

### Q3-FY23 Result Update

- ❑ Dr. Reddy's Laboratories Ltd. revenue for the quarter stood at ₹67,898 million, grew by 27.9% YoY on consolidated basis. Segment wise revenue from Global Generic, Pharmaceutical services and active ingredients (PSAI) and Others segment stood at ₹ 59,200 million ₹7,800 million and ₹700 million, grew by 33%, 7% and (51%) YoY respectively.
- ❑ Revenue from Gobal generic business was primarily driven by new product launches, increase in volumes of their base business and favorable forex movement, offset partially due to price erosion in their generic market. Revenue from PSAI segment was driven by forex movement and increase in volume partially offset by price erosion.
- ❑ Region wise revenue from North America, Europe, India and Emerging markets stood at ₹30,600 million, ₹4,300 million, ₹11,300 million and 13,100 million, grew by 64%, 6%, 10%, 14% YoY respectively.
- ❑ The SG&A spends for the quarter stood at ₹17,980 million, grew by 17% YoY. The spends in quarter reflect an increase in investment , certain one-off expenses and an impact of the Forex rate. The R&D expenses for the quarter stood at ₹4,820 million. Effective tax rate for the quarter has been 23.7%. Management expects tax rate to be within the range of 25% to 26%.
- ❑ On profitability front, the EBITDA from operations for the quarter stood at ₹19,385 million with a margin of 28.6%, increase of 578 basis points on YOY basis. The company achieved the reported PAT of ₹12,439 million with a net margin of 18.3%, increase of 503 basis points on YoY basis translating into EPS of ₹74.76 per share for the quarter.
- ❑ Operating working capital decrease by ₹4,900 million. The decrease is majorly due to higher collection of receivables and some increase in sales. Company's capital investment stood at ₹2,920 million. Company generated healthy cash flow during the quarter of ₹19,750 million.
- ❑ Company has launched 5 new products in US and filed 1 new ANDA during the quarter. As of 31st December 22, cumulatively 78 generic filings are pending for approval with the USFDA (75 ANDAs and 3 NDAs). The ANDA and Drug master filing are expected to significantly improve during Q4.

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- ❑ During the quarter, company launched 11 new products across various countries of Europe and expects the momentum to continue. Growth in Emerging markets was supported by higher sales of biosimilar products in Russia and during the quarter company launched 29 products across various countries of Emerging markets.
- ❑ In Indian markets, company launched 2 new products. Company is creating several growth engines for India business for Horizon 1 and Horizon 2, which includes ramping up internal portfolio, collaboration, innovation and inorganic opportunities.
- ❑ Dr Reddy is investing in various business and various complex drugs are in pipeline which could drive double digit growth over the next 4-5 years. We maintain our **BUY** rating on the stock with a revised target price of ₹5,800 per share

### Key takeaways from concall

- ❑ Dr Reddy laboratories sales grew sharply aided by higher gRevlimid sales and management is confident that gRevlimid contribution will remain meaningful in Q4. The main growth will come from investment in differentiated products and the specialty products and collaborations that they are working. So, they are planning to introduce a lot of innovation in India.
- ❑ Company is planning to launch at least 30 products in the US in FY24E. As per the management, the complex drugs in the pipeline may drive double-digit revenue growth over the next 4-5 years.
- ❑ Approval from China usually takes 18-24 months and management has 20 fillings pending approval and going by this rate there will be 40-50 fillings in next 3-4 years according to management. According to them, company is growing in double digits and going forward growth should increase i.e in FY24 and FY25.
- ❑ Company has completed phase 3 clinical study for Rituximab and phase 1 clinical studies for Tocilizumab biosimilars. Company expects cidmus product to be profitable for them in future and cost structure to improve and brand to be well expected by community.
- ❑ Management is comfortable on a long-term basis with a 25% EBITDA and a 25% ROCE. Double-digit growth, and no debt. This continues to be the guidance, but from time-to-time they will be above it.

## Financials:

(In ₹ mn)	Q3-FY23	Q2-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	67,898	63,318	53,383	27.2%	1,83,545	1,60,703	14.2%
Operating Expense	48,513	44,329	41,226	17.7%	1,35,759	1,27,603	6.4%
EBITDA	19,385	18,989	12,157	59.5%	47,786	33,100	44.4%
Other Income	587	408	558		9,534	3,692	
Depreciation	3,237	3,092	2,942		9,347	8,722	
EBIT	16,735	16,305	9,773	71.2%	47,973	28,070	70.9%
Interest	418	309	216		1,074	643	
Profit before tax and before share of equity accounted investee	16,317	15,996	9,557		46,899	27,427	
Share of profit from JV/Associate	(60)	(140)	(185)		(294)	(598)	
PBT	16,377	16,136	9,742	68.1%	47,193	28,025	68.4%
Tax	3,938	4,994	2,649		11,722	7,170	
<b>Consolidated PAT</b>	<b>12,439</b>	<b>11,142</b>	<b>7,093</b>	<b>75.4%</b>	<b>35,471</b>	<b>20,855</b>	<b>70.1%</b>

Margins	Q3-FY23	Q2-FY23	Q3-FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	28.6%	30.0%	22.8%	578	26.0%	20.6%	544
Net Margin %	18.3%	17.6%	13.3%	503	19.3%	13.0%	635

## Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	1,90,475	2,15,452	2,44,727	2,88,777
Operating Expense	1,51,776	1,77,778	1,77,652	2,08,185
EBITDA	38,699	37,674	67,075	80,592
Other Income	2,914	4,847	4,513	5,325
Depreciation	12,288	11,652	22,993	27,131
EBIT	29,325	30,869	48,595	58,786
Interest	970	958	3,118	3,461
Misc. items	-	-	-	-
PBT	28,355	29,911	45,477	55,325
Tax	9,319	8,789	11,369	13,831
Minority Interest	480	703	-	-
<b>PAT</b>	<b>19,516</b>	<b>21,825</b>	<b>34,108</b>	<b>41,494</b>

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	8.7%	13.1%	13.6%	18.0%
Operating Margin %	20.3%	17.5%	27.4%	27.9%
Net Margin %	10.2%	10.1%	13.9%	14.4%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
<b><u>Liabilities</u></b>				
Equity Share Capital	2,098	2,265	2,265	2,265
Reserves & Surplus	1,74,319	1,89,859	2,23,967	2,65,461
Total Shareholder's Funds	1,76,417	1,92,124	2,26,232	2,67,726
Long-Term Liabilities	6,299	5,746	4,996	4,246
Other Long-term Liabilities	2,125	1,927	1,177	427
Deferred Tax Liability	(10,397)	(12,756)	(12,756)	(12,756)
Short-term Liabilities	81,038	97,658	1,13,884	1,33,851
<b>Total</b>	<b>2,55,482</b>	<b>2,84,699</b>	<b>3,33,534</b>	<b>3,93,495</b>
<b><u>Assets</u></b>				
Net Fixed Assets	97,708	94,149	98,627	1,17,481
Long-Term L&A	3,770	4,517	4,517	4,517
Non Current Investments	8,333	5,929	5,929	5,929
Other Non-Current Assets	168	2,224	2,224	2,224
Current Asset	1,45,503	1,77,880	2,22,238	2,63,344
<b>Total</b>	<b>2,55,482</b>	<b>2,84,699</b>	<b>3,33,534</b>	<b>3,93,495</b>

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	74.7	131.1	204.8	249.2
P/E (x)	38.3	34.2	21.9	18.0
P/B (x)	4.2	3.9	3.3	2.8
ROE	11.1%	11.4%	15.1%	15.5%

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.
- ❑ Delay in launching Bio-similars in the market.

Rating and Target Price history:

Dr. Reddy's rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 8 February 2023 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
08-Feb-2023	BUY	5,800	4,485



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