

FIRST LIGHT

23 June 2022

RESEARCH

Dr Reddy's Labs | Target: Rs 4,450 | +4% | HOLD

Investor Day – Peek into the future

SUMMARY

Dr Reddy's Labs

- DRRD unveiled a framework to make its business future ready
- Company is redefining prospects till FY30E in two horizons; DRRD expect advanced product portfolio to contribute 50% of sales by FY27E
- We maintain HOLD rating and reiterate TP of Rs. 4,450, based on FY24 EV/EBITDA of 12.5x (unchanged)

[Click here for the full report.](#)

Daily macro indicators

Indicator	20-Jun	21-Jun	Chg (%)
US 10Y yield (%)	3.23	3.27	5bps
India 10Y yield (%)	7.43	7.48	5bps
USD/INR	77.98	78.08	(0.1)
Brent Crude (US\$/bbl)	114.1	114.7	0.5
Dow	29,889	30,530	2.1
Hang Seng	21,164	21,560	1.9
Sensex	51,598	52,532	1.8
India FII (US\$ mn)	17-Jun	20-Jun	Chg (\$ mn)
FII-D	171.7	(55.0)	(226.7)
FII-E	(1,146.5)	43.8	1,190.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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HOLD

TP: Rs 4,450 | ▲ 4%

DR REDDY'S LABS

| Pharmaceuticals

| 22 June 2022

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We attended investor day held by DRRD, below are key takeaway from the meet.

Key takeaways:

Management emphasized its long-term guidance of double-digit revenue growth with aspirational 25% EBITDA margin and 25% ROCE.

Company intends to expand its patient reach to 1.5bn+ by 2030 and would be focusing on 3 Innovative products to improve standard of treatment every year.

Company aims to make 25% of its new launches to be first generics in the respective markets by FY27E.

Management highlighted that the company is focusing on (i) capital reallocation, (ii) leveraging portfolio across markets, and (iii) continuous focus on raising productivity.

Company acknowledged the challenges faced by the industry in terms of Intense competition in traditional generics, shift in demand towards more complex products, injectables and biologics, patients looking for holistic solutions, entry of new players in the health ecosystem, disruption through digital means, geopolitical issues and macroeconomic challenges.

Company chartered its future growth strategies in two parts for each of its key markets into two horizons, Horizon 1 (growing the core) to focus on short to medium term growth drivers involving core business of the company including Generics, Branded Generics, OTC, API, and Biosimilars.

Horizon 2 (building the future) would focus on short to long term growth drivers involving future business opportunities. This will include building Immuno-oncology NCEs, Biologics & Cell and Gene Therapies (CGT), CDMO (small and large molecules), Nutraceuticals, Disease management, D2C, Digitization.

Key changes

Target	Rating
◀ ▶	◀ ▶

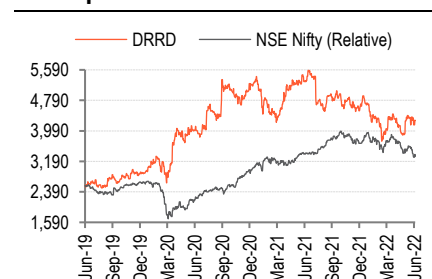
Ticker/Price	DRRD IN/Rs 4,261
Market cap	US\$ 9.0bn
Free float	73%
3M ADV	US\$ 26.4mn
52wk high/low	Rs 5,615/Rs 3,654
Promoter/FPI/DII	27%/29%/16%

Source: NSE | Price as of 22 Jun 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	2,14,391	2,41,446	2,60,353
EBITDA (Rs mn)	44,889	52,635	58,579
Adj. net profit (Rs mn)	29,387	31,650	35,969
Adj. EPS (Rs)	177.0	190.7	216.7
Consensus EPS (Rs)	175.2	217.4	261.2
Adj. ROAE (%)	17.2	16.5	16.3
Adj. P/E (x)	24.1	22.3	19.7
EV/EBITDA (x)	15.7	13.3	11.8
Adj. EPS growth (%)	11.2	7.7	13.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance

Source: NSE



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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