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Dr. Reddy's Labs Rating 'Hold'; A steady Q3FY22 for the pharma company

Road ahead is likely to be difficult; EPS for FY23/24e down ~15%; TP reduced to Rs 4,675; 'Hold' maintained.

February 1, 2022 2:20:00 am





Workers pour in raw material to product medicine capsules at Dr Reddy's plant in Bachupally, Andra Pradesh state, India, Thursday, April 6, 2006. Ranbaxy Laboratories Ltd., India's largest drugmaker, and Dr. Reddy's Laboratories Ltd., the third biggest, say they plan to make acquisitions in the U.S. and Europe. Photographer: Amit Bhargava/Bloomberg News

Dr. Reddy's (DRRD) revenue/PAT missed consensus estimates by 3%/5%. It was a normal quarter with no major Covid contribution or one-offs. While US was in line, India and PSAI were lower than expected. Ebitda margin remained in line at 22.6%.

We believe the road ahead may not be smooth given: (i) persistent price erosion in the US; (ii) slower offtake in complex generic pipeline; (iii) uncertainty around Duvvada inspection outcome; (iv) tepid India growth; and (v) fading Sputnik opportunity. We revise our FY23/24 EPS estimates by ~15% each to factor in the challenges. We continue to maintain Hold with revised SoTP-based TP of Rs 4,675 (25x June 2023 EPS) (earlier Rs 5,105).

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A normalised quarter after one-offs in Q2; margin in line: Revenue at Rs 52.2 bn grew 8% y/y, but fell 8% q/q on high Covid base and one-off gains. US (\$248 mn) fell 2% q/q and was in line driven by gVascepa, gCiprodex and gSuboxone market share gains and new product launches offset by heavy price erosion in the US and gRevlimid in Canada. Domestic growth looked tepid, with lower than expected sales from Covid-related products. Gross margin at 53.8% was steady despite input cost increase driven by better product mix. DRRD turned to net cash of Rs 9 bn as against Rs 2.1 bn net debt as of 30 September 2021.

FINANCIALS (₹ mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	1,89,722	2,14,679	2,34,579	2,67,760
EBITDA	44,682	46,800	56,299	73,634
Adjusted profit	23,679	28,529	35,211	47,952
Diluted EPS (₹)	142.9	172.1	212.5	289.3
EPS growth (%)	(11.2)	20.5	23.4	36.2
RoAE (%)	10.5	16.3	16.6	19.4
P/E (x)	29.5	24.5	19.9	14.6
FV/FRITDA (x)	15.6	14.5	11.0	8.7

uncertainty persists on launch timelines for complex generic products. Fresenius' potential US pegfilgrastim launch is likely to gain traction only in FY23. The Sputnik opportunity is shrinking, and its ramp-up is unlikely until clarity emerges on booster doses or Sputnik Light. While the company is confident of growing its India business, we await evidence of investments fructifying.

Outlook: Near-term uncertainties – Pipeline uncertainty, pricing pressure and regulatory risks pose a risk to our EPS estimates. We reiterate HOLD/SN.


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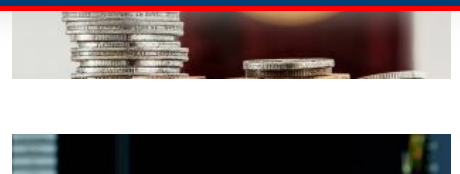
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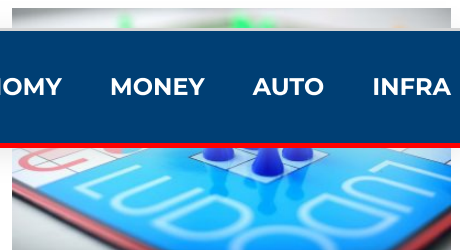
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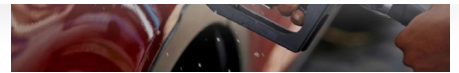


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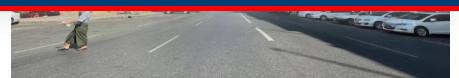
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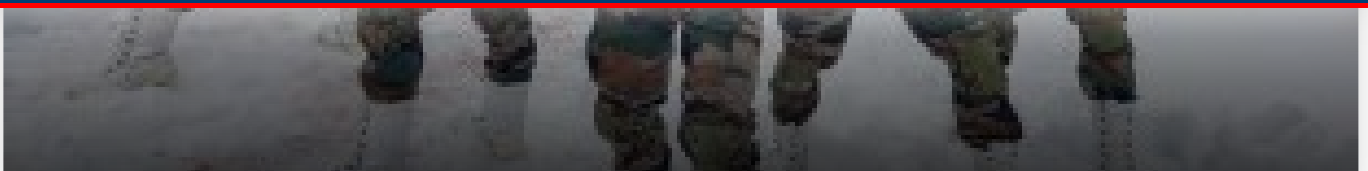


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