higher base) was driven by increase in volumes of base business, contribution from new launches which effectively offset price erosion. Anti-cancer drug gRevlimid also contributed to the US growth. The management has guided for 20 launches in the next two years in the US, many of which will be complex launches. India growth was mainly on account of acquisition of Sanofi vaccines portfolio (ex of which the growth was mid-single digit). The management expects double digit growth excluding acquisitions. R&D is expected to be around ~8-9% of the revenues with ~20% earmarked for biosimilars. Overall, we believe DRL's capability of complex launches on a consistent basis across geographies to be the key determinant for overall performance. Recent acquisition of Nicotine Replacement Therapy brands, launch drug-free migraine device in Europe and JV with Nestle for nutraceuticals are some unique deals the success of which would be keenly watched for.

Rating and Target price

- Our target price is ₹ 7220 based on 23x FY26E EPS of 310.3 plus NPV of ₹ 86 for gRevlimid. We maintain HOLD rating as we continue to monitor progress on the launches and R&D front.

Key Financial Summary

Key Financials (₹ crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	17517.0	19047.5	21545.2	24669.7	12.1	28011.1	31136.5	33767.9	9.8
EBITDA	2466.0	3869.9	3767.7	6348.9	37.1	7924.7	7629.3	8189.3	1.7
EBITDA Margins (%)	14.1	20.3	17.5	25.7		28.3	24.5	24.3	
Adjusted PAT	2026.0	1951.6	2112.2	4470.2	30.2	5563.2	4723.4	5150.2	-3.8
EPS (Adjusted)	122.0	117.6	127.2	269.3		335.1	284.5	310.3	
PE (x)	50.8	51.5	47.2	22.8		18.5	21.8	20.0	
RoE (%)	13.0	11.1	11.0	19.2		19.7	14.7	14.1	
RoCE (%)	9.6	13.1	12.5	23.9		23.0	19.5	20.0	

Source: Company, ICICI Direct Research

Dr.Reddy's

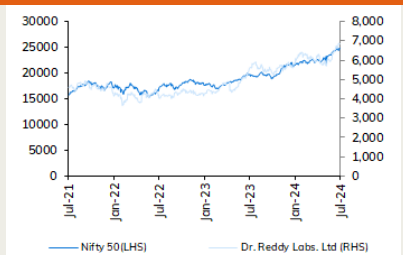
Particulars

Particular	Amount
Market Capitalisation	₹113328 crore
Debt (FY24)	₹2002 crore
Cash & equivalents (FY24)	₹711 crore
EV	₹114620 crore
52 week H/L (₹)	6505/4384
Equity capital	₹83.0 crore
Face value	₹5

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	26.7	26.7	26.7	26.7
FIIs	28.2	28.6	29.1	27.7
DIIIs	21.0	18.7	18.3	20.7
Others	24.1	26.1	25.9	25.0

Price Chart



Key risks

- Slower ramp up in new launches especially in the US
- Increasing intangible component on the balance sheet due to licensing deals

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Exhibit 1: Quarterly Summary

₹ Crore	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Total Operating Income	4945.1	5786.9	5338.3	5474.9	5232.9	6331.8	6789.8	6315.2	6757.9	6902.6	7236.8	7113.8	7696.1	13.9	8.2
Raw Material Expenses	1702.1	2027.6	1814.7	1897.8	1911.3	1847.0	2001.4	1898.1	1937.6	2003.0	2176.0	2092.1	2181.7	12.6	4.3
% of Revenues	34.4	35.0	34.0	34.7	36.5	29.2	29.5	30.1	28.7	29.0	30.1	29.4	28.3	-32 bps	-106 bps
Gross Profit	3243.0	3759.3	3523.6	3577.1	3321.6	4484.8	4788.4	4417.1	4820.3	4899.6	5060.8	5021.7	5514.4	14.4	9.8
Gross Profit Margins (%)	65.6	65.0	66.0	65.3	63.5	70.8	70.5	69.9	71.3	71.0	69.9	70.6	71.7	32 bps	106 bps
Employee expenses	946.5	1010.4	956.3	972.6	1045.7	1151.7	1173.2	1276.0	1189.7	1280.3	1276.4	1283.6	1413.7	18.8	10.1
% of Revenues	19.1	17.5	17.9	17.8	20.0	18.2	17.3	20.2	17.6	18.5	17.6	18.0	18.4	76 bps	33 bps
Other expenses	1562.0	1389.1	1351.6	2153.5	1334.7	1434.2	1663.3	1607.2	1568.5	1611.0	1761.3	1906.9	1970.3	25.6	3.3
% of Revenues	31.6	24.0	25.3	39.3	25.5	22.7	24.5	25.4	23.2	23.3	24.3	26.8	25.6	239 bps	-120 bps
Total Expenditure	4210.6	4427.1	4122.6	5023.9	4291.7	4432.9	4837.9	4781.3	4695.8	4894.3	5213.7	5282.6	5565.7	18.5	5.4
% of Revenues	85.1	76.5	77.2	91.8	82.0	70.0	71.3	75.7	69.5	70.9	72.0	74.3	72.3	283 bps	-194 bps
EBITDA	734.5	1359.8	1215.7	451.0	941.2	1898.9	1951.9	1533.9	2062.1	2008.3	2023.1	1831.2	2130.4	3.3	16.3
EBITDA Margins (%)	14.9	23.5	22.8	8.2	18.0	30.0	28.7	24.3	30.5	29.1	28.0	25.7	27.7	-283 bps	194 bps
Total Depreciation	283.9	294.1	294.2	293.0	301.8	309.2	323.7	315.5	353.3	375.5	373.5	367.7	381.1	7.9	3.6
Interest	19.3	23.4	21.6	31.5	34.7	30.9	41.8	35.4	37.1	35.3	39.4	59.3	59.8	61.2	0.8
Share of profit/ (loss) of equity accounted investees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-7.6	-4.3	-4.2	-2.7	-3.5	-5.9		
Other income	107.9	205.5	55.8	121.9	853.9	40.8	58.7	138.5	174.0	315.0	216.2	197.5	187.2		
EBT	539.2	1247.8	955.7	248.4	1458.6	1599.6	1645.1	1329.1	1850.0	1916.7	1829.1	1605.2	1882.6	1.8	17.3
Total Tax	175.4	276.7	264.9	161.9	279.0	499.4	393.8	369.0	445.0	434.5	448.2	295.4	490.2	10.2	65.9
Tax %	39.2	25.9	28.8	118.2	45.4	31.8	24.9	27.8	24.1	22.7	24.5	18.4	26.0		
PAT	363.8	971.1	690.8	325.6	607.0	1100.2	1251.3	960.1	1405.0	1482.2	1380.9	1309.8	1392.4	-0.9	6.3
No. of Equity Shares	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6	16.6		
EPS (Diluted)	22.9	60.0	42.7	5.8	71.6	67.1	75.7	57.8	84.6	89.3	83.2	78.9	83.9		

Source: Company, ICICI Direct Research

Q4FY24 Results / Conference call highlights

US Business-

- During this quarter, DRL launched three new products and filed one product with the USFDA.
- The in-licensed biosimilar abatacept will be launched in CY27.
- 20% of R&D spending is towards development of biosimilar products.
- It plans to launch 20 products in the US during FY25.
- The capex for the new biologics facility of Aurigene Pharma in Hyderabad is around ₹300 crore and will be utilized specifically for CDMO business.

Domestic business-

- 15% YoY growth in domestic business was mainly driven by 13 new launches during quarter and in-licensed vaccine portfolio from Sanofi.
- Base business grew in mid-single-digits (excluding Sanofi vaccine business). Management expects base business to grow in double-digits in FY25.
- JV with Nestle expected to be operational from Q2FY25.

Other aspects

- Company launched 12 new products in Europe in Q1.
- Company has filed 11 DMFs globally.
- Company expects R&D expenses to be around 8.5-9% of sales for FY25 and plans to allocate 20% of R&D budget to biosimilar products.
- SG&A expenses to be 27.5-28% of sales for FY25.

Key Business Updates

- DRL during the quarter signed a definitive agreement with Haleon plc a leading consumer healthcare company to acquire Haleon's global portfolio of consumer healthcare brands in the Nicotine Replacement Therapy (NRT) category outside of the US. The portfolio to be acquired consists of Nicotinell, a global leader in the NRT category with an extensive footprint in over 30 countries spanning Europe, Asia including Japan, and Latin America, and local market-leading brand names of the product – Nicabate in Australia, Thrive in Canada, and Habitrol in New Zealand and Canada. Nicotinell is the second biggest brand globally (excluding the US) in the NRT category.
The deal includes total consideration of GBP 500 million, with an upfront cash payment of GBP 458 million and performance-based contingent payments of up to GBP 42 million.

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	24,669.7	28,011.1	31,136.5	33,767.9
Growth (%)	14.5	13.5	11.2	8.5
Raw Material Expenses	7,657.8	8,208.7	9,407.6	10,383.9
Employee expenses	4,646.6	5,030.0	5,719.5	6,247.1
Other expenses	6,016.4	6,847.7	8,380.1	8,947.6
Total Operating Expenditur	18,320.8	20,086.4	23,507.2	25,578.6
EBITDA	6,348.9	7,924.7	7,629.3	8,189.3
Growth (%)	68.5	24.8	-3.7	7.3
Interest	142.8	171.1	239.2	50.1
Depreciation	1,250.2	1,470.0	1,760.8	1,849.0
PBT before Exceptional lten	6,011.4	7,186.3	6,388.4	6,965.6
Share of profit/ (loss) of equ	-37.0	0.0	0.0	0.0
PBT	6,048.4	7,186.3	6,388.4	6,965.6
Total Tax	1,541.2	1,623.1	1,665.0	1,815.4
PAT	4,507.2	5,563.2	4,723.4	5,150.2
Adjusted PAT	4,470.2	5,563.2	4,723.4	5,150.2
Growth (%)	111.6	24.5	-15.1	9.0
EPS	271.5	335.1	284.5	310.3
EPS (Adjusted)	269.3	335.1	284.5	310.3

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	4,977.1	5,196.3	4,723.4	5,150.2
Add: Depreciation & Amortization	1,250.2	1,470.0	1,760.8	1,849.0
Net Increase in Current Assets	-840.6	-2,649.9	-1,871.4	-1,097.9
Net Increase in Current Liabilities	55.1	631.7	572.5	539.3
CF from operating activities	5,887.3	4,543.3	5,424.5	6,490.7
(Inc)/dec in Fixed Assets	-1,878.2	-2,637.1	-6,800.0	-2,020.0
(Inc)/dec in Investments	-2,336.6	-1,570.4	3,800.0	-780.0
Others	77.6	179.2	-50.6	-52.7
CF from investing activities	-4,137.2	-4,028.3	-3,050.6	-2,852.7
Inc / (Dec) in Equity Capital	36.8	80.5	0.0	0.0
Inc / (Dec) in Loan	-2,039.7	434.6	-500.0	-500.0
Dividend & Dividend Tax	-497.9	-664.8	-830.0	-830.0
Others	-185.3	-226.6	-239.2	-50.1
CF from financing activities	-2,686.1	-376.3	-1,569.2	-1,380.1
Net Cash flow	-936.0	138.7	804.7	2,258.0
Opening Cash	1,486.1	578.7	711.5	1,516.2
Closing Cash	550.1	717.4	1,516.2	3,774.1
Free Cash Flow	4,009.1	1,906.2	-1,375.5	4,470.7
FCF Yield	3.5%	1.7%	-1.2%	3.9%

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	83.3	83.4	83.4	83.4
Net Network	23,202.8	28,171.4	32,064.8	36,385.0
Total Shareholders fund	23,286.1	28,254.8	32,148.2	36,468.4
Total Debt	1,347.2	2,002.0	1,502.0	1,002.0
Deferred Tax Liability	76.0	84.1	87.5	91.0
Other Non Current Liabilitie	203.2	314.0	326.6	339.6
Long term Provisions	19.9	23.9	25.9	26.9
Source of Funds	24,932	30,679	34,090	37,928
Gross Block - Fixed Assets	21,586.4	24,260.2	30,360.2	31,880.2
Accumulated Depreciation	12,914.7	14,384.7	16,145.5	17,994.5
Net Block	8,671.7	9,875.5	14,214.7	13,885.7
Capital WIP	1,030.1	1,419.3	2,119.3	2,619.3
Net Fixed Assets	9,701.8	11,294.8	16,334.0	16,505.0
Goodwill	547.4	550.1	550.1	550.1
Investments	4,985.8	4,930.5	1,130.5	1,910.5
Inventory	4,867.0	6,355.2	6,701.3	6,827.8
Cash	577.9	710.7	1,516.2	3,774.1
Debtors	7,248.5	8,029.8	9,383.6	10,176.6
Loans & Advances & Other	2,130.2	4,287.6	4,459.1	4,637.5
Total Current Assets	15,975.9	20,400.3	23,077.2	26,433.0
Creditors	2,268.4	2,614.4	2,964.0	3,271.6
Provisions & Other CL	5,084.3	5,570.6	5,793.4	6,025.2
Total Current Liabilities	7,352.7	8,185.0	8,757.5	9,296.8
Net Current Assets	8,623.2	12,215.3	14,319.7	17,136.2
LT L& A, Other Assets	369.0	630.3	655.5	681.7
Deferred Tax Assets	705.2	1,057.8	1,100.1	1,144.1
Application of Funds	24,932	30,679	34,090	37,928

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	269.3	335.1	284.5	310.3
BV per share	1,402.8	1,702.1	1,936.6	2,196.9
Operating Ratios (%)				
Gross Profit Margins	69.0	70.7	69.8	69.2
EBITDA margins	25.7	28.3	24.5	24.3
Net Profit margins	18.1	19.9	15.2	15.3
Inventory days	232.0	282.6	260.0	240.0
Debtor days	107.2	104.6	110.0	110.0
Creditor days	108.1	116.2	115.0	115.0
Asset Turnover	1.1	1.2	1.0	1.1
EBITDA conversion Rate	92.7	57.3	71.1	79.3
Return Ratios (%)				
RoE	19.2	19.7	14.7	14.1
RoCE	23.9	23.0	19.5	20.0
RoIC	32.6	31.5	22.5	24.1
Valuation Ratios (x)				
P/E	25.1	20.4	24.0	22.0
EV / EBITDA	17.2	13.9	14.7	22.0
EV / Revenues	4.4	3.9	3.6	3.2
Market Cap / Revenues	4.6	4.0	3.6	3.4
Price to Book Value	4.9	4.0	3.5	3.1
Solvency Ratios				
Debt / Equity	0.1	0.1	0.0	0.0
Debt / EBITDA	0.2	0.3	0.2	0.1
Current Ratio	1.9	2.3	2.3	2.3
Quick Ratio	1.3	1.5	1.6	1.6
Working Capital Cycle	231.1	271.0	255.0	235.0

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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