

ADD

TP: Rs 4,640 | ▼ 4%

DR REDDY'S LABS

Pharmaceuticals

17 September 2020

US Revlimid settlement – low competition can boost NPV

Event: Dr Reddy's (DRRD) has announced a key settlement of the patent litigation with Celgene for US Revlimid (lenalidomide capsules) used to treat multiple myeloma. We view this as one of the key product catalysts for the company, which forms part of our FY23 estimates. The settlement allows DRRD to manufacture and market limited volumes of gRevlimid after Mar'22, subject to USFDA approval, and unlimited volumes beginning 31 Jan 2026. Patent expiry on drug substance and product is slated for Apr'27. The agreed percentage terms are confidential under restricted launch.

Competition visibility low: DRRD is the third company to settle on gRevlimid (US\$ 8bn brand sales in the US) after Natco/Teva and Alvogen. Per the company, its launch timeline is similar to Alvogen's (post-Mar'22) whereas Natco/Teva are at the start of Mar'22. In addition, eight other players (Sun, Cipla, Apotex, Hetero, Cadila, Mylan, Aurobindo, Lupin) are involved in litigation on the polymorphic forms, which are considered difficult to invalidate. Mylan's trial date is in Oct'21; the court is yet to set a trial dates for the others. Hence, this is expected to be a limited competition opportunity for DRRD.

Worst-case NPV of Rs 350-400/sh for gRevlimid: If we assume five players entering together in FY23 (worst case), DRRD could generate sales upside of US\$ 250mn in FY23 (70% price erosion/10% market share) and US\$ 100mn-150mn from FY24-FY25, depending on increased settlements by players. This will come at high margins and, given low competition visibility, can translate into higher NPV of Rs 350-400/sh for DRRD vs. market estimates of Rs 200-250/sh, in our view.

Vivek Kumar

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Ticker/Price	DRRD IN/Rs 4,827
Market cap	US\$ 10.9bn
Shares o/s	166mn
3M ADV	US\$ 73.6mn
52wk high/low	Rs 4,846/Rs 2,495
Promoter/FPI/DII	27%/27%/18%

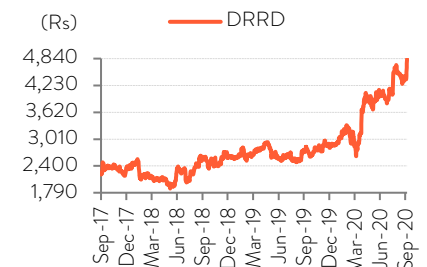
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	185,782	202,826	236,766
EBITDA (Rs mn)	42,473	47,502	59,572
Adj. net profit (Rs mn)	26,272	30,137	40,447
Adj. EPS (Rs)	158.3	181.5	243.7
Adj. EPS growth (%)	(18.5)	14.7	34.2
Adj. ROAE (%)	17.1	16.9	19.3
Adj. P/E (x)	30.5	26.6	19.8
EV/EBITDA (x)	19.0	16.4	12.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

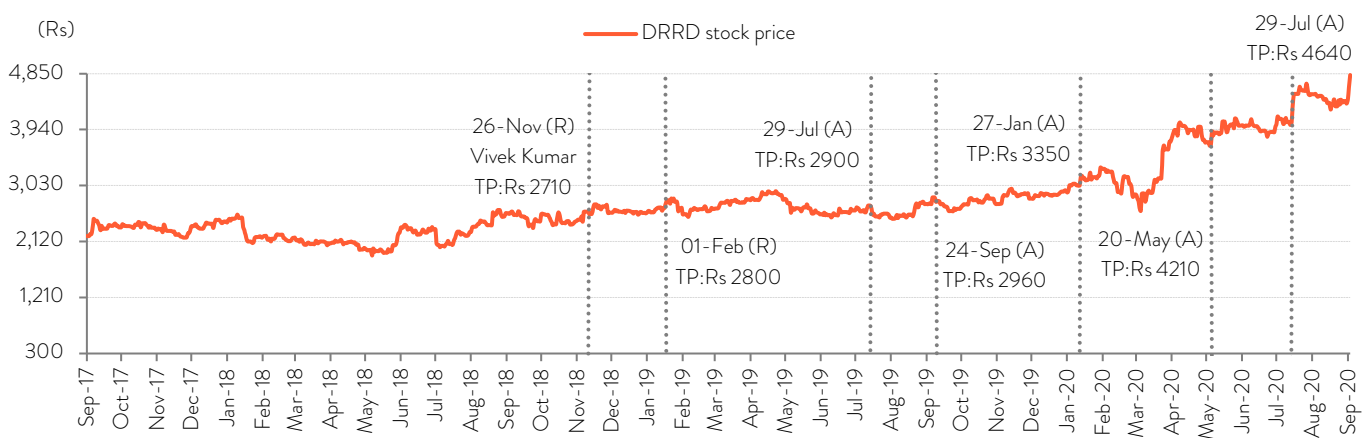
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): DR REDDY'S LABS (DRRD IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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