

Q1-FY22 Result Update

- ❑ Dr. Reddy's Laboratories Ltd. reported 11.7% YoY increase in consolidated revenues to Rs 49,451 million in Q1FY22 as against Rs 44,265 million during Q1 FY21, mainly driven by new product launches including COVID products, higher base business volumes, full quarter impact of portfolio acquired from Wockhardt in Q1 FY21 and was partly offset with price erosion in some of the products mainly in U.S. and Europe.
- ❑ Gross profit margin for the quarter stood at 52.2%, a reduction of 380 basis points year-on-year and 150 basis points quarter-on-quarter. The gross margins during the quarter were impacted due to higher price erosion, primarily in U.S. and increase in inventory provisions for a few products. Gross margin for the global generics and PSAI were at 57.7% and 21.6% respectively for the quarter.
- ❑ EBIDTA during Q1 FY22 came in at Rs 7,345 million whereas EBITDA margin stood at 14.9%, the company saw a decrease of 1048 basis points in EBITDA margins on YoY basis. The EBITDA margin was impacted due to lower gross margin and higher investments in sales and marketing and R&D. On the bottom line front, PAT came in at ₹ 3,804 million, a de growth of 36% YoY.
- ❑ Global Generics segment reported revenue at Rs 41,113 million during Q1 FY22 as against Rs 35,075 million during Q1 FY21, recording a growth of 17% YoY. The growth was driven primarily by India, emerging Markets and Europe.
- ❑ North America Generics business recorded revenue of Rs 17390 million for the quarter, with year-over-year growth of 1% and sequential quarter decline of 1%. The company launched four products in the U.S., including our Icosapent Ethyl capsules, Ertapenem injection, Sapropterin 100 milligrams per share, and Albendazole in tablets and relaunched Famotidine tablets. They also launched two products in Canada
- ❑ Europe revenues grew 12% YoY to ₹ 3,994 million driven by new product launches. The company launched four new products in Germany and two products in UK. They extended their presence with four new countries in Europe, namely Netherlands, Portugal, Slovakia and Czech Republic with the launches of Azacitidine for injection in these markets.
- ❑ The emerging markets recorded revenues of Rs 9,129 million, an increase of 14% y/y Within the emerging market, the Russia business grew by 40% on a year-over-year basis in constant currency terms. During the quarter, the company launched 30 new products across various countries.

- ❑ Further, India Business grew 69% y/y to ₹10,600 million. The strong growth was supported by both COVID portfolio as well as good performance of the base business. During the quarter, the company launched six new products in the Indian markets including Sputnik V vaccine, COVID treatment drug 2DG, a nutrition product Curhealth.
- ❑ The PSAI business de grew 12% y/y to ₹7,540 million, the decline was on account of a decrease in sales volumes and prices of existing products, partially offset by new products launched. Year-on-year was also impacted due to customer stocking up in last year. Revenues from Proprietary Products & Others came in at Rs. 541 million during the quarter recording a de growth of 1% YoY.
- ❑ We believe the company is likely to witness some impact stemming from COVID-19 crisis that has affected the physical meeting of patients with physicians. However, overall the company should continue to witnesses strong growth in India, emerging markets , Europe and PSAI business driven by volume growth, new launches and improving realizations. While the deal with Wockhardt strengthens India business, other strategic initiatives of the company focused on building healthy product pipeline, improving efficiency and cost controls, divesting non-core assets and engaging with USFDA to resolve outstanding concerns, create further optimism. Hence, we will maintain our **BUY** rating with a target price of **₹6,050 per share**.

Financials:

(In ₹ mn)	Q1-FY22	Q1-FY21	Chg	FY21	FY20	Chg
Net Sales	49,451	44,265	11.7%	190,475	175,170	8.7%
Operating Expense	42,106	33,052	27.4%	151,776	150,466	0.8%
EBITDA	7,345	11,213	-34.5%	38,699	24,704	56.9%
Other Income	1,079	871	23.9%	2,914	6,206	
Depreciation	2,839	2,923	-2.9%	12,288	11,631	
EBIT	5,585	9,161	-39.0%	29,325	19,279	52.1%
Interest	193	233	-17.2%	970	983	
PBT	5,392	8,928	-39.6%	28,355	18,296	55.0%
Tax	1,754	3,059		9,319	(1,403)	
Exceptional Items	-	-		-	-	
PAT	3,638	5,869	-38.0%	19,036	19,699	-3.4%
Minority /Other Adj.	166	77		480	561	
Consolidated PAT	3,804	5,946	-36.0%	19,516	20,260	-3.6%
Margins	Q1-FY22	Q1-FY21	Chg BPS	FY21	FY20	Chg BPS
Operating Margin %	14.9%	25.3%	-1048	20.3%	14.1%	624
Net Margin %	7.4%	13.3%	-590	10.0%	11.6%	-160

Consolidated Financials:

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	175,170	190,475	211,639	237,313
Operating Expense	150,466	151,776	168,669	189,130
EBITDA	24,704	38,699	42,970	48,183
Other Income	6,206	2,914	4,656	5,221
Depreciation	11,631	12,288	13,849	15,362
EBIT	19,279	29,325	33,778	38,042
Interest	983	970	1,661	1,816
Misc. items	-	-	-	-
PBT	18,296	28,355	32,116	36,227
Tax	(1,403)	9,319	5,781	6,521
Minority Interest	561	480	-	-
PAT	20,260	19,516	26,335	29,706

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	13.4%	8.7%	11.1%	12.1%
Operating Margin %	14.1%	20.3%	20.3%	20.3%
Net Margin %	11.6%	10.2%	12.4%	12.5%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Liabilities				
Equity Share Capital	1,869	2,098	2,098	2,098
Reserves & Surplus	154,119	174,319	197,989	224,446
Total Shareholder's Funds	155,988	176,417	200,087	226,544
Minority Interest	-	-	-	-
Long-Term Liabilities	1,304	6,299	6,299	6,299
Other Long-term Liabilities	2,800	2,125	2,125	2,125
Deferred Tax Liability	(12,179)	(10,397)	(10,397)	(10,397)
Short-term Liabilities	72,141	81,038	81,038	90,042
Total	220,054	255,482	279,152	314,613
Assets				
Net Fixed Assets	83,854	97,708	73,415	80,246
Long-Term L&A	6,887	3,769	3,769	3,769
Non Current Investments	3,091	8,333	8,333	8,333
Other Non-Current Assets	231	169	169	169
Current Asset	125,991	145,503	193,465	222,096
Total	220,054	255,482	279,152	314,613

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	121.8	117.3	158.3	178.6
P/E (x)	38.7	40.2	29.8	26.4
P/B (x)	5.0	4.4	3.9	3.4
ROE	13.0%	11.1%	13.0%	12.8%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Any delay in product approvals or any negative outcome of facility inspection by the USFDA can affect earnings prospects.
- ❑ The pharmaceutical industry is highly regulated in many countries and requires various approvals, licenses, registrations and permissions for business activities.



Rating and Target Price history:

Dr. Reddy's rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 31 July 2021 close.

Dr. Reddy's Lab. rating details

Date	Rating	Target Price (₹)	Share Price (₹)
15-April-2020	BUY	4,382	3,760
15-Oct-2020	BUY	6,012	5,070
17-May-2021	BUY	6,050	5,250
31-July-2021	BUY	6,050	4,711

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