

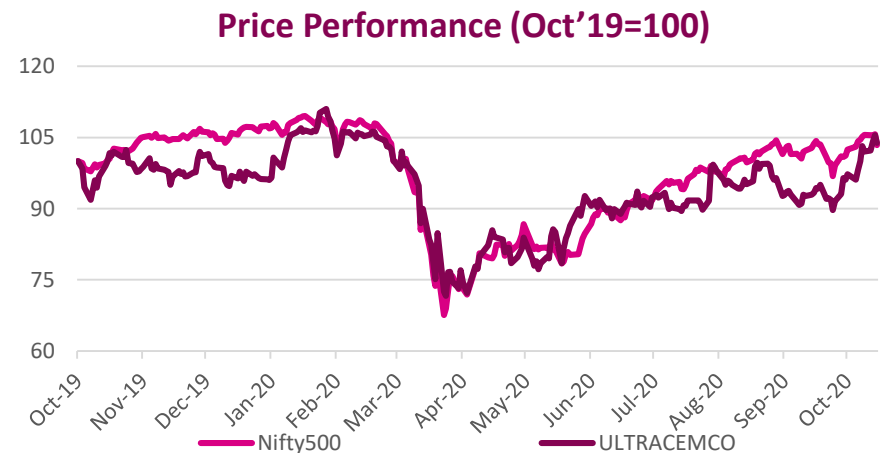
## Rationale:

- ❑ Ultratech Cement Limited is the largest manufacturer of grey cement, ready mix concrete (RMC) and white cement in India. It is also the 3rd largest cement manufacturer in the world.
- ❑ It has a consolidated capacity of 116.75 Million Tonnes Per Annum (MTPA) of grey cement, 0.68 MTPA of white cement & 0.85 MTPA of wall care putty. The company has 100+ RMC plants in 39 cities.
- ❑ The century cement division reported EBITDA per ton > Rs.900/ton and turned PBT accretive in the 3rd quarter of acquisition and achieved 70% capacity utilization. The division is expected to further benefit from brand transition & operational synergies.
- ❑ Ultratech is undertaking integration efforts between acquired and existing plants, optimizing operating costs related to logistics, energy and raw material. The company reported an operating margin of 28% & EBITDA per ton of Rs.1453/ ton in Q1 FY21.
- ❑ The company's retail volume share increased 13% YoY along with increased penetration in rural markets of 13% YoY in Q1 FY21. The company has generated free cash flow of ~Rs.6000 crores in last 9 months and has reduced the net debt by Rs.2200 crores in the previous quarter to Rs.14,650 crores. The company further expects to receive net proceeds of ~Rs.700 crores from sale of China unit.
- ❑ The company is planning to incur a Capex of Rs.1,500 crores towards 1.2 million tons brownfield expansion in Bihar & West Bengal; and other maintenance & modernization projects. The 2.3 million tons clinker plant in Uttar Pradesh is expected to be commissioned in the next fiscal year.
- ❑ The company has completed 3 acquisitions in last 3 years for over Rs.30,000 crores and is expected to benefit from its size, scale, synergies, reducing debt and market leadership in each zone of the country.
- ❑ We are positive on Ultratech due to its strong business model, high operating margins, improving balance sheet, growing retail market share and potential for further integration & synergy benefits from its mergers & acquisitions. We initiate our coverage on the company with a **BUY** rating and a target price of **₹ 5,210 per share**.

52 Week Low / High	2913.15 / 4753.35
Avg. Daily Volume (3M) ('000)	591
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	288.62 / 1,264,832
Shareholding (Promoters/Institutional/Others)	60.04% / 30.84% / 9.12%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	4,16,088	4,21,248	3,86,152	4,50,086
EBITDA	73,469	92,836	88,028	1,04,015
EBITDA Margin	17.7%	22.0%	22.8%	23.1%
PAT	24,035	58,148	37,145	48,836
PAT Margin	5.8%	13.8%	9.6%	10.9%
EPS (₹)	83.3	201.5	128.7	169.2
P/E (x)	52.5	21.7	34.0	25.9

Source: Company, Bloomberg Consensus Estimates. Note: Prices are as on 15-Oct-20



## Rationale:

- Incorporated in 1984, Dr. Reddy's Laboratories Ltd. is a leading pharmaceutical company operating in multiple therapeutic areas. The company is one of largest manufacturers of Active Pharmaceutical Ingredients (APIs) in the world. It has 17 manufacturing units and 6 R&D units in India and also has manufacturing facilities in USA, UK and the Netherlands.
- Through its three business segments – Global Generics (contributed 79.1% of FY20 revenues) Pharmaceutical Services and Active Ingredients (PSAI) (14.8%), and Proprietary Products & others (6.1%) – Dr. Reddy's offers an array of portfolio of products and services, including APIs, Custom Pharmaceutical Services, generics, biosimilars and differentiated formulations. As of Jun 30, 2020, 101 generic filings are pending for approval with the USFDA comprising 99 abbreviated new drug applications (ANDAs) and 2 NDAs. Also, the company expects 28 filings to have first to file status.
- Apart from a strong product profile, the company benefits from a diverse geographic presence with major markets being USA, India, Russia, UK and Germany. Notably, geography wise, North America constituted 37% of FY20 revenues, emerging markets contributed 19% while India and Europe accounted for 17% and 7% of revenues, respectively.
- During Q1FY21, total revenues increased 15% y/y to ₹44,265 million driven by strong growth in PSAI business and European markets. PAT declined 12% y/y to ₹5,946 million due to discontinuation of weighted deduction on R&D and completion of tax holiday for one of the plants. In line with its strategy to boost India business, the company completed the acquisitions of business from Wockhardt Ltd.. Also, it executed the licensing deals for 2 key products related to COVID-19 treatment, Avigan or Favipiravir tablets and Remdesivir injections.
- In a major development, the company settled litigation with Celgene, a subsidiary of Bristol Myers Squibb, relating to patents for REVLIMID Capsules. Celgene has agreed to provide Dr. Reddy's with a license to sell volume-limited amounts in the U.S. post March 2022 and without volume limitation beginning on Jan 31, 2026, subject to regulatory approval. The latest settlement provides significant revenue opportunity to the company in the \$7.6 billion REVLIMID market with few players.
- The company remains on track to launch over 25 new products including some niche and limited competition products in its North America Generics business in FY21. While the company should benefit from the gradual price stabilization in US business, we expect growth across markets driven by increase in volume and continued new launches. Also, recent market developments signals potential for expansion of its API business. We further remain optimistic given the company's strong balance sheet and management's focus on building healthy product pipeline, improving efficiency, controlling costs and streamlining operations.
- We reiterate our **BUY** rating on Dr. Reddy's Laboratories Ltd. with a target price of **₹6,012 per share.**

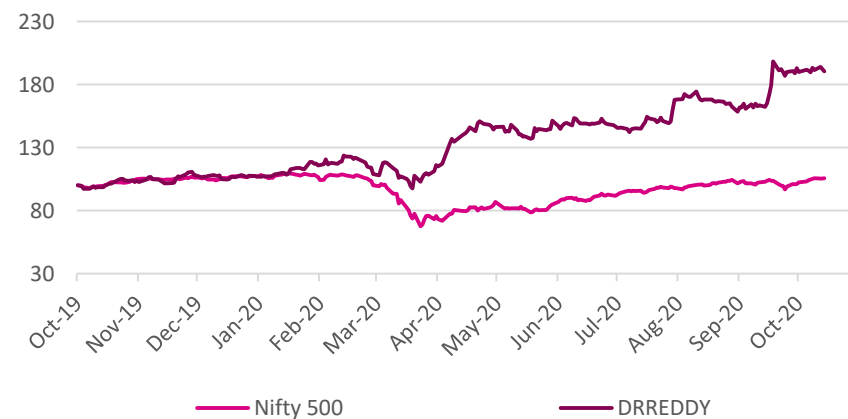
## Research Team

52 Week Low / High	2,495/5,513
Avg. Daily Volume (3M) ('000)	2,272
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	166/48,549
Shareholding (Promoters/Institutional/Others)	26.7%/44.0%/29.3%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	154,482	175,170	190,721	213,623
EBITDA	31,782	24,704	45,655	53,594
EBITDA Margin	20.57%	14.10%	23.94%	25.09%
PAT	19,500	20,260	35,134	41,309
PAT Margin	12.62%	11.57%	18.42%	19.34%
EPS (₹)	117.3	121.9	211.4	248.5
P/E (x)	43.1	41.5	23.9	20.3

Source: Company, Bloomberg Consensus Estimates. Note: Prices are as on 15-Oct-20

## Price Performance (Oct'19=100)



## Rationale:

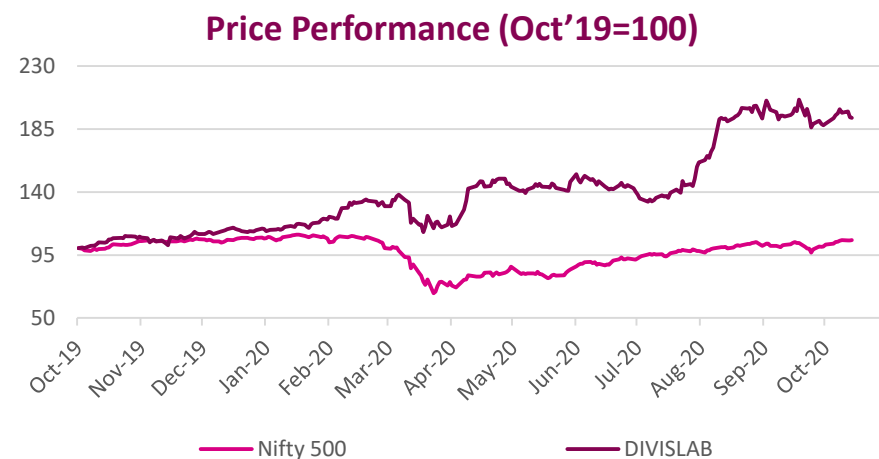
- ❑ Divi's Laboratories Ltd. is one of the leading manufacturers of Active Pharmaceutical Ingredients (API) in the world. The company's product portfolio comprises of two broad categories i) Generic APIs and Nutraceuticals and ii) Custom Synthesis of APIs, intermediates and specialty ingredients for innovator pharma giants. Apart from India, the company's major markets include Europe, USA and Asia. Region wise, Europe contributed 48% of FY20 revenues, America constituted 23.4%, India accounted for 13.1% while Asia and rest of the world comprised for 11.4% and 4.1% of revenues, respectively.
- ❑ Divi's has six well established multi-purpose manufacturing facilities from two sites (near Hyderabad Telangana State and Andhra Pradesh). Also, the company has Research Centers at Sanath Nagar, Hyderabad and process development & support centres at the manufacturing sites.
- ❑ The company remains focused on the large capex programs which comprise two brownfield projects. It is also undertaking debottlenecking/ backward integration for intermediates to reduce dependency on supplies of raw materials from China and progressing with utilities expansion projects. Overall, out of ₹18 billion Capex, the company has implemented about ₹10 billion. The remaining ₹8 billion is under implementation and is expected to be completed by FY21.
- ❑ During Q1FY21, the company delivered strong numbers with a revenue growth of 49% y/y to ₹17,305 million on the back of volume-led growth across product portfolio. PAT jumped 81% y/y to ₹4,921 million. Product mix for generic to custom synthesis was 59% and 41% of the revenue, respectively. The company added COVID-19 products Hydroxychloroquine, Faviparivir and the intermediates for Remdesivir in the quarter.
- ❑ Growth prospects of Divi's look decent with favourable traits in the API industry due to supply chain readjustments/ diversification from China into other countries including India amid the COVID-19 pandemic. As global players are looking to reduce dependency on China and preferring India, companies like Divi's remain well placed to capitalize on such opportunity. Also, in custom synthesis, the company is connected with several pharma giants and looks to benefit as India may tap opportunities in terms of the consumption of custom synthesis.
- ❑ We remain positive on Divi's given its strong market position, strength in API manufacturing, established long-term contract with customers and benefit from the ongoing capex program. We re-iterate our coverage on Divi's Laboratories Ltd. with **BUY** rating and a target price **₹3,640 per share**.

## Research Team

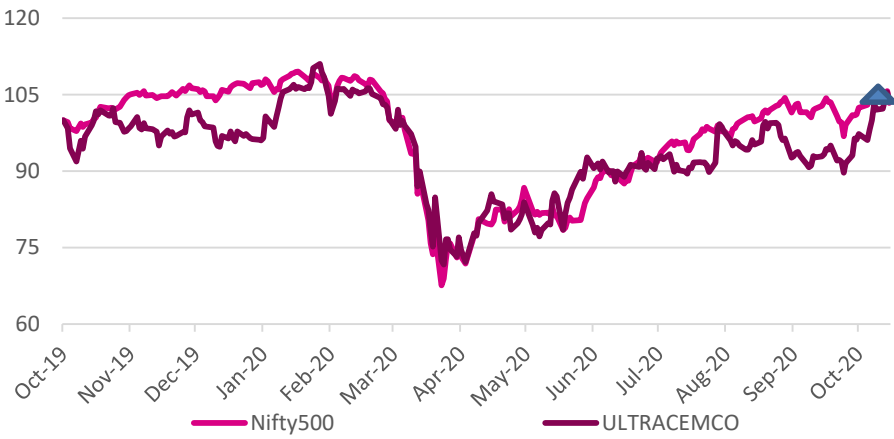
52 Week Low / High	1,626/3,389
Avg. Daily Volume (3M) ('000)	1,465
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	265/825,979
Shareholding (Promoters/Institutional/Others)	52%/35%/13%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	49,463	53,944	65,201	77,818
EBITDA	18,730	18,232	24,571	29,904
EBITDA Margin	37.87%	33.80%	37.69%	38.43%
PAT	13,527	13,765	17,519	21,611
PAT Margin	27.35%	25.52%	26.87%	27.77%
EPS (₹)	51.0	51.9	66.0	81.4
P/E (x)	61.1	60.0	47.1	38.2

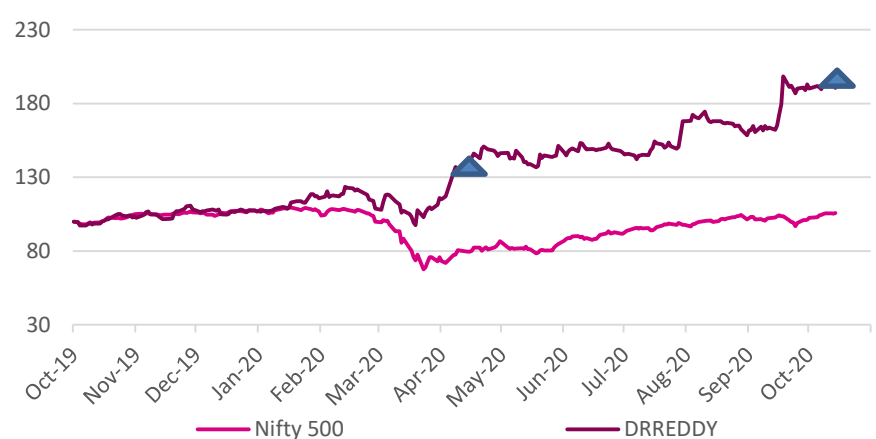
Source: Company, Bloomberg Consensus Estimates. Note: Prices are as on 15-Oct-20



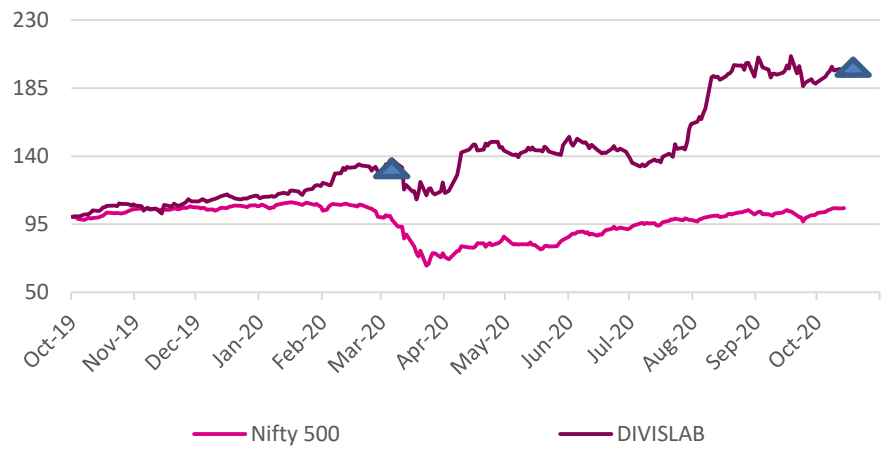
### ULTRACEMCO rating history & price chart



### DRREDDY rating history & price chart



### DIVISLAB rating history & price chart



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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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