Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

May 8, 2024

Q4FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	REDUCE		REDUCE	
Target Price	5,700		5,650	
Sales (Rs. m)	2,93,322	3,17,838	2,94,503	3,18,672
% Chng.	*(0.4)*	*(0.3)*		
EBITDA (Rs. m)	80,025	82,060	81,988	84,006
% Chng.	*(2.4)*	*(2.3)*		
EPS (Rs.)	329.2	333.3	332.3	341.6
% Chng.	*(0.9)*	*(2.4)*		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	246	279	293	318
EBITDA (Rs. bn)	65	78	80	82
Margin (%)	*26.3*	*28.1*	*27.3*	*25.8*
PAT (Rs. bn)	45	56	55	56
EPS (Rs.)	270.5	333.8	329.2	333.3
Gr. (%)	*91.0*	*23.4*	*(1.4)*	*1.2*
DPS (Rs.)	46.0	46.0	57.5	69.0
Yield (%)	*0.7*	*0.7*	*0.9*	*1.1*
RoE (%)	*21.4*	*21.8*	*18.1*	*16.0*
RoCE (%)	*22.2*	*23.3*	*19.9*	*17.7*
EV/Sales (x)	4.0	3.5	3.3	2.9
EV/EBITDA (x)	15.4	12.5	11.9	11.2
PE (x)	23.1	18.7	19.0	18.8
P/BV (x)	4.5	3.7	3.2	2.8

Key Data	REDY.BO | DRRD IN
52-W High / Low	Rs.6,506 / Rs.4,383
Sensex / Nifty	73,512 / 22,303
Market Cap	Rs.1,044bn/ $ 12,499m
Shares Outstanding	167m
3M Avg. Daily Value	Rs.2351.75m

Shareholding Pattern (%)

Promoter's	26.82
Foreign	44.49
Domestic Institution	18.31
Public & Others	10.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.3	15.8	26.6
Relative	2.3	2.3	5.2

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Dr. Reddy's Laboratories (DRRD IN)

Rating: REDUCE | CMP: Rs6,258 | TP: Rs5,700

EBITDA miss; limited visibility on US pipeline

Quick Pointers:

- R&D expenses remain elevated as company continues to invest for building future pipeline.
- Booked Rs810mn for Q4 and Rs4.2bn for FY24 as grant income from PLI.

Dr. Reddy's (DRRD) Q4FY24 EBITDA was 6% below our estimate led by higher R&D spend. The base business margins and US sales ex of Revlimid and PLI incentives continued to remain weak. Further thin US pipeline in near term and competition in certain key products remains a key risk. Our FY25 and FY26E EPS broadly remains unchanged. At CMP, DRRD is trading at expensive valuations of 27x P/E on FY26E adjusted for gRevlimid. We maintain our 'Reduce' rating with TP of Rs5,700/share; valuing at 25x FY26E EPS for base business. Any big ticket ANDA approvals and sharp recovery in base business margins are key risks to our call.

- **In line revenue, US generics down QoQ:** DRRD's sales grew by 12% YoY at Rs 71bn; largely in line with our estimates. US revenue came in at $39 **Key concall takeaways:**3mn ($402mn in Q3FY24) vs our est of $380mn. Mgmt cited QoQ decline was due to decrease in base business volumes and price erosion in select brands. Domestic business declined by 12% YoY to Rs 11.3bn. Adj for brand divestments, growth was 11% YoY. PSAI sales increased by 6% YoY. EU sales increased 5% YoY, while Russia sales declined by 4% YoY impacted by currency. RoW grew healthy by 35% YoY above our est.

- **Higher R&D spend led to EBITDA miss:** DRRD reported EBIDTA of Rs 17.8bn against our estimates of Rs 19bn. OPM came in at 25.2%, declined 300bps QoQ, we est 27%. Segment wise PSAI margins stood at 28.6% (29.4% in Q3FY24) and generic margins were at 62% (61.9% in Q3FY24). Adjusted OPM for PLI grant income came in at 24%; down 240 bps QoQ. Other expenses continue to remain elevated up 2% QoQ. R&D expenses stood higher at 9.7% of revenues, up 28% YoY and 24% QoQ.

- **Key concall takeaways: US business -** Launched 4 new products in Q4 and 21 in FY24. Filed 48 DMF's and 17 ANDAs in US in FY25. Guided for 20 new launches in US in FY25. Its formulations manufacturing facility (FTO-3) and R&D facility in Bachupally received a VAI status from USFDA. **India:** Formed an exclusive partnership with Sanofi to distribute and promote its vaccine brands in India. Entered into an agreement with Bayer to distribute the second brand for heart failure management drug, Vericiguat, in India. Formed JV with Nestle for their nutritional supplements. Initially DRRD will have to make some investments and expect revenue to pick up from JV post FY26 onwards. **Biosimilars:** Launched Bevacizumab, its first biosimilar in the UK. Got CRL for its BLA for proposed Rituximab from USFDA and will address by September and post that 6months may get TAD for same. Overall 20% of R&D spend is towards biosimilar. Guided for 8.5-9% of sales as R&D spend in FY25. Russia business declined YoY due to currency devaluation. The YoY growth in EM sales was on account of price increases and new launches. During FY24, DRRD booked Rs4.2bn as grant from PLI and for Q4 amount was Rs810mn. Overall reiterated its +25% OPM guidance on sustainable basis.

Exhibit 1: 4QFY24 Result Overview (Rs mn)- In-line Revenues, EBITDA miss led by higher R&D spend

Y/e March	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
Net Sales	**70,830**	**62,968**	***12.5***	**72,148**	***(1.8)***	**2,79,164**	**2,45,879**	***13.5***
COGS	29,347	26,971	*8.8*	29,945	*(2.0)*	1,15,557	1,06,536	*8.5*
% of Net Sales	*41.4*	*42.8*		*41.5*		*41.4*	*43.3*	
SGA	16,764	14,802	*13.3*	16,458	*1.9*	62,346	55,390	*12.6*
% of Net Sales	*23.7*	*23.5*		*22.8*		*22.3*	*22.5*	
R&D	6,877	5,366	*28.2*	5,565	*23.6*	22,873	19,381	*18.0*
% of Net Sales	*9.7*	*8.5*		*7.7*		*8.2*	*7.9*	
Total Expenditure	52,988	47,139	*12.4*	51,968	*2.0*	2,00,776	1,81,307	*10.7*
EBITDA	**17,842**	**15,829**	***12.7***	**20,180**	***(11.6)***	**78,388**	**64,572**	***21.4***
Margin (%)	*25.2*	*25.1*		*28.0*		*28.1*	*26.3*	
Depreciation & Amortisation	3,712	3,190	*16.4*	3,770	*(1.5)*	9,576	8,615	*11.2*
EBIT	**14,130**	**12,639**	***11.8***	**16,410**	***(13.9)***	**68,812**	**55,957**	***23.0***
Other Income	656	281	*133.5*	967	*(32.2)*	4,199	5,907	*(28.9)*
Interest	(1,022)	(799)	*27.9*	(963)	*6.1*	(3,994)	(2,853)	*40.0*
PBT	**15,808**	**13,719**	***15.2***	**18,340**	***(13.8)***	**77,005**	**64,717**	***19.0***
Share of Profit of Equity	35	76		27		147	370	
Extra Ord Items	(173)	540		110		3	699	
Total Taxes	2,946	3,663	*(19.6)*	4,468	*(34.1)*	16,186	15,300	*5.8*
ETR (%)	*18.6*	*26.7*		*24.4*		*21.0*	*23.6*	
Reported PAT	**13,070**	**9,592**	***36.3***	**13,789**	***(5.2)***	**60,963**	**49,088**	***24.2***

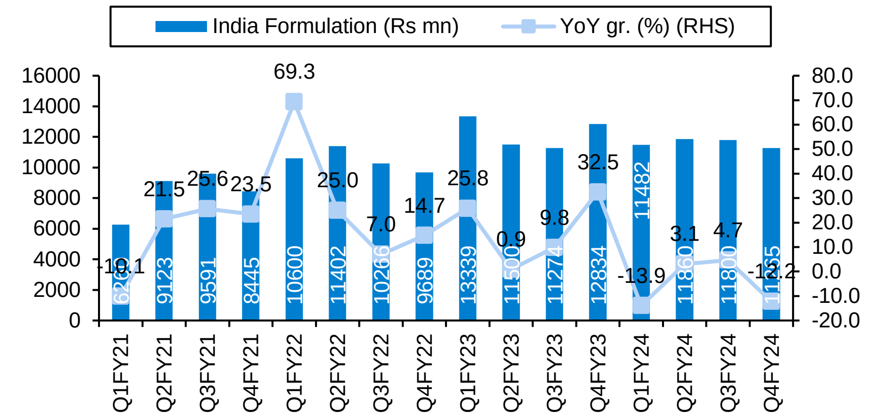
Source: Company, PL

Exhibit 2: US witnessed slowdown QoQ, EMs aided performance YoY

Major Sources of Revenues	4QFY24	4QFY23	YoY gr. (%)	3QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
PSAI (CPS & API)	8,219	7,787	*5.5*	7,839	*4.8*	29,801	29,069	*2.5*
% of Net Sales	*11.6*	*12.4*		*10.9*		*10.7*	*11.8*	
Branded Formulation	61,199	54,257	*12.8*	63,095	*(3.0)*	2,45,386	2,13,767	*14.8*
India	11,265	12,834	*(12.2)*	11,800	*(4.5)*	46,407	48,947	*(5.2)*
% of Net Sales	*15.9*	*20.4*		*16.4*		*16.6*	*19.9*	
International	49,934	41,423	*20.5*	51,295	*(2.7)*	1,98,979	1,64,820	*20.7*
% of Net Sales	*70.5*	*65.8*		*71.1*		*71.3*	*67.0*	
Russia & CIS	7,200	7,500	*(4.0)*	8,200	*(12.2)*	31,000	29,800	*4.0*
% of Net Sales	*10.2*	*11.9*		*11.4*		*11.1*	*12.1*	
Europe	5,208	4,960	*5.0*	4,970	*4.8*	20,535	17,603	*16.7*
% of Net Sales	*7.4*	*7.9*		*6.9*		*7.4*	*7.2*	
North America Generics	32,626	25,321	*28.8*	33,492	*(2.6)*	1,29,796	1,01,704	*27.6*
% of Net Sales	*46.1*	*40.2*		*46.4*		*46.5*	*41.4*	
Emerging Mkt Generics	4,900	3,642	*34.5*	4,633	*5.8*	17,648	15,713	*12.3*
% of Net Sales	*6.9*	*5.8*		*6.4*		*6.3*	*6.4*	
Innovative Prod. (Proprietery Prod.)	1,420	924	*53.7*	1,214	*17.0*	3,910	3,042	*28.5*
% of Net Sales	*2.0*	*1.5*		*1.7*		*1.4*	*1.2*	

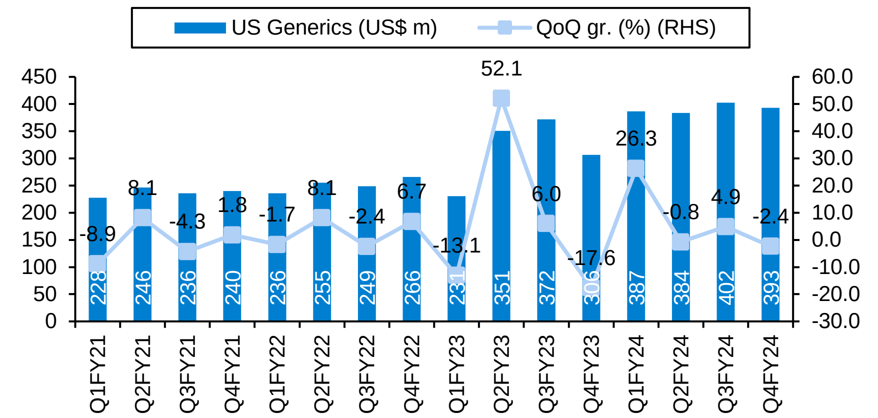
Source: Company, PL

Exhibit 3: India Formulation (Rs mn): Brand divestments led to YoY decline



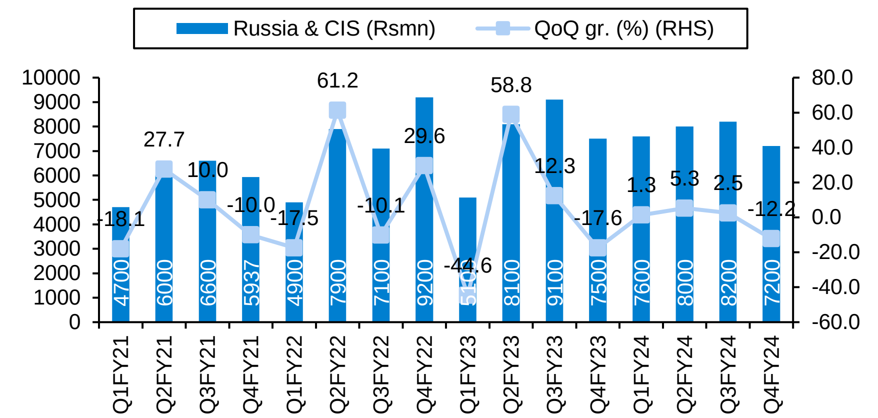
Source: Company, PL

Exhibit 4: US Generic (US$ m): gRevlimmd continues to drive US sales



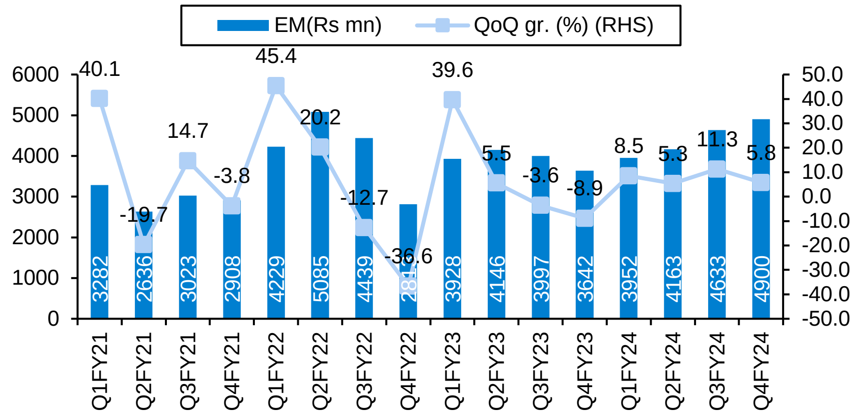
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn) : Currency devaluation impacted growth



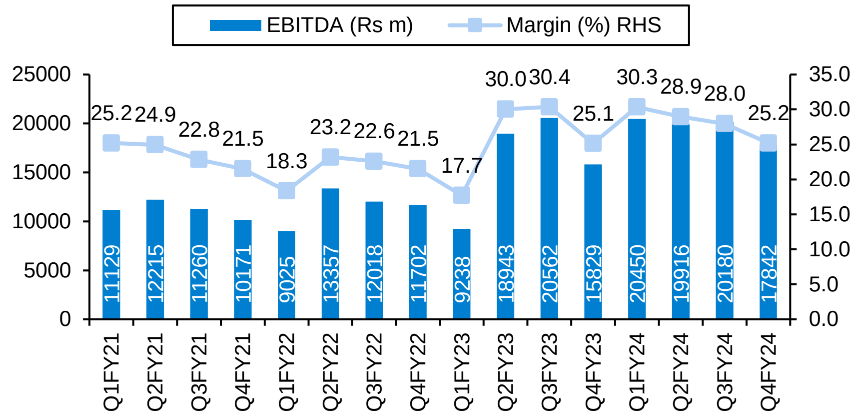
Source: Company, PL

Exhibit 6: Emerging Markets: New launches aided YoY growth



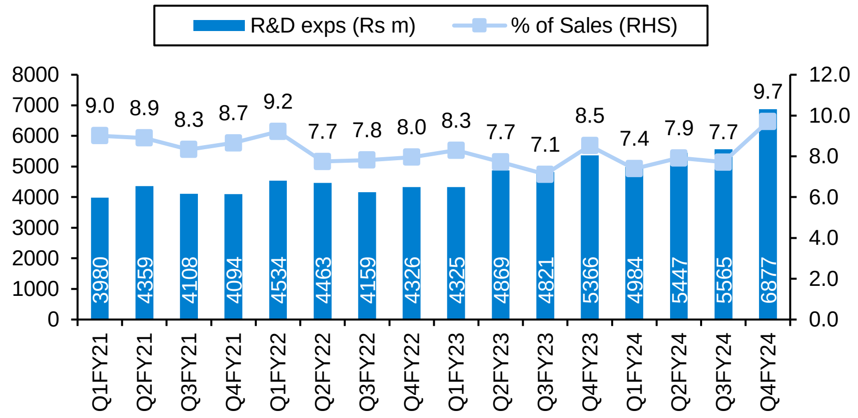
Source: Company, PL

Exhibit 7: Higher R&D spend led to decline in EBITDA margins



Source: Company, PL

Exhibit 8: R&D: Continued investments towards future pipeline



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	**2,45,879**	**2,79,164**	**2,93,322**	**3,17,838**
YoY gr. (%)	*14.7*	*13.5*	*5.1*	*8.4*
Cost of Goods Sold	1,06,536	1,15,557	1,21,888	1,37,724
Gross Profit	1,39,342	1,63,607	1,71,434	1,80,114
Margin (%)	*56.7*	*58.6*	*58.4*	*56.7*
Employee Cost	-	-	-	-
Other Expenses	19,381	22,873	24,703	26,679
EBITDA	**64,571**	**78,392**	**80,025**	**82,060**
YoY gr. (%)	*40.1*	*21.4*	*2.1*	*2.5*
Margin (%)	*26.3*	*28.1*	*27.3*	*25.8*
Depreciation and Amortization	12,636	14,856	15,806	17,102
EBIT	**51,935**	**63,536**	**64,219**	**64,958**
Margin (%)	*21.1*	*22.8*	*21.9*	*20.4*
Net Interest	(8,760)	(8,193)	(7,700)	(8,500)
Other Income	-	-	-	-
Profit Before Tax	**60,695**	**71,729**	**71,919**	**73,458**
Margin (%)	*24.7*	*25.7*	*24.5*	*23.1*
Total Tax	15,300	16,186	17,261	18,365
Effective tax rate (%)	*25.2*	*22.6*	*24.0*	*25.0*
Profit after tax	**45,395**	**55,543**	**54,659**	**55,094**
Minority interest	-	-	-	-
Share Profit from Associate	370	147	250	500
Adjusted PAT	**45,066**	**55,684**	**54,909**	**55,594**
YoY gr. (%)	*91.2*	*23.6*	*(1.4)*	*1.2*
Margin (%)	*18.3*	*19.9*	*18.7*	*17.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**45,066**	**55,684**	**54,909**	**55,594**
YoY gr. (%)	*91.2*	*23.6*	*(1.4)*	*1.2*
Margin (%)	*18.3*	*19.9*	*18.7*	*17.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	45,066	55,684	54,909	55,594
Equity Shares O/s (m)	**167**	**167**	**167**	**167**
EPS (Rs)	**270.5**	**333.8**	**329.2**	**333.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	**2,14,260**	**2,40,426**	**2,51,725**	**2,64,762**
Tangibles	1,64,901	1,81,304	2,01,304	2,23,304
Intangibles	49,358	59,122	50,420	41,458
Acc: Dep / Amortization	**1,16,949**	**1,26,589**	**1,33,693**	**1,41,832**
Tangibles	98,439	1,04,418	1,14,786	1,26,286
Intangibles	18,509	22,171	18,908	15,547
Net fixed assets	**97,311**	**1,13,837**	**1,18,031**	**1,22,930**
Tangibles	66,462	76,886	86,519	97,019
Intangibles	30,849	36,951	31,513	25,911
Capital Work In Progress	-	-	-	-
Goodwill	4,245	4,253	4,253	4,253
Non-Current Investments	5,362	5,255	5,255	5,255
Net Deferred tax assets	6,363	9,940	9,940	9,940
Other Non-Current Assets	800	1,632	1,632	1,632
Current Assets				
Investments	56,018	74,363	74,363	74,363
Inventories	48,670	63,552	69,257	75,045
Trade receivables	72,485	80,298	89,626	97,117
Cash & Bank Balance	5,779	7,107	35,569	67,698
Other Current Assets	23,988	26,447	27,769	29,158
Total Assets	**3,14,658**	**3,76,744**	**4,25,755**	**4,77,450**
Equity				
Equity Share Capital	833	834	834	834
Other Equity	2,30,158	2,79,716	3,25,034	3,69,118
Total Networth	**2,30,991**	**2,80,550**	**3,25,868**	**3,69,952**
Non-Current Liabilities				
Long Term borrowings	1,278	5,990	5,990	5,990
Provisions	-	-	-	-
Other non current liabilities	2,907	4,833	4,833	4,833
Current Liabilities				
ST Debt / Current of LT Debt	12,194	14,030	14,030	14,030
Trade payables	26,444	30,191	30,472	34,431
Other current liabilities	47,207	51,090	54,503	58,154
Total Equity & Liabilities	**3,14,658**	**3,76,744**	**4,25,755**	**4,77,450**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	73,331	86,585	87,725	90,560
Add. Depreciation	12,636	14,856	15,806	17,102
Add. Interest	8,760	8,193	7,700	8,500
Less Financial Other Income	-	-	-	-
Add. Other	(21,222)	(27,723)	(23,506)	(25,602)
Op. profit before WC changes	73,505	81,911	87,725	90,560
Net Changes-WC	(3,918)	(16,430)	(12,662)	(7,058)
Direct tax	(10,714)	(20,047)	(17,261)	(18,365)
Net cash from Op. activities	**58,873**	**45,433**	**57,803**	**65,138**
Capital expenditures	(18,866)	(27,435)	(20,000)	(22,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invt. activities	**(18,866)**	**(27,435)**	**(20,000)**	**(22,000)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(15,905)	1,836	-	-
Dividend paid	(4,979)	(6,648)	(9,591)	(11,509)
Interest paid	-	-	-	-
Others	(28,196)	(11,858)	250	500
Net cash from Fin. activities	**(49,080)**	**(16,670)**	**(9,341)**	**(11,009)**
Net change in cash	**(9,073)**	**1,328**	**28,462**	**32,129**
Free Cash Flow	47,550	29,030	37,803	43,138

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	**67,384**	**68,802**	**72,148**	**70,830**
YoY gr. (%)	*29.2*	*9.1*	*6.6*	*12.5*
Raw Material Expenses	27,831	28,434	29,945	29,347
Gross Profit	39,553	40,368	42,203	41,483
Margin (%)	*58.7*	*58.7*	*58.5*	*58.6*
EBITDA	**20,450**	**19,916**	**20,180**	**17,842**
YoY gr. (%)	*121.4*	*5.1*	*(1.9)*	*12.7*
Margin (%)	*30.3*	*28.9*	*28.0*	*25.2*
Depreciation / Depletion	3,583	3,790	3,770	3,712
EBIT	**16,867**	**16,126**	**16,410**	**14,130**
Margin (%)	*25.0*	*23.4*	*22.7*	*19.9*
Net Interest	(784)	(1,225)	(963)	(1,022)
Other Income	780	1,796	967	656
Profit before Tax	**18,431**	**19,147**	**18,340**	**15,808**
Margin (%)	*27.4*	*27.8*	*25.4*	*22.3*
Total Tax	4,438	4,334	4,468	2,946
Effective tax rate (%)	*24.1*	*22.6*	*24.4*	*18.6*
Profit after Tax	**13,993**	**14,813**	**13,872**	**12,862**
Minority interest	-	-	-	-
Share Profit from Associates	43	42	27	35
Adjusted PAT	**14,025**	**14,800**	**13,789**	**13,070**
YoY gr. (%)	*18.1*	*33.0*	*10.6*	*36.3*
Margin (%)	*20.8*	*21.5*	*19.1*	*18.5*
Extra Ord. Income / (Exp)	11	55	110	(173)
Reported PAT	**14,036**	**14,855**	**13,899**	**12,897**
YoY gr. (%)	*18.2*	*33.2*	*10.3*	*27.3*
Margin (%)	*20.8*	*21.6*	*19.3*	*18.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**14,036**	**14,855**	**13,899**	**12,897**
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	**84.5**	**89.2**	**83.1**	**78.7**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	270.5	333.8	329.2	333.3
CEPS	346.4	422.9	423.9	435.8
BVPS	1,386.5	1,682.0	1,953.6	2,217.9
FCF	285.4	174.0	226.6	258.6
DPS	46.0	46.0	57.5	69.0
Return Ratio(%)				
RoCE	22.2	23.3	19.9	17.7
ROIC	20.5	21.5	20.3	19.4
RoE	21.4	21.8	18.1	16.0
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	141	149	160	158
Valuation(x)				
PER	23.1	18.7	19.0	18.8
P/B	4.5	3.7	3.2	2.8
P/CEPS	18.1	14.8	14.8	14.4
EV/EBITDA	15.4	12.5	11.9	11.2
EV/Sales	4.0	3.5	3.3	2.9
Dividend Yield (%)	0.7	0.7	0.9	1.1

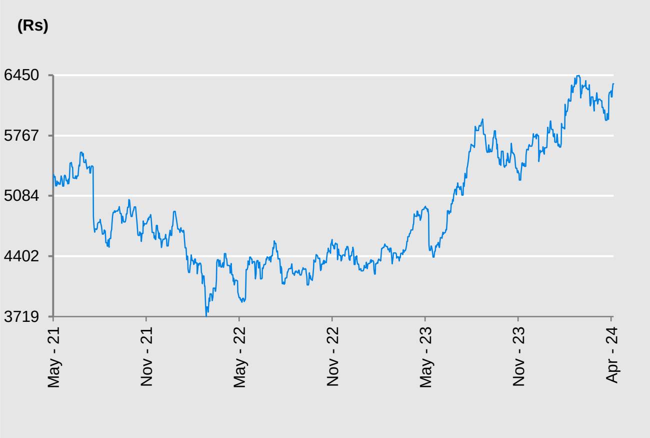
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
India Formulations	48,932	46,407	51,048	57,173
US formulations	1,01,704	1,29,895	1,32,246	1,34,402
Russia	21,200	22,300	23,304	29,681
PSAI	29,069	29,801	32,185	34,760

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-24	Reduce	5,650	6,179
2	31-Jan-24	Reduce	5,650	5,841
3	08-Jan-24	Reduce	5,300	5,852
4	30-Oct-23	Reduce	5,300	5,397
5	07-Oct-23	Reduce	5,150	5,425
6	27-Jul-23	Reduce	5,150	5,476
7	06-Jul-23	Reduce	4,500	5,232
8	11-May-23	Reduce	4,500	4,867

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	7,050	6,259
2	Aster DM Healthcare	BUY	515	457
3	Aurobindo Pharma	Accumulate	1,120	1,124
4	Cipla	Accumulate	1,400	1,449
5	Divi's Laboratories	Reduce	3,150	3,748
6	Dr. Reddy's Laboratories	Reduce	5,650	6,179
7	Eris Lifesciences	BUY	1,100	851
8	Fortis Healthcare	BUY	480	437
9	Glenmark Pharmaceuticals	Reduce	570	1,017
10	HealthCare Global Enterprises	BUY	420	368
11	Indoco Remedies	Accumulate	380	350
12	Ipca Laboratories	Hold	1,060	1,315
13	J.B. Chemicals & Pharmaceuticals	BUY	1,920	1,715
14	Jupiter Life Line Hospitals	BUY	1,360	1,214
15	Krishna Institute of Medical Sciences	BUY	2,200	2,038
16	Lupin	Hold	1,600	1,599
17	Max Healthcare Institute	BUY	925	805
18	Narayana Hrudayalaya	BUY	1,435	1,286
19	Sun Pharmaceutical Industries	BUY	1,640	1,609
20	Sunteck Realty	BUY	565	452
21	Torrent Pharmaceuticals	BUY	2,700	2,577
22	Zydus Lifesciences	Accumulate	855	1,007

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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