

## DRREDDY

Dr Reddy's Laboratories is an integrated global pharmaceutical company. Through its three businesses - Pharmaceutical Services and Active Ingredients, Global Generics and Proprietary Products – Dr Reddy's offers a portfolio of products and services including APIs, custom pharmaceutical services, generics, biosimilars, differentiated formulations and NCEs. 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.

The company posted its result below street's expectation. The Consolidated revenues for 3QFY13 came at Rs2865 Cr up merely by 3.5% YoY led by exclusivity of Zyprexa generic. Company had launched a generic version of Eli Lilly's Zyprexa (schizophrenia treatment drug) and was awarded a 180-day period of marketing exclusivity along with Teva Pharmaceutical Industries.

Company's revenue from pharmaceutical services and active ingredients (PSAI) in quarter rose 28 % to Rs 713 crore. But global generics revenue down 2 % at Rs 2,083 Cr for the 3QFY13. Proprietary products revenue decreased to Rs 69 in the quarter from Rs 84 Cr.

Company's operating EBITDA for the 3QFY13 plunged to Rs 429 Cr from Rs 738 Cr for the same quarter last fiscal. The total expenses for the quarter came at Rs 2436 Cr against Rs 2031 Cr for 3QFY12.

Company's SGA expenses forms the 30 % of net revenues for the 3QFY13 verses 28 % for the same time period last fiscal. The R&D expenses also increased to Rs 203 Cr forming 7 % of net revenue from 5% a year ago. The OPM for the 3QFY13 saw a drastic fall of 1200 bps (equivalent to 12 %). The OPM came at 14.98 % for the quarter.

The adjusted net profits came at Rs 363 and it saw a huge fall in comparison to 3QFY12 PAT which was Rs 513 Cr. The NPM for 3QFY13 stands at 12.6%.

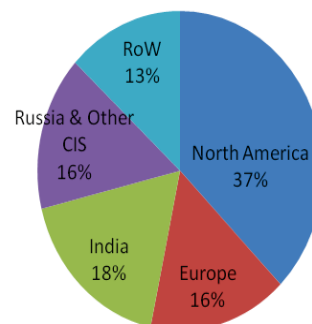
As on 31 Dec 2012 the total cash and cash equivalents for the company stands at Rs 23,264 Cr while borrowings and loans together is at Rs 36,825 Cr. The net worth as on 31 dec 2012 stands at Rs 66,789 Cr.

During the quarter, 4 ANDAs were filed. Cumulatively, 65 ANDAs are pending for approval with the USFDA of which 35 are Para IVs and 8 have 'First To File' status and also filed 13 DMFs globally which includes 3 in the US and 1 in Europe. The cumulative number of DMF filings as of 31 December 2012 is 566.

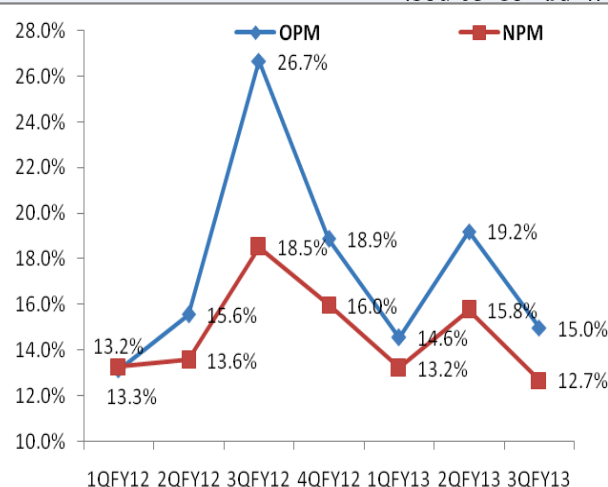
Management said that excluding the impact of Olanzapine profit share in the year ago quarter, global generics revenue rose 24 percent, driven by North America and emerging markets. Further management said company launched 17 new products during the quarter and 13 new product registrations were filed.

Company at current CMP of Rs 1870 trades at 16x FY14E EPS. In the light of management commentary post results and likely improved performance in Q4FY13, we retain buy with a target price of Rs 2000

### 3QFY13 SALES MIX

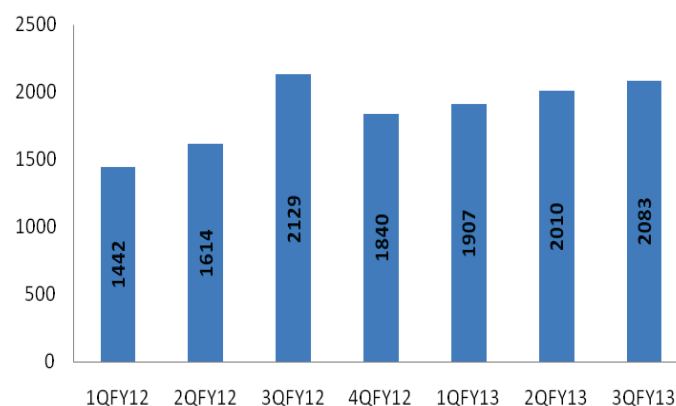


(Source: Company/Eastwind)



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### Formulations/Global Generics Trend (Rs Cr)



(Source: Company/Eastwind)