

CMP: ₹ 5980

Target: ₹ 6440(8%)

Target Period: 12 months

HOLD

May 9, 2024

US propels Q4; company prepares for life after gRevlimid..

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:

- Q4FY24- US growth drives numbers – Revenues grew ~13% YoY to Rs 7114 crore driven by growth 29% growth in the US to Rs 3263 crore and 32% growth in ROW markets to Rs 490 crore. US growth was attributable to market share expansion in certain existing key products and revenues from new product launches, partly offset by price erosion. Anti-cancer drug gRevlimid contributed substantially to the US growth. India YoY growth was negative 12% to Rs 1127 crore. However, adjusting for divestments in the base the underline growth was ~11%. Growth in Europe was subdued at 5% due to price erosion in certain products growth in Russia / CIS was negative 4% due to unfavourable currency impact. EBITDA grew 19% YoY to Rs 1831 crore tracking revenues growth and despite higher R&D spend. EBITDA margins stood at 25.7% (145 bps improvement).
- US growth ex-gRevlimid, scores of in-licensing deals in India and abroad and higher R&D to weigh on sentiments – The US revenues got a significant boost in FY24 on the back of continuing traction from gRevlimid besides new launches and also consolidation of Mayne Pharma portfolio. However, gRevlimid has more or less peaked in FY24 and expected to shrink significantly, going ahead which is expected to create significant void. The company is bracing for the same with US new launch momentum (+20 in the next two years), scores of in-licensing / partnership deals in India and abroad besides incremental R&D spend which is expected to be around ~8-9% of the revenues with ~20% earmarked for biosimilars which the company expects to launch in the US in FY27.

Rating and Target price

- Our target price is ₹ 6440 based on 21x FY26E EPS of 302.7 plus NPV of ₹ 83 for gRevlimid. We assign HOLD rating as we continue to monitor progress on the launches and R&D front.



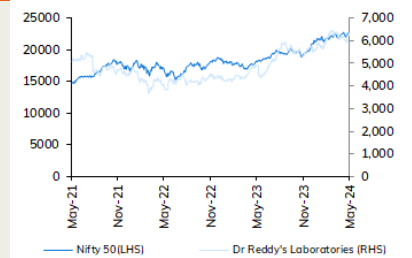
Particulars

Particular	Amount
Market Capitalisation	₹99268 crore
Debt (FY23)	₹2002 crore
Cash & equivalents (FY23)	₹711 crore
EV	₹100559 crore
52 week H/L (₹)	6505/4384
Equity capital	₹83.0 crore
Face value	₹5

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	26.7	26.7	26.7	26.7
FIs	27.0	28.2	28.6	29.1
DIs	22.0	21.0	18.7	18.3
Others	24.3	24.1	26.1	25.9

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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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	28850.5	30987.1	5.2
EBITDA	2466.0	3869.9	3767.7	6348.9	37.1	7924.7	6851.6	7670.2	-1.6
EBITDA Margins (%)	14.1	20.3	17.5	25.7		28.3	23.7	24.8	
Adjusted PAT	2026.0	1951.6	2112.2	4470.2	30.2	5563.2	4411.6	5025.3	-5.0
EPS (Adjusted)	122.0	117.6	127.2	269.3		335.1	265.8	302.7	
PE (x)	49.0	49.6	45.5	22.0		17.8	22.5	19.8	
RoE (%)	13.0	11.1	11.0	19.2		19.7	13.9	13.9	
RoCE (%)	9.6	13.1	12.5	23.9		23.0	17.6	19.3	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

₹ Crore	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	4768.2	4945.1	5786.9	5338.3	5474.9	5232.9	6331.8	6789.8	6315.2	6757.9	6902.6	7236.8	7113.8	12.6	-1.7
Raw Material Expenses	1541.5	1702.1	2027.6	1814.7	1897.8	1911.3	1847.0	2001.4	1898.1	1937.6	2003.0	2176.0	2092.1	10.2	-3.9
% of Revenues	32.3	34.4	35.0	34.0	34.7	36.5	29.2	29.5	30.1	28.7	29.0	30.1	29.4	-65 bps	-66 bps
Gross Profit	3226.7	3243.0	3759.3	3523.6	3577.1	3321.6	4484.8	4788.4	4417.1	4820.3	4899.6	5060.8	5021.7	13.7	-0.8
Gross Profit Margins (%)	67.7	65.6	65.0	66.0	65.3	63.5	70.8	70.5	69.9	71.3	71.0	69.9	70.6	65 bps	66 bps
Employee expenses	893.0	946.5	1010.4	956.3	972.6	1045.7	1151.7	1173.2	1276.0	1189.7	1280.3	1276.4	1283.6	0.6	0.6
% of Revenues	18.7	19.1	17.5	17.9	17.8	20.0	18.2	17.3	20.2	17.6	18.5	17.6	18.0	-216 bps	41 bps
Other expenses	1280.5	1562.0	1389.1	1351.6	2153.5	1334.7	1434.2	1663.3	1607.2	1568.5	1611.0	1761.3	1906.9	18.6	8.3
% of Revenues	26.9	31.6	24.0	25.3	39.3	25.5	22.7	24.5	25.4	23.2	23.3	24.3	26.8	136 bps	247 bps
Total Expenditure	3715.0	4210.6	4427.1	4122.6	5023.9	4291.7	4432.9	4837.9	4781.3	4695.8	4894.3	5213.7	5282.6	10.5	1.3
% of Revenues	77.9	85.1	76.5	77.2	91.8	82.0	70.0	71.3	75.7	69.5	70.9	72.0	74.3	-145 bps	221 bps
EBITDA	1053.2	734.5	1359.8	1215.7	451.0	941.2	1898.9	1951.9	1533.9	2062.1	2008.3	2023.1	1831.2	19.4	-9.5
EBITDA Margins (%)	22.1	14.9	23.5	22.8	8.2	18.0	30.0	28.7	24.3	30.5	29.1	28.0	25.7	145 bps	-221 bps
Total Depreciation	308.8	283.9	294.1	294.2	293.0	301.8	309.2	323.7	315.5	353.3	375.5	373.5	367.7	16.5	-1.6
Interest	29.7	19.3	23.4	21.6	31.5	34.7	30.9	41.8	35.4	37.1	35.3	39.4	59.3	67.5	50.5
Share of profit/ (loss) of equity accounted investees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-7.6	-4.3	-4.2	-2.7	-3.5		
Other income	82.6	107.9	205.5	55.8	121.9	853.9	40.8	58.7	138.5	174.0	315.0	216.2	197.5		
EBT	797.3	539.2	1247.8	955.7	248.4	1458.6	1599.6	1645.1	1329.1	1850.0	1916.7	1829.1	1605.2	20.8	-12.2
Total Tax	257.9	175.4	276.7	264.9	161.9	279.0	499.4	393.8	369.0	445.0	434.5	448.2	295.4	-19.9	-34.1
Tax %	35.2	39.2	25.9	28.8	118.2	45.4	31.8	24.9	27.8	24.1	22.7	24.5	18.4		
PAT	557.3	363.8	971.1	690.8	325.6	607.0	1100.2	1251.3	960.1	1405.0	1482.2	1380.9	1309.8	36.4	-5.1
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)	34.7	22.9	60.0	42.7	5.8	71.6	67.1	75.7	57.8	84.6	89.3	83.2	78.9		

Q4FY24 Results / Conference call highlights

Some of the in-licensing / acquisition / partnership / launches announced during January-April 2024-

- Acquisition of MenoLabs, a leading women’s health and dietary supplements portfolio of brands in the US (under Chapter 11 sales)
- Launch of bVersavo (bevacizumab) in the UK
- Licensing agreement with Pharmazz, Inc. to market first-in-class Centhaquine (Lyfaquin) for hypovolemic shock treatment in India
- Exclusive distribution partnership with Sanofi Healthcare India Private Limited for their vaccine brands in India
- Marketing and distribution agreement Bayer for second brand of Vericiguat for heart failure treatment in India
 - Forming of JV with Nestlé India to take health science nutraceutical portfolio to consumers across India and other agreed territories (to be operational by FY27)

US-

- To launch +20 products in FY25
- gRevlimid revenues were steady during the quarter and QoQ price erosion was witnessed in select products.
- Biosimilar launches in the US from FY27 onwards

India-

- 60% of India branded formulations via in-house manufacturing and 40% is via outsourcing
- Launched 3e new brands in Q4 and 13 IN FY24
- Guided for double digit growth

Other aspects

- R&D breakup- 20% for small molecules (chemical formulations), 20% for biosimilars, 20% for APIs and rest for other initiatives
- Capex for FY24- Rs 2700 crore (including intangibles). For FY25, 50% of capex would be earmarked for APIs and injectables
- Maintains aspirational target of 25% EBITDA and 25% ROCE in the long run

Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Revenues	24,669.7	28,011.1	28,850.5	30,987.1
Growth (%)	14.5	13.5	3.0	7.4
Raw Material Expenses	7,657.8	8,208.7	8,871.9	9,529.5
Employee expenses	4,646.6	5,030.0	5,337.3	5,732.6
Other expenses	6,016.4	6,847.7	7,789.6	8,054.9
Total Operating Expenditur	18,320.8	20,086.4	21,998.8	23,317.0
EBITDA	6,348.9	7,924.7	6,851.6	7,670.2
Growth (%)	68.5	24.8	-13.5	11.9
Interest	142.8	171.1	75.1	50.1
Depreciation	1,250.2	1,470.0	1,548.8	1,627.5
PBT before Exceptional Items	6,011.4	7,186.3	5,804.8	6,612.3
Share of profit/ (loss) of equity accounted investees	-37.0	0.0	0.0	0.0
PBT	6,048.4	7,186.3	5,804.8	6,612.3
Total Tax	1,541.2	1,623.1	1,393.1	1,586.9
PAT	4,507.2	5,563.2	4,411.6	5,025.3
Adjusted PAT	4,470.2	5,563.2	4,411.6	5,025.3
Growth (%)	111.6	24.5	-20.7	13.9
EPS	271.5	335.1	265.8	302.7
EPS (Adjusted)	269.3	335.1	265.8	302.7

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	4,411.6	5,025.3
Add: Depreciation & Amortization	1,250.2	1,470.0	1,548.8	1,627.5
Net Increase in Current Assets	-840.6	-2,649.9	-800.9	-768.6
Net Increase in Current Liabilities	55.1	631.7	403.7	438.9
CF from operating activities	5,887.3	4,543.3	5,638.3	6,373.3
(Inc)/dec in Fixed Assets	-1,878.2	-2,637.1	-2,000.0	-1,800.0
(Inc)/dec in Investments	-2,336.6	-1,570.4	-1,000.0	-1,000.0
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	-75.1	-50.1
CF from financing activities	-2,686.1	-376.3	-1,405.1	-1,380.1
Net Cash flow	-936.0	138.7	1,182.6	2,140.6
Opening Cash	1,486.1	578.7	711.5	1,894.1
Closing Cash	550.1	717.4	1,894.1	4,034.6
Free Cash Flow	4,009.1	1,906.2	3,638.3	4,573.3
FCF Yield	4.0%	1.9%	3.7%	4.6%

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	31,753.0	35,948.4
Total Shareholders fund	23,286.1	28,254.8	31,836.4	36,031.8
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	24.9	25.9
Source of Funds	24,932	30,679	33,777	37,490
Gross Block - Fixed Assets	21,586.4	24,260.2	25,560.2	26,860.2
Accumulated Depreciation	12,914.7	14,384.7	15,933.5	17,561.0
Net Block	8,671.7	9,875.5	9,626.7	9,299.2
Capital WIP	1,030.1	1,419.3	2,119.3	2,619.3
Net Fixed Assets	9,701.8	11,294.8	11,746.0	11,918.5
Goodwill	547.4	550.1	550.1	550.1
Investments	4,985.8	4,930.5	5,930.5	6,930.5
Inventory	4,867.0	6,355.2	6,319.7	6,266.0
Cash	577.9	710.7	1,894.1	4,034.6
Debtors	7,248.5	8,029.8	8,694.7	9,338.6
Loans & Advances & Other	2,130.2	4,287.6	4,459.1	4,637.5
Total Current Assets	15,975.9	20,400.3	22,384.5	25,293.7
Creditors	2,268.4	2,614.4	2,795.2	3,002.4
Provisions & Other CL	5,084.3	5,570.6	5,793.4	6,025.2
Total Current Liabilities	7,352.7	8,185.0	8,588.7	9,027.6
Net Current Assets	8,623.2	12,215.3	13,795.9	16,266.1
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	33,778	37,491

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	269.3	335.1	265.8	302.7
BV per share	1,402.8	1,702.1	1,917.9	2,170.6
Operating Ratios (%)				
Gross Profit Margins	69.0	70.7	69.2	69.2
EBITDA margins	25.7	28.3	23.7	24.8
Net Profit margins	18.1	19.9	15.3	16.2
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	1.1	1.2
EBITDA conversion Rate	92.7	57.3	82.3	83.1
Return Ratios (%)				
RoE	19.2	19.7	13.9	13.9
RoCE	23.9	23.0	17.6	19.3
RoIC	32.6	31.5	25.7	29.3
Valuation Ratios (x)				
P/E	22.0	17.8	22.5	19.8
EV / EBITDA	15.0	12.1	13.6	19.8
EV / Revenues	3.9	3.4	3.2	2.9
Market Cap / Revenues	4.0	3.5	3.4	3.2
Price to Book Value	4.3	3.5	3.1	2.8
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	2.2
Quick Ratio	1.3	1.5	1.5	1.5
Working Capital Cycle	231.1	271.0	255.0	235.0

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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