

Dr. Reddy's Labs. Ltd.**₹ 3586****A year of Setback before the Jetpack !****Buy**

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Company Background

Dr Reddy's Laboratories Ltd is an integrated global pharmaceutical company offers a portfolio of products and services including Active Pharmaceutical Ingredients (APIs), Custom Pharmaceutical Services (CPS), generics, biosimilars, differentiated formulations and New Chemical Entities (NCEs) through their three businesses - Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products. Dr. Reddy's has a strong presence in highly regulated and developed markets such as the United States of America, the United Kingdom and Germany. It also has a significant pharmaceuticals business in India, Russia, and certain key emerging economies. Other markets include, Venezuela, S. Africa, Romania, and New Zealand.

Key Highlights

- ➔ The major setback to the company was the warning Letters by the USFDA sent to 3 of its facilities. This was a reason of shift of their approach from what has gone wrong to what can go wrong. Dr. Reddy's has already submitted plans and timelines to resolve all the queries and is ready to invest for the requirements and should sail out of the turbulence.
- ➔ The Company has an attractive pipeline of complex generics offerings and new proprietary product drugs which got delayed & it aims to leverage it strongly across US, Europe and Russia, as, along with biosimilars in 2017.
- ➔ Though the company had some issues in two of its markets viz. Russia and Venezuela which were out of the purview of the company. Three strategic markets viz Europe, North America & India recorged 19% growth in revenues each in the FY 2015-2016. Also Russian economy has started to show signs of improvement with rise in crude prices which is beneficial for the company.
- ➔ The company will launch 2 proprietary products in next few months and expects USD50-70mn in each product. It has also recently filed 3 ANDAs and 1 505(b)(2) NDA during the quarter.
- ➔ The company has more than doubled its US specialty business sales force from 53 to 131 representatives in FY16 (72 for dermatology, 59 for neurology products); the India sales force has also risen 9% to 5,662 representatives.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	99,615.0	1,03,167.0	1,05,367.0
Rev. growth (%)	15.20	3.57	2.13
EBITDA (INR mn)	26,139.0	29,132.0	21,274.0
Net profit (INR mn)	16,794.0	19,328.0	12,655.0
Shares outstanding (mn)	170.2	170.4	170.6
EPS (INR)	110.5	94.5	75.3
EPS growth (%)	53.53	(14.51)	(20.27)
P/E (x)	23.17	36.91	40.29
RONW (%)	22.59	16.83	14.06
ROCE (%)	23.08	16.42	13.46

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Info Codes

Reuters	: REDY.BO
Bloomberg	: DRRD:IN
NSE	: TEXRAIL
BSE	: 533326

Market Data

52 Wk Range (₹)	: 2750 / 4383
Shares in Issue (mn)	: 170.6
Mkt. Cap (₹ bn)	: 611.06
BSE 2 Wk Avg Vol	: 88000

Share Holding Pattern (%)

Promoters	: 25.58
Public	: 74.42
Others	: 00.00

Investment Theme

Dr. Reddy's Laboratories is a company headquartered in Hyderabad, India, with its global presence across 26 countries. Its manufacturing facilities are supported by five technology development centres, two over integrated product development facilities and three R&D centres. The Company offers Active Pharmaceutical Ingredients, Branded Formulations, Generic Drugs, Biologics, Specialty Products and New Chemical Entities (NCE). The Company has a solid growing business with revenues from North America and India growing at 19% each in FY 2016. We believe that Dr. Reddy's complex generic pipeline could unfold a number of niche opportunities in the coming year. The launches scheduled for 2017 also seem to be better and stronger than those in 2016. We therefore feel the company would be in its Growth Gear, leaving behind the weary market and FDA troubles it faced this year/ We therefore initiate a Buy on the Company.

Growth Gear..... Next Year !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Other Income	1,515.0	2,228.0	47.1	2,448.0	9.9
Change in Stocks	1,706.0	289.0	(83.1)	288.0	(0.3)
Raw Material Con.	26,608.0	28,488.0	7.1	25,989.0	(8.8)
Employee Exp.	14,199.0	14,909.0	5.0	17,100.0	14.7
Indirect Taxes	820.0	829.0	1.1	842.0	1.6
Other Exp.	29,742.0	32,262.0	8.5	37,953.0	17.6
Operating Exp.	71,369.0	76,488.0	7.2	81,884.0	7.1
Operating Profit	29,132.0	26,139.0	(10.3)	22,929.0	(12.3)
Total Interest	783.0	638.0	(18.5)	638.0	0.0
Gross Profit	28,349.0	25,501.0	(10.0)	22,291.0	(12.6)
Net Dep.	3,805.0	4,902.0	28.8	6,491.0	32.4
Total Taxation	5,216.0	3,805.0	(27.1)	2,255.0	(40.7)
Net Profit/Loss	19,328.0	16,794.0	(13.1)	13,545.0	(19.3)

4 Years Balance Sheet

(₹ mn)

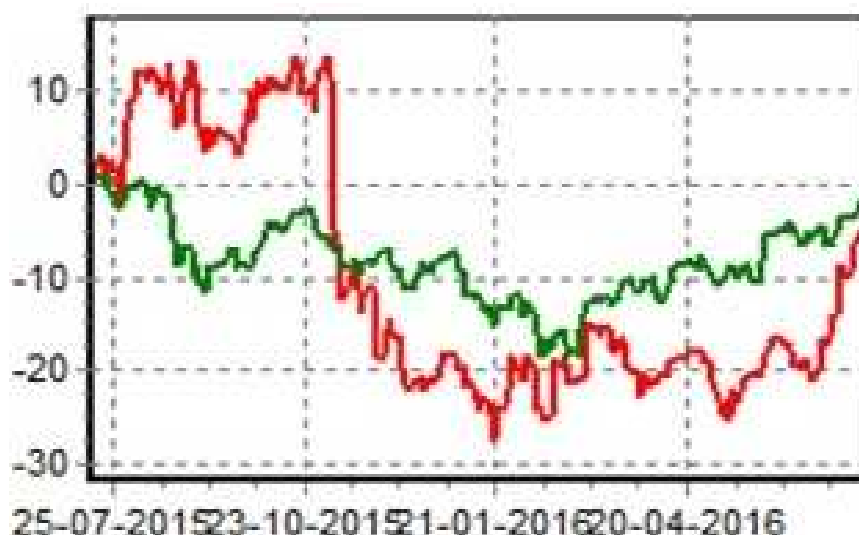
Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	99,160.0	1,20,334.0	1,38,354.0	1,48,141.0
Equity Share capital	849.0	851.0	852.0	853.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	76,985.0	92,439.0	1,05,488.0	1,15,201.0
Secured Loans	47.0	17.0	14.0	9.0
Unsecured Loans	21,279.0	27,027.0	32,000.0	32,078.0
USES OF FUNDS	99,160.0	1,20,334.0	1,38,354.0	1,48,141.0
Gross Block	42,087.0	48,997.0	58,156.0	75,709.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	18,217.0	21,514.0	25,662.0	31,416.0
Net Block	23,870.0	27,483.0	32,494.0	44,293.0
Capital Work in Progress	4,232.0	5,761.0	4,883.0	6,150.0
Investments	23,792.0	28,065.0	38,623.0	38,883.0
Current Assets	64,036.0	78,414.0	83,011.0	79,827.0
Less : Current Liabilities	19,794.0	23,495.0	24,916.0	27,079.9
Total Net Current Assets	44,242.0	54,919.0	58,095.0	52,747.1
Misc. Expenses not writtenoff	3,024.0	4,106.0	4,259.0	6,067.9
NOTE				
Book Value of Unquoted Investments	21,823.0	28,062.0	38,620.0	38,880.0
Market Value of Quoted Investments	2,035.0	10,785.0	32.0	23.0
Contingent Liabilities	17,400.0	16,052.0	12,319.0	1,999.0
Dividend (%)	275.0	300.0	360.0	400.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 15	Sep 15	Dec 15	Mar 16
Net Sales	25,128.9	28,735.0	24,181.0	23,462.0
Cost Of Sales	18,645.1	19,847.0	20,021.0	23,706.0
Operating Profit	6,483.8	8,888.0	4,160.0	(244.0)
Other Income	1,040.1	823.0	453.0	1,325.0
Adjusted PBDIT	7,523.9	9,711.0	4,613.0	1,081.0
Financial Expenses	213.2	144.0	135.0	146.0
Depreciation	1,413.9	1,594.0	1,672.0	1,811.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	5,896.8	7,973.0	2,806.0	(876.0)
Tax Charges	1,138.3	1,498.0	438.0	(819.0)
Reported Profit	4,758.5	6,475.0	2,368.0	(57.0)
Extra Ordinary Items	0.0	0.0	0.0	(3,559.0)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	4,758.5	6,475.0	2,368.0	3,502.0

52 Week Index Relative Percentage Appreciation



Dr. Reddy's vs SENSEX

Risks Associated

- ➔ The Company has operations in many countries around the world. Each such country poses its own challenges in terms of the economic and political conditions of that country. Any adverse political and/or economic development in these countries may affect the business of the Company in those countries.
- ➔ The Company is present in the generics segment of pharmaceutical markets in different countries. The generics market is characterized by the presence of a large number of players who compete with each other continuously to increase their respective market shares. This competition puts constant pressure on the prices which the Company charges to its customers. Apart from this, the governments of different countries apply periodic price cuts on the pharmaceutical products so as to keep the healthcare cost under control.
- ➔ Stringent regulations and quality standards are prescribed by the regulatory authorities across the globe for the pharmaceutical products and their manufacturing and supply chain processes in order to protect the interests of the patients.
- ➔ Competitors & innovator pharmaceutical companies holding patents for products and processes may sue the Company if the Company's products or processes are claimed to be infringing upon their intellectual property rights.
- ➔ Any deviation from the prescribed regulations or any variation in the quality from the prescribed standards may lead to punitive actions by the regulatory authorities.

Dr. Reddy's

In a Nutshell

Dr Reddy's Laboratories, is a 30+ year old global pharmaceutical company catering to the needs of the pharmaceutical sector and headquartered in India. It is among the top three API players in world. It has a global presence in more than 100 countries, with subsidiaries in the US, UK, Russia, Germany and Brazil; joint ventures in China, South Africa and Australia; representative offices in 16 countries and third-party distribution set ups in 21 countries. The pharma major has launched brands like Ciprolet, Nise, Enam, Stamlo, Omez, and Ketorol among others. Therapeutic focus is on gastro-intestinal, cardiovascular, diabetology, oncology, pain management, anti-infective and pediatrics. Major markets include India, USA, Russia and CIS, Germany, UK, Venezuela, S. Africa, Romania, and New Zealand. Branded Generics portfolio offers over 200 products in the major therapeutic areas of gastro-intestinal, cardiovascular, pain management, oncology, anti-infectives, paediatrics and dermatology. Brands like Omez, Ciprolet, Nise, Enam, Ketorol, Exifine and Cetrine enjoy leadership positions in several key markets, including India, Romania, Venezuela, Russia & the CIS countries. Generics offerings deliver quality medicines at cost-effective prices in the highly regulated markets of the United States, UK and Germany. Dr. Reddy's offers an unparalleled portfolio comprising of innovators and generic formulators worldwide. With a strong product portfolio of products, including niches like oncology and hormones. It is today among the leading generic API players globally and one of the highest DMF filers worldwide. Within a short span, it has become the largest CPS player from India and a partner-of-choice to innovators, offering top-end technical expertise and tailor-made pharma solutions.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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