

2nd Aug, 2024

Analyst - Sushil Kr Jaiswal

Recommendation	CMP (₹)	Target (₹)	Upside Potential (%)	Time Horizon
Buy	6,875	8,200	19.2%	9 – 12 months

Dr. Reddy's Laboratories is a leading global pharmaceutical company headquartered in Hyderabad, India. The company was founded in 1984 and it is specialized in the development, manufacture and distribution of a wide range of pharmaceutical products including generic medicines, active pharmaceutical ingredients (APIs), biosimilars and over-the-counter (OTC) products. Dr. Reddy's is renowned for its robust pipeline of high-quality generics and innovative treatments and serves the markets across North America, Europe, Russia and emerging economies. The company invests heavily in research and development with a strong commitment to significantly advance in biosimilars and complex generics and positions themselves as a key player in these growing segments. The company also focuses on customer healthcare which is highlighted by strategic acquisitions such as the Nicotinell brand and partnerships with global firms like Nestle. Their mission is to provide affordable and innovative medicines to patients worldwide and maintaining a solid financial foundation and reputation for quality and compliance.

Stock Details	
Sector:	Pharmaceuticals & Drugs
FV (₹):	5
Total Market Cap (₹):	1,14,756
52-Week High/Low (₹):	6,966/5,076
Sensex/Nifty (₹):	81,401/24,845
BSE Code/NSE Symbol:	500124/DRREDDY

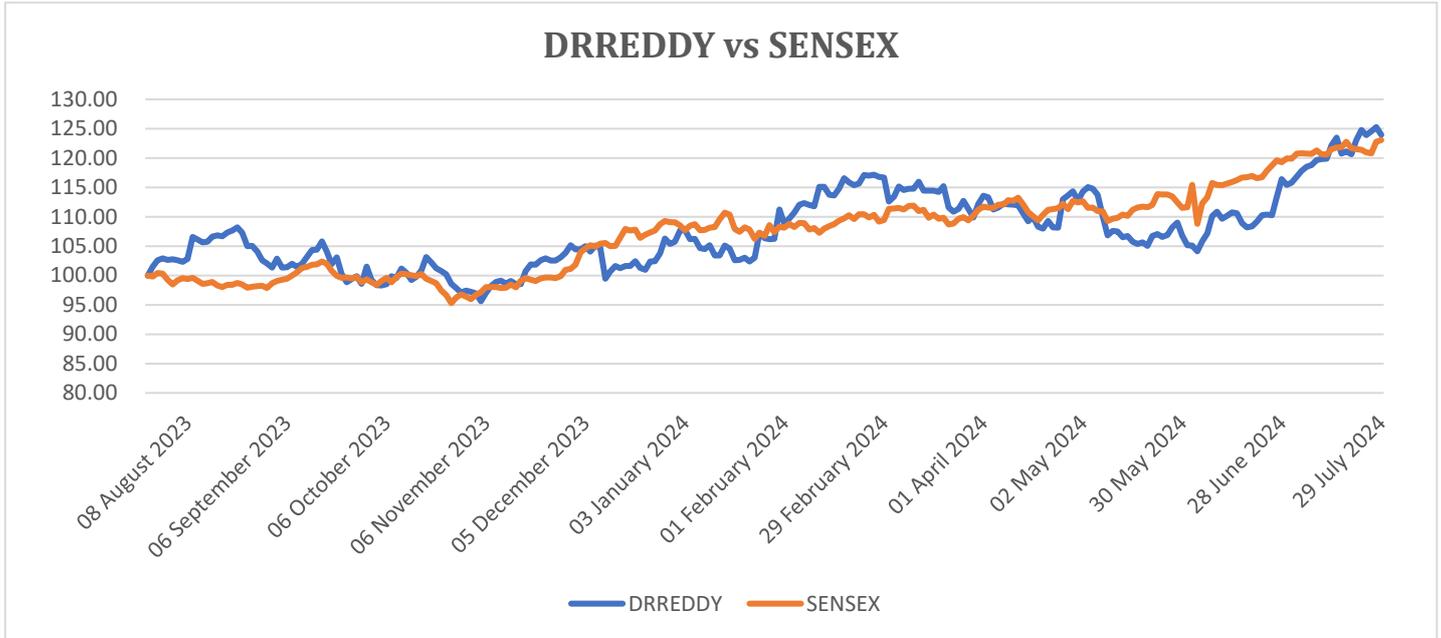
Shareholding Pattern				
	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	26.66%	26.65%	26.65%	26.65%
FIIIs	28.19%	28.62%	29.13%	27.68%
DIIIs	21.04%	18.65%	18.31%	20.72%
Public	23.93%	25.89%	25.73%	24.78%
Others	0.18%	0.18%	0.17%	0.17%

Price Performance				
	1M	3M	6M	12M
DRREDDY	13.32%	10.02%	19.10%	25.62%
SENSEX	3.38%	10.31%	15.04%	21.92%

Key Financials (Cons)	FY21	FY22	FY23	FY24	3Y CAGR %
Net Sales	19,047.50	21,545.20	24,669.70	28,011.10	13.72%
EBITDA (Excl OI)	2,869.90	3,767.40	6,349.00	7,933.10	40.34%
EBITDA Margin (%)	20.37%	17.48%	25.73%	28.32%	
Profit After Tax	1,951.60	2,182.50	4,507.30	5,577.90	41.91%
PAT Margin (%)	10.24%	10.12%	18.27%	19.91%	
Earnings Per Share (Rs)	117.28	131.15	270.54	334.40	
Book Value	1,052.59	1,145.97	1,388.97	1,686.06	
Div Per Share (Rs)	25.00	30.00	40.00	40.00	
Dividend Yield (%)	0.55	0.69	0.86	0.64	
ROE (%)	11.82%	11.93%	21.35%	21.76%	22.56%
ROCE (%)	15.49	14.59	26.21	26.86	20.14%

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	26.48	17.87
P/BV	4.76	2.67
EV/EBITDA	16.87	13.42
Market Cap/Sales	5.90	2.84

Price comparison between Dr Reddy's Laboratories Ltd vs Sensex



Q1FY25 Con-Call Highlights:

Financial Performance:

- Consolidated revenue for Q1 2025 was INR 7,673 crores (USD 921 million), a 14% increase year-on-year and an 8% increase sequentially.
- Normalized EPS for Q1 2025 was INR 83.48, compared to the consensus of INR 79.80 which reflects a surprise of 4.61%.
- The consolidated gross profit margin was 60.4% which is up by 170 basis points year-on-year and 183 basis points sequentially.
- Gross margin for Global Generics was 64.7% and for Pharmaceutical Services and Active Ingredients (PSAI) was 23.1%.
- SG&A expenses were INR 2,269 crores (USD 272 million), an increase of 28% year-on-year and 11% quarter-on-quarter.
- SG&A costs as a percentage of sales were 29.6%, higher by 330 basis points year-on-year and 57 basis points quarter-on-quarter.
- R&D expenses for Q1 2025 were INR 619 crores (USD 74 million), up by 24% year-on-year but down 10% quarter-on-quarter.
- R&D spending was 8.1% of sales.
- EBITDA for Q1 2025 was INR 2,160 crores (USD 259 million), up 15% quarter-on-quarter and 1% year-on-year.

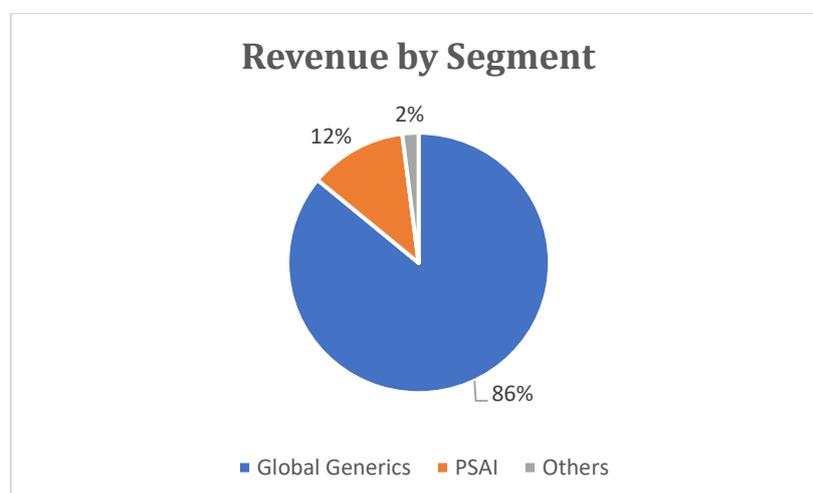
- The EBITDA margin stood at 28.2%.
- PBT for Q1 2025 was INR 1,882 crores (USD 226 million), with a PBT margin of 24.5%.
- PAT for Q1 2025 was INR 1,392 crores (USD 167 million), with a PAT margin of 15.1%.
- Reported EPS for Q1 2025 was INR 83.5.
- As of June 30, 2024, operating working capital was INR 11,535 crores (USD 1,387 million).
- Capital investment for Q1 2025 was INR 491 crores (USD 59 million).
- Free cash flow generated in Q1 2025 was INR 227 crores (USD 27 million).
- The net cash surplus as of June 30, 2024, was INR 3,731 crores (USD 808 million).
- The company held derivatives for hedging purposes, including USD 858 million at a rate of INR 83.7 to 84.1, AUD 5.5 million at INR 56.1, and GBP 458 million at a rate of INR 1.27.

Guidance provided by the management:

- The company aims to launch around 20-plus products in the U.S. market this year. They are on track with this goal, having launched 3 products in the first quarter.
- With the recent acquisition of the NRT portfolio and the Nestle JV, Dr. Reddy's plans to expand its OTC and consumer healthcare business. The management projects this segment to potentially reach around \$1 billion by fiscal '27 or '28, depending on growth and additional acquisitions.
- The expected filling for Denosumab is at the end of the calendar year 2026.
- The expected filling for Abatacept is anticipated by the end of calendar year 2025.
- The company expects continued growth in the U.S. market, despite fluctuations in quarterly performance. They plan to offset price erosion with new product launches and organic growth, aiming for single-digit growth annually.

Capital Expenditure:

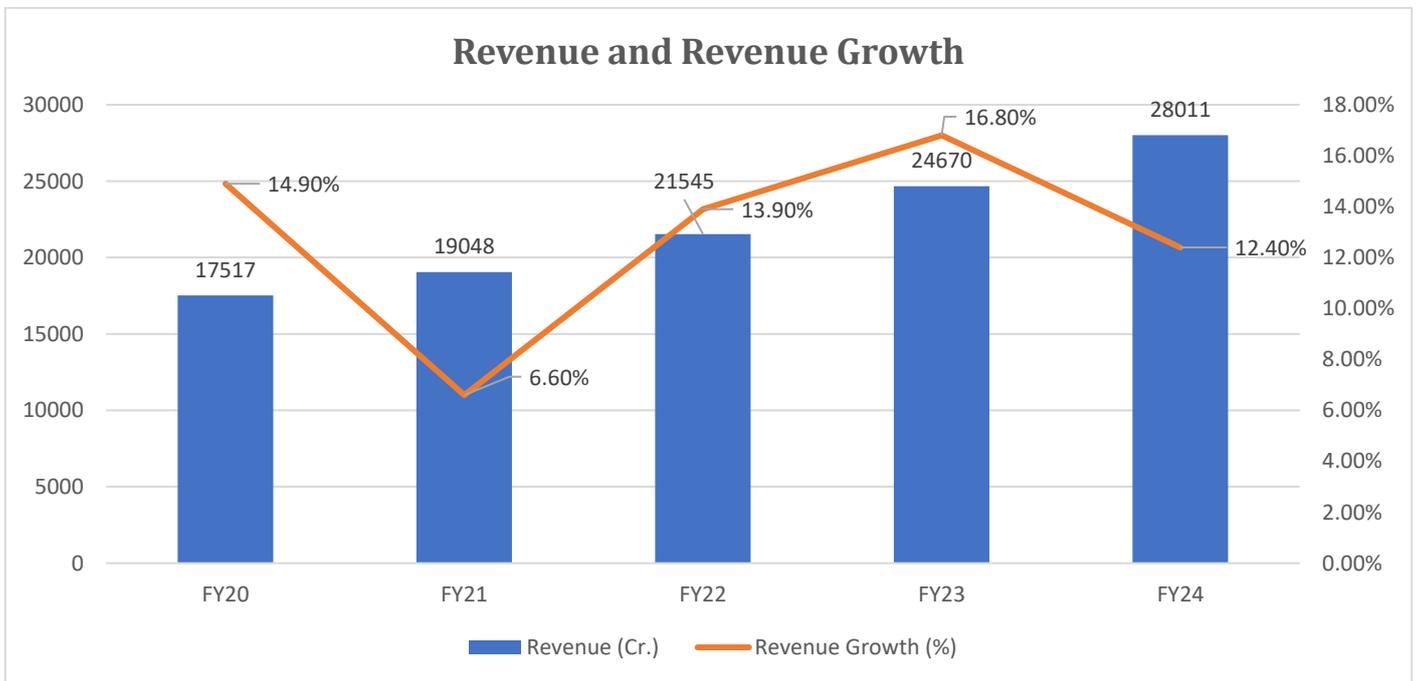
- Dr. Reddy's is investing in expanding its biologics facility in Bachupally. The goal is to reach a capacity of approximately 50 kiloliters, with an expected timeline of about 2 more years for completion.
- The capital investment for the quarter stood at INR 491 crores (USD 59 million). This investment is aimed at building capacity in various categories, including biologics, contract development and manufacturing organization (CDMO), and injectables.
- The company has indicated plans to continue investing in capabilities and new business initiatives, which include R&D and further capital expenditures.

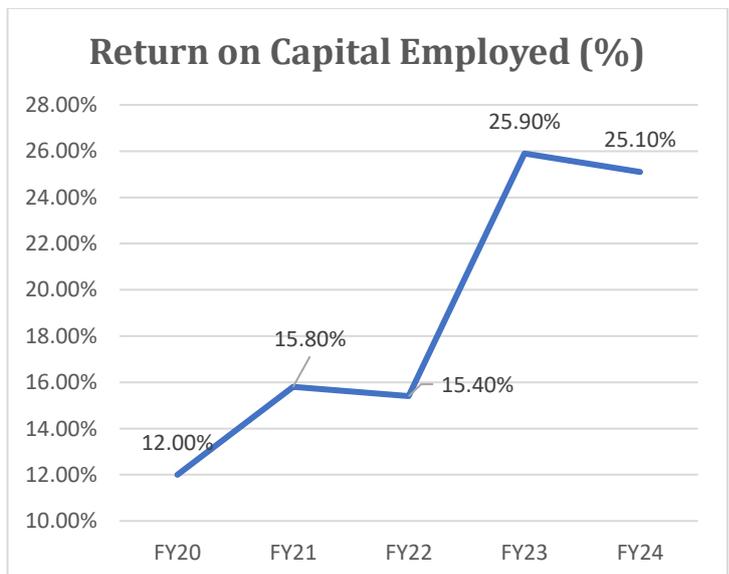
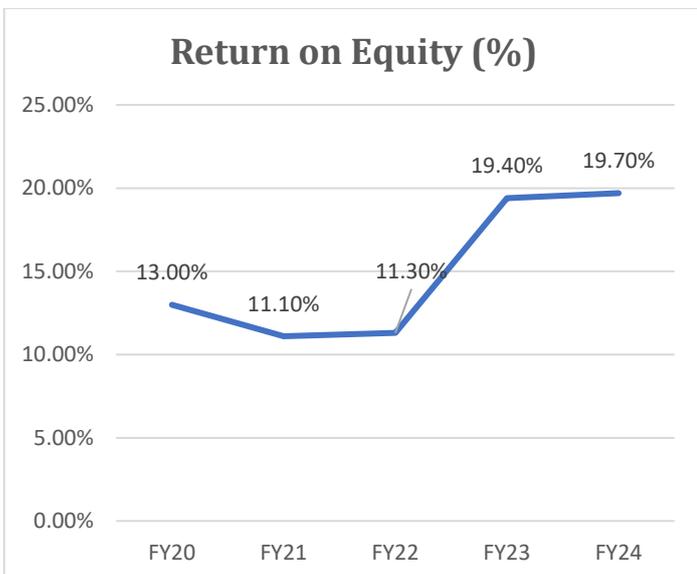
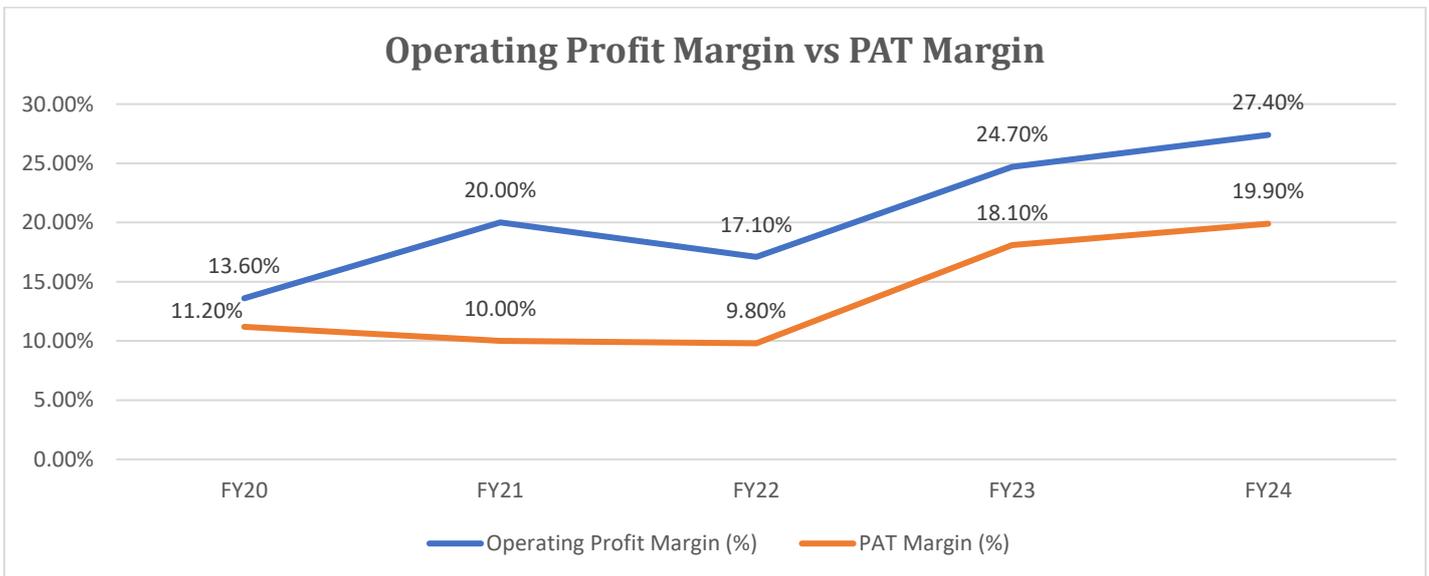
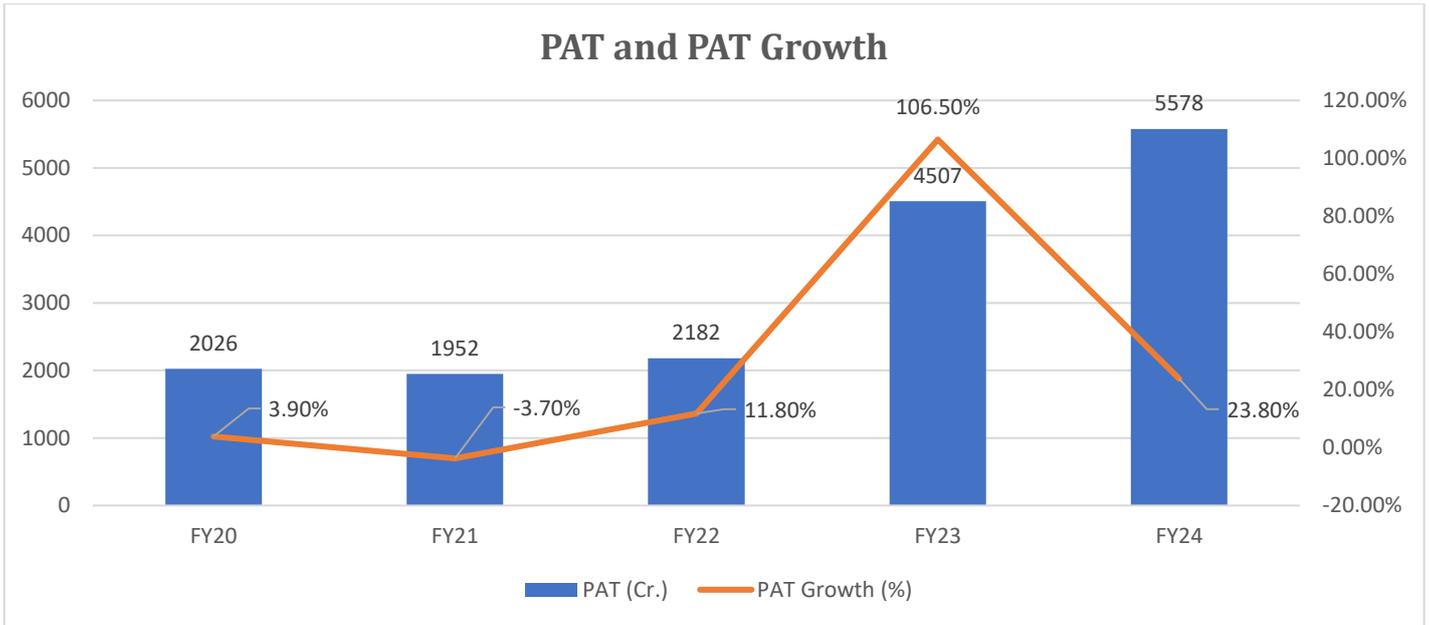


Investment Rational:

- Dr. Reddy's Laboratories has a robust pipeline of products which includes generics, biosimilars and novel drugs that helps them cater a wide range of therapeutic areas. This diversification reduces their dependency on any single market or product line and provides resilience against market fluctuations. The company's focus on high-value generics and complex generics coupled with its foray into biosimilars positions themselves well for sustainable growth.
- The company has a significant presence in the U.S. generic market which is a key growth driver. They have been consistently launching new products in this market including niche and complex generics which have higher margins. Also, Dr. Reddy's is expanding its footprint on other international markets like Europe, Russia and emerging markets which diversifies its revenue base and reduces geographical risk.
- Company allocates a substantial portion of its revenue to research and development which focuses on biosimilars, complex generics and innovative therapies. This commitment to innovation position Dr. Reddy's as a leader in bringing advanced healthcare solutions to the market which a potential for high returns on R&D investments.
- The global pharmaceutical industry is experiencing favorable trends such as increasing demand for generic drugs, aging population and growing healthcare access in emerging markets. Also, regulatory support is being given in key markets like U.S. to provide a conducive environment for growth which will help Dr. Reddy's to well position itself on these trends and make a strong product portfolio and increase global presence.

Performance Highlights:





Income Statement

(In Cr.)

Income Statement (In Cr.)	FY20	FY21	FY22	FY23	FY24
Revenue	17460	18972.2	21439.1	24587.9	27916.4
Cost of Goods Sold	8059.1	8664.5	10055.1	10653.6	11555.7
Gross Profit	9,401	10,308	11,384	13,934	16,361
SG&A Expenses	5012.9	5465	6208.1	6802.6	7720.1
R&D expenses	1541	1654.1	1748.2	1938.1	2287.3
EBITDA	2,847	3,189	3,428	5,194	6,353
Other Revenue	84.3	102.4	164.2	148	177.5
Other Expenses	-1118.6	-635.3	-362.8	719.9	599.5
Depreciation and Amortization	-	-	-	-	-
EBIT	1,813	2,656	3,229	6,062	7,130
Interest	-9.5	-14.4	0.7	-24.8	56.7
EBT	1,803	2,641	3,230	6,037	7,187
Taxes	-146.6	917.5	873	1530	1618.6
PAT	1,950	1,724	2,357	4,507	5,568

Balance Sheet

(In Cr.)

Balance Sheet (In Cr.)	FY20	FY21	FY22	FY23	FY24
ASSETS					
Cash And Equivalents	205.30	1,482.90	1,485.20	577.90	710.70
Short Term Investments	2,368.70	1,974.40	2,951.30	5,601.80	7,436.30
Total Cash & ST Investments	2,574.00	3,457.30	4,436.50	6,179.70	8,147.00
Accounts Receivable	5,027.80	4,964.10	6,676.40	7,248.50	8,029.80
Other Receivables	703.10	481.50	505.10	145.10	290.80
Total Receivables	5,730.90	5,445.60	7,181.50	7,393.60	8,320.60
Inventory	3,506.60	4,541.20	5,088.40	4,867.00	6,355.20
Prepaid Exp.	95.00	114.10	113.80	145.20	194.70
Other Current Assets	1,130.50	1,266.70	1,365.40	1,839.80	1,787.40
Total Current Assets	13,037.00	14,824.90	18,185.60	20,425.30	24,804.90
Gross Property, Plant & Equipment	11,564.30	12,766.90	14,189.80	15,226.90	17,014.10
Accumulated Depreciation	-6,331.10	-7,055.80	-7,972.90	-8,580.70	-9,325.50
Net Property, Plant & Equipment	5,233.20	5,711.10	6,216.90	6,646.20	7,688.60
Long-term Investments	309.10	833.30	798.60	536.20	525.50
Goodwill	399.40	456.80	441.80	424.50	425.30
Other Intangibles	2,765.90	3,564.80	2,724.60	3,084.90	3,695.10
Accounts Receivable Long-Term	173.70	11.80	5.40	-	-
Deferred Tax Assets, LT	1,221.40	1,063.00	820.40	719.60	1,077.40
Other Long-Term Assets	84.40	83.40	89.40	348.70	535.00
Total Assets	23,224.10	26,549.10	29,282.70	32,185.40	38,751.80
LIABILITIES					
Accounts Payable	1,074.50	1,269.60	1,597.10	1,785.70	2,154.70
Accrued Exp.	2,845.20	3,180.90	3,608.30	3,871.60	4,049.40
Short-term Borrowings	1,653.20	2,314.50	2,708.20	739.00	1,272.30
Curr. Port. of LT Debt	378.30	-	-	380.00	-
Curr. Port. of Leases	48.30	86.40	101.70	100.40	130.70
Curr. Income Taxes Payable	57.30	138.90	161.50	214.40	234.20
Unearned Revenue, Current	191.00	203.30	257.60	198.10	143.50
Other Current Liabilities	1,033.60	1,145.50	967.10	1,295.30	1,619.10
Total Current Liabilities	7,281.40	8,339.10	9,401.50	8,584.50	9,603.90
Long-Term Debt	-	380.00	380.00	-	380.00
Long-Term Leases	130.40	249.90	194.60	127.80	219.00
Unearned Revenue, Non-Current	195.60	153.10	159.70	155.50	119.30
Def. Tax Liability, Non-Curr.	27.50	33.80	6.00	83.30	90.90
Other Non-Current Liabilities	90.40	87.00	88.20	135.20	283.70
Total Liabilities	7,725.30	9,242.90	10,230.00	9,086.30	10,696.80
Common Stock	83.10	83.20	83.20	83.30	83.40
Additional Paid in Capital	849.50	888.70	928.00	968.80	1,076.50
Retained Earnings	14,424.70	15,734.90	17,646.70	21,647.90	26,591.00
Treasury Stock	-100.60	-196.70	-160.10	-126.90	-99.10
Comprehensive Inc. and Other	242.10	796.10	554.90	526.00	403.20
Total Common Equity	15,498.80	17,306.20	19,052.70	23,099.10	28,055.00
Total Equity	15,498.80	17,306.20	19,052.70	23,099.10	28,055.00
Total Liabilities and Equity	23,224.10	26,549.10	29,282.70	32,185.40	38,751.80

Cash Flow Statement

(In Cr.)

Cash Flow Statement (In Cr.)	FY20	FY21	FY22	FY23	FY24
Cash flow from Operating Activities					
Net Income	1949.8	1723.8	2356.8	4506.7	5568.4
Adjustments	1787.9	2918.3	2303.8	2166.3	993.1
Operating Profit before Working Capital Changes	3737.7	4642.1	4660.6	6673	6561.5
Change in Working Capital	-753.6	-1071.8	-1849.8	-785.5	-2018.2
Cash flow from Operating Activities	2984.1	3570.3	2810.8	5887.5	4543.3
Cash flow from investing activities	-492.3	-2266	-2638.7	-4137.3	-4028.3
Cash flow from financing activities	-2515.9	-29.8	-242.2	-2686.1	-376.3
Net Change in Cash during the year	-26.6	1285.8	3.2	-907.3	132.8

View:

Dr. Reddy's Laboratories has shown a consistent growth over the past years which is supported by its diversified portfolio and it reduces its dependency on single markets and enhance resilience against market fluctuations. Their strong presence in the lucrative U.S. market consists of new launches with higher margins. The company's strategic focus on expanding into emerging markets and diversifying its revenue base further mitigates geographical risks. The company's current P/E ratio of 26.48x indicates room for growth given the favourable industry trends like increasing global demands for affordable healthcare solutions. Dr. Reddy's laboratories are well-positioned for continued growth and thus investing in this company presents a compelling opportunity for the investors and we expect the stock to reach a target price of Rs.8,200 giving an upside potential of 19.2% in the next 9-12 months.

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