

Dr. Reddy's Laboratories

Performance Highlights

| Y/E March (` cr) | 1QFY2018 | 4QFY2017 | % chg (qoq) | 1QFY2017 | % chg (yoy) |
|------------------------|--------------|--------------|---------------|--------------|---------------|
| Net sales | 3,316 | 3,554 | (6.7) | 3,235 | 2.5 |
| Gross profit | 1,990 | 2,111 | (5.7) | 2,086 | (4.6) |
| Operating profit | 306 | 555 | (44.9) | 377 | (19.0) |
| Adj. net profit | 59 | 312 | (81.1) | 126 | (53.2) |

Source: Company, Angel Research

Dr Reddy's Labs posted poor results for 1QFY2018, which were much lower than expectations. The sales came in at `3,316cr (`3,636cr expected) v/s. `3,235cr, a yoy growth of 2.5%. Global Generics at `2,745.5cr, posted a yoy growth of 3.0%, while PSAI at `465.1cr, registered a yoy de-growth of 1.0%. On operating front, the EBDITA came in at 9.2% (16.1% expected) v/s. 11.7% in 1QFY2017. R&D expenses were at 15.3% of sales in 1QFY2018 v/s. 14.8% of sales in 1QFY2017. Consequently, the PAT came in at `59cr (`321cr expected) v/s. `126cr in 1QFY2017, a yoy de-growth of 53.2%. **We maintain our neutral.**

A subdued quarter: The sales came in at `3,316cr (`3,636cr expected) v/s. `3,235cr, a yoy growth of 2.5%. Global Generics at `2,745.5cr, posted a yoy growth of 3.0%, while PSAI at `465.1cr, registered a yoy de-growth of 1.0%. The Global Generics, which forms 83% of overall sales, saw dip in its key growth market USA (`1,494.6cr), which posted a dip of 4.0% yoy, while Indian sales at `468.7cr posted a dip of 10.0%. The USA market continued to reel under the pricing pressures, while Indian sales were under the pressure on the back of GST. On operating front, the EBDITA came in at 9.2% (16.1% expected) v/s. 11.7% in 1QFY2017. R&D expenses were at 15.3% of sales in 1QFY2018 v/s. 14.8% of sales in 1QFY2017. Consequently, the PAT came in at `59cr (`321cr expected) v/s. `126cr in 1QFY2017, a yoy de-growth of 53.2%.

Outlook & Valuation: We expect net sales to grow at a CAGR of 13.0% to `17,973cr and adjusted EPS to post a CAGR of 23.6% to end the period at `111 in FY2019E. **We recommend a Neutral.**

Key financials (IFRS Consolidated)

| Y/E March (` cr) | FY2016 | FY2017 | FY2018E | FY2019E |
|-----------------------|---------------|---------------|---------------|---------------|
| Net sales | 15,471 | 14,081 | 15,844 | 17,973 |
| % chg | 4.4 | -9.0 | 12.5 | 13.4 |
| Net profit | 2,001 | 1,204 | 1,521 | 1,840 |
| % chg | (9.8) | (39.8) | 26.3 | 21.0 |
| Adj net profit | 2,357 | 1,204 | 1,521 | 1,840 |
| % chg | 6.3 | (48.9) | 26.3 | 21.0 |
| Adj. EPS (`) | 138.2 | 72.6 | 91.7 | 111.0 |
| EBITDA margin (%) | 24.6 | 16.1 | 17.6 | 18.2 |
| P/E (x) | 17.6 | 33.4 | 26.5 | 21.9 |
| RoE (%) | 19.7 | 9.6 | 11.9 | 13.0 |
| RoCE (%) | 18.7 | 7.5 | 9.8 | 11.2 |
| P/BV (x) | 3.2 | 3.3 | 3.0 | 2.7 |
| EV/Sales (x) | 2.6 | 3.1 | 2.7 | 2.4 |
| EV/EBITDA (x) | 10.7 | 19.0 | 15.6 | 13.4 |

Source: Company, Angel Research; Note: CMP as of August 1, 2017

NEUTRAL

| | |
|--------------|--------|
| CMP | ₹2,723 |
| Target Price | - |

Investment Period 12 months

| Stock Info | |
|--------------------|----------------|
| Sector | Pharmaceutical |
| Market Cap (₹ cr) | 40,241 |
| Net Debt (₹ cr) | 2,839 |
| Beta | 0.4 |
| 52 Week High / Low | 3,395/2,371 |
| Avg. Daily Volume | 33,208 |
| Face Value (₹) | 5 |
| BSE Sensex | 32,575 |
| Nifty | 10,115 |
| Reuters Code | REDY.BO |
| Bloomberg Code | DRRD@IN |

| Shareholding Pattern (%) | |
|--------------------------|------|
| Promoters | 26.8 |
| MF / Banks / Indian Fls | 14.9 |
| FII / NRIs / OCBs | 49.0 |
| Indian Public / Others | 9.4 |

| Abs. (%) | 3m | 1yr | 3yr |
|----------|--------|--------|--------|
| Sensex | 8.9 | 16.3 | 27.8 |
| Dr Reddy | (11.6) | (18.4) | (12.0) |

3-year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2018 performance (IFRS, consolidated)

| Y/E March (` cr) | 1QFY2018 | 4QFY2017 | % chg (qoq) | 1QFY2017 | % chg (yoy) | FY2017 | FY2016 | % chg |
|---|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|
| Net sales | 3,316 | 3,554 | (6.7) | 3,235 | 2.5 | 14,081 | 15,471 | (9.0) |
| Other income/(loss) | 42 | 56 | (25.8) | 61 | | 222 | (161) | - |
| Total income | 3,357 | 3,610 | (7.0) | 3,296 | 1.9 | 14,303 | 15,310 | (6.6) |
| Gross profit | 1,990 | 2,111 | (5.7) | 2,086 | (4.6) | 8,621 | 9,970 | (13.5) |
| Gross margin (%) | 60.0 | 59.4 | | 64.5 | | 61.2 | 64.4 | |
| SG&A expenses | 1,176 | 1,097 | 7.2 | 1,228 | (4.2) | 4,637 | 4,570 | 1.5 |
| R&D expenses | 508 | 458 | 10.8 | 480 | 5.7 | 1,955 | 1,783 | 9.6 |
| EBDITA | 306 | 555 | (44.9) | 377 | (19.0) | 2,029 | 3,617 | (43.9) |
| EBDITA (%) | 9.2 | 15.6 | - | 11.7 | - | 14.4 | 23.4 | - |
| Depreciation | 280 | 292 | (4.3) | 268.2 | 4.4 | 785.7 | 742.0 | 5.9 |
| Interest | - | - | - | - | - | - | - | - |
| PBT | 67 | 319 | (78.9) | 170 | (60.5) | 1,465 | 2,714 | (46.0) |
| Tax | 18 | 6 | 200.0 | 44 | | 261 | 713 | (63.3) |
| Net Profit | 49 | 313 | (84.2) | 126 | (60.8) | 1,204 | 2,001 | (39.9) |
| Share of profit/ (loss) in associates | 10 | - | - | - | - | - | - | - |
| Reported net profit before exceptional | 59 | 312 | (81.1) | 126 | (53.2) | 1,204 | 2,001 | (39.9) |
| Exceptional items (loss) /profit | - | - | - | - | - | - | - | - |
| Reported PAT | 59 | 312 | (81.1) | 126 | (53.2) | 1,204 | 2,001 | (39.8) |
| Adj. Net Profit | 59 | 312 | (81.1) | 126 | (53.2) | 1,204 | 2,357 | (48.9) |
| EPS (`) | 3.6 | 18.8 | | 7.6 | | 72.6 | 138.2 | |

Source: Company, Angel Research

Exhibit 2: Actual Vs Estimates

| (` cr) | Actual | Estimates | Variation (%) |
|------------------------|--------------|--------------|---------------|
| Net sales | 3,316 | 3,636 | (8.8) |
| Other income | 42 | 56 | (25.9) |
| Operating profit | 306 | 596 | (48.7) |
| Tax | 18 | 186 | (90.3) |
| Adj. Net profit | 59 | 321 | (81.6) |

Source: Company, Angel Research

Revenue lower than expectations: The sales came in at `3,316cr (`3,636cr expected) in 1QFY2018 v/s. `3,235cr, a yoy growth of 2.5%. Global Generics at `2,745.5cr, posted a yoy growth of 3.0%, while PSAI at `465.1cr, registered a yoy de-growth of 1.0%. The Global Generics, which constitutes 83% of overall sales, saw dip in its key growth market USA (`1,494.6cr), which posted a dip of 4.0% yoy, while India (`468.7cr), posted a dip of 10.0%. The USA market continued to reel under the pricing pressures, while Indian sales were under the pressure on the back of GST.

The global generic market with sales at `2,746cr (up 3.0% yoy), was mainly lead by the Europe performance, which posted a yoy growth of 28.0% to end the period at `207.5cr. On constant currency basis, the growth in the region was 37.0% yoy. Growth in the region was driven primarily on account of new launches and improvement in base business.

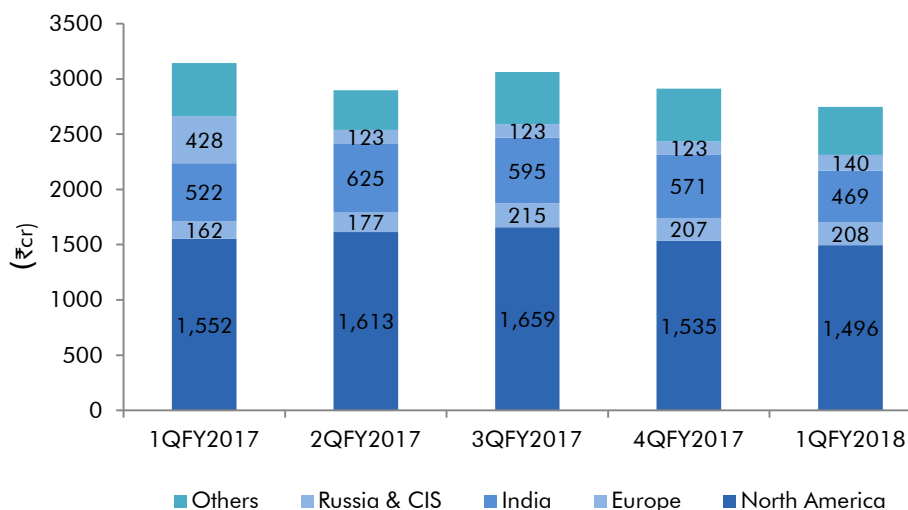
Apart from this the Emerging markets (`575cr, up 34% yoy) posted robust growth on the back of Russia (~`350cr) posted a growth of 48% in the reported currency, while on constant currency terms the region posted a yoy growth of 31%. Its key growth market USA (`1,494.6cr), posted a dip of 4.0% yoy, while India (`468.7cr), posted a dip of 10.0%.

US posted a dip, primarily on account of higher price erosion, increased competition in the key products namely Valganciclovir, Decitabine, Azacitidine, etc., and discontinuation of the McNeil business. This was partially offset by contribution from new launches. During the quarter the company launched 4 new products – Ezetimibe+Simvastatin, Liposomal Doxorubicin, Progesterone, and Bivalirudin injection.

The PSAI segment posted sales of ₹465cr, down 1.0% yoy. The de-growth came in on the back of Europe (₹91.1cr, a yoy de-growth of 53%) and ROW (₹156cr, a yoy dip of 10.0%). However, growth was registered in the sales of India (₹139cr, a yoy growth of 273%) and USA (₹80cr, a yoy growth of 24%).

As of June 30, 2017, cumulatively 99 generic filings are pending for approvals with the USFDA (97 ANDAs and 2 NDAs under 505(b)(2) route). Of these 97 ANDAs, 59 are Para IVs, out of which we believe 26 have 'First to File' status.

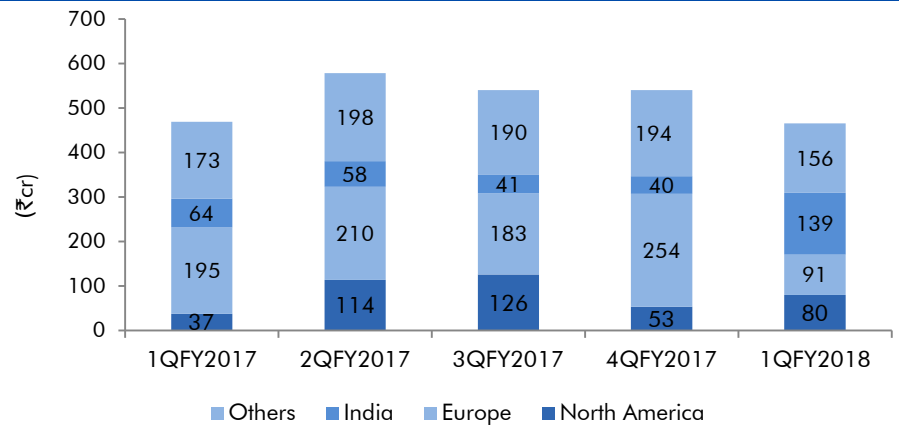
Exhibit 3: Trend in Global generics



Source: Company, Angel Research

In the PSAI segment (14% of sales), the US grew by 24% yoy, while, ROW, Europe and India grew by (10%), (53%) & 273% yoy respectively during the quarter. Proprietary Products & Others at ₹105.3cr posted a yoy growth of 4.0%.

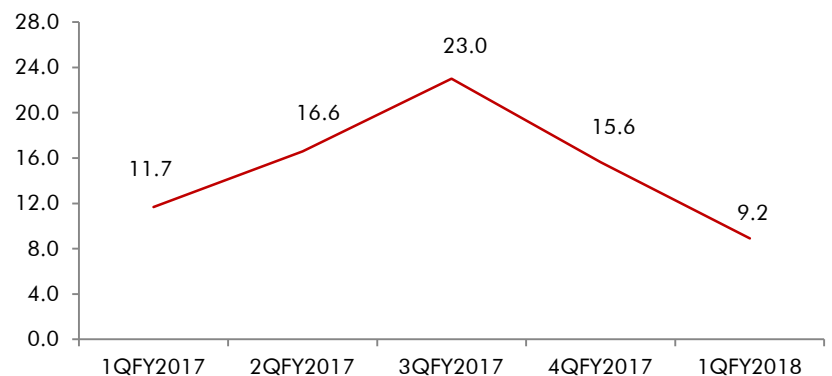
Exhibit 4: PSAI trend



Source: Company, Angel Research

EBITDA margin dips yoy: On operating front, the EBDITA came in at 9.2% (16.1% expected) in 1QFY2018 v/s. 11.7% in 1QFY2017. R&D expenses were at 15.3% of sales in 1QFY2018 v/s. 14.8% of sales in 1QFY2017. Gross margins during the quarter were at 60.0% v/s. 64.5% in 1QFY2017.

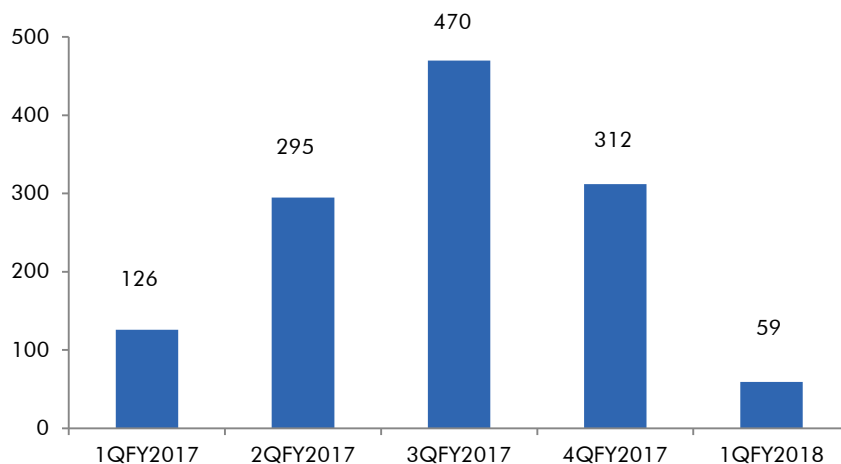
Exhibit 5: EBITDA margin trend (%)



Source: Company, Angel Research

Net profit lower than expected: Consequently, the PAT came in at `59.1cr (`321cr expected) in 1QFY2018 v/s. `126cr in 1QFY2017, a yoy de-growth of 53.2%.

Exhibit 6: Adjusted net profit trend



Source: Company, Angel Research

Concall takeaways

- Duvvada will require re-inspection (expected by Dec'2017 end).
- DRL expects 15 ANDA launches in FY2018 (including 4-5 meaningful launches).
- Tax rate in FY2018 to stay at ~23-25% of PBT.
- R&D expense is expected to remain at higher levels due to strong product pipeline of complex generics, Biosimilars and differentiated products. R&D expenses during the quarter are expected to be ~`2000cr in FY2018.

Investment arguments

Robust pipeline for US going ahead: After attaining a critical mass (US\$981mn in FY2017), DRL aims to scale up its business to the next orbit in the US market on the back of a strong product pipeline (99 ANDAs are pending approval, of which, 62 are Para IVs and 21 are FTFs). The Management has guided for a robust growth in the US over the medium term, driven by introduction of new products, some of which are also Para IV opportunities. Owing to the import alert on the three facilities of the company, in a worst case scenario, we expect the exclusivity US sales to post a 14.3% growth over FY2017-19E.

Domestic to be back in focus: DRL reported a 9.0% yoy growth in FY2017. The management expects the company's performance to rebound and targets to achieve an above industry growth rate going ahead, driven by – (a) field force expansion and improvement in productivity; (b) new product launches (including biosimilars); and (c) focus on brand building. In 4QFY2015, DRL had acquired UCB's India portfolio and had completed the integration process of these brands in 1QFY2016. UCB's India business had registered ~`150cr sales in CY2014 and has a branded portfolio of 21 products focusing on Allergy, Respiratory, Dermatology and Pediatric space. The acquisition had been successfully integrated

by 2QFY2016. Also, in FY2017, the domestic formulation business posted a lower growth, on account of NPPA pricing notifications and demonetization. In FY2018, the Indian domestic sales have taken a hit on back of the GST implementation, and hence, the year is expected to end with domestic formulation business growing at single digit or low double digit growth. Thus, we expect sales in India to post a CAGR of ~12.0% over FY2017-19E.

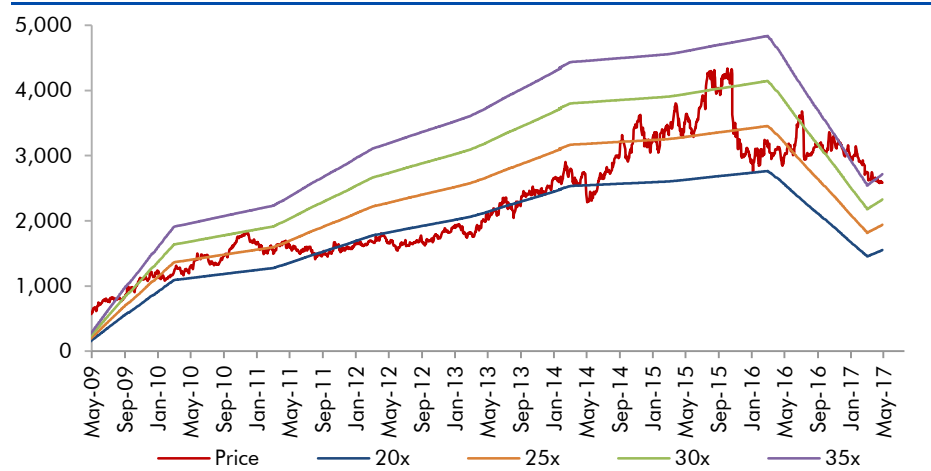
Outlook & Valuation: We expect net sales to grow at a CAGR of 13.0% to ₹17,973cr and adjusted EPS to post a CAGR of 23.6% over FY2017-19E to end FY2019 at ₹111.0. The stock has been severely beaten down post the import alert from the USFDA. However, considering the valuations, **we recommend a Neutral rating on the stock.**

Exhibit 7: Key assumptions

| | FY2018E | FY2019E |
|-----------------------------|---------|---------|
| PSAI segment growth (%) | 3.5 | 3.8 |
| Generics segment growth (%) | 14.0 | 14.8 |
| Operating margin (%) | 17.6 | 18.2 |
| Capex (₹ cr) | 1200 | 1200 |

Source: Company, Angel Research

Exhibit 8: PE chart



Source: Company, Angel Research

Exhibit 9: Recommendation summary

| Company | Reco. | CMP (₹) | Tgt Price (₹) | Upside (%) | FY2019E | | | FY17-19E | FY2019E | |
|-------------------|----------------|--------------|------------------|---------------|-------------|-----------------|------------------|--------------------|-------------|-------------|
| | | | | | PE (x) | EV/Sales (x) | EV/EBITDA (x) | CAGR in EPS (%) | RoCE (%) | RoE (%) |
| Alembic Pharma | Accumulate | 525 | 600 | 14.4 | 19.3 | 2.2 | 11.3 | 12.8 | 24.3 | 20.6 |
| Aurobindo Pharma | Accumulate | 735 | 877 | 12.0 | 14.3 | 2.2 | 10.0 | 14.2 | 25.3 | 22.7 |
| Cadila Healthcare | Sell | 542 | 450 | (16.9) | 25.5 | 4.1 | 20.2 | 21.0 | 17.3 | 22.9 |
| Cipla | Sell | 562 | 465 | (18.0) | 23.2 | 2.4 | 15.0 | 39.2 | 11.0 | 13.2 |
| Dr Reddy's | Neutral | 2,427 | - | - | 21.9 | 2.4 | 13.4 | 23.6 | 11.2 | 13.0 |
| Dishman Pharma | Under Review | 301 | - | - | 18.9 | 1.3 | 10.1 | (6.8) | 2.9 | 2.5 |
| GSK Pharma | Neutral | 2,377 | - | - | 40.6 | 5.5 | 30.4 | 30.6 | 28.9 | 26.5 |
| Indoco Remedies | Sell | 200 | 153 | (23.5) | 15.7 | 1.5 | 10.3 | 23.0 | 11.2 | 15.0 |
| Ipca labs | Buy | 483 | 613 | 28.5 | 7.9 | 0.6 | 4.1 | 27.9 | 12.8 | 11.2 |
| Lupin | Buy | 1,018 | 1,526 | 49.9 | 14.7 | 2.0 | 8.5 | 10.4 | 20.6 | 17.8 |
| Sanofi India* | Neutral | 4,286 | - | - | 27.9 | 2.9 | 17.2 | 9.2 | 23.9 | 25.8 |
| Sun Pharma | Buy | 535 | 712 | 33.2 | 16.5 | 3.1 | 12.2 | 1.2 | 15.1 | 18.8 |

Source: Company, Angel Research; Note: *December year ending

Company Background

Established in 1984, Dr. Reddy's Laboratories is an integrated global pharmaceutical company, through its three businesses - Pharmaceutical Services & Active Ingredients, Global Generics and Proprietary Products. The company's key therapeutic focus is on gastro-intestinal, cardiovascular, diabetology, oncology, pain management, anti-infective and paediatrics. The company's key markets include India, USA, Russia & CIS and Germany.

Profit & loss statement (IFRS Consolidated)

| Y/E March | FY2014 | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Net sales | 13,217 | 14,819 | 15,471 | 14,081 | 15,844 | 17,973 |
| Other operating income | 141.6 | 91.7 | 87.4 | 106.5 | 106.5 | 106.5 |
| Total operating income | 13,359 | 14,911 | 15,558 | 14,187 | 15,951 | 18,080 |
| % chg | 12.5 | 11.6 | 4.3 | (8.8) | 12.4 | 13.3 |
| Total expenditure | 10,096 | 11,535 | 11,669 | 11,811 | 13,049 | 14,701 |
| Cost of revenues | 4,977 | 5,531 | 5,315 | 5,219 | 6,236 | 6,793 |
| SG&A expenses | 3,878 | 4,259 | 4,570 | 4,637 | 4,595 | 5,212 |
| R&D expenses | 1,240 | 1,745 | 1,783 | 1,955 | 2,218 | 2,696 |
| EBITDA | 3,121 | 3,284 | 3,802 | 2,270 | 2,796 | 3,272 |
| % chg | 16.6 | 5.2 | 15.8 | (40.3) | 23.2 | 17.0 |
| (% of Net Sales) | 23.6 | 22.2 | 24.6 | 16.1 | 17.6 | 18.2 |
| Depreciation & amortisation | 659.8 | 747.4 | 927.4 | 1,026.6 | 1,052.8 | 1,115.5 |
| EBIT | 2,462 | 2,537 | 2,875 | 1,243 | 1,743 | 2,157 |
| % chg | 27.4 | 3.1 | 13.3 | (56.7) | 40.2 | 23.7 |
| (% of Net Sales) | 18.6 | 17.1 | 18.6 | 8.8 | 11.0 | 12.0 |
| Interest & other charges | - | - | - | - | - | - |
| Other Income | 40.0 | 168.2 | (270.8) | 80.6 | 80.6 | 80.6 |
| (% of PBT) | 1.5 | 6.0 | (10.0) | 5.5 | 4.1 | 3.4 |
| Share in profit of associates | 17.4 | 19.5 | 22.9 | 34.9 | 34.9 | 34.9 |
| Recurring PBT | 2,661 | 2,816 | 2,714 | 1,465 | 1,965 | 2,379 |
| % chg | 19.0 | 5.9 | (3.6) | (46.0) | 34.1 | 21.1 |
| Extraordinary expense/(Inc.) | - | - | 508.5 | - | - | - |
| PBT (reported) | 2,660.6 | 2,816.3 | 2,714.0 | 1,465.3 | 1,964.9 | 2,378.8 |
| Tax | 509.4 | 598.4 | 712.7 | 261.4 | 443.9 | 539.1 |
| (% of PBT) | 19.1 | 21.2 | 26.3 | 17.8 | 22.6 | 22.7 |
| PAT (reported) | 2,151.2 | 2,217.9 | 2,001.3 | 1,203.9 | 1,521.0 | 1,839.7 |
| Add: Share of earnings of asso. | - | - | - | - | - | - |
| Less: Minority interest (MI) | - | - | - | - | - | - |
| Exceptional items | - | - | - | - | - | - |
| PAT after MI (reported) | 2,151.2 | 2,217.9 | 2,001.3 | 1,203.9 | 1,521.0 | 1,839.7 |
| ADJ. PAT | 2,151.2 | 2,217.9 | 2,357.0 | 1,203.9 | 1,521.0 | 1,839.7 |
| % chg | 22.9 | 3.1 | 6.3 | (48.9) | 26.3 | 21.0 |
| (% of Net Sales) | 16.3 | 15.0 | 12.9 | 8.5 | 9.6 | 10.2 |
| Basic EPS (₹) | 126.7 | 130.2 | 138.2 | 72.6 | 91.7 | 111.0 |
| Fully Diluted EPS (₹) | 126.7 | 130.2 | 138.2 | 72.6 | 91.7 | 111.0 |
| % chg | 22.9 | 2.7 | 6.1 | (47.4) | 26.3 | 21.0 |

Balance sheet (IFRS Consolidated)

| Y/E March (` cr) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
| SOURCES OF FUNDS | | | | | | |
| Equity share capital | 84.9 | 85.2 | 85.3 | 82.9 | 82.9 | 82.9 |
| Preference Capital | - | - | - | - | - | - |
| Reserves & surplus | 8,995 | 11,045 | 12,748 | 12,179 | 13,301 | 14,741 |
| Shareholders funds | 9,080 | 11,130 | 12,834 | 12,262 | 13,384 | 14,824 |
| Minority Interest | | | | | | |
| Total loans | 4,474.2 | 3,954.3 | 3,661.9 | 5,335.1 | 5,700.0 | 5,800.0 |
| Deferred tax liability | (192.9) | (401.3) | (423.0) | (516.4) | (516.4) | (516.4) |
| Total liabilities | 13,361 | 14,683 | 16,073 | 17,081 | 18,567 | 20,108 |
| APPLICATION OF FUNDS | | | | | | |
| Net fixed assets | 3,945 | 4,314 | 5,396 | 5,142 | 6,342 | 7,542 |
| Goodwill /other intangibles | 1,470 | 1,643 | 1,969 | 4,618 | 4,618 | 4,618 |
| Capital Work-in-Progress | 495.2 | 495.2 | 495.2 | 495.2 | 495.2 | 495.2 |
| Investments | 2,589 | 3,811 | 3,833 | 2,110 | 2,110 | 2,110 |
| Current Assets | 7,866 | 8,558 | 8,465 | 8,257 | 8,857 | 9,780 |
| Cash | 845 | 539 | 492 | 387 | 299 | 80 |
| Loans & Advances | 793.0 | 889.1 | 928.2 | 844.9 | 950.7 | 1,078.4 |
| Other | 6,228 | 7,129 | 7,045 | 7,025 | 7,607 | 8,622 |
| Current liabilities | 3,006 | 4,214 | 4,193 | 4,057 | 4,371 | 4,954 |
| Net Current Assets | 4,860 | 4,344 | 4,273 | 4,199 | 4,486 | 4,826 |
| Other Assets | | 76 | 106 | 517 | 517 | 517 |
| Total Assets | 13,361 | 14,683 | 16,073 | 17,081 | 18,567 | 20,108 |

Cash flow statement (IFRS Consolidated)

| Y/E March (₹ cr) | FY2014 | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Profit before tax | 2,661 | 2,816 | 2,714 | 1,465 | 1,965 | 2,379 |
| Depreciation | 660 | 747 | 927 | 1,027 | 1,053 | 1,116 |
| (Inc)/Dec in Working Capital | (906) | 211 | 24 | (32) | (374) | (560) |
| Less: Other income | 40 | 168 | (271) | 81 | 81 | 81 |
| Direct taxes paid | 509 | 598 | 713 | 261 | 444 | 539 |
| Cash Flow from Operations | 1,865 | 3,008 | 3,224 | 2,118 | 2,119 | 2,315 |
| (Inc.)/Dec.in Fixed Assets | (164) | (369) | (1,082) | 254 | (1,200) | (1,200) |
| (Inc.)/Dec. in Investments | 824 | 1,222 | 22 | (1,723) | - | - |
| Other income | 40 | 168 | (271) | 81 | 81 | 81 |
| Cash Flow from Investing | 701 | 1,021 | (1,331) | (1,389) | (1,119) | (1,119) |
| Issue of Equity | - | 0 | 0 | (2) | - | - |
| Inc./Dec.) in loans | 798 | (520) | (292) | 1,673 | 365 | 100 |
| Dividend Paid (Incl. Tax) | 358 | 399 | 399 | 399 | 399 | 399 |
| Others | (3,390) | (4,214) | (2,047) | (2,904) | (1,851) | (1,914) |
| Cash Flow from Financing | (2,234) | (4,335) | (1,940) | (834) | (1,087) | (1,415) |
| Inc./Dec.) in Cash | 331 | (306) | (47) | (106) | (88) | (219) |
| Opening Cash balances | 514 | 845 | 539 | 492 | 387 | 299 |
| Closing Cash balances | 845 | 539 | 492 | 387 | 299 | 80 |

Key ratios

| Y/E March | FY2014 | FY2015 | FY2016 | FY2017 | FY2018E | FY2019E |
|---------------------------------|--------|--------|--------|--------|---------|---------|
| Valuation Ratio (x) | | | | | | |
| P/E (on FDEPS) | 19.2 | 18.6 | 17.6 | 33.4 | 26.5 | 21.9 |
| P/CEPS | 14.7 | 13.9 | 14.1 | 18.0 | 15.6 | 13.6 |
| P/BV | 4.5 | 3.7 | 3.2 | 3.3 | 3.0 | 2.7 |
| Dividend yield (%) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| EV/Sales | 3.2 | 2.8 | 2.6 | 3.1 | 2.7 | 2.4 |
| EV/EBITDA | 13.5 | 12.5 | 10.7 | 19.0 | 15.6 | 13.4 |
| EV / Total Assets | 3.2 | 2.8 | 2.5 | 2.5 | 2.3 | 2.2 |
| Per Share Data (₹) | | | | | | |
| EPS (Basic) | 126.7 | 130.2 | 138.2 | 72.6 | 91.7 | 111.0 |
| EPS (fully diluted) | 126.7 | 130.2 | 138.2 | 72.6 | 91.7 | 111.0 |
| Cash EPS | 165.5 | 174.0 | 171.7 | 134.5 | 155.2 | 178.2 |
| DPS | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 |
| Book Value | 534.7 | 653.3 | 752.3 | 739.6 | 807.2 | 894.1 |
| Dupont Analysis | | | | | | |
| EBIT margin | 18.6 | 17.1 | 18.6 | 8.8 | 11.0 | 12.0 |
| Tax retention ratio | 80.9 | 78.8 | 73.7 | 82.2 | 77.4 | 77.3 |
| Asset turnover (x) | 1.2 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 |
| ROIC (Post-tax) | 17.4 | 15.1 | 14.3 | 6.4 | 7.8 | 8.8 |
| Cost of Debt (Post Tax) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Leverage (x) | 0.4 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 |
| Operating ROE | 24.7 | 20.4 | 18.3 | 8.5 | 10.9 | 12.2 |
| Returns (%) | | | | | | |
| ROCE (Pre-tax) | 20.2 | 18.1 | 18.7 | 7.5 | 9.8 | 11.2 |
| Angel ROIC (Pre-tax) | 25.6 | 22.5 | 22.9 | 10.1 | 14.1 | 15.4 |
| ROE | 26.3 | 21.9 | 19.7 | 9.6 | 11.9 | 13.0 |
| Turnover ratios (x) | | | | | | |
| Asset Turnover (Gross Block) | 3.5 | 3.6 | 3.2 | 2.7 | 2.8 | 2.6 |
| Inventory / Sales (days) | 62 | 61 | 60 | 62 | 59 | 57 |
| Receivables (days) | 89 | 90 | 96 | 89 | 85 | 83 |
| Payables (days) | 40 | 43 | 59 | 40 | 39 | 39 |
| WC cycle (ex-cash) (days) | 97 | 96 | 89 | 98 | 92 | 90 |
| Solvency ratios (x) | | | | | | |
| Net debt to equity | 0.4 | 0.3 | 0.2 | 0.4 | 0.4 | 0.4 |
| Net debt to EBITDA | 1.2 | 1.0 | 0.8 | 2.2 | 1.9 | 1.7 |
| Interest Coverage (EBIT / Int.) | - | - | - | - | - | 1.0 |

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Disclosure of Interest Statement

Dr. Reddy's Laboratories

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|---|----|
| 1. Financial interest of research analyst or Angel or his Associate or his relative | No |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No |
| 3. Served as an officer, director or employee of the company covered under Research | No |
| 4. Broking relationship with company covered under Research | No |

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)