

Industry
Bloomberg
BSE CODE

Pharmaceuticals
DRRD IN
500124

Margin expansion driven by forex benefit & improved productivity; growth momentum to continue.

RATING	NEUTRAL
CMP	4300
Price Target	4350
Potential Upside	1%

Rating Change	↓
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	4331/2352
Mkt Capital (Rs Cr)	71479
Free float (%)	73%
Avg. Vol 1M (,000)	769
No. of Shares (Crs)	17
Promoters Pledged %	0%

RESEARCH ANALYST

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1QFY21 Result update

- The US revenue grew by 6% YoY to Rs.1728 crs in 1QFY21 driven by contribution from new products & aided by a favorable forex, partially offset by price erosion.
- The revenues from the India business declined by 10% YoY to Rs.626 crs on account of lower sales volume due to lower prescriptions generated.
- Revenues from the Emerging market grew by 9% YoY to Rs. 798 crs. CIS countries & ROW market grew by 15% & 56% YoY respectively offset by decline in revenues from Russia on account of lower volumes due to lower prescriptions generated.
- Europe grew by 48% YoY to Rs. 355 crs based on new launches & volume traction. PASI grew by 88% YoY to Rs.855 crs on account of higher volumes of certain products & increase in new product sales. Proprietary products declined by 80% YoY at Rs.6 crs.
- Gross margin increased by 150 bps YoY to 70.2% primarily on account of product mix and forex benefit while EBITDA margin expanded by 610 bps YoY to 25.3 % due to improvement in GM & reduced operating cost.
- PAT for the quarter declined by 12% YoY to Rs. 595 crs on account of higher tax rate primarily due to discontinuation of weighted deduction on R&D and completion of tax holiday for one of its plants. Adjusted for Rs. 350 crs received from Celgene last year, PAT grew by 82% YoY.

View and Valuation

DRREDDY has reported strong numbers this quarter driven primarily by Europe, Emerging Markets & PASI segment, offset partially by decline in the India business. The overall revenue grew by 15% YoY to Rs.4418 crs.

Going ahead, we expect the company's performance to improve across geographies. North America will continue to be a lucrative market with 25 expected launches in FY21 & strong pipeline of 99 ANDAs pending approval. India has stayed impacted over the last two quarter due to decline in prescription growth. In the quarters to come, the integration of the Wockhardt portfolio will add to the overall domestic growth. With the addition of new markets & new launches, Europe will continue to perform well. The company's continuous focus of leveraging its US portfolio in Europe & Emerging markets should help sustain growth in these geographies. The PASI segment is expected to grow based on the improvement in the order book as new customers collaborate for reliable API supply. The resolution of regulatory issues further fosters our confidence.

We believe the current valuation adequately factors earnings potential over the medium term. Hence, we reduce our rating from ACCUMULATE to NEUTRAL with a target price of Rs. 4350.

Key Risks to our rating and target

- Delay in the approval for Copaxone & Nuvaring from the USFDA.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	14281	15448	17517	18381	19832
EBITDA	2351	3178	4147	4363	4900
EBIT	1274	2043	2984	3199	3694
PAT	947	1950	2026	2649	3154
EPS (Rs)	57	118	122	159	190
EPS growth (%)	-9%	106%	4%	31%	19%
ROE (%)	7.5%	13.9%	13.0%	14.9%	15.5%
ROCE (%)	8.4%	12.6%	17.3%	17.9%	18.0%
BV	758	845	939	1068	1228
P/B (X)	2.7	3.3	3.3	4.0	3.5
P/E (x)	36.5	23.6	25.6	27.0	22.7

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1QFY21 Results

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	3,858	4,813	4,397	4,449	4,427	14.7%	-0.5%	15,448	17,517	13.4%
Other Income	430	54	67	74	87	-79.7%	18.3%	338	621	83.9%
COGS	1,207	1,401	1,415	1,531	1,320	9.3%	-13.8%	4,495	5,554	23.6%
Gross Margin	68.7%	70.9%	67.8%	65.6%	70.2%	1.5%	4.6%	70.9%	68.3%	-2.6%
Employee Cost	862	826	838	856	872	1.3%	2.0%	3,356	3,380	0.7%
Other Expen.	1,048	1,522	1,113	1,112	1,113	6.2%	0.1%	4,419	4,435	0.4%
EBITDA	742	1,064	1,031	950	1,121	51.2%	18.0%	3,178	4,147	30.5%
EBITDA Mar.	19.2%	22.1%	23.5%	21.4%	25.3%	6.1%	4.0%	20.6%	23.7%	3.1%
Depreciation	289	313	287	275	292	1.1%	6.4%	1,135	1,163	2.5%
EBIT	453	751	745	675	829	83%	22.8%	89	98	10.6%
Interest	30	30	15	23	23	-22%	1.3%	89	98	10.6%
PBT	853	774	797	726	893	4.7%	23.0%	1,906	3,647	91%
Exceptional Item	-	-	1,320	-	-	-	-	-	1,677	-
Tax	193	(321)	33	(45)	306	59%	-781%	386	(140)	-136%
PAT	677	1,107	(538)	781	595	-12.1%	-23.9%	1,950	2,026	4%
PAT Margin	17.5%	23.0%	-12.2%	17.6%	13.4%	-4.1%	-4.1%	12.6%	11.6%	-1%

Concall Highlights

- The North America business grew by 6% YoY to Rs. 1728 crs from new products launched and aided by a favorable forex rate, which was partially offset by price erosion. On a constant currency, the US sales have remained flat YoY at US\$ 229 mn.
- The company expects to launch more than 25 products in FY21 in US including some niche & limited competition products.
- The company has submitted the CRL for Copaxone while it's still working on the CRL of Nuvaring & expects to re-file with the USFDA in the next few months.
- India business declined by 10% YoY to Rs 626 crs on account of lower sales volume due to lower prescriptions generated. The revenue from the Domestic market includes 20 days of sales & profits from the Wockhardt business integration.
- In Europe, the sales grew strongly by 48% YoY on account of new product launches and volume traction across markets.
- In the Emerging markets, Russia declined by 18% YoY to Rs.330 crs on account of lower volumes due to lower prescriptions generated and fall in patient footfalls in pharmacies/ clinics due to Covid-19, while other countries like China, Vietnam, Myanmar & Kazakastan performed well this quarter.
- PASI has grown by 88% YoY to Rs. 855 crs on account of new launches & companies looking for strategic/ & reliable partner for API supply. With the strong improvement in order book, the company expects this segment to perform well.
- The revenues from Proprietary products declined by 80% YoY to Rs. 6 crs this quarter. Going ahead, the company will continue to put in efforts for monetizing select assets through partnerships & licensing to maximise the value.
- For Biosimilars- the company is working on the next wave of biosimilars with products at different levels of development.
- The company has mentioned that it has appetite for further inorganic growth; the company is open for acquisition opportunities at 2x of EBITDA in Emerging & Domestic markets.
- The capex for FY21 is expected to be in excess of Rs. 1000 crs.
- The company has guided for 25-27% of ETR in FY21. The ETR is around 34% for the quarter, the higher tax rate was primarily due to discontinuation of weighted deduction on R&D and completion of tax holiday for one of our plants.

Exhibit: Sales and Sales Growth

The overall revenue this quarter grew by 15% YoY to Rs. 4418 crs (vs our estimates of Rs.4590 crs).

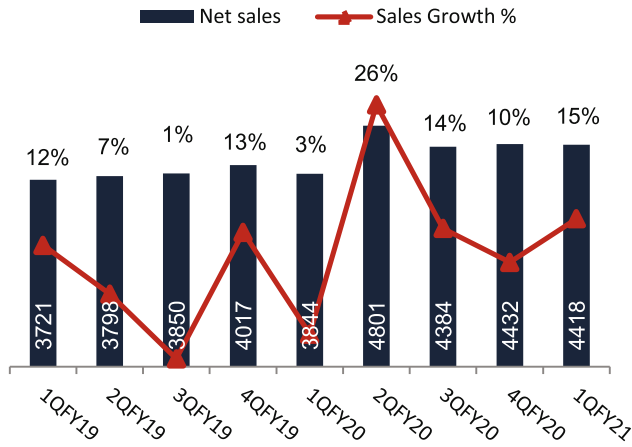


Exhibit: Gross and EBITDA margin

Gross margin increased by 150 bps YoY to 70.2% on account of a favorable product mix and forex benefit.

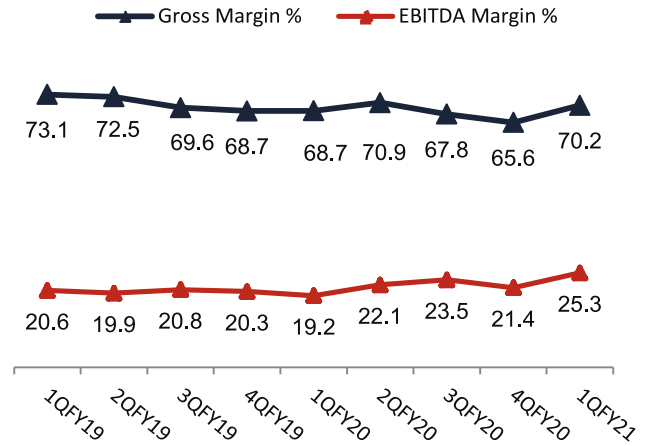


Exhibit: PAT and PAT margin

PAT grew by 13% YoY in 1QFY21. The tax rate was higher due to completion of tax holiday for one of the plants.

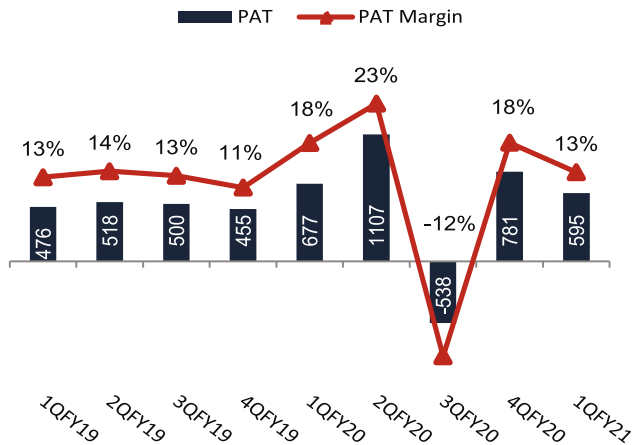


Exhibit: R&D cost and R&D as a % of sales

The R&D spends stands at 9.1% of sales in 1QFY21 compared to 9.4% of sales in 1QFY20.

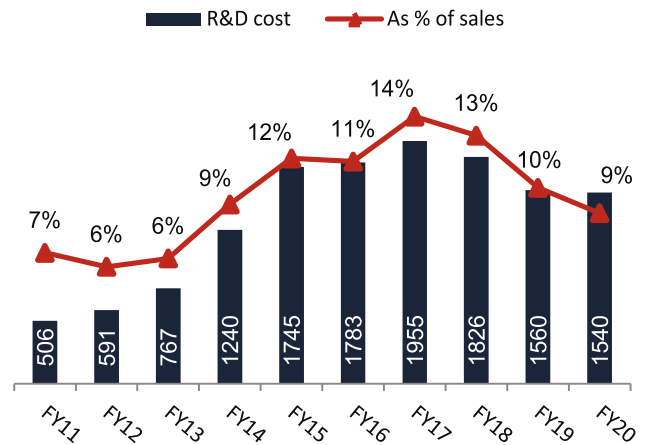


Exhibit: US sales and YoY growth

Revenues from US de-grew by 2% YoY to US\$ 229 mn on account of no meaningful launches.

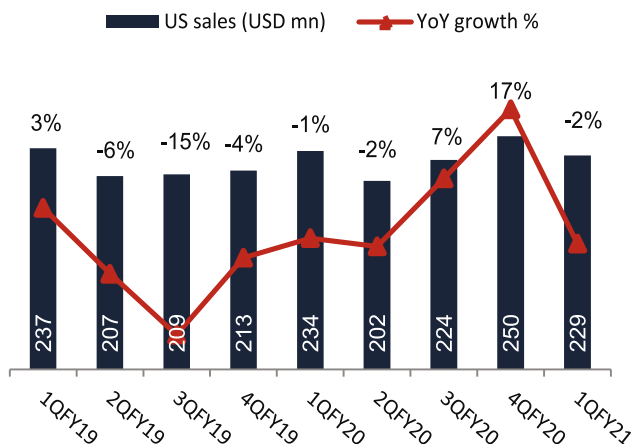
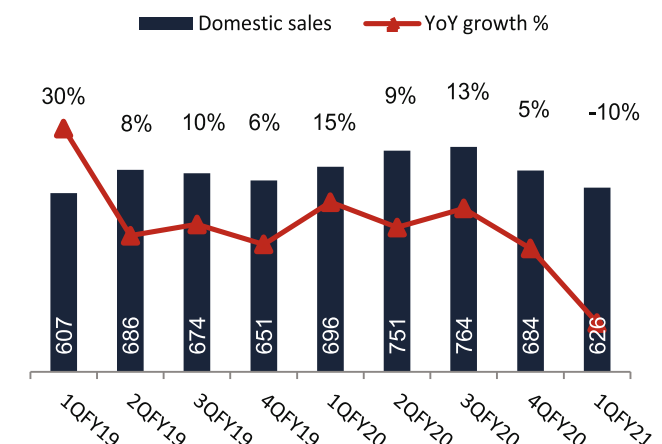


Exhibit: Domestic sales and YoY growth

India business de-grew by 10% YoY on account of lower sales volume due to lower prescriptions generated.



North America reported muted growth in constant currency on account of low ticket launches & price erosion.

The revenue from the US business stayed at flat YoY at US\$ 229 mn on account of no meaningful launches & price erosion in the existing products. The company launched 6 products & filed 5 ANDAs in this quarter. DRREDDY has submitted a response to the CRL on copaxone, and is yet to submit a response for Nuvaring in the next few months. We believe going forward, the strong pipeline of 99 ANDAs pending approval will add to the overall growth in the US market.

India business declined due to lower prescription generation.

India business de-grew by 10% YoY to Rs. 626 crs this quarter on account of lower generation of prescriptions and fall in patient footfalls in pharmacies or clinics due to Covid-19. India business has stayed impacted over the last two quarters due to lower prescription generation with the emergence of Covid'19, the integration of Wockhardt portfolio will add to the overall domestic growth going ahead.

The growth in Emerging markets is driven by CIS & ROW market offset by Russia.

The overall revenue in the Emerging market grew by 9% YoY to Rs.798 crs. Revenues from CIS countries & RoW market grew by 17% & 56% YoY to Rs.140 crs & Rs.328 crs respectively driven by higher volumes and new product launches. Russia declined by 18% YoY to Rs.330 crs primarily on account of lower volumes due to lower prescriptions generated.

Operational Details

Fig in Rs Cr

Geography	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
North America	1590	1427	1483	1496	1632	1427	1600	1807	1728
Europe	202	192	203	191	240	276	309	345	355
India	607	686	674	651	696	751	764	684	626
Emerging Markets	664	749	774	701	730	828	920	804	798
PSAI	541	603	594	677	454	711	691	720	855
Proprietary products and others	116	141	122	302	91	809	101	73	55

Revenue gr. %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
North America	6%	0%	-8%	3%	3%	0%	8%	21%	6%
Europe	-3%	-21%	1%	12%	19%	44%	52%	80%	48%
India	30%	8%	10%	6%	15%	9%	13%	5%	-10%
Emerging Markets	16%	36%	31%	27%	10%	10%	19%	15%	9%
PSAI	16%	7%	9%	8%	-16%	18%	16%	6%	88%
Proprietary products and others	10%	19%	-52%	139%	-21%	472%	-17%	-76%	-40%

Revenue mix%	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
North America	43%	38%	39%	37%	42%	30%	36%	41%	39%
Europe	5%	5%	5%	5%	6%	6%	7%	8%	8%
India	16%	18%	18%	16%	18%	16%	17%	15%	14%
Emerging Markets	18%	20%	20%	17%	19%	17%	21%	18%	18%
PSAI	15%	16%	15%	17%	12%	15%	16%	16%	19%
Proprietary products and others	3%	4%	3%	8%	2%	17%	2%	2%	1%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	85	85	83	83	83	83	83	83
Reserves	9,768	12,485	12,179	12,489	13,941	15,516	17,664	20,319
Networth	9,853	12,570	12,262	12,572	14,024	15,599	17,748	20,402
Debt	3,617	3,340	4,908	5,065	3,413	1,784	1,784	1,784
Other Non Current Liab	492	399	590	570	345	282	295	315
Total Capital Employed	13,470	15,910	17,170	17,637	17,436	17,382	19,531	22,185
Net Fixed Assets (incl CWIP)	5,906	7,335	10,255	10,439	10,125	8,385	8,993	9,286
Non Current Investments	146	330	683	465	334	309	309	309
Other Non Current Assets	670	925	1,195	1,142	897	1,932	1,937	1,945
Non Current Assets	6,721	8,590	12,133	12,046	11,356	10,626	11,238	11,540
Inventory	2,570	2,558	2,853	2,909	3,358	3,507	3,678	4,167
Debtors	4,101	4,125	3,799	4,053	3,987	5,028	5,268	5,682
Cash & Bank	1,872	492	387	264	223	205	451	997
Other Current Assets	3,333	4,619	2,646	3,273	3,543	3,859	4,775	5,325
Current Assets	11,877	11,794	9,684	10,498	11,110	12,599	14,172	16,172
Creditors	867	907	1,057	1,335	1,367	1,525	1,599	1,725
Provisions	1,144	529	513	439	479	467	521	557
Other Current Liabilities	2,624	2,640	2,488	2,564	2,839	3,569	3,464	2,929
Curr Liabilities	4,636	4,075	4,057	4,338	4,685	5,561	5,584	5,211
Net Current Assets	7,241	7,719	5,626	6,161	6,425	7,038	8,588	10,961
Total Assets	18,598	20,384	21,817	22,544	22,466	23,225	25,410	27,712

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	15,023	15,568	14,196	14,281	15,448	17,517	18,381	19,832
Change (%)	12%	4%	-9%	1%	8%	13%	5%	8%
EBITDA	3494	3585	2221	2351	3178	4147	4363	4900
Change (%)	7%	3%	-38%	6%	35%	30%	5%	12%
Margin (%)	23%	23%	16%	16%	21%	24%	24%	25%
Depr & Amor.	760	939	1027	1077	1135	1163	1165	1206
EBIT	2734	2646	1194	1274	2043	2984	3199	3694
Int. & other fin. Cost	108	83	63	79	89	98	97	98
Other Income	274	295	172	155	338	621	396	509
EBT	2,900	2,859	1,302	1,350	2,292	3,506	3,498	4,104
Exp Item	-	-	-	-	-	1,677	-	-
Tax	563	751	297	438	386	(140)	905	1,006
Minority Int & P/L share of Ass.	-	23	35	34	44	56	56	56
Reported PAT	2,336	2,108	1,006	912	1,906	1,970	2,593	3,098
Adjusted PAT	2,336	2,131	1,041	947	1,950	3,703	2,649	3,154
Change (%)	19%	-10%	-52%	-9%	109%	3%	32%	19%
Margin(%)	16%	14%	7%	7%	13%	12%	14%	16%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	23.7%	17.0%	8.5%	7.5%	13.9%	13.0%	14.9%	15.5%
ROCE	24.2%	19.4%	9.3%	8.4%	12.6%	17.3%	17.9%	18.0%
Asset Turnover	2.5	2.3	1.5	1.4	1.6	2.2	2.2	2.3
Debtor Days	100	97	98	104	95	105	105	105
Inv Days	63	60	74	75	80	73	73	77
Payable Days	21	21	27	34	32	32	32	32
Int Coverage	21	25	32	19	16	23	30	33
P/E	24.4	23.4	40.9	36.5	23.6	25.6	27.0	22.7
Price / Book Value	5.8	4.0	3.5	2.7	3.3	3.3	4.0	3.5
EV/EBITDA	16	14	19	16	15	13	16	14
FCF per Share	58	156	(118)	42	123	143	101	69
Div Yield	0.6%	0.8%	0.8%	1.2%	0.9%	0.8%	0.7%	0.7%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	2,900	2,675	1,554	1,350	2,292	1,886	3,554	4,160
(inc)/Dec in Working Capital	(1,484)	(18)	(525)	(897)	(577)	(754)	(465)	(1,814)
Non Cash Op Exp	760	971	1,027	1,077	1,135	1,163	1,165	1,206
Int Paid (+)	108	82	63	79	89	98	97	98
Tax Paid	(546)	(710)	(577)	(276)	(484)	(711)	(905)	(1,006)
others	786	1,047	603	469	(345)	1,357	-	-
CF from Op. Activities	2,524	4,048	2,144	1,803	2,870	2,984	3,446	2,645
(inc)/Dec in FA & CWIP	(1,532)	(1,388)	(1,223)	(929)	(696)	(485)	(1,772)	(1,500)
Free Cashflow	992	2,660	922	874	2,175	2,500	1,674	1,145
(Pur)/Sale of Inv	(3,701)	(5,516)	(4,972)	(6,829)	(7,857)	(11,192)	-	-
others	2,967	4,962	4,354	6,270	7,780	11,184	(831)	-
CF from Inv. Activities	(2,265)	(1,942)	(1,840)	(1,488)	(773)	(492)	(2,603)	(1,500)
inc/(dec) in NW	-	-	(1,569)	-	-	-	-	-
inc/(dec) in Debt	34	(1,199)	1,631	88	(1,518)	(1,868)	-	-
Int. Paid	(109)	(92)	(92)	(133)	(161)	(161)	(97)	(98)
Div Paid (inc tax)	(359)	(411)	(339)	(399)	(400)	(392)	(500)	(500)
others	1	0	-	-	-	0	-	-
CF from Fin. Activities	(433)	(1,701)	(369)	(444)	(2,133)	(2,516)	(597)	(598)
Inc(Dec) in Cash	(174)	405	(65)	(129)	(35)	(24)	246	546
Add: Opening Balance	757	154	443	384	258	220	205	451
Closing Balance	583	559	378	254	223	196	451	997

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.-SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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