

Industry  
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BSE CODE

Pharmaceuticals  
DRRD IN  
500124

## Revenues driven by North America & Europe partly offset by decline in India & EM business.

RATING	NEUTRAL
CMP	3911
Price Target	4185
Potential Upside	7%

Rating Change	↓
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	4100/2352
Mkt Capital (Rs Cr)	64982
Free float (%)	73%
Avg. Vol 1M (,000)	1422
No. of Shares (Crs)	17
Promoters Pledged %	0%

### RESEARCH ANALYST

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#### 4QFY20 Result update

- The revenues from the North America generics grew by 17% YoY to US\$ 250 mn on account/ of higher volumes partially due to COVID-19 related stocking up supported by contribution from the new launches.
- India business de-grew by 5% YoY to Rs. 684 crs partially impacted due to logistics related disruptions caused by COVID-19 lock-downs.
- Europe grew strongly by 80% YoY Rs.345 crs primarily on account of volume traction and new product launches across markets, including newer markets of France, Italy and Spain, which was partially offset by price erosion.
- Revenues from the Emerging market grew by 15% YoY to Rs. 804 crs. Russia, CIS & ROW market grew by 8%, 53% & 2% to Rs. 392 crs, Rs. 180 crs & Rs. 232 crs respectively.
- PASI grew by 6% YoY to Rs.720 crs, Proprietary products & others declined by 76% YoY to Rs. 73 crs as in Q4FY19, revenue from sale of rights for three products of Derma business were recognized.
- The gross margin declined by 300 bps YoY to 65.7% while the EBITDA margin grew by 100 bps to 21.3%. PAT grew by 71.5% YoY to Rs.781 crs majorly due to recognition of MAT credit and creation of deferred tax assets, in line with the requirements of accounting standards.

#### View and Valuation

Revenue for the quarter grew by 10% YoY to Rs. 4432 crs (vs our estimates of Rs.4362 crs). The gross margin declined for the quarter while the EBITDA margin has grown on account of cost optimization and productivity improvement. The balance sheet of company looks quite strong with reduced net debt to equity in FY20 (0.24 in FY19 to 0.11 in FY20).

Going forward, we expect to see growth across geographies as the company moves ahead in its strategy to leverage its portfolio globally, with key drivers likely to be the closure of wockhardt acquisition in India, ramp in the newer markets of Europe, Nuvaring & Copaxone launch in the short to medium term. The company will focus on the inorganic growth along with capacity expansion for injectables and biosimilars on account of the strong free cash flow generation in FY20 which will strengthen its position globally.

Post results, we have increased our PAT estimates by 4% for FY21E. Therefore, we have raised our target price from Rs.4043 to Rs 4185 & recommend NEUTRAL.

#### Key Risks to our rating and target

- Higher-than-expected price erosion in the US.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	14196	14281	15448	17517	18608
EBITDA	2221	2351	3178	4147	4019
EBIT	1194	1274	2043	2984	2782
PAT	1041	947	1950	2026	2523
EPS (Rs)	63	57	118	122	152
EPS growth (%)	-50%	-9%	106%	4%	25%
ROE (%)	8.5%	7.5%	13.9%	13.0%	14.2%
ROCE (%)	9.3%	8.4%	12.6%	17.3%	14.4%
BV	740	758	845	940	1068
P/B (X)	3.5	2.7	3.3	3.3	3.7
P/E (x)	40.9	36.5	23.6	25.5	25.7

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## 4QFY20 Results

Fig in Rs Cr

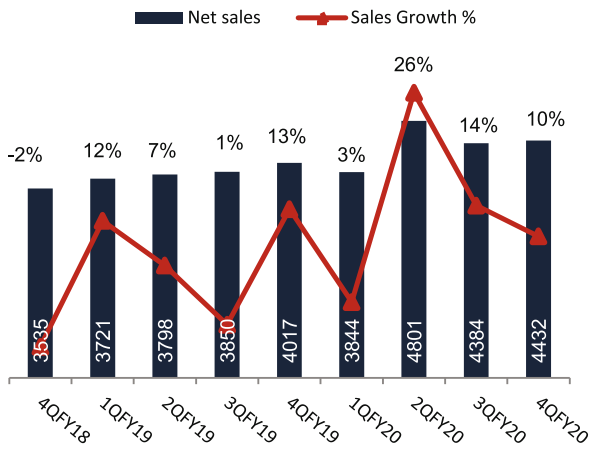
FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	4,030	3,858	4,813	4,397	4,449	10.4%	1.2%	15,448	17,517	13.4%
Other Income	83	430	54	67	74	-11.6%	9.4%	338	621	83.9%
COGS	1,262	1,207	1,401	1,415	1,531	21.3%	8.2%	4,495	5,554	23.6%
Gross Margin	68.7%	68.7%	70.9%	67.8%	65.6%	-3.1%	-2.2%	70.9%	68.3%	-2.6%
Employee Cost	842	862	826	838	856	1.7%	2.1%	3,356	3,380	0.7%
Other Expen.	1,107	1,048	1,522	1,113	1,112	0.5%	0.0%	4,419	4,435	0.4%
EBITDA	819	742	1,064	1,031	950	16.0%	-7.9%	3,178	4,147	30.5%
EBITDA Mar.	20.3%	19.2%	22.1%	23.5%	21.4%	1.0%	-2.1%	20.6%	23.7%	3.1%
Depreciation	287	289	313	287	275	-4.3%	-4.2%	1,135	1,163	2.5%
EBIT	532	453	751	745	675	27%	-9.3%	89	98	10.6%
Interest	25	30	30	15	23	-6%	51.3%	89	98	10.6%
PBT	591	853	774	797	726	22.9%	-8.9%	1,906	3,647	91%
Exceptional Item	-	-	-	1,320	-			-	1,677	
Tax	151	193	(321)	33	(45)	-130%	-238%	386	(140)	-136%
PAT	455	677	1,107	(538)	781	71.5%	N.A	1,950	2,026	4%
PAT Margin	11.3%	17.5%	23.0%	-12.2%	17.6%	6.3%	29.8%	12.6%	11.6%	-1%

## Concall Highlights

- The revenues from the North America generics grew by 17% YoY to US\$ 250 mn on account of higher volumes partially due to COVID-19 related stocking up.
- The company launched 27 products in US in FY20 and it expects to launch 25 products in Fy21.
- India business de-grew by 5% YoY to Rs. 684 crs partially impacted due to logistics related disruptions caused by COVID-19 lock-downs. As the lockdown eases, the increase in prescription will drive the sales in India.
- The closure of Wockhardt acquisition is expected in 1QFY21.
- Europe grew strongly by 80% YoY Rs.345 crs; Revenues from the Emerging market grew by 15% YoY to Rs. 804 crs.
- PASI grew by 6% YoY to Rs.720 crs, was impacted due to logistics related disruption. With the healthy order book, the company stays positive about the growth going forward.
- Proprietary products declined by 71% to Rs. 73 crs as in Q4FY19, revenue from sale of rights for three products of Derma business were recognized.
- The company will continue to put in efforts for monetizing select assets through partnerships & licensing to maximise the value.
- The receivables days stood at 105 days for FY20 (vs 95 days for FY19) mainly due to higher sales and partly due to delay in collection, which the company expects to normalize in Fy21.
- In terms of capital deployment- the company will strategically focus on inorganic growth, R&D spends, digital capability building & capacity expansion for injectables & biosimilars.
- The capex for FY21 is expected to be in excess of Rs. 1000 crs, the R&D spends is expected to be in the range of 9-10% of sales.
- For Copaxone & Nuvaring, the company is working on the CRL and expects to submit with the FDA in the next few weeks.

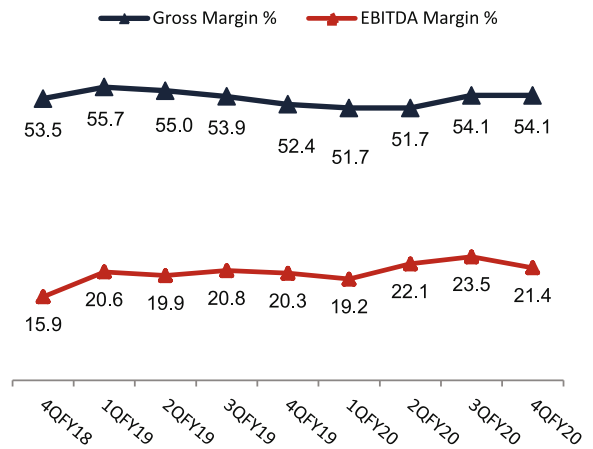
## Exhibit: Sales and Sales Growth

The overall revenue this quarter grew by 10% YoY to Rs. 4432 crs (vs our estimates of Rs.4362 crs).



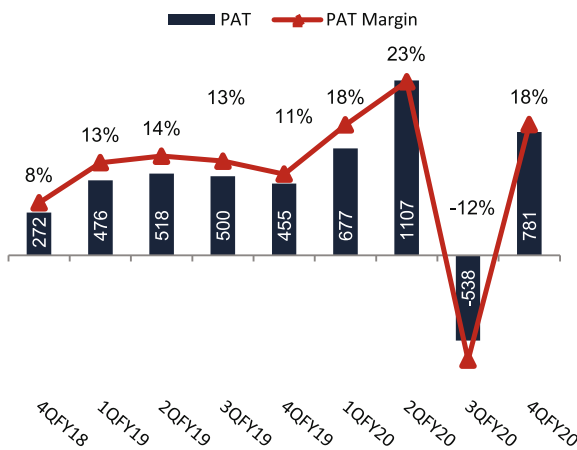
## Exhibit: Gross and EBITDA margin

The gross margin declined by 300 bps YoY to 65.7% while the EBITDA margin grew by 100 bps to 21.3%.



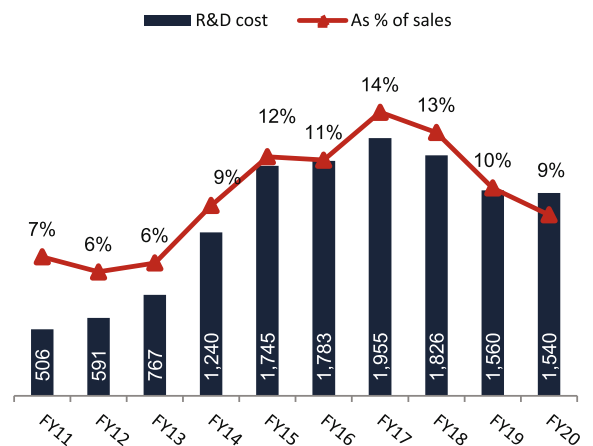
## Exhibit: PAT and PAT margin

PAT grew by 71.5% YoY to Rs.781 crs majorly due to recognition of MAT credit and creation of deferred tax assets.



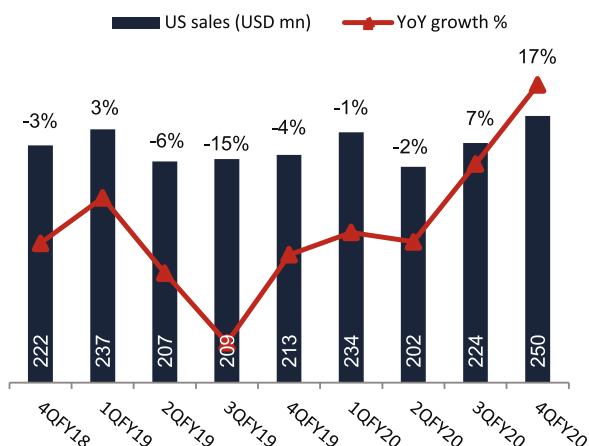
## Exhibit: R&D cost and R&D as a % of sales

R&D expenses for FY20 is at 9% of sales vs 10% of sales in FY19.



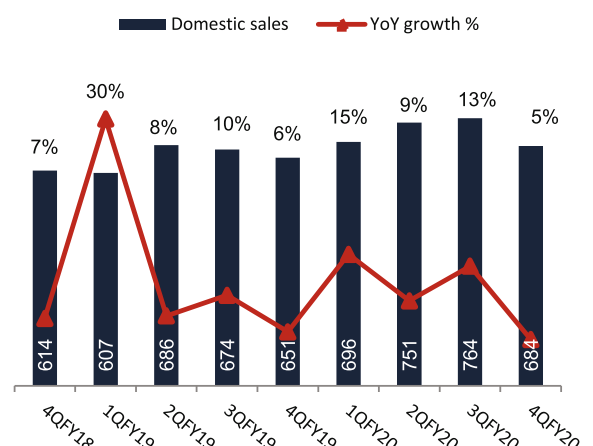
## Exhibit: US sales and YoY growth

Revenues from US grew by 17% YoY to US\$ 250 mn due to higher volumes partially due to COVID-19 related stocking up.



## Exhibit: Domestic sales and YoY growth

India business de-grew by 5% YoY partially impacted due to logistics issues caused by COVID-19 lock-downs.



## Operational Details

Geography	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	1449	1590	1427	1483	1496	1632	1427	1600	1807
Europe	171	202	192	203	191	240	276	309	345
India	614	607	686	674	651	696	751	764	684
Emerging Markets	550	664	749	774	701	730	828	920	804
PSAI	625	541	603	594	677	454	711	691	720
Proprietary products and others	126	116	141	122	302	91	809	101	73

Revenue gr. %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	-6%	6%	0%	-8%	3%	3%	0%	8%	21%
Europe	-17%	-3%	-21%	1%	12%	19%	44%	52%	80%
India	7%	30%	8%	10%	6%	15%	9%	13%	5%
Emerging Markets	-9%	16%	36%	31%	27%	10%	10%	19%	15%
PSAI	16%	16%	7%	9%	8%	-16%	18%	16%	6%
Proprietary products and others	26%	10%	19%	-52%	139%	-21%	472%	-17%	-76%

Revenue mix%	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	41%	43%	38%	39%	37%	42%	30%	36%	41%
Europe	5%	5%	5%	5%	5%	6%	6%	7%	8%
India	17%	16%	18%	18%	16%	18%	16%	17%	15%
Emerging Markets	16%	18%	20%	20%	17%	19%	17%	21%	18%
PSAI	18%	15%	16%	15%	17%	12%	15%	16%	16%
Proprietary products and others	4%	3%	4%	3%	8%	2%	17%	2%	2%

## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	85	85	85	83	83	83	83	83
Reserves	7,780	9,768	12,485	12,179	12,489	13,941	15,516	17,639
<b>Networth</b>	<b>7,865</b>	<b>9,853</b>	<b>12,570</b>	<b>12,262</b>	<b>12,572</b>	<b>14,024</b>	<b>15,599</b>	<b>17,722</b>
Debt	4,136	3,617	3,340	4,908	5,065	3,413	1,784	1,784
Other Non Current Liab	299	492	399	590	570	345	282	299
<b>Total Capital Employed</b>	<b>12,001</b>	<b>13,470</b>	<b>15,910</b>	<b>17,170</b>	<b>17,637</b>	<b>17,436</b>	<b>17,382</b>	<b>19,506</b>
Net Fixed Assets (incl CWIP)	5,280	5,906	7,335	10,255	10,439	10,125	8,385	9,391
Non Current Investments	0	146	330	683	465	334	309	309
Other Non Current Assets	424	670	925	1,195	1,142	897	1,932	1,938
<b>Non Current Assets</b>	<b>5,704</b>	<b>6,721</b>	<b>8,590</b>	<b>12,133</b>	<b>12,046</b>	<b>11,356</b>	<b>10,626</b>	<b>11,638</b>
Inventory	2,419	2,570	2,558	2,853	2,909	3,358	3,507	3,721
Debtors	3,325	4,101	4,125	3,799	4,053	3,987	5,028	5,076
Cash & Bank	2,301	1,872	492	387	264	223	205	513
Other Current Assets	2,281	3,333	4,619	2,646	3,273	3,543	3,859	4,775
<b>Current Assets</b>	<b>10,326</b>	<b>11,877</b>	<b>11,794</b>	<b>9,684</b>	<b>10,498</b>	<b>11,110</b>	<b>12,599</b>	<b>14,086</b>
Creditors	893	867	907	1,057	1,335	1,367	1,525	1,618
Provisions	816	1,144	529	513	439	479	467	526
Other Current Liabilities	2,021	2,624	2,640	2,488	2,564	2,839	3,569	3,774
<b>Curr Liabilities</b>	<b>3,730</b>	<b>4,636</b>	<b>4,075</b>	<b>4,057</b>	<b>4,338</b>	<b>4,685</b>	<b>5,561</b>	<b>5,919</b>
<b>Net Current Assets</b>	<b>6,596</b>	<b>7,241</b>	<b>7,719</b>	<b>5,626</b>	<b>6,161</b>	<b>6,425</b>	<b>7,038</b>	<b>8,167</b>
<b>Total Assets</b>	<b>16,030</b>	<b>18,598</b>	<b>20,384</b>	<b>21,817</b>	<b>22,544</b>	<b>22,466</b>	<b>23,225</b>	<b>25,723</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Revenue from Operation</b>	<b>13,415</b>	<b>15,023</b>	<b>15,568</b>	<b>14,196</b>	<b>14,281</b>	<b>15,448</b>	<b>17,517</b>	<b>18,608</b>
Change (%)	13%	12%	4%	-9%	1%	8%	13%	6%
<b>EBITDA</b>	<b>3251</b>	<b>3494</b>	<b>3585</b>	<b>2221</b>	<b>2351</b>	<b>3178</b>	<b>4147</b>	<b>4019</b>
Change (%)	20%	7%	3%	-38%	6%	35%	30%	-3%
Margin (%)	24%	23%	23%	16%	16%	21%	24%	22%
Depr & Amor.	648	760	939	1027	1077	1135	1163	1237
<b>EBIT</b>	<b>2603</b>	<b>2734</b>	<b>2646</b>	<b>1194</b>	<b>1274</b>	<b>2043</b>	<b>2984</b>	<b>2782</b>
Int. & other fin. Cost	127	108	83	63	79	89	98	62
Other Income	170	274	295	172	155	338	621	364
<b>EBT</b>	<b>2,646</b>	<b>2,900</b>	<b>2,859</b>	<b>1,302</b>	<b>1,350</b>	<b>2,292</b>	<b>3,506</b>	<b>3,084</b>
Exp Item	-	-	-	-	-	-	1,677	-
Tax	683	563	751	297	438	386	(140)	617
Minority Int & P/L share of Ass.	-	-	23	35	34	44	56	56
<b>Reported PAT</b>	<b>1,963</b>	<b>2,336</b>	<b>2,108</b>	<b>1,006</b>	<b>912</b>	<b>1,906</b>	<b>1,970</b>	<b>2,467</b>
<b>Adjusted PAT</b>	<b>1,963</b>	<b>2,336</b>	<b>2,131</b>	<b>1,041</b>	<b>947</b>	<b>1,950</b>	<b>3,703</b>	<b>2,523</b>
Change (%)	29%	19%	-10%	-52%	-9%	109%	3%	25%
Margin(%)	15%	16%	14%	7%	7%	13%	12%	14%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	25.0%	23.7%	17.0%	8.5%	7.5%	13.9%	13.0%	14.2%
ROCE	26.2%	24.2%	19.4%	9.3%	8.4%	12.6%	17.3%	14.4%
Asset Turnover	2.5	2.5	2.3	1.5	1.4	1.6	2.2	2.1
Debtor Days	91	100	97	98	104	95	105	100
Inv Days	66	63	60	74	75	80	73	73
Payable Days	25	21	21	27	34	32	32	32
Int Coverage	22	21	25	32	19	16	23	30
P/E	21.2	24.4	23.4	40.9	36.5	23.6	25.5	25.7
Price / Book Value	5.3	5.8	4.0	3.5	2.7	3.3	3.3	3.7
EV/EBITDA	13	16	14	19	16	15	13	16
FCF per Share	52	58	156	(118)	42	123	143	97
Div Yield	1%	1%	1%	1%	1%	1%	1%	1%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,646	2,900	2,675	1,554	1,350	2,292	1,886	3,140
(inc)/Dec in Working Capital	(1,005)	(1,484)	(18)	(525)	(897)	(577)	(754)	21
Non Cash Op Exp	648	760	971	1,027	1,077	1,135	1,163	1,237
Int Paid (+)	127	108	82	63	79	89	98	62
Tax Paid	(714)	(546)	(710)	(577)	(276)	(484)	(711)	(617)
others	269	786	1,047	603	469	(345)	1,357	-
<b>CF from Op. Activities</b>	<b>1,970</b>	<b>2,524</b>	<b>4,048</b>	<b>2,144</b>	<b>1,803</b>	<b>2,870</b>	<b>2,984</b>	<b>3,844</b>
(inc)/Dec in FA & CWIP	(1,083)	(1,532)	(1,388)	(1,223)	(929)	(696)	(485)	(2,243)
Free Cashflow	887	992	2,660	922	874	2,175	2,500	1,601
(Pur)/Sale of Inv	(2,509)	(3,701)	(5,516)	(4,972)	(6,829)	(7,857)	(11,192)	-
others	1,898	2,967	4,962	4,354	6,270	7,780	11,184	(831)
<b>CF from Inv. Activities</b>	<b>(1,694)</b>	<b>(2,265)</b>	<b>(1,942)</b>	<b>(1,840)</b>	<b>(1,488)</b>	<b>(773)</b>	<b>(492)</b>	<b>(3,074)</b>
inc/(dec) in NW	-	-	-	(1,569)	-	-	-	-
inc/(dec) in Debt	390	34	(1,199)	1,631	88	(1,518)	(1,868)	-
Int. Paid	(116)	(109)	(92)	(92)	(133)	(161)	(161)	(62)
Div Paid (inc tax)	(298)	(359)	(411)	(339)	(399)	(400)	(392)	(400)
others	0	1	0	-	-	-	0	-
<b>CF from Fin. Activities</b>	<b>(24)</b>	<b>(433)</b>	<b>(1,701)</b>	<b>(369)</b>	<b>(444)</b>	<b>(2,133)</b>	<b>(2,516)</b>	<b>(462)</b>
Inc(Dec) in Cash	251	(174)	405	(65)	(129)	(35)	(24)	308
<b>Add: Opening Balance</b>	<b>611</b>	<b>757</b>	<b>154</b>	<b>443</b>	<b>384</b>	<b>258</b>	<b>220</b>	<b>205</b>
Closing Balance	862	583	559	378	254	223	196	513

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