

# Dr. Reddy's Lab

Refer to important disclosures at the end of this report

## DRRD gets approval for gDoxil; but may not mean much for earnings

- DRRD announced US FDA approval for gDoxil for the US market, the product was developed in partnership with NATCO with collaboration on the R&D and manufacturing as per company release
- gDoxil is a 2 player market with Sun Pharma and innovator J&J. The overall market size is around USD196mn with SUNP's revenue share at cUSD100-125mn as per our estimate
- DRRD's approval may mean significant value erosion for SUNP given that ongoing pricing dynamics in the US market. The upside for DRRD though may not be significant given the small size of overall revenues derived (USD30-35mn) from gDoxil and profit share with NATCO
- We estimate about a 30% erosion in gDoxil value and about a 20-25% market share for DRRD. This should translate to about USD30-35mn of revenues for DRRD. Maintain our estimates and HOLD stock rating

### Key takeaways

- DRRD's approval for gDoxil comes a shot-in-the-arm for the company given the technical complexity around the liposomal platform on which the product is based. The FDA approval is especially creditable given the fact that the approval pathways is not clearly detailed for a generic to be approved. The product was jointly developed along with NATCO Pharma including R&D and manufacturing.
- Product may not mean much for DRRD from earnings perspective** Assuming a 30% price erosion with entry of an additional player in the market and a 20-25% market share, translates into USD30-35mn of annual revenues. Adjusted for profit share with NATCO, we don't expect the product to be significantly earnings accretive to our estimates. Moreover with a number of other Indian generic companies known to be working on the Liposomal platform, competitive intensity from other approvals in medium term likely to be higher. We believe the bigger positive for DRRD would be endorsement of the Liposomal technology platform for approval of other higher value injectables based on same platform.
- Overall maintain our HOLD rating with target price of Rs2650/share** We believe return ratios for DRRD would continue to be weighed down by a combination of underperforming assets and underutilized facilities under FDA scanner. While Copaxone 20mg approval later in FY18 could buoy earnings, it's unlikely to be a game changer for DRRD and therefore we see sharper cuts to consensus earnings for FY18. The proprietary products and biosimilar portfolio will continue to weigh on earnings and return ratios, with the proprietary products under Promius Pharma expected to contribute materially to earnings only after couple of years.

### Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	148,189	154,708	140,911	157,316	180,555
EBITDA	33,469	39,459	26,058	34,235	41,037
EBITDA Margin (%)	22.6	25.5	18.5	21.8	22.7
APAT	21,262	24,743	13,942	18,120	21,995
EPS (Rs)	124.8	145.1	84.1	109.3	132.7
EPS (% chg)	5.6	16.2	(42.0)	30.0	21.4
ROE (%)	21.0	20.7	11.1	14.0	15.4
P/E (x)	21.9	18.9	32.5	25.0	20.6
EV/EBITDA (x)	14.2	11.7	18.6	13.9	11.4
P/BV (x)	4.2	3.6	3.7	3.4	3.0

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
Rs 2,737 as of (5/17/2017)	Rs 2,650 (=) 12 months
<b>Rating</b>	<b>Upside</b>
HOLD (=)	(3.2) %

### Change in Estimates

EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY18E	FY19E
Emkay	109.3	132.7
Consensus	118.8	155.9
Mean Consensus TP (12M)	Rs 2,710	

### Stock Details

Bloomberg Code	DRRD IN
Face Value (Rs)	5
Shares outstanding (mn)	166
52 Week H/L	3,690 / 2,522
M Cap (Rs bn/USD bn)	453 / 7.07
Daily Avg Volume (nos.)	531,487
Daily Avg Turnover (US\$ mn)	22.7

### Shareholding Pattern Mar '17

Promoters	26.8%
FIIIs	32.4%
DIIIs	10.6%
Public and Others	30.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	3	(6)	(15)	(9)
<b>Rel. to Nifty</b>	(1)	(13)	(27)	(24)

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

#### Jatin Kotian

jatin.kotian@emkayglobal.com  
+91 22 66121254

#### Vishal Advani

vishal.advani@emkayglobal.com  
+91 22 66242341

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>148,189</b>	<b>154,708</b>	<b>140,911</b>	<b>157,316</b>	<b>180,555</b>
<b>Expenditure</b>	<b>114,720</b>	<b>115,249</b>	<b>114,853</b>	<b>123,081</b>	<b>139,519</b>
<b>EBITDA</b>	<b>33,469</b>	<b>39,459</b>	<b>26,058</b>	<b>34,235</b>	<b>41,037</b>
Depreciation	8,100	10,250	11,723	11,762	12,214
<b>EBIT</b>	<b>25,369</b>	<b>29,209</b>	<b>14,335</b>	<b>22,473</b>	<b>28,823</b>
Other Income	1,713	1,340	1,065	2,020	748
Interest expenses	31	(573)	(806)	650	630
<b>PBT</b>	<b>27,051</b>	<b>31,122</b>	<b>16,206</b>	<b>23,842</b>	<b>28,941</b>
Tax	5,984	6,608	2,614	5,722	6,946
Extraordinary Items	917	(4,730)	(1,800)	0	0
Minority Int./Income from Assoc.	195	229	350	0	0
<b>Reported Net Income</b>	<b>22,179</b>	<b>20,013</b>	<b>12,142</b>	<b>18,120</b>	<b>21,995</b>
<b>Adjusted PAT</b>	<b>21,262</b>	<b>24,743</b>	<b>13,942</b>	<b>18,120</b>	<b>21,995</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	852	853	829	829	829
Reserves & surplus	110,450	127,483	121,792	134,613	150,175
<b>Net worth</b>	<b>111,302</b>	<b>128,336</b>	<b>122,621</b>	<b>135,442</b>	<b>151,004</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>48,284</b>	<b>37,496</b>	<b>54,971</b>	<b>36,496</b>	<b>35,496</b>
Net deferred tax liability	0	0	0	0	0
<b>Total Liabilities</b>	<b>159,585</b>	<b>165,832</b>	<b>177,592</b>	<b>171,938</b>	<b>186,500</b>
<b>Net block</b>	<b>41,971</b>	<b>46,411</b>	<b>69,788</b>	<b>71,026</b>	<b>71,812</b>
<b>Investment</b>	<b>26,834</b>	<b>34,001</b>	<b>45,445</b>	<b>45,445</b>	<b>45,445</b>
<b>Current Assets</b>	<b>119,838</b>	<b>119,688</b>	<b>96,837</b>	<b>93,695</b>	<b>114,009</b>
Cash & bank balance	39,654	39,955	18,136	7,936	15,581
Other Current Assets	13,901	12,849	12,187	13,110	15,046
<b>Current liabilities &amp; Provision</b>	<b>35,177</b>	<b>41,818</b>	<b>40,573</b>	<b>44,260</b>	<b>50,798</b>
<b>Net current assets</b>	<b>84,661</b>	<b>77,870</b>	<b>56,264</b>	<b>49,435</b>	<b>63,211</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>159,585</b>	<b>165,832</b>	<b>177,592</b>	<b>172,001</b>	<b>186,564</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>25,338</b>	<b>29,782</b>	<b>15,141</b>	<b>21,822</b>	<b>28,193</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(4,856)	7,093	(213)	(3,372)	(6,131)
<b>Operating Cashflow</b>	<b>25,024</b>	<b>32,040</b>	<b>21,972</b>	<b>22,947</b>	<b>27,211</b>
Capital expenditure	(11,766)	(16,121)	(33,645)	(13,000)	(13,000)
<b>Free Cash Flow</b>	<b>13,258</b>	<b>15,919</b>	<b>(11,673)</b>	<b>9,947</b>	<b>14,211</b>
Investments	(4,782)	(7,167)	(11,444)	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(14,835)</b>	<b>(21,948)</b>	<b>(44,024)</b>	<b>(10,980)</b>	<b>(12,252)</b>
Equity Capital Raised	626	424	(15,693)	0	0
Loans Taken / (Repaid)	(1,078)	(10,788)	17,475	(18,475)	(1,000)
Dividend paid (incl tax)	(3,587)	0	(4,098)	(3,551)	(5,299)
Other Financing Cash Flow	0	0	1,743	509	(384)
<b>Financing Cashflow</b>	<b>(4,069)</b>	<b>(9,791)</b>	<b>233</b>	<b>(22,167)</b>	<b>(7,314)</b>
<b>Net chg in cash</b>	<b>6,120</b>	<b>301</b>	<b>(21,819)</b>	<b>(10,200)</b>	<b>7,645</b>
Opening cash position	33,534	39,654	39,955	18,136	7,936
<b>Closing cash position</b>	<b>39,654</b>	<b>39,955</b>	<b>18,136</b>	<b>7,936</b>	<b>15,581</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EBITDA Margin	22.6	25.5	18.5	21.8	22.7
EBIT Margin	17.1	18.9	10.2	14.3	16.0
Effective Tax Rate	22.1	21.2	16.1	24.0	24.0
Net Margin	14.2	15.8	9.6	11.5	12.2
ROCE	18.1	18.8	9.0	14.0	16.5
ROE	21.0	20.7	11.1	14.0	15.4
RoIC	30.8	34.1	14.9	20.4	24.9

<b>Per Share Data (Rs)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
EPS	124.8	145.1	84.1	109.3	132.7
CEPS	172.3	205.2	154.8	180.2	206.3
BVPS	653.3	752.4	739.6	816.9	910.8
DPS	0.0	24.0	21.4	32.0	38.8

<b>Valuations (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
PER	21.9	18.9	32.5	25.0	20.6
P/CEPS	15.0	12.6	16.7	14.3	12.5
P/BV	4.2	3.6	3.7	3.4	3.0
EV / Sales	3.2	3.0	3.4	3.0	2.6
EV / EBITDA	14.2	11.7	18.6	13.9	11.4
Dividend Yield (%)	0.0	0.9	0.8	1.2	1.4

<b>Gearing Ratio (x)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Net Debt/ Equity	0.1	0.0	0.2	0.2	0.1
Net Debt/EBIDTA	0.2	(0.1)	1.2	0.7	0.3
Working Cap Cycle (days)	110.9	89.5	98.8	96.3	96.3

<b>Growth (%)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
Revenue	12.1	4.4	(8.9)	11.6	14.8
EBITDA	5.5	17.9	(34.0)	31.4	19.9
EBIT	3.1	15.1	(50.9)	56.8	28.3
PAT	3.1	(9.8)	(39.3)	49.2	21.4

<b>Quarterly (Rs mn)</b>	<b>Q4FY16</b>	<b>Q1FY17</b>	<b>Q2FY17</b>	<b>Q3FY17</b>	<b>Q4FY17</b>
Revenue	37,562	32,447	35,857	37,065	35,542
EBITDA	9,557	4,946	6,367	8,526	6,219
<b>EBITDA Margin (%)</b>	<b>25.4</b>	<b>15.2</b>	<b>17.8</b>	<b>23.0</b>	<b>17.5</b>
PAT	746	1,365	2,951	4,701	3,125
<b>EPS (Rs)</b>	<b>4.4</b>	<b>8.2</b>	<b>17.8</b>	<b>28.4</b>	<b>18.8</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-16</b>	<b>Jun-16</b>	<b>Sep-16</b>	<b>Dec-16</b>	<b>Mar-17</b>
Promoters	25.6	26.4	26.7	26.8	26.8
FIs	36.0	35.4	37.2	36.3	32.4
DIs	6.0	5.7	6.5	8.2	10.6
Public and Others	32.4	32.5	29.7	28.8	30.3

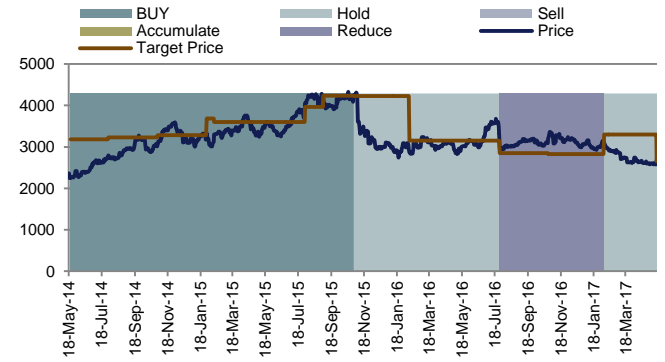
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-May-17	2,676	2,650	12m	Hold	Jatin Kotian
6-Feb-17	3,097	3,300	12m	Hold	Jatin Kotian
17-Jan-17	2,977	2,830	12m	Reduce	Jatin Kotian
25-Oct-16	3,201	2,830	12m	Reduce	Jatin Kotian
27-Jul-16	2,980	2,850	12m	Reduce	Jatin Kotian
1-Jul-16	3,465	3,153	12m	Hold	Jatin Kotian
13-May-16	2,901	3,153	12m	Hold	Jatin Kotian
6-May-16	2,850	3,153	12m	Hold	Jatin Kotian
10-Feb-16	2,869	3,153	12m	Hold	Jatin Kotian
5-Nov-15	4,226	4,224	12m	Hold	Jatin Kotian
30-Oct-15	4,256	4,224	12m	Hold	Jatin Kotian
3-Sep-15	4,186	4,236	12m	Buy	Jatin Kotian
31-Jul-15	4,053	3,960	12m	Buy	Jatin Kotian
10-Jul-15	3,730	3,600	12m	Buy	Jatin Kotian
12-Feb-15	3,295	3,600	12m	Buy	Jatin Kotian
29-Jan-15	3,327	3,684	12m	Buy	Jatin Kotian
30-Oct-14	3,061	3,279	12m	Buy	Ashish Rathi
9-Oct-14	2,954	3,230	12m	Buy	Ashish Rathi
30-Jul-14	2,792	3,230	12m	Buy	Ashish Rathi
21-May-14	2,260	3,186	12m	Buy	Ashish Rathi

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

### Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

**DISCLAIMERS AND DISCLOSURES:** Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). EGFSL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.emkayglobal.com

EGFSL is registered as Research Analyst with SEBI bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years, except that NSE had disabled EGFSL from trading on October 05, October 08 and October 09, 2012 for a manifest error resulting into a bonafide erroneous trade on October 05, 2012. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

**Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-**

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (NO)

EGFSL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. (NO)

EGFSL or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of EGFSL or its associates during twelve months preceding the date of distribution of the research report and EGFSL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company: (NO)

The Research Analyst has received any compensation from the subject company in the past twelve months: (NO)

The Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months: (NO)

The Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report: (NO)

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject EGFSL or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.