

May 21, 2020

Steady performance despite regional fluctuations...

Revenues grew 10.4% YoY to ₹ 4448.9 crore, mainly due to strong growth in the US and Europe. Domestic revenues grew 5.1% YoY to ₹ 683.9 crore. US revenues grew 20.8% YoY to ₹ 1807.2 crore. Despite a dent in GM, EBITDA margins expanded 101 bps to 21.3% due to lower employee and other expenses. EBITDA grew 15.9% YoY to ₹ 949.2 crore. Adjusted net profit grew 71.5% YoY to ₹ 781.1 crore. Delta vis-à-vis EBITDA was mainly due to negative tax outgo (-6.2% in Q4FY20 vs. 25.5% in Q4FY19).

US going through rough patch but promising launches ahead

Despite challenging years, the US remains a key driver for the company, contributing ~37% to total revenues. The company has a strong pending pipeline comprising 99 ANDAs (54 Para IV filings, 30 FTFs) and two NDAs under 505 (b) (2) route. We expect US sales to grow at a CAGR of ~13% to ₹ 8314 crore in FY20-22E on the back of new launches.

Russia CIS, India to provide more stability

These two markets are more or less identical in nature (branded generics, OTC) with similar growth potential and similar kinds of risks. Dr Reddy's is well versed with the dynamics of Russia by virtue of being an early mover. We expect strong growth in these markets on the back of a stabilising currency, geographical expansion, robust biological portfolio and ramp up in institutional business. For India, growth is expected to be largely from launches in the oncology and biosimilars space, UCB/Wockhardt like acquisitions besides MR productivity improvement. We expect Russia & other CIS to grow at 12% CAGR in FY20-22E to ₹ 2935.3 crore with India growing at a CAGR of ~20% during FY20-22E to ₹4176 crore.

Valuation & Outlook

Notwithstanding Q4 related positive/negative gyrations, overall narrative of calibrated launches and focus on sustained cost rationalisation, especially on SGN&A front and R&D spend continues. We expect continuum in operational improvement due to strong growth from branded markets, control on overheads and reduction in regulatory spend, now that most facilities including Srikakulam API plant (VAI) are out of USFDA embargo. We draw comfort from the management commentary, especially their endeavour to focus on simultaneous launches across geographies and segments besides continued efforts towards controlling SG&A expenses. We believe this is a welcome change from the earlier stance of overemphasis on a particular market (read US). Strong FCF generation and healthy balance sheet are some legacy strongholds for the company. Despite the recent rally, the expected margin expansion and earnings upgrade still leave scope for upside. We upgrade from HOLD to **BUY** and arrive at a target price of ₹ 4615 based on 22x FY22E EPS of ~₹ 209.7.



Particulars

Particular	Amount
Market Capitalisation	₹64982 crore
Debt (FY 20)	₹1784 crore
Cash & equivalents (FY 20)	₹205 crore
EV	₹66560 crore
52 week H/L (₹)	4132/2351
Equity capital	₹83.1 crore
Face value	₹5

Key Highlights

- Steady Q4 performance due to strong growth in US & Europe. EBITDA margins up 101 bps YoY despite dent in gross margins
- Focus on sustained cost rationalisation especially on the SGN&A front and R&D spend continues
- Strong FCF generation and healthy balance sheet are some of the legacy strongholds for company
- Upgrade from HOLD to BUY

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah, CFA
mitesh.shah@icicisecurities.com

Sudarshan Agarwal
sudarshan.agarwal@icicisecurities.com

Key Financial Summary

(₹crore)	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Revenues	15448.2	17517.0	19577.3	21738.0	11.4
EBITDA	3151.6	2466.0	4470.7	5265.7	46.1
EBITDA Margins (%)	20.4	14.1	22.8	24.2	
Adjusted PAT	1906.3	2026.0	2721.5	3485.2	31.2
EPS (Adjusted)	114.7	121.9	163.8	209.7	
PE (x)	34.1	32.1	23.9	18.6	
EV to EBITDA (x)	20.9	26.0	14.1	11.4	
RoE (%)	13.6	13.0	15.2	16.6	
RoCE (%)	11.1	10.0	18.0	20.8	

Source: ICICI Direct Research; Company

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Comments
Revenue	4,448.9	4,349.4	4,029.6	4,397.1	10.4	1.2	YoY growth driven by strong growth in the US, EU, Russia and CIS
Raw Material Expenses	1,531.1	1,435.3	1,262.4	1,415.3	21.3	8.2	Gross profit margin for GG and PSAI business segments were at 55.9% and 28.4%, respectively
Gross Profit	2,917.8	2,914.1	2,767.2	2,981.8	5.4	-2.1	223 bps sequential decline in gross margins primarily on account of (1) change in the business mix, (2) increase in inventory provisions / write-offs, and (3) impact of price erosion
Employee expenses	855.5	883.2	841.5	837.7	1.7	2.1	
Other expenses	1,113.1	1,174.3	1,106.8	2,432.8	0.6	-54.2	
EBITDA	949.2	856.5	818.9	-288.7	15.9	-428.8	
EBITDA (%)	21.3	19.7	20.3	-6.6	101.3	2,790.1	Improved margins and beat vis-à-vis I-direct estimates mainly due to lower employee cost and other expenditure
Other Income	73.6	66.8	83.3	67.3	-11.6	9.4	
Interest	23.0	17.5	24.5	15.2	-6.1	51.3	
Depreciation	274.1	286.9	287.2	286.9	-4.6	-4.5	
PBT	725.7	618.9	590.5	-523.5	22.9	-238.6	
Tax	-44.9	114.5	150.8	32.5	NA	NA	
Net Profit	781.1	522.0	455.4	-538.4	71.5	-245.1	
Adjusted PAT	781.1	522.0	455.4	-538.4	71.5	-245.1	Delta vis-à-vis EBITDA and beat I-direct estimates mainly due to negative tax outgo
Key Metrics							
US	1,807.2	1,720.5	1,495.7	1,599.9	20.8	13.0	YoY growth and beat vis-à-vis I-direct estimates mainly due to new launches and volume increase partially led by Covid-19 related stocking
Europe	344.6	286.8	191.2	309.3	80.2	11.4	YoY growth primarily on account of new products and volume traction in base business and geographical expansion. Beat vis-à-vis I-direct estimates mainly due to better-than-expected traction from new geographies
India	683.9	728.6	650.5	763.6	5.1	-10.4	Lower growth and miss vis-à-vis I-direct estimates mainly due to logistics related disruptions caused by COVID-19 lockdown
Russia & Other CIS	570.0	552.0	480.0	670.0	18.8	-14.9	YoY growth primarily driven by new launches, increase in volumes and better realisations in some key molecules
RoW	234.2	247.5	221.0	250.0	6.0	-6.3	
PSAI	719.5	710.3	676.5	690.6	6.4	4.2	

Source: ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	19,203.3	19,577.3	1.9	21,214.6	21,738.0	2.5	
EBITDA	4,206.3	4,470.7	6.3	4,728.9	5,265.7	11.3	
EBITDA Margin (%)	21.9	22.8	93 bps	22.3	24.2	193 bps	Changed margins mainly in line with management guidance of improvement in operational leverage
Adjusted PAT	2,461.3	2,721.5	10.6	2,921.9	3,485.2	19.3	Changed mainly in sync with operational performance
EPS (₹)	148.2	163.8	10.5	175.9	209.7	19.2	

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

₹ crore	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
US	5,995.7	6,465.8	7,516.2	8,313.9	7,023.0	7,780.1	Changed mainly due to change in currency assumptions
Europe	787.3	1,170.7	1,311.8	1,443.0	1,248.2	1,373.1	Changed mainly due to better than expected growth in Q4FY20
India	2,618.4	2,894.6	3,617.0	4,176.0	3,792.0	4,247.0	
Russia & Other CIS	2,050.0	2,340.0	2,620.8	2,935.3	2,600.6	2,912.7	
RoW	838.9	941.4	1,082.6	1,245.0	1,105.6	1,271.4	
PSAI	2,414.0	2,574.7	2,953.1	3,100.7	2,943.4	3,090.6	

Source: ICICI Direct Research

Conference Call Highlights

- R&D spend during the quarter was ₹ 419 crore (9.4% of revenues), For FY20: ₹ 1544 crore (8.8% of revenues). R&D spend is likely to be higher in FY21 on an absolute basis (9-10% of sales)
- **US** FY20 growth was attributable to new launches, ramp up of existing products, favourable forex rate; partially offset by price erosion
 - Five products launched in Q4 like gVimovo, gDaraprim, Naloxone HCl injection
 - As of FY20, the company has 99 ANDAs pending USFDA approval (including 54 para IV and two NDA via 505 (b)(2) route)
 - 10 DMFs filed in FY20
 - In FY21, the company plans to launch ~25 products in US
 - 30 injectables are in the pipeline
 - gSuboxone market share is gradually increasing
- **India** Q4 revenues were partially impacted due to logistical issues due to the nationwide lockdown
- **PSAI** growth was driven by volume growth and favourable currency tailwinds
- Decline in GPM in FY20 was due to price erosion in US, Europe and certain EMs. GPM for global generics and PSAI segments was at 56.8% and 24.1%, respectively. FY21 GPM to be in the range of 52-54% (IFRS based)
- The company expects to close the Wockhardt deal by Q1FY21
- Covid-19 impact: Some positive impact due to panic buying in US, Europe and Russia offset by sales deferment in India, emerging markets and the PSAI segment
- Capex for the year ~₹ 480 crore, for Q4FY20 was ₹ 150 crore. Capex for FY21 to be above ₹ 1000 crore
- The management has plans to build digital capabilities in manufacturing, market expansion, reduce time to market among others
- The company will file CRLs for gCopaxone and gNuvaRing within weeks
- FY20 Net cash: ₹ 397 crore; FCF: ₹ 2313 crore
- FY21 tax to be ~22%

Exhibit 4: Trends in quarterly financials

₹Crore	14FY17	11FY18	12FY18	13FY18	14FY18	11FY19	12FY19	13FY19	14FY19	11FY20	12FY20	13FY20	14FY20	YoY (%)	QoQ (%)
Total Operating Income	3611.9	3333.2	3559.8	3834.1	3553.9	3736.5	3817.5	3864.6	4029.6	3858.2	4812.8	4397.1	4448.9	10.4	1.2
Raw Material Expenses	1005.2	959.2	1036.9	1036.7	1006.7	1004.9	1051.7	1175.8	1262.4	1206.9	1401.1	1415.3	1531.1	21.3	8.2
% of Revenues	27.8	28.8	29.1	27.0	28.3	26.9	27.5	30.4	31.3	31.3	29.1	32.2	34.4	309 bps	223 bps
Gross Profit	2606.7	2374.0	2522.9	2797.4	2547.2	2731.6	2765.8	2688.8	2767.2	2651.3	3411.7	2981.8	2917.8	5.4	-2.1
Gross Profit Margins	72.2	71.2	70.9	73.0	71.7	73.1	72.5	69.6	68.7	68.7	70.9	67.8	65.6	-309 bps	-223 bps
Employee expenses	671.1	807.3	789.0	818.1	800.5	837.1	872.2	805.4	841.5	861.5	825.5	837.7	855.5	1.7	2.1
% of Revenues	18.6	24.2	22.2	21.3	22.5	22.4	22.8	20.8	20.9	22.3	17.2	19.1	19.2	-165 bps	18 bps
Other expenses	1345.1	1243.5	1064.5	1186.6	1183.1	1125.7	1134.3	1078.8	1106.8	1048.1	1522.4	2432.8	1113.1	0.6	-54.2
% of Revenues	37.2	37.3	29.9	30.9	33.3	30.1	29.7	27.9	27.5	27.2	31.6	55.3	25.0	-245 bps	-3031 bps
Total Expenditure	3021.4	3010.0	2890.4	3041.4	2990.3	2967.7	3058.2	3060.0	3210.7	3116.5	3749.0	4685.8	3499.7	9.0	-25.3
% of Revenues	83.7	90.3	81.2	79.3	84.1	79.4	80.1	79.2	79.7	80.8	77.9	106.6	78.7	-101 bps	-2790 bps
EBITDA	590.5	323.2	669.4	792.7	563.6	768.8	759.3	804.6	818.9	741.7	1063.8	-288.7	949.2	15.9	-428.8
EBITDA Margins (%)	16.3	9.7	18.8	20.7	15.9	20.6	19.9	20.8	20.3	19.2	22.1	-6.6	21.3	101 bps	2790 bps
Total Depreciation	254.3	259.2	270.2	271.5	276.3	278.7	278.6	290.3	287.2	289.0	313.1	286.9	274.1	-4.6	-4.5
EBITDA	336.2	64.0	399.2	521.2	287.3	490.1	480.7	514.3	531.7	452.7	750.7	-575.6	675.1	27.0	-217.3
Interest	19.6	21.5	22.3	17.2	17.8	19.5	20.8	24.1	24.5	29.8	30.3	15.2	23.0	-6.1	51.3
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA
EBT	316.6	42.5	376.9	504.0	269.5	470.6	459.9	490.2	507.2	422.9	720.4	-590.8	652.1	28.6	-210.4
Total Tax	9.7	23.7	112.3	252.8	49.2	53.2	80.7	101.1	150.8	192.8	-320.7	32.5	-44.9	-129.8	-238.2
Tax %	3.1	55.8	29.8	50.2	18.3	11.3	17.5	20.6	29.7	45.6	-44.5	-5.5	-6.9		
Net Profit	306.9	18.8	264.6	251.2	220.3	417.4	379.2	389.1	356.4	230.1	1041.1	-623.3	697.0	95.6	-211.8
Adjusted PAT	337.6	66.6	305.4	302.7	272.1	476.1	518.3	500.3	455.4	676.5	1106.8	-538.4	781.1	71.5	-245.1

Source: ICICI Direct Research

Company Background

Established in 1984, Dr Reddy's Laboratories (DRL) is one of India's pedigreed players having a firm footing in the US and other export markets with deep rooted product and market knowledge across therapies. Like Cipla, DRL also recognised the importance of having good manufacturing practices (GMP) accreditation in the eighties and eventually got USFDA approval (first of its kind approval for a formulation facility in India) in 1987. The company owns 22 manufacturing facilities and four developing centres across the globe. The facilities have been approved by various agencies such as the USFDA, WHO-Geneva, UKMHRA, TGA-Australia, MCC-South Africa, DMA Denmark, Brail Anvisa, among others. Over the years, along with generics, the company also established itself in the field of discovery of new chemical entities (NCEs) but with little success.

DRL's business can be classified into three broad segments- 1) Global Generics (GG), 2) Pharmaceutical services and active ingredients (PSAI) and 3) Proprietary Products (PP). Global Generics (79% of revenues) includes branded and unbranded prescription and over-the-counter (OTC) products business. It also includes the operations of the biologics business. This segment comprises formulation sales to regulated markets of the US, Europe and emerging markets such as Russia/CIS, India and RoW.

Pharmaceutical services and active ingredients (15% of revenues) consist of the active pharmaceutical ingredients (API) business and custom pharmaceutical services (CPS) business. Proprietary products (PP, ~6% of revenues) consists of NCEs, differentiated formulations and dermatology focused specialty business operated through Promius Pharma.

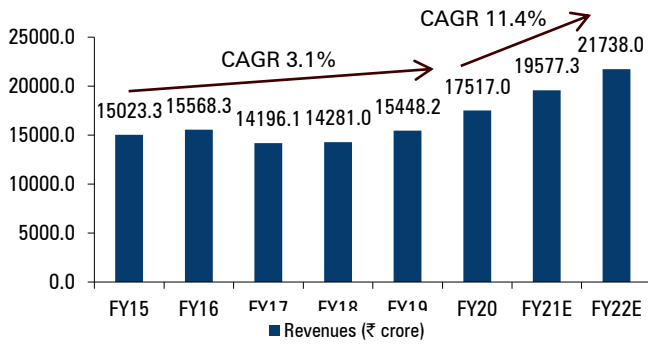
DRL is one of the few Indian companies to foray into new drug discovery & development (NDDS) and new chemical entity (NCE) research. The company started research operations in 1992 through a non-profit organisation, Dr Reddy's Research Foundation, which was later merged into the company. Despite being an early entrant, the company is yet to taste success in it. DRL is also the first Indian company to out-license molecules to big pharma companies.

DRL has spent ~9% of the turnover on R&D in FY20 and is likely to be ~9-10% in FY21. As of FY20, the company has 99 ANDAs pending USFDA approval (including 54 para IVs and 2 NDA via 505 (b)(2) route).

It also has Sernivo, a prescription topical steroid spray, used for mild to moderate plaque psoriasis.

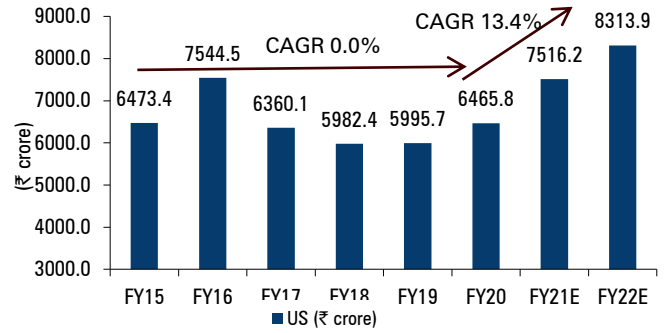
DRL has acquired Wockhardt's part of domestic branded business comprising 62 products including manufacturing facility at Baddi, Himachal Pradesh for a consideration of ₹ 1850 crore. Revenues of the proposed acquire business was ₹ 377 crore in 9MFY20 (₹ 503 crore on annualised basis). The implied valuation comes at ~3.8x annualised revenue. Post this acquisition, expected to be completed by Q1FY21, the domestic business contribution of DRL in total revenues will likely increase to 19-20% from 17% in FY20.

Exhibit 5: Revenues to grow at CAGR of 11% in FY20-22E



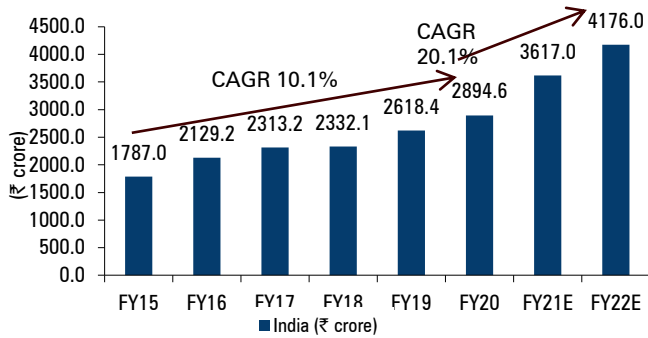
Source: ICICI Direct Research, Company

Exhibit 6: US to grow at CAGR of 13% over FY20-22E



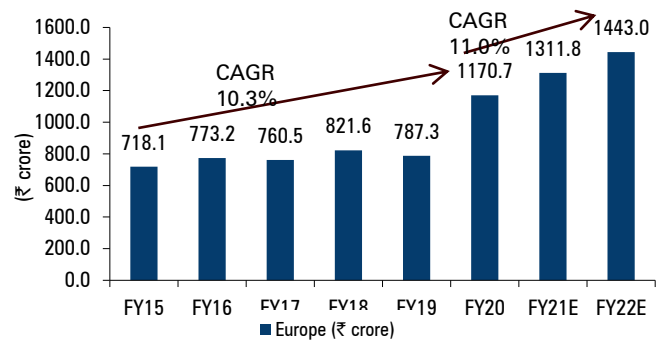
Source: ICICI Direct Research, Company

Exhibit 7: India to grow at CAGR of 20% over FY20-22E



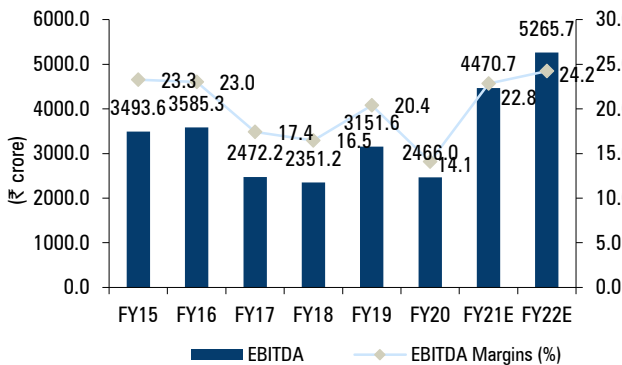
Source: ICICI Direct Research, Company

Exhibit 8: Europe to grow at CAGR 11% over FY20-22E



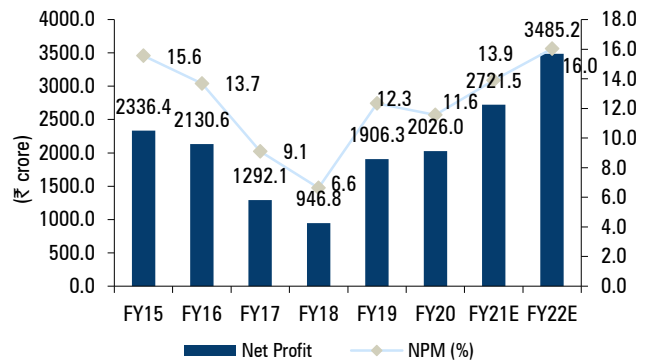
Source: ICICI Direct Research, Company

Exhibit 9: EBITDA & margins trend



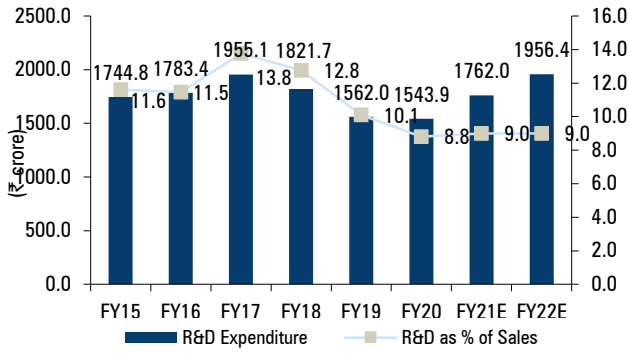
Source: ICICI Direct Research, Company

Exhibit 10: Net profit & margins trend



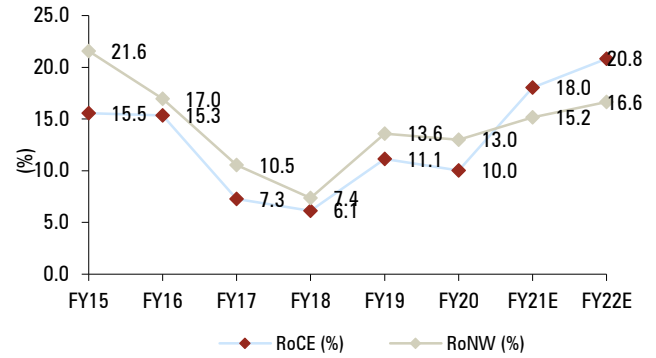
Source: ICICI Direct Research, Company

Exhibit 11: R&D and R&D as percentage of sales



Source: ICICI Direct Research, Company

Exhibit 12: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 13: Revenue break-up

(₹ crore)	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR FY15-20 %	CAGR FY20-22E %
US	6473.4	7544.5	6360.1	5982.4	5995.7	6465.8	7516.2	8313.9	0.0	13.4
Europe (₹ crore)	718.1	773.2	760.5	821.6	787.3	1170.7	1311.8	1443.0	10.3	11.0
India (₹ crore)	1787.0	2129.2	2313.2	2332.1	2618.4	2894.6	3617.0	4176.0	10.1	20.1
Russia & Other CIS (₹ crore)	1771.4	1419.1	1520.0	1650.0	2050.0	2340.0	2620.8	2935.3	5.7	12.0
RoW (₹ crore)	1305.7	940.2	587.1	614.7	838.9	941.4	1082.6	1245.0	-6.3	15.0
PSAI	2545.7	2238.0	2127.7	2199.2	2414.0	2574.7	2953.1	3100.7	0.2	9.7

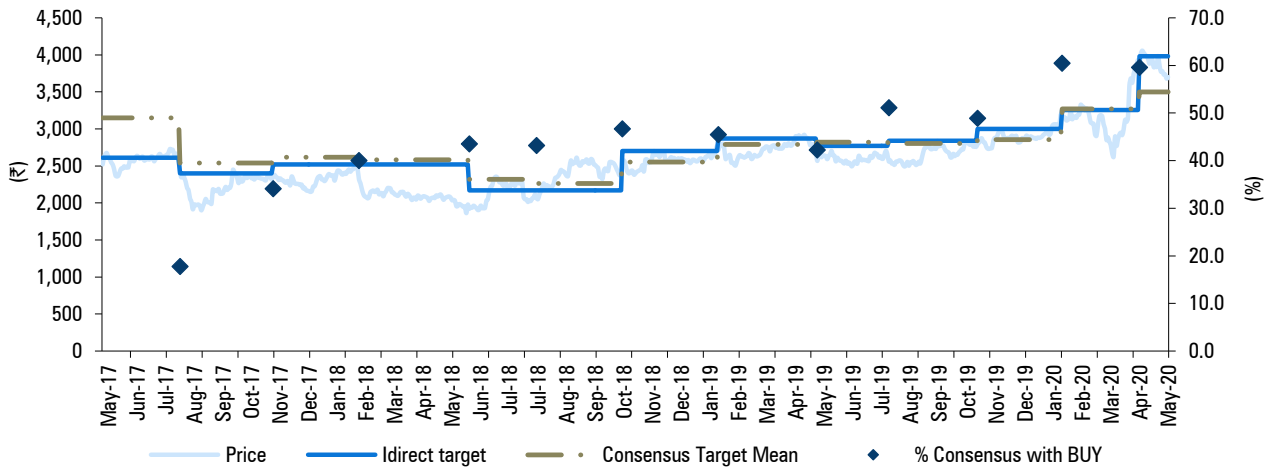
Source: ICICI Direct Research, Company

Exhibit 14: Financial Summary

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY19	15448.2	8.2	114.7	101.3	34.1	20.9	13.6	11.1
FY20	17517.0	13.4	121.9	6.3	32.1	26.0	13.0	10.0
FY21E	19577.3	11.8	163.8	34.3	23.9	14.1	15.2	18.0
FY22E	21738.0	11.0	209.7	28.1	18.6	11.4	16.6	20.8

Source: ICICI Direct Research, Company

Exhibit 15: Recommendation history vs. Consensus



Source: ICICI Direct Research, Bloomberg

Exhibit 16: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Dr Reddy's Holdings Ltd	31-Mar-20	24.9	41.33m	0.0m
2	First State Investments	30-Sep-19	5.6	9.26m	(0.1)m
3	Life Insurance Corp Of India	31-Dec-19	4.8	8.04m	1.6m
4	Blackrock Inc	31-Mar-20	4.3	7.22m	(1.2)m
5	Oppenheimer Holdings Inc	23-Apr-18	2.9	4.89m	0.0m
6	SBI Funds Management Pvt Ltd	31-Mar-20	1.6	2.62m	0.4m
7	Franklin Resources Inc	7-May-20	1.5	2.46m	(1.4)m
8	ICICI Prudential Life Insurance Co	31-Dec-19	1.2	1.90m	(0.3)m
9	Vanguard Group Inc/The	8-Apr-20	1.1	1.82m	0.1m
10	Aditya Birla Sun Life Trustee Co P	31-Dec-19	1.1	1.80m	(0.6)m

Source: ICICI Direct Research, Bloomberg

Exhibit 17: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	26.8	26.8	26.8	26.8	26.8
Others	73.2	73.2	73.2	73.2	73.3

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 18: Profit & Loss (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Revenues	15,448.2	17,517.0	19,577.3	21,738.0
Growth (%)	8.2	13.4	11.8	11.0
Raw Material Expenses	4,494.8	5,554.4	6,221.4	6,791.5
Employee expenses	3,356.2	3,380.2	3,697.3	4,029.0
Other expenses	4,445.6	6,116.4	5,188.0	5,651.9
Total Operating Expendit	12,296.6	15,051.0	15,106.6	16,472.3
EBITDA	3,151.6	2,466.0	4,470.7	5,265.7
Growth (%)	34.0	-21.8	81.3	17.8
Interest	88.9	98.3	32.2	32.2
Depreciation	1,134.8	1,163.1	1,307.4	1,356.6
PBT before Exceptional I	2,248.3	1,829.6	3,287.8	4,224.7
Share of profit/ (loss) of e	0.0	0.0	0.0	0.0
PBT	2,248.3	1,829.6	3,287.8	4,224.7
Total Tax	385.8	-140.3	608.2	781.6
PAT	1,906.3	2,026.0	2,721.5	3,485.2
Adjusted PAT	1,906.3	2,026.0	2,721.5	3,485.2
Growth (%)	101.3	6.3	34.3	28.1
EPS	114.7	121.9	163.8	209.7
EPS (Adjusted)	114.7	121.9	163.8	209.7

Source: ICICI Direct Research

Exhibit 19: Cash Flow Statement (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	1,807.9	1,175.2	2,721.5	3,485.2
Add: Depreciation & Amortiz	1,134.8	1,163.1	1,307.4	1,356.6
Net Increase in Current Ass	-669.9	-1,393.3	-496.8	-1,052.2
Net Increase in Current Liabi	92.8	639.7	340.8	356.0
CF from operating activiti	2,870.4	2,984.1	3,905.0	4,177.7
(Inc)/dec in Fixed Assets	-622.6	-572.5	-2,450.0	-600.0
(Inc)/dec in Investments	-228.2	-21.4	1,000.0	-2,000.0
Others	72.0	108.2	-66.0	-68.6
CF from investing activitie	-778.8	-485.7	-1,516.0	-2,668.6
Inc / (Dec) in Equity Capital	-53.5	-47.0	0.0	0.0
Inc / (Dec) in Loan	-1,518.2	-1,868.3	-1,200.0	0.0
Dividend & Dividend Tax	-400.2	-391.6	-374.0	-478.9
Others	-160.7	-209.0	-32.2	-32.2
CF from financing activitie	-2,132.6	-2,515.9	-1,606.1	-511.1
Net Cash flow	-41.0	-17.5	782.9	998.0
Opening Cash	263.8	222.8	205.3	988.2
Closing Cash	222.8	205.3	988.2	1,986.2
Free Cash Flow	2,247.8	2,411.6	1,455.0	3,577.7

Source: ICICI Direct Research

Exhibit 20: Balance Sheet (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	83.0	83.1	83.1	83.1
Net Network	13,940.6	15,515.7	17,863.2	20,869.5
Total Shareholders fund	14,023.6	15,598.8	17,946.3	20,952.6
Total Debt	3,412.5	1,783.6	583.6	583.6
Deferred Tax Liability	47.3	2.0	2.1	2.2
Other Non Current Liabilit	218.1	205.5	213.7	222.3
Long term Provisions	79.3	74.5	77.5	80.6
Source of Funds	17,780.8	17,664.4	18,823.2	21,841.2
Gross Block - Fixed Ass	14,532.7	15,329.7	18,279.7	19,379.7
Accumulated Depreciatio	7,807.6	8,970.7	10,278.1	11,634.7
Net Block	6,725.1	6,359.0	8,001.6	7,745.0
Capital WIP	2,933.5	1,535.1	1,035.1	535.1
Net Fixed Assets	9,658.6	7,894.1	9,036.7	8,280.1
Goodwill	465.9	491.3	491.3	491.3
Investments	2,587.1	2,677.8	1,677.8	3,677.8
Inventory	3,357.9	3,506.7	3,919.2	4,351.7
Cash	222.8	205.3	988.2	1,986.2
Debtors	3,986.9	5,027.8	5,052.6	5,610.2
Loans & Advances & Oth	1,289.6	1,490.6	1,550.2	1,612.2
Total Current Assets	8,857.2	10,230.4	11,510.1	13,560.3
Creditors	1,367.1	1,524.8	1,704.1	1,892.2
Provisions & Other CL	3,317.7	4,036.1	4,197.5	4,365.4
Total Current Liabilities	4,684.8	5,560.9	5,901.7	6,257.7
Net Current Assets	4,172.4	4,669.5	5,608.4	7,302.6
LT L& A, Other Assets	465.1	711.8	740.3	769.9
Deferred Tax Assets	431.7	1,219.9	1,268.7	1,319.4
Application of Funds	17,780.8	17,664.4	18,823.2	21,841.2

Source: ICICI Direct Research

Exhibit 21: Key Ratios (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	114.7	121.9	163.8	209.7
BV per share	844.0	938.8	1,080.1	1,261.0
Operating Ratios (%)				
Gross Profit Margins	70.9	68.3	68.2	68.8
EBITDA margins	20.4	14.1	22.8	24.2
Net Profit margins	12.3	11.6	13.9	16.0
Inventory days	79.3	73.1	73.1	73.1
Debtor days	94.2	104.8	94.2	94.2
Creditor days	32.3	31.8	31.8	31.8
Asset Turnover	1.1	1.1	1.1	1.1
EBITDA conversion Rate	91.1	121.0	87.3	79.3
Return Ratios (%)				
RoE	13.6	13.0	15.2	16.6
RoCE	11.1	10.0	18.0	20.8
RoIC	18.8	12.0	25.0	29.9
Valuation Ratios (x)				
P/E	34.1	32.1	23.9	18.6
EV / EBITDA	20.9	26.0	14.1	11.4
EV / Revenues	4.3	3.7	3.2	2.8
Market Cap / Revenues	4.2	3.7	3.3	3.0
Price to Book Value	4.6	4.2	3.6	3.1
Solvency Ratios				
Debt / Equity	0.2	0.1	0.0	0.0
Debt / EBITDA	1.1	0.7	0.1	0.1
Current Ratio	1.8	1.8	1.8	1.8

Source: ICICI Direct Research

Exhibit 22: ICICI Direct Coverage Universe (Healthcare)

(₹ crore)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY19	Y20E	Y21E	Y22E	FY19	Y20E	Y21E	Y22E	'19	'20E	'21E	'22E	FY19	Y20E	Y21E	Y22E
Ajanta Pharma	AJAPHA	1439	1,700	Buy	12557	43.5	53.1	64.1	77.2	33.1	27.1	22.4	18.6	21.8	24.2	23.4	24.2	17.1	18.1	18.7	19.3
Alembic Pharma	ALEMPHA	870	875	Buy	16407	31.4	46.3	41.4	39.8	27.7	18.8	21.0	21.9	19.6	20.6	17.7	16.0	21.8	26.3	19.5	16.2
Apollo Hospital	APOHOS	1288	1,490	Buy	17926	17.0	21.5	35.2	65.7	75.9	59.8	36.6	19.6	8.8	10.4	12.6	16.8	7.1	8.1	11.2	17.9
Aurobindo Pharma	AURPHA	708	770	Buy	41461	42.1	49.2	54.8	59.4	16.8	14.4	12.9	11.9	15.9	17.8	18.1	17.8	17.7	17.4	16.4	15.3
Biocon	BIOCON	347	390	Buy	41622	6.2	5.8	9.8	18.2	55.9	59.6	35.2	19.1	10.9	10.9	15.1	22.1	12.2	10.4	15.2	22.4
Cadila Healthcare	CADHEA	338	375	Hold	34582	18.1	14.3	17.5	20.9	18.7	23.6	19.3	16.2	13.0	10.6	12.1	13.4	17.8	12.9	14.1	14.9
Cipla	CIPLA	621	670	Buy	50039	18.6	19.2	23.0	30.2	33.4	32.3	26.9	20.5	10.9	12.0	13.0	15.4	10.0	9.8	10.8	12.6
Divi's Lab	DIVLAB	2373	2,130	Hold	62988	51.0	49.9	58.4	71.0	46.6	47.6	40.6	33.4	25.5	21.7	21.8	22.8	19.4	16.6	16.9	17.5
Dr Reddy's Lab	DRREDD	3911	4,615	Buy	64982	114.7	121.9	163.8	209.7	34.1	32.1	23.9	18.6	11.1	10.0	18.0	20.8	13.6	13.0	15.2	16.6
Glenmark Pharma	GLEPHA	344	340	Hold	9698	26.9	26.8	34.6	43.2	12.8	12.8	9.9	7.9	15.3	12.8	14.5	16.1	13.5	12.0	13.5	14.5
Hikal	HIKCHE	114	160	Buy	1404	8.4	9.6	11.1	13.3	13.6	11.8	10.3	8.5	14.3	13.3	13.6	14.5	13.6	14.1	14.2	14.9
Ipca Laboratories	IPCLAB	1600	1,900	Buy	20215	35.1	55.7	65.6	79.3	45.6	28.7	24.4	20.2	15.0	20.5	21.0	21.6	14.2	19.1	18.9	19.2
Lupin	LUPIN	873	745	Hold	39560	16.5	-29.2	18.3	31.1	52.8	-29.9	47.7	28.1	9.4	9.0	7.9	12.3	5.4	-10.0	6.0	9.3
Narayana Hrudayam	NARHRU	265	330	Buy	5423	2.9	6.2	8.2	11.4	91.4	42.5	32.5	23.2	7.7	11.6	12.7	15.3	5.5	10.8	12.5	15.1
Natco Pharma	NATPHA	603	650	Hold	10984	34.9	26.9	24.6	23.4	17.3	22.4	24.6	25.7	21.3	14.6	12.7	11.3	18.5	12.6	10.4	9.1
Sun Pharma	SUNPHA	456	510	Hold	109347	15.9	17.6	18.6	23.2	28.8	25.8	24.4	19.6	10.3	10.8	10.7	12.1	9.2	9.4	9.1	10.2
Syngene Int.	SYNINT	350	390	Buy	14006	8.3	10.3	8.6	12.2	42.3	34.0	38.6	27.3	14.8	15.0	12.9	16.4	16.8	15.7	13.7	16.3
Torrent Pharma	TORPHA	2570	2,395	Hold	43482	48.9	54.4	71.8	92.1	52.5	47.2	35.8	27.9	14.2	15.4	18.5	21.3	17.5	17.0	19.2	20.8

Source: ICICI Direct Research, Bloomberg

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruvi Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, CFA, Sudarshan Agarwal, PGDM(Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed 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, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.