

Dr. Reddy's

# US drives earnings beat; Inline EBITDA on investments to support MT growth

Reiterate Rating: BUY | PO: 6,570 INR | Price: 5,841 INR

## US beat but in-line EBITDA on higher investment

DRRD reported a strong 3QFY23 with 5% revenue beat (Rs72bn) aided by step-up in US sales to ~\$400Mn (despite competition in two key products). Lower Gx margins & +10% QoQ SG&A costs offset the revenue beat leading to broadly in-line margins (29.3% vs. BofAE 29.6% but cons 28.4%). DRRD remains confident on SG&A investment aiding India growth & new launch pipeline for markets like US offsetting gRevlimid hole. In our view, high-value launches are not factored in street est given limited details thus implying low downside risk from delays. Reiterate Buy & PO Rs6570 (<1% change in earnings).

## Investor concerns overdone, in our view

DRRD has underperformed peers over last few months with concerns on erosion due to competition in key products & Bachupally inspection outcome. The latter is a near-term event (inspected in end Oct-23) with stock pricing in an adverse outcome and company indicating limited pipeline dependence from this facility. We believe positive momentum in US sales ex-gRevlimid (higher YoY even without Mayne) does address concern on sharp decline in key launches with commentary on 20+ launches p.a including meaningful products (26 launches over FY25-26) supporting base business growth. We assume ex-gRevlimid US growth of 3% over FY24-26 with upside risk from any high value launches.

## Core earnings growth driven by ex-US business

A key concern from investors with whom we've spoken is the core EPS trajectory from ~Rs190/sh given limited visibility of the US Gx pipeline particularly high-value launches. In our view, the positive momentum seen in Europe as well as management confidence of double-digit growth in India and EM is not being factored by the street. These three segments account for 40+% of revenue with operating leverage from SG&A investments in markets like India and higher margins of new launches aiding margin expansion. We believe the higher margin India/EM growth and modest growth in US base should provide comfort on ~10% core EPS CAGR without dependence on large launches. Improvement in ex-US growth would be key for earnings upgrade over the next few qtrs.

Estimates (Mar) (Rs)	2022A	2023A	2024E	2025E	2026E
Net Income (Adjusted - mn)	23,568	45,067	55,148	57,790	59,535
EPS	141.7	270.9	331.5	347.4	357.9
EPS Change (YoY)	36.7%	91.2%	22.4%	4.8%	3.0%
Dividend / Share	30.0	40.0	50.0	55.0	55.0
Free Cash Flow / Share	74.4	286.4	173.5	255.3	326.1
ADR EPS (US\$)	1.90	3.37	3.99	4.18	4.30
ADR Dividend / Share (US\$)	0.403	0.498	0.601	0.662	0.662
<b>Valuation (Mar)</b>					
P/E	41.2x	21.6x	17.6x	16.8x	16.3x
Dividend Yield	0.5%	0.7%	0.9%	0.9%	0.9%
EV / EBITDA*	22.2x	13.1x	11.0x	10.6x	10.3x
Free Cash Flow Yield*	1.3%	4.9%	3.0%	4.4%	5.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

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**Refer to important disclosures on page 11 to 14. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 30 January 2024 01:42PM EST

30 January 2024

## Equity

### Key Changes

(Rs)	Previous	Current
2024E Rev (m)	272,856.3	278,043.5
2025E Rev (m)	291,308.1	296,438.2
2026E Rev (m)	307,836.3	311,450.6
2024E EPS	330.24	331.55
2025E EPS	344.57	347.43
2026E EPS	356.93	357.92

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## Stock Data

Price (Common / ADR)	5,841 INR / 69.54 USD
Price Objective	6,570 INR / 79.00 USD
Date Established	5-Jan-2024 / 5-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	4,281 INR-5,990 INR
Market Value (mn)	11,718 USD
Market Value (mn)	974,280 INR
Shares Outstanding (mn)	166.8 / 166.8
Average Daily Value (mn)	28.28 USD
Free Float	66.9%
BofA Ticker / Exchange	DRYBF / NSI
BofA Ticker / Exchange	RDY / NYS
Bloomberg / Reuters	DRRD IN / REDY.BO
ROE (2024E)	21.7%
Net Dbt to Eqty (Mar-2023A)	-20.9%

MT: medium-term; IPM: India Pharmaceutical Market; EM: Emerging Market; RoW: Rest of World; CIS: Commonwealth of Independent States; OTC: Over the counter; PSAI: Pharmaceutical Service and Active Ingredient; NLEM: National List of Essential Medicines; RFP: Request for Proposal; FF: Field Force; PLI: Production Linked Incentive; Gx: Generic; EU: European Union

# iQprofile<sup>SM</sup> Dr. Reddy's

## Key Income Statement Data (Mar)

### (Rs Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	214,391	245,879	278,044	296,438	311,451
Gross Profit	113,840	139,343	162,145	173,223	182,278
Sell General & Admin Expense	(50,257)	(55,390)	(62,037)	(67,000)	(72,360)
Operating Profit	29,476	57,144	67,943	70,673	72,200
Net Interest & Other Income	2,119	2,853	4,450	5,118	5,885
Associates	703	370	170	250	250
Pretax Income	32,298	60,367	72,563	76,040	78,336
Tax (expense) / Benefit	(8,730)	(15,300)	(17,415)	(18,250)	(18,801)
Net Income (Adjusted)	23,568	45,067	55,148	57,790	59,535
Average Fully Diluted Shares Outstanding	166	166	166	166	166

## Key Cash Flow Statement Data

Net Income	23,568	45,067	55,148	57,790	59,535
Depreciation & Amortization	11,824	12,636	14,950	15,600	16,300
Change in Working Capital	(13,914)	(7,855)	(26,411)	(15,933)	(6,589)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	6,630	9,025	176	0	0
Cash Flow from Operations	28,108	58,873	43,863	57,458	69,246
Capital Expenditure	(15,733)	(11,241)	(15,000)	(15,000)	(15,000)
(Acquisition) / Disposal of Investments	(11,201)	(23,366)	6,000	(20,000)	(20,000)
Other Cash Inflow / (Outflow)	547	(6,764)	(7,470)	0	0
Cash Flow from Investing	(26,387)	(41,371)	(16,470)	(35,000)	(35,000)
Shares Issue / (Repurchase)	334	368	0	0	0
Cost of Dividends Paid	(4,146)	(4,979)	(8,317)	(9,148)	(9,148)
Cash Flow from Financing	(2,422)	(26,861)	(10,317)	(11,148)	(10,148)
Free Cash Flow	12,375	47,632	28,863	42,458	54,246
Net Debt	(10,520)	(48,325)	(61,225)	(94,534)	(139,632)
Change in Net Debt	2,703	(11,324)	(19,076)	(13,309)	(25,097)

## Key Balance Sheet Data

Property, Plant & Equipment	62,169	66,462	66,862	66,862	66,362
Other Non-Current Assets	51,162	48,162	55,282	54,682	53,882
Trade Receivables	66,764	72,485	87,603	93,398	98,128
Cash & Equivalents	44,365	61,797	72,697	104,006	148,104
Other Current Assets	66,692	69,971	87,574	100,080	104,070
Total Assets	291,152	318,877	370,018	419,029	470,546
Long-Term Debt	6,763	6,082	6,082	6,082	6,082
Other Non-Current Liabilities	2,479	2,907	2,907	2,907	2,907
Short-Term Debt	27,082	7,390	5,390	3,390	2,390
Other Current Liabilities	64,301	71,507	77,817	80,186	82,316
Total Liabilities	100,625	87,886	92,196	92,565	93,695
Total Equity	190,527	230,991	277,822	326,464	376,850
Total Equity & Liabilities	291,152	318,877	370,018	419,029	470,546

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	10.3%	18.4%	19.1%	17.0%	15.1%
Return On Equity	13.0%	21.4%	21.7%	19.1%	16.9%
Operating Margin	13.7%	23.2%	24.4%	23.8%	23.2%
EBITDA Margin	19.3%	28.4%	29.8%	29.1%	28.4%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	1.2x	1.3x	0.8x	1.0x	1.2x
Asset Replacement Ratio	1.9x	1.3x	1.6x	1.5x	1.4x
Tax Rate (Reported)	27.0%	25.3%	24.0%	24.0%	24.0%
Net Debt-to-Equity Ratio	-5.5%	-20.9%	-22.0%	-29.0%	-37.1%
Interest Cover	NA	NA	NA	NA	NA

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

## Company Sector

Pharmaceuticals

## Company Description

Dr. Reddy's is among the three companies in India in terms of revenue with strong presence in the US, India and Russia. While the company had strong R&D capabilities reflected in its limited competition US launches, it has diversified its growth drivers and de-risked its pipeline. However, US still remains its largest market, accounting for 40%+ of revenue followed by EMs & India (19-20% revenue each). In addition, it has successfully monetized several specialty assets over the last few years.

## Investment Rationale

We have a Buy rating on DRRD as we like its diversified growth strategy, US generic (gx) earnings momentum driven by wide portfolio, gRevlimid, Mayne acquisition. We see business development opportunities as catalyst for the stock. After factoring the Mayne portfolio, DRRD is trading in line with long-term multiples ex-gRevlimid. Hence, we see limited downside risk versus other US gx stocks.

## Stock Data

Shares / ADR	1.00
Price to Book Value	3.5x

## Key Changes

(US\$)	Previous	Current
2024E EPS	3.97	3.99
2025E EPS	4.14	4.18
2026E EPS	4.29	4.30

## Key takeaways from call

- US business:** North America sales were higher sequentially at \$401mn (vs \$385 mn in 2Q), a beat to our estimate of flattish US gx. The sequential sale expansion was driven by market share gains in base portfolio, Mayne integration offset by erosion in key products. DRRD noted that Mayne portfolio is growing in line with their expectations and base business (ex-gRevlimid) has also improved YoY. The company launched 2 products in US during the quarter and filed 2 ANDAs. DRRD has launched 12 products in US in 9M but guided for over 20 launches for the full year. In Jan, DRRD acquired Meno Labs branded portfolio of women's health focused supplements in the US and noted OTC business being a lever in its Horizon 2 plan. The acquired Meno Labs is however relatively small with a turnover of couple US\$ mn that has scope to be scaled up over time. The overall OTC contribution for DRRD stands at ~10% of US business. The company indicated that they have identified 26 material launches (\$10mn+) over next two-year period. On the US gx environment, company indicated similar trends vs past few quarters with customer focus on service and supply reliability.
- Domestic business:** India business registered a YoY sales growth of 5% (lower vs industry) but better than our est. However, adjusted for price erosion in Cidmus post patent expiry and divested portfolio, India growth is already in double digit. DRRD launched 3 new brands in India during the quarter. They guided for double-digit growth in India sales in FY25 aided by investments in identified brands of focus (expected to grow at 1.5x market), digital therapies, licensing, and collaborations. The company is also undergoing SG&A spend to build demand for products that will be launched the next two years and reflect in growth over medium-term.
- Other markets:** Russia sales saw a 14% decline YoY in INR terms (3.3% YoY growth in cc) impacted by adverse currency and high base. But on QoQ basis the co saw improved volumes and higher prices in select drugs. The CIS and other countries business also witnessed a robust 7% QoQ growth (in INR) aided by base business volume growth and new launches. The sharp QoQ improvement in RoW sales was driven by new launches as well as higher demand for existing products. The company launched 30 products across various EM markets during the quarter. DRRD's Europe business also registered a strong 15% YoY growth but a 6% QoQ decline with the sequential impact being on account of price erosion in certain countries. The company launched 6 new products in Europe during the quarter and also entered the OTC space in UK. DRRD also noted strong filing momentum in China with 9 filings FY24 YTD (3 in 3Q).
- Other business:** DRRD also noted improvement in PSAI business with 11% QoQ growth driven by better volumes in base portfolio and contribution from new launches also aiding better gross margins (29.4% vs 17.8% in 2Q). Mgmt does not see the high 3Q PSAI gross margins as one offs. During the quarter DRRD indicated other operating income of Rs970Mn including settlement income of Rs540mn.
- Margin trajectory:** EBITDA margins for the qtr was at 29.3% broadly inline with our est but higher vs consensus. Gross margins for global generic business came off by 170bps bps due to erosion in certain products as well as adverse mix on timing issue with expected launches. Adverse Fx is Russia also impacted GMs with previous RUB hedges at more favorable rates. R&D costs for the quarter at Rs5.6Bn were sequentially higher by 2% to support clinical trials on differentiated assets and other efforts for both small molecules and biosims. The company's SG&A costs over 3Q were also 10% higher QoQ driven by investment in brands, digitization and new business initiatives. Mgmt expects



SG&A to stay at similar level as % of sales but continue to trend up on absolute basis.

- **Global biosimilars** – DRRD received an approval from UK MHRA for proposed bRituximab biosimilar. Its USFDA PAI inspection for bRituximab in Oct-23 concluded with 9 observations. The company has a pipeline of 6 biosimilars for developed markets. The US biosimilar launches are expected to start from CY27 and likely to be either first or in the first wave for these biosimilars.
- **Others:** DRRD's FTO-3 (Bachupally) site was inspected by USFDA and issued 10 observations in Dec-23. DRRD noted that it has submitted responses to all observations within stipulated time and indicated low dependence on Bachupally from a pipeline perspective. DRRD's FCF for the qtr was at Rs200Mn vs Rs14.5Bn last quarter due to higher working capital to prepare for possible Red Sea disruption and strategic inventory for new product launches (as well as raw material). Mgmt also reiterated GLP-1s as important area of growth both on formulation and API front with plan to launch products globally.

## Key Charts

### Exhibit 1: Segmental revenue trend (Rs Mn)

US sales were higher QoQ on base business growth, Mayne integration partially offset by higher erosion in key products; India business growth was muted at 5% YoY but ex-divestiture revenue & Cidmus contribution tracking at DD

	3QFY24	2QFY24	3QFY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Global generics	63,095	61,006	59,241	3.4%	6.5%	184,192	159,464	15.5%
North America	33,492	31,700	30,567	5.7%	9.6%	97,170	76,383	27.2%
Europe	4,970	5,286	4,303	-6.0%	15.5%	15,327	12,643	21.2%
India	11,800	11,860	11,274	-0.5%	4.7%	35,142	36,113	-2.7%
Russia & CIS	8,200	7,970	9,100	2.9%	-9.9%	23,770	22,300	6.6%
RoW	4,633	4,190	3,997	10.6%	15.9%	12,783	12,025	6.3%
PSAI	7,839	7,034	7,758	11.4%	1.0%	21,582	21,282	1.4%
Proprietary products and others	1,214	684	701	77.5%	73.2%	2,490	2,118	17.6%
<b>Total revenue</b>	<b>72,148</b>	<b>68,724</b>	<b>67,700</b>	<b>5.0%</b>	<b>6.6%</b>	<b>208,264</b>	<b>182,864</b>	<b>13.9%</b>

Source: Company Reports

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### Exhibit 2: Condensed P&L (Rs Mn)

EBITDA margins for the qtr at 29.3% were inline with our est as higher US contribution as well as settlement incomes (28% adj margins) with partial offset from elevated SG&A costs. Global gx gross margins were 170bps lower QoQ on adverse mix

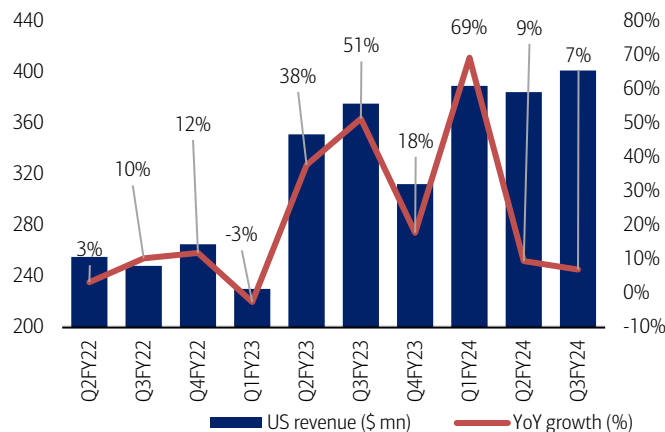
	3QFY24	2QFY24	3QFY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenues	72,148	68,802	67,700	4.9%	6.6%	208,334	182,910	13.9%
Cost of revenues	29,945	28,434	27,607	5.3%	8.5%	86,210	79,565	8.4%
Gross profit	42,203	40,368	40,093	4.5%	5.3%	122,124	103,345	18.2%
Gross Margin (%)	58.5%	58.7%	59.2%	-18	-73	58.6%	56.5%	212
SG&A	16,458	15,005	14,710	9.7%	11.9%	45,582	40,588	12.3%
R&D	5,565	5,447	4,821	2.2%	15.4%	15,996	14,015	14.1%
Other income (net)	-967	-1,796	732	-46.2%	-232.1%	-3,543	-5,626	-37.0%
EBITDA	21,147	21,712	19,830	-2.6%	6.6%	64,089	54,368	17.9%
EBITDA margin (%)	29.3%	31.6%	29.3%	-225	2	30.8%	29.7%	104
D&A	3,880	3,845	3,405	0.9%	14.0%	11,319	9,605	17.8%
Finance costs	963	1,225	-139	-21.4%	-792.8%	2,972	2,054	44.7%
PBT	18,257	19,134	16,346	-4.6%	11.7%	55,854	47,111	18.6%
Tax expense	4,468	4,334	3,875	3.1%	15.3%	13,240	11,637	13.8%
Reported PAT	13,789	14,800	12,471	-6.8%	10.6%	42,614	35,474	20.1%

Source: Company Reports

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**Exhibit 3: Qtrly US revenue (\$ mn) trend**

US sales were significantly higher QoQ vs expectations of QoQ decline aided by share gains in base portfolio, Mayne contribution partially offset by erosion in key products

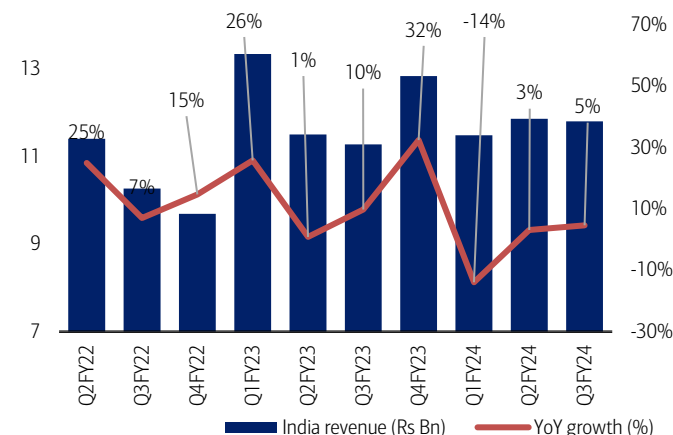


Source: Company Reports

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**Exhibit 4: Qtrly India revenue (Rs Bn) trend**

Domestic sales saw 5% YoY growth (DD ex-divestiture income and Cidmus impact). Mgmt guided for DD growth in FY25

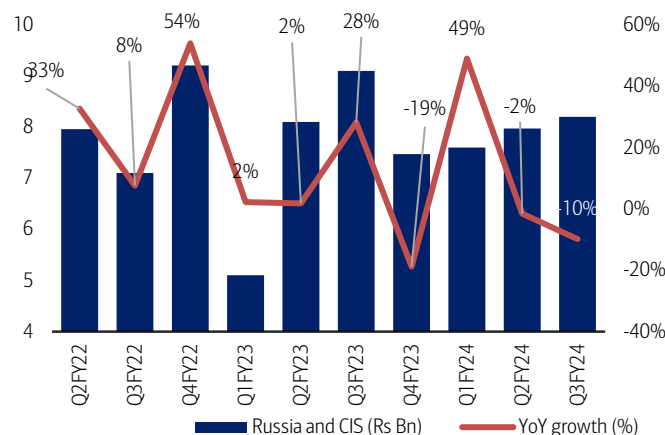


Source: Company Reports

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**Exhibit 5: Russia and CIS revenue (Rs Bn) trend**

Russia and CIS sales saw QoQ benefit from higher base business volumes, Russia business also saw price hikes in select products while DRRD launched new products in CIS

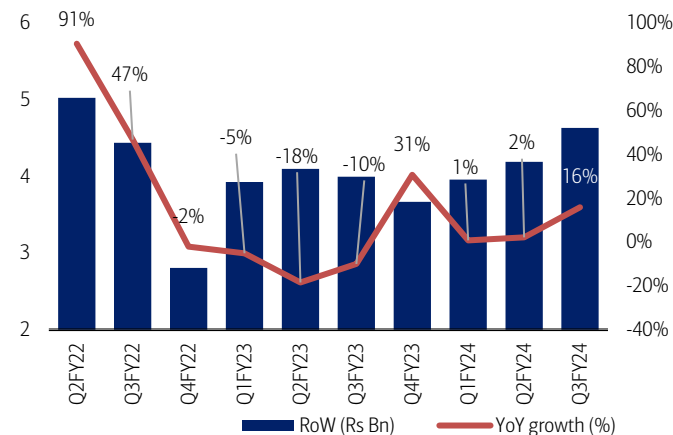


Source: Company reports

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**Exhibit 6: RoW revenue (Rs Bn) trend**

RoW sales were 16% higher QoQ driven by base business volume expansion as well as new launches

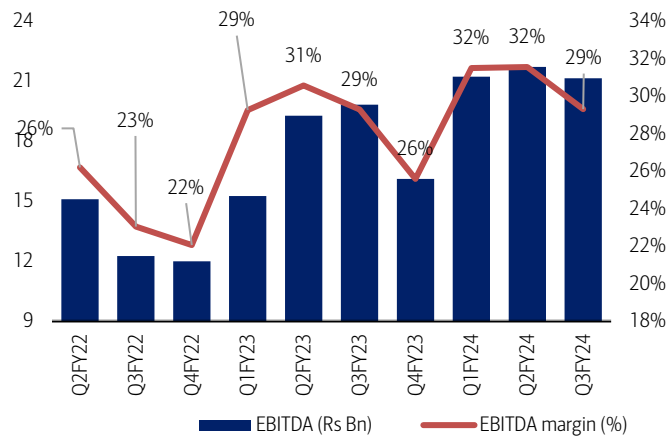


Source: Company reports

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**Exhibit 7: EBITDA (Rs Bn) and margin trend (%)**

3Q EBITDA margin at 29.3% inline with BofAe but higher vs street with higher US gx and other income driven expansion offset partially by elevated SG&A

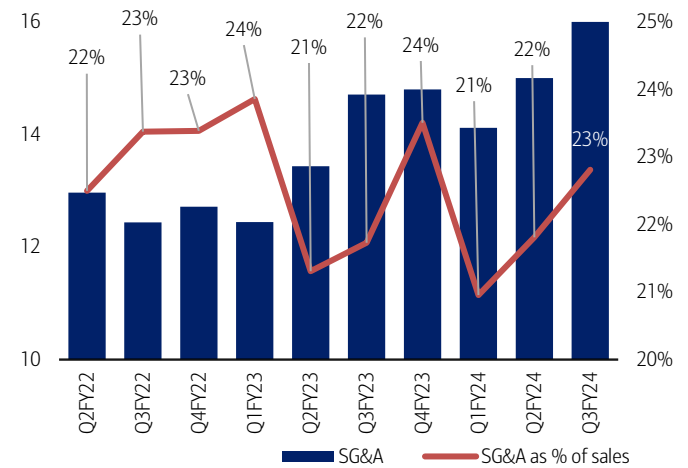


Source: Company reports

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**Exhibit 8: SG&A costs (Rs Bn) and as % of sales**

SG&A costs were sequentially higher by 10% to support brand investments, digitization etc for India growth (to reflect over FY25-26)

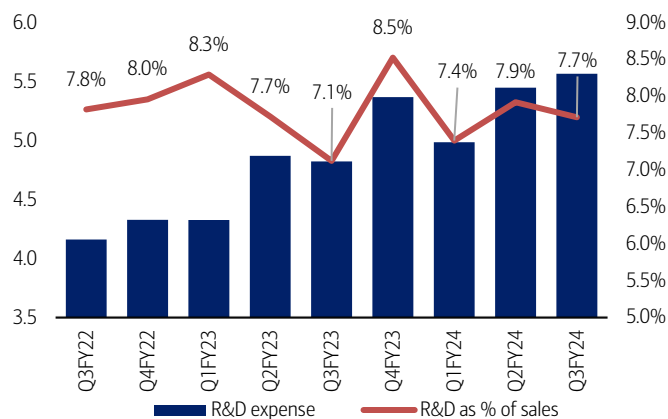


Source: Company reports

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**Exhibit 9: R&D costs (Rs Bn) and as % of sales**

R&D costs were slightly higher QoQ to aid development efforts for differentiated products



Source: Company Reports

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**Exhibit 10: Earnings estimates revision**

Our earnings remain broadly unchanged post 3Q results

Metrics	FY24E			FY25E			FY26E		
	Old	New	% change	Old	New	% change	Old	New	% change
Sales (Rs Bn)	272.9	278.0	2%	291.3	296.4	2%	307.8	311.5	1%
EBITDA (Rs Bn)	83.4	83.1	0%	86.0	86.3	0%	88.8	88.5	0%
EBITDA margin	30.6%	29.9%	-71	29.5%	29.1%	-43	28.8%	28.4%	-42
PAT (Rs Bn)	54.9	55.1	0%	57.3	57.8	1%	59.4	59.5	0%
EPS	33.0	33.2	0%	34.5	34.7	1%	35.7	35.8	0%

Source: BofA Global Research estimates

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## Price objective basis & risk

### Dr. Reddy's (DRYBF / RDY)

Our PO is Rs6570 is based on 25.8x 1-yr fwd P/E on ex-gRevlimid business (15-20% premium to LT multiples) and net present value (NPV) of Rs303/share for gRevlimid. We value the core business at a premium to other peers given the diversified growth strategy and superior return. While the US is a significant driver, the dependence for incremental core earnings growth is lower than peers and limits the downside risk. We value the ADR at \$79 (exchange rate of Rs83), in line with primary.

Downside risks are 1) deterioration in core margins due to slower growth, 2) adverse regulatory outcome on its key US facilities, 3) lower-than-expected revenue potential from gRevlimid impacting the NPV.

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#### APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adicon Holdings	ADCNF	9860 HK	David Li
	Aier Eye Hospital	XAEOF	300015 CH	David Li
	Amvis Holdings	XEPSF	7071 JP	Ritsuo Watanabe
	Angelalign Technology Inc	AGLFF	6699 HK	David Li
	APM Human Services	XBZXF	APM AU	Lyanne Harrison
	Apollo Hospital	XWQAF	APHS IN	Neha Manpuria
	Asahi Intecc	AHICF	7747 JP	Ritsuo Watanabe
	Aurobindo	XLZFF	ARBP IN	Neha Manpuria
	Australian Clinical Labs	XAUKF	ACL AU	Lyanne Harrison
	Autobio Diagnostics Co Ltd	XQDXF	603658 CH	Sandra Sun
	AVITA	AVHHL	AVH AU	Lyanne Harrison
	AVITA	RCEL	RCEL US	Lyanne Harrison
	Baiyunshan	GZPHF	874 HK	Sandra Sun
	Bangkok Chain Hospital	BKKFF	BCH TB	Charti Phrawphraikul
	Bangkok Dusit Medical Services	BDUFF	BDMS TB	Charti Phrawphraikul
	Beijing Tongrentang Co., Limited	BJTGF	600085 CH	David Li
	Biocon	XLOFF	BIOS IN	Neha Manpuria
	Bumrungrad Hospital	BUHHF	BH TB	Charti Phrawphraikul
	Cansino Bio	CASBF	6185 HK	David Li
	Chugai Pharm.	CHGCF	4519 JP	Koichi Mamegano
	Chularat Hospital Group	XOCOF	CHG TB	Charti Phrawphraikul
	CSL Limited	CMXHF	CSL AU	Lyanne Harrison
	Daiichi Sankyo	DSKYF	4568 JP	Koichi Mamegano
	Daiichi Sankyo	DSNKY	DSNKY US	Koichi Mamegano
	Dr. Reddy's	DRYBF	DRRD IN	Neha Manpuria
	Dr. Reddy's	RDY	RDY US	Neha Manpuria
	EBOS Group Limited	EBOSF	EBO NZ	Lyanne Harrison
	EBOS Group Limited	XEBOF	EBO AU	Lyanne Harrison
	Eisai	ESALF	4523 JP	Koichi Mamegano
	Everest Medicine	XMLKF	1952 HK	David Li
	Fisher & Paykel Healthcare	XPAXF	FPH AU	Lyanne Harrison
	Fisher & Paykel Healthcare	FSPKF	FPH NZ	Lyanne Harrison
	Fortis Health	XFFTf	FORH IN	Neha Manpuria
	Frontage	FGHQF	1521 HK	David Li
	Gland Pharma	XGLPF	GLAND IN	Neha Manpuria
	Glenmark Life Sciences	XWDPF	GLS IN	Neha Manpuria
	Gushengtang	GSHTF	2273 HK	David Li
	Huadong Medicine	XCPDF	000963 CH	Ethan Cui
	Hualan Biological	XCBEF	002007 CH	Ethan Cui
	Hygeia Healthcare	HYHHF	6078 HK	Ethan Cui
	IHH Healthcare Berhad	IHHHF	IHH MK	Paul Dewberry
	IHH Healthcare Bhd	XFAHF	IHH SP	Paul Dewberry
	Imeik	ZMITF	300896 CH	Ethan Cui
	Innovent	IVBXF	1801 HK	David Li
	Integral Diagnostics	ITGDF	IDX AU	Lyanne Harrison
	Jinxin Fertility	JXFGF	1951 HK	Ethan Cui
	Jinyu Bio-Tech	XMTDF	600201 CH	David Li
	Kangji Medical	KMHlf	9997 HK	David Li
	Medley	XEQNF	4480 JP	Ritsuo Watanabe
	MicroPort	MCRPF	853 HK	Sandra Sun
	Mindray	XDVVF	300760 CH	Sandra Sun
	Nanosonics Limited	NNCSF	NAN AU	Lyanne Harrison
	Olympus Corp.	OCPNF	7733 JP	Ritsuo Watanabe
	Ovctek	XOCKF	300595 CH	David Li
	Pharmaron	PHBBF	3759 HK	David Li
	Polynovo	CALZF	PNV AU	Lyanne Harrison
	Praram 9 Hospital	XPNHF	PR9 TB	Charti Phrawphraikul
	ResMed Inc	RSMDf	RMD AU	Lyanne Harrison



## APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ResMed Inc.	RMD	RMD US	Lyanne Harrison
	Sawai Group Holdings	SWGHE	4887 JP	Ritsuo Watanabe
	Shanghai Pharmaceuticals	SHPMF	2607 HK	David Li
	Shanghai United Imaging	XCAOF	688271 CH	Sandra Sun
	Shionogi	SGIOF	4507 JP	Koichi Mamegano
	Shionogi	SGIOY	SGIOY US	Koichi Mamegano
	Sino Biopharm	SBMFF	1177 HK	David Li
	Sinopharm	SHTDF	1099 HK	David Li
	SMS	SMSZF	2175 JP	Ritsuo Watanabe
	Sonic Healthcare Limited	SKHCF	SHL AU	Lyanne Harrison
	Sosei	SOLTF	4565 JP	Koichi Mamegano
	Takeda Pharm.	TKPHF	4502 JP	Koichi Mamegano
	Takeda Pharm.	TAK	TAK US	Koichi Mamegano
	Terumo	TRUMF	4543 JP	Ritsuo Watanabe
	TigerMed	HTMDF	3347 HK	David Li
	TRYT	XHXTF	9164 JP	Ritsuo Watanabe
	Wuxi Apptec	WUXIF	2359 HK	David Li
	Wuxi Apptec	XLUHF	603259 CH	David Li
	Yifeng Pharmacy	XYHCF	603939 CH	Ethan Cui
	Yunnan Baiyao	YBAIF	000538 CH	Sandra Sun
	Zai Lab	ZLAB	ZLAB US	David Li
	Zai Lab	XCDZF	9688 HK	David Li
	Zhifei	XCHOF	300122 CH	David Li

## NEUTRAL

	Ansell Limited	ANSLF	ANN AU	Lyanne Harrison
	Astellas Pharma	ALPMF	4503 JP	Koichi Mamegano
	Astellas Pharma	ALPMY	ALPMY US	Koichi Mamegano
	Beigene	XBETF	6160 HK	David Li
	Beigene	BGNE	BGNE US	David Li
	Healius Limited	PHCRF	HLS AU	Lyanne Harrison
	JMDC	JMDCF	4483 JP	Ritsuo Watanabe
	Joinn Lab	XQTSF	6127 HK	David Li
	Kyowa Kirin	KYKOF	4151 JP	Koichi Mamegano
	Max Healthcare	XMHLF	MAXHEALT IN	Neha Manpuria
	PHC Holdings	PHCCF	6523 JP	Ritsuo Watanabe
	Pien Tze Huang	XUVHF	600436 CH	Sandra Sun
	Ramsay Health Care Limited	RMSYF	RHC AU	Lyanne Harrison
	Sigma Healthcare Limited	SIGGF	SIG AU	Lyanne Harrison
	Sun Pharma	XPUCF	SUNP IN	Neha Manpuria
	Topchoice Medical	XZDXF	600763 CH	Ethan Cui
	Torrent Pharma	TOPHF	TRP IN	Neha Manpuria
	WuXi Biologics	WXIBF	2269 HK	David Li
	Zydus Lifesciences	XMQLF	ZYDUSLIF IN	Neha Manpuria

## UNDERPERFORM

	Ain Holdings	AINPF	9627 JP	Ritsuo Watanabe
	Alkem	XAMLF	ALKEM IN	Neha Manpuria
	Asymchem Laboratories	XALPF	002821 CH	David Li
	Baiyunshan	XOUFF	600332 CH	Sandra Sun
	Beijing Wantai Biological Pharmacy	XBHIF	603392 CH	David Li
	Cipla	XCLAF	CIPLA IN	Neha Manpuria
	Cochlear Limited	CHEOF	COH AU	Lyanne Harrison
	CSPC Pharmaceutical	CHJTF	1093 HK	Ethan Cui
	Divis Laboratories	XXQPF	DIVI IN	Neha Manpuria
	Hansoh	HNSPF	3692 HK	David Li
	Hengrui Medicine	XMOKF	600276 CH	David Li
	Joinn Lab	JOLCF	603127 CH	David Li
	Lupin	XEFSF	LPC IN	Neha Manpuria
	M3	MTHRF	2413 JP	Ritsuo Watanabe
	Mankind Pharma	XDXZF	MANKIND IN	Neha Manpuria
	Medipal Holdings	MEPDF	7459 JP	Ritsuo Watanabe
	Ono Pharm.	OPHLF	4528 JP	Koichi Mamegano
	Otsuka HD	OTSKF	4578 JP	Koichi Mamegano
	Otsuka HD	OTSKY	OTSKY US	Koichi Mamegano
	Pharmaron	XYLGF	300759 CH	David Li



**APR - Healthcare Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Shanghai Pharmaceuticals	XKCRF	601607 CH	David Li
	Sysmex	SSMXF	6869 JP	Ritsuo Watanabe
	TigerMed	XHTHF	300347 CH	David Li

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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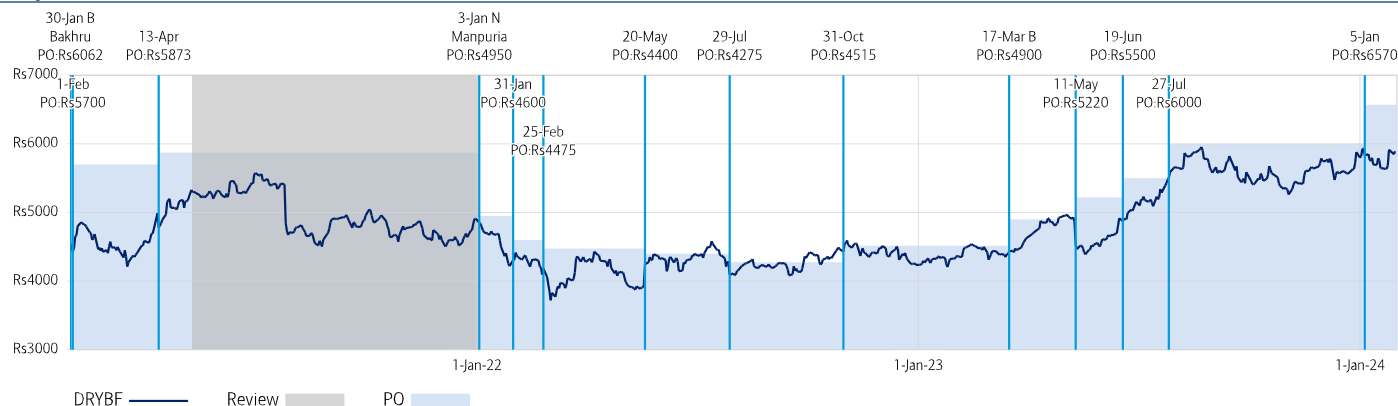
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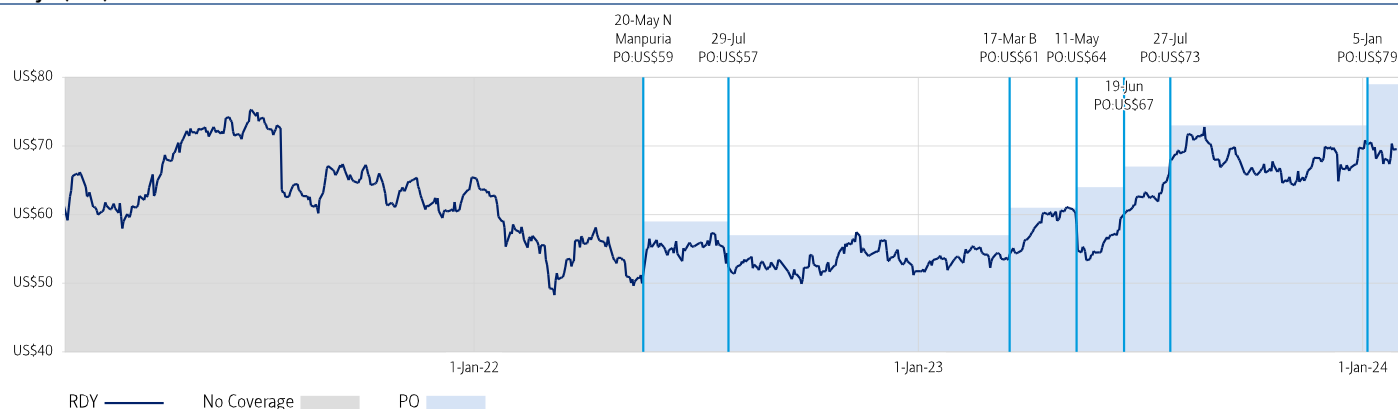
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### Dr. Reddy's (DRYBF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Dr. Reddy's (RDY) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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