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Risk-reward ratio is favourable in select pharma companies: CLSA

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Synopsis

CLSA sees a favourable risk-to-reward ratio in shares of Dr Reddy's Laboratories, Cadila Healthcare and Torrent Pharma. The brokerage has upgraded Torrent Pharma to 'buy' from 'outperform' with an unchanged target price of ₹3,550.



In the case of Cadila, CLSA said there is favourable risk-reward but the catalysts or triggers will play out over the long term.

Mumbai: [CLSA](#) sees a favourable risk-to-reward ratio in shares of Dr Reddy's Laboratories, [Cadila Healthcare](#) and [Torrent Pharma](#).

The [brokerage](#) has upgraded Torrent Pharma to 'buy' from 'outperform' with an unchanged target price of ₹3,550.

CLSA said midcap pharma companies are down 30-40% from their peak levels over the past six months due to earnings disappointment caused by weak US [sales](#) or [input cost](#) pressures.

The brokerage said price hikes in India and Brazil would be a near-term catalyst for Torrent Pharma.

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"In our base case, we assume Torrent to grow faster than industry in India and Brazil and for it to see a gradual recovery in other export markets along with steady margin expansion from FY23," said CLSA.

Similarly, for Dr Reddy's, an increase in North America sales would be a trigger, it said.

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CLSA said the concerns around the Russia-Ukraine crisis on Dr Reddy's operations are overdone. Russia operations contribute around 12% to Dr Reddy's revenue. Sanctions by the US typically apply to specific entities in Russia's defence, intelligence, energy and financial sectors, said CLSA.

The brokerage has a 'buy' rating on Dr Reddy's with a target price of ₹5,720 while on Cadila Healthcare, CLSA has a 'buy' rating and a target price of ₹550.

In the case of Cadila, CLSA said there is favourable risk-reward but the catalysts or triggers will play out over the long term.

Shares of Cadila Healthcare ended up 1.32% at ₹371.60 on Wednesday and Torrent Pharmaceuticals also ended in the green, up 1.18% from the previous close at ₹2,736. Dr Reddy's shares ended down 0.28% at ₹4,198.75.

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