

July 30, 2020

## Steady performance despite regional fluctuations...

Revenues grew 14.7% YoY to ₹ 4426 crore (I-direct estimate: ₹ 4305 crore) mainly due to strong growth in Europe (up 47.7% YoY) and RoW markets (up 56.6% YoY) partly offset by 10.1% YoY fall in domestic sales to ₹ 626 crore. PSAI segment also posted robust 88.4% YoY growth to ₹ 855 crore. US revenues grew 5.9% YoY to ₹ 1728 crore due to rupee depreciation. EBITDA margins expanded 611 bps YoY to 25.3% due to a better overall operational performance. Subsequently, EBITDA grew 51.2% YoY to ₹ 1121 crore. Net profit de-grew 12.1% YoY to ₹ 595 crore. Delta vis-à-vis EBITDA was mainly due to higher tax rate and higher other income in Q1FY20.

## US going through rough patch but promising launches ahead

Despite challenging times, the US remains a key driver for the company, contributing ~37% to total revenues as of FY20. The company has a strong pending pipeline comprising 99 ANDAs (54 Para IV filings, 28 FTFs) and two NDAs under 505 (b) (2) route. We expect US sales to grow at a CAGR of 13.6% to ₹ 8339 crore in FY20-22E on the back of new launches.

## Russia CIS, India to provide more stability, going ahead

These two markets are more or less identical in nature (branded generics, OTC) with similar growth potential, similar kinds of risks. Dr Reddy's is well versed with the dynamics of Russia by virtue of being an early mover. Notwithstanding Covid-19 related quarterly gyrations, we expect strong growth in these markets on the back of a stabilising currency, geographical expansion, robust biological portfolio, ramp up in institutional business. For India, growth may be largely from launches in oncology & biosimilars space, UCB/Wockhardt like acquisitions besides MR productivity improvement. We expect Russia & other CIS to grow at 10% CAGR in FY20-22E to ₹ 2809 crore with India growing at ~18.5% CAGR in FY20-22E to ₹ 4063 crore.

## Valuation & Outlook

Despite subpar performances in key trinity of US/India/Russia, which was not entirely unexpected, the company begun FY21 on a strong note, thanks to robust performances in other segments and sustained focus on cost rationalisation, especially on SGN&A front and R&D spend. We draw comfort from the management commentary, especially their endeavour to focus on simultaneous launches across geographies and segments besides realignment of R&D spend towards - Global Generics, Biosimilars and PSAI segment. 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. We believe the efforts taken in the last few quarters are sustainable and should support stable performances, going ahead. We maintain **BUY** and arrive at a target price of ₹ 5000 based on 25x FY22E EPS of ~₹ 200.

Dr.Reddy's

### Particulars

Particular	Amount
Market Capitalisation	₹71476 crore
Debt (FY 20)	₹2210 crore
Cash & equivalents (FY 20)	₹205 crore
EV	₹73481 crore
52 week H/L (₹)	4493/2351
Equity capital	₹83.1 crore
Face value	₹5

### Key Highlights

- Strong Q1 performance due to strong growth in Europe, RoW and PSAI segment. EBITDA margins up 611 bps YoY due to overall better operational performance
- 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
- Maintain BUY

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### Key Financial Summary

(₹crore)	FY19	FY20	FY21E	FY22E	CAGR FY20-22E %
Revenues	15448.2	17517.0	19255.9	22204.5	12.6
EBITDA	3151.6	2466.0	4516.7	5378.6	47.7
EBITDA Margins (%)	20.4	14.1	23.5	24.2	
Adjusted PAT	1906.3	2026.0	2680.7	3324.6	28.1
EPS (Adjusted)	114.7	121.9	161.3	200.0	
PE (x)	37.5	35.3	26.7	21.5	
EV to EBITDA (x)	23.0	28.8	15.5	12.7	
RoE (%)	13.6	13.0	15.0	16.0	
RoCE (%)	10.7	9.6	18.4	19.7	

Source: ICICI Direct Research; Company

**Exhibit 1: Variance Analysis**

	Q1FY21	Q1FY21E	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Comments
Revenue	4,426.5	4,305.0	3,858.2	4,448.9	14.7	-0.5	YoY growth driven by strong growth in EU, RoW markets and PSAI segment
Raw Material Expenses	1,319.6	1,428.7	1,206.9	1,531.1	9.3	-13.8	Gross profit margin for GG and PSAI business segments at 61.4% and 33.4%, respectively
Gross Profit	3,106.9	2,876.3	2,651.3	2,917.8	17.2	6.5	A 147 bps YoY increase in gross margins primarily on account of (1) favorable product mix, (2) forex benefit and (3) productivity
Employee expenses	872.4	873.9	861.5	855.5	1.3	2.0	
Other expenses	1,113.2	1,140.8	1,048.1	1,113.1	6.2	0.0	YoY increase due to higher freight costs. R&D expenses at ₹ 398 crore
EBITDA	1,121.3	861.5	741.7	949.2	51.2	18.1	
EBITDA (%)	25.3	20.0	19.2	21.3	610.8	399.6	Improved margins and beat vis-à-vis I-direct estimates mainly due to a better overall operational performance
Other Income	87.1	64.6	430.1	73.6	-79.7	18.3	YoY decline due to ₹346 crore Celgene settlement income in Q1FY20
Interest	23.3	22.7	29.8	23.0	-21.8	1.3	
Depreciation	292.3	278.5	289.0	274.1	1.1	6.6	
PBT	892.8	624.9	853.0	725.7	4.7	23.0	
Tax	305.9	115.6	192.8	-44.9	58.7	NA	Higher ETR due to R&D weighted deduction discontinuation and expiry of tax holiday at a plant
Net Profit	594.6	519.8	676.5	781.1	-12.1	-23.9	
Adjusted PAT	594.6	519.8	676.5	781.1	-12.1	-23.9	Delta vis-à-vis EBITDA and beat I-direct estimates mainly due to higher other income in base year and higher tax rate
<b>Key Metrics</b>							
US	1,728.2	1,760.5	1,632.2	1,807.2	5.9	-4.4	in US\$ terms, YoY decline of ~3.4% to US\$229 million due to lower Rx generation and Covid-19 impact on hospitals. YoY growth primarily on account of new products and volume traction across geographies. Beat vis-à-vis I-direct estimates mainly due to better-than-expected traction from new geographies
Europe	355.1	288.5	240.4	344.6	47.7	3.0	
India	626.0	696.0	696.0	683.9	-10.1	-8.5	YoY, QoQ decline due to lower volume amid lower patient footfall and lower Rx generation amid Covid-19
Russia & Other CIS	470.0	582.4	520.0	570.0	-9.6	-17.5	YoY, QoQ decline due to lower volume amid lower patient footfall and lower Rx generation Covid-19
RoW	328.2	209.6	209.6	234.2	56.6	40.1	YoY growth due to new products & volume traction in base business
PSAI	855.3	680.9	453.9	719.5	88.4	18.9	YoY growth due to higher volumes of some products, favourable forex and better new product sales

Source: ICICI Direct Research

**Exhibit 2: Change in Estimates**

	FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	19,577.3	19,255.9	-1.6	21,738.0	22,204.5	2.1
EBITDA	4,470.7	4,516.7	1.0	5,265.7	5,378.6	2.1
EBITDA Margin (%)	22.8	23.5	66 bps	24.2	24.2	2 bps
Adjusted PAT	2,721.5	2,680.7	-1.5	3,485.2	3,324.6	-4.6
EPS (₹)	163.8	161.3	-1.5	209.7	200.0	-4.6

Source: ICICI Direct Research

**Exhibit 3: Change in Estimates**

	Current				Earlier		Comments
(₹ crore)	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
US	5,995.7	6,465.8	7,196.5	8,339.5	7,516.2	8,313.9	Changed mainly due to change in currency assumptions
Europe	787.3	1,170.7	1,390.5	1,480.4	1,311.8	1,443.0	Changed mainly due to better-than-expected growth in Q1FY21 and better traction expected from new launches
India	2,618.4	2,894.6	3,344.4	4,063.1	3,617.0	4,176.0	Changed mainly due to lower-than-expected growth in Q1FY21
Russia & Other CIS	2,050.0	2,340.0	2,508.4	2,809.4	2,620.8	2,935.3	
RoW	838.9	941.4	1,169.8	1,296.0	1,082.6	1,245.0	Changed mainly due to better-than-expected growth in Q1FY21 and better traction expected from new launches
PSAI	2,414.0	2,574.7	3,294.2	3,788.4	2,953.1	3,100.7	Changed mainly due to better-than-expected growth in Q1FY21 and strong traction expected from CRAMS

Source: ICICI Direct Research

## Conference Call Highlights

- R&D spend during the quarter was ₹ 398 crore (9.0% of revenues)
- Capex in Q1FY21 was ₹ 150 crore
- Net debt is at ₹ 336 crore (net debt: equity- 0.02) as of Q1FY21; FCF for Q1FY21: ₹ 925 crore (before Wockhardt ₹ 1499 crore payout)
- GPM at 56%. GPM for Global generics and PSAI segments was at 61.4% and 33.4%, respectively
- Effective tax rate – 25-27% for FY21 (old regime)
- Capex for FY21 to be above ₹ 1000 crore
- Q1FY21 domestic business included 20 days of sales from Wockhardt portfolio
- The company plans to launch 10-25 products per annum in different geographies depending on market conditions
- The management expects PSAI segment growth trend to continue on the back of strong order book
- **Product Update:** 1) Suboxone continues to do well. 2) CRL for Copaxone filed, 3) plans to re-file for gNuvaring in a few months and 4) Rituximab Phase-III trials are on track
- The management is seeing recovery in the US injectable segment
- The company is also working to launch two Covid related products – Fujifilm's Avigan (favipiravir) and Gilead's Remdesivir
- On the proprietary product front, the company is looking to commercialise two products through partners
- RoW markets growth was driven by markets such as China, Vietnam, Venezuela
- The company has launched 29 products across Emerging markets
- US: Six products launched in Q1
  - As of Q1FY21, the company has 99 ANDAs pending USFDA approval (including 54 para IV) and two NDA 505 (b)(2) route
  - one DMFs files in Q1FY21
  - In FY21, the company plans to launch ~25 products in US
- four new brands launched in India

**Exhibit 4: Trends in quarterly financials**

₹Crore	11FY18	12FY18	13FY18	14FY18	15FY18	16FY18	17FY18	18FY18	19FY18	20FY18	21FY18	22FY18	23FY18	24FY18	YoY (%)	QoQ (%)
Total Operating Incor	3333.2	3559.8	3834.1	3553.9	3736.5	3817.5	3864.6	4029.6	3858.2	4812.8	4397.1	4448.9	4426.5		14.7	-0.5
Raw Material Expens	959.2	1036.9	1036.7	1006.7	1004.9	1051.7	1175.8	1262.4	1206.9	1401.1	1415.3	1531.1	1319.6		9.3	-13.8
% of Revenues	28.8	29.1	27.0	28.3	26.9	27.5	30.4	31.3	31.3	29.1	32.2	34.4	29.8		-147 bps	-460 bps
Gross Profit	2374.0	2522.9	2797.4	2547.2	2731.6	2765.8	2688.8	2767.2	2651.3	3411.7	2981.8	2917.8	3106.9		17.2	6.5
Gross Profit Margins	71.2	70.9	73.0	71.7	73.1	72.5	69.6	68.7	68.7	70.9	67.8	65.6	70.2		147 bps	460 bps
Employee expenses	807.3	789.0	818.1	800.5	837.1	872.2	805.4	841.5	861.5	825.5	837.7	855.5	872.4		1.3	2.0
% of Revenues	24.2	22.2	21.3	22.5	22.4	22.8	20.8	20.9	22.3	17.2	19.1	19.2	19.7		-262 bps	48 bps
Other expenses	1243.5	1064.5	1186.6	1183.1	1125.7	1134.3	1078.8	1106.8	1048.1	1522.4	2432.8	1113.1	1113.2		6.2	0.0
% of Revenues	37.3	29.9	30.9	33.3	30.1	29.7	27.9	27.5	27.2	31.6	55.3	25.0	25.1		-202 bps	13 bps
Total Expenditure	3010.0	2890.4	3041.4	2990.3	2967.7	3058.2	3060.0	3210.7	3116.5	3749.0	4685.8	3499.7	3305.2		6.1	-5.6
% of Revenues	90.3	81.2	79.3	84.1	79.4	80.1	79.2	79.7	80.8	77.9	106.6	78.7	74.7		-611 bps	-400 bps
EBITDA	323.2	669.4	792.7	563.6	768.8	759.3	804.6	818.9	741.7	1063.8	-288.7	949.2	1121.3		51.2	18.1
EBITDA Margins (%)	9.7	18.8	20.7	15.9	20.6	19.9	20.8	20.3	19.2	22.1	-6.6	21.3	25.3		611 bps	400 bps
Total Depreciation	259.2	270.2	271.5	276.3	278.7	278.6	290.3	287.2	289.0	313.1	286.9	274.1	292.3		1.1	6.6
EBITDA	64.0	399.2	521.2	287.3	490.1	480.7	514.3	531.7	452.7	750.7	-575.6	675.1	829.0		83.1	22.8
Interest	21.5	22.3	17.2	17.8	19.5	20.8	24.1	24.5	29.8	30.3	15.2	23.0	23.3		-21.8	1.3
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	42.5	376.9	504.0	269.5	470.6	459.9	490.2	507.2	422.9	720.4	-590.8	652.1	805.7		90.5	23.6
Total Tax	23.7	112.3	252.8	49.2	53.2	80.7	101.1	150.8	192.8	-320.7	32.5	-44.9	305.9		58.7	-781.3
Tax %	55.8	29.8	50.2	18.3	11.3	17.5	20.6	29.7	45.6	-44.5	-5.5	-6.9	38.0			
Adjusted PAT	66.6	305.4	302.7	272.1	476.1	518.3	500.3	455.4	676.5	1106.8	-538.4	781.1	594.6		-12.1	-23.9

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.

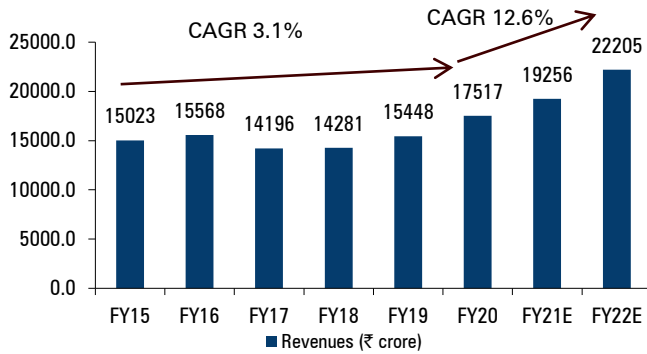
DRL is one of the few Indian companies to foray into new drug discovery & development (NDDS) and new chemical entity (NCE) research. The company started research operations in 1992 through a non-profit organisation, Dr Reddy's Research Foundation, which was later merged into the company. Despite being 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.

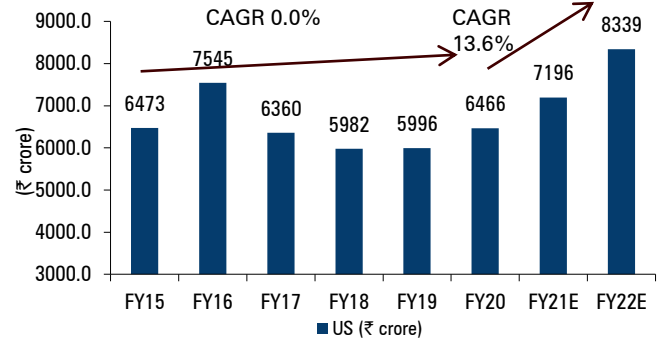
DRL has acquired Wockhardt's part of domestic branded business comprising 62 products including manufacturing facility at Baddi, Himachal Pradesh for a consideration of ₹ 1850 crore. Revenues of the proposed acquired business was ₹ 377 crore in 9MFY20 (₹ 503 crore on annualised basis). The implied valuation comes at ~3.8x annualised revenue. Post this acquisition, completed in June 2020, 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 13% in FY20-22E**



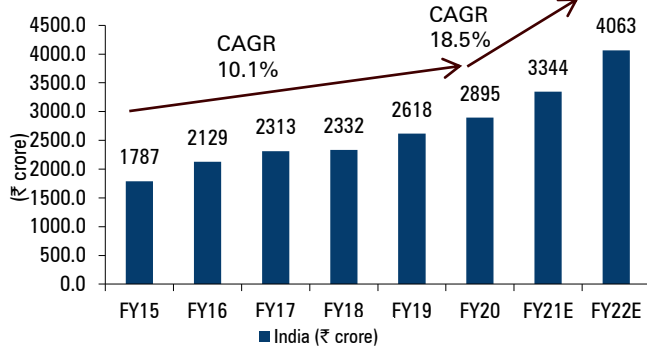
Source: ICICI Direct Research, Company

**Exhibit 6: US to grow at CAGR of 14% over FY20-22E**



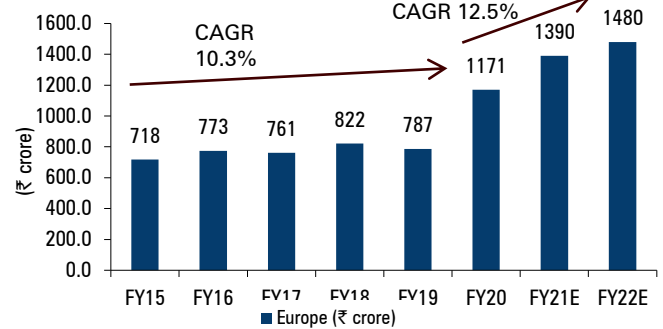
Source: ICICI Direct Research, Company

**Exhibit 7: India to grow at CAGR of 18% over FY20-22E**



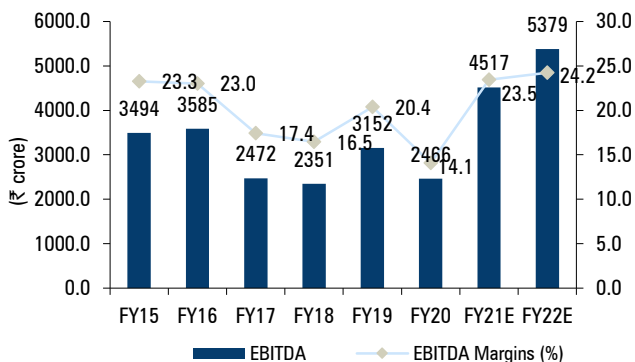
Source: ICICI Direct Research, Company

**Exhibit 8: Europe to grow at 12% CAGR over FY20-22E**



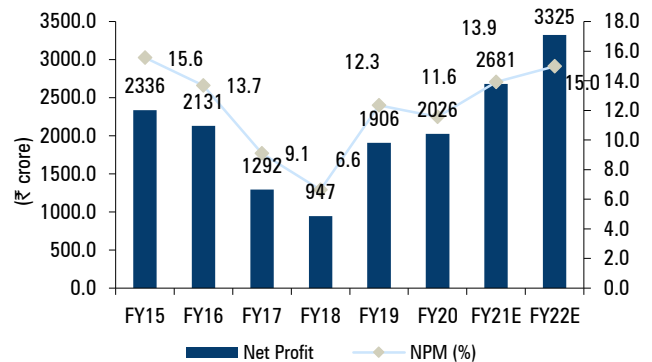
Source: ICICI Direct Research, Company

**Exhibit 9: EBITDA & EBITDA margins trend**



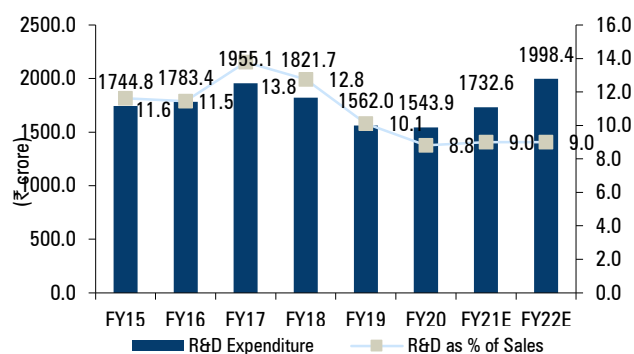
Source: ICICI Direct Research, Company

**Exhibit 10: PAT & PAT margins trend**



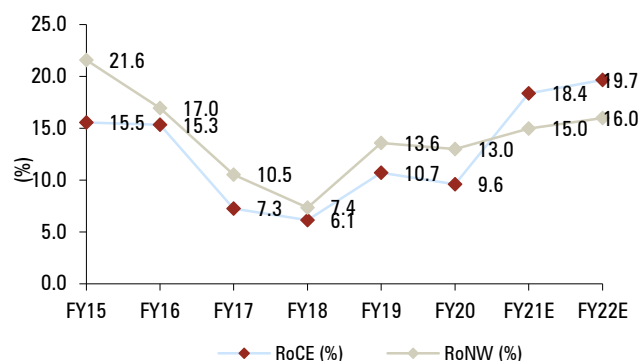
Source: ICICI Direct Research, Company

**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	7196.5	8339.5	0.0	13.6
Europe (₹ crore)	718.1	773.2	760.5	821.6	787.3	1170.7	1390.5	1480.4	10.3	12.5
India (₹ crore)	1787.0	2129.2	2313.2	2332.1	2618.4	2894.6	3344.4	4063.1	10.1	18.5
Russia & Other CIS (₹ crore)	1771.4	1419.1	1520.0	1650.0	2050.0	2340.0	2508.4	2809.4	5.7	9.6
RoW (₹ crore)	1305.7	940.2	587.1	614.7	838.9	941.4	1169.8	1296.0	-6.3	17.3
PSAI	2545.7	2238.0	2127.7	2199.2	2414.0	2574.7	3294.2	3788.4	0.2	21.3

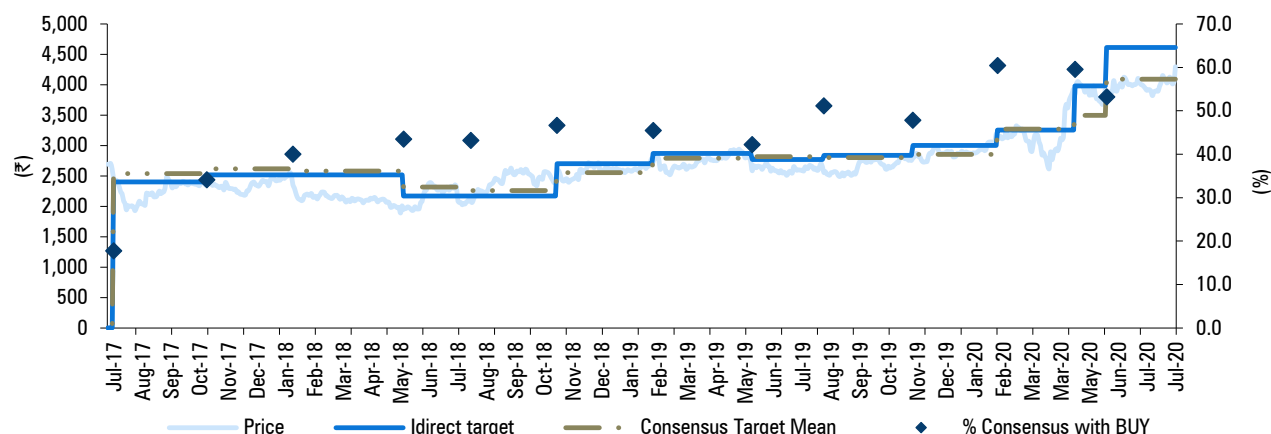
Source: ICICI Direct Research, Company

**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	37.5	23.0	13.6	10.7
FY20	17517.0	13.4	121.9	6.3	35.3	28.8	13.0	9.6
FY21E	19255.9	9.9	161.3	32.3	26.7	15.5	15.0	18.4
FY22E	22204.5	15.3	200.0	24.0	21.5	12.7	16.0	19.7

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	Sbi Funds Management Pvt Ltd	30-Jun-20	15.8	26.29m	22.6m
3	Life Insurance Corp Of India	31-Mar-20	5.1	8.47m	0.4m
4	Blackrock Inc	31-Mar-20	4.3	7.22m	(1.2)m
5	First State Investments Icv	31-Dec-19	4.3	7.11m	(1.0)m
6	Oppenheimer Holdings Inc	23-Apr-18	2.9	4.89m	0.0m
7	First State Global Umbrella Fund P	31-Dec-19	2.8	4.59m	(0.4)m
8	Vanguard Group Inc/The	30-Jun-20	1.3	2.23m	0.0m
9	Icici Prudential Life Insurance Co	31-Mar-20	1.3	2.12m	0.2m
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 %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	26.8	26.8	26.8	26.8	26.7
Others	73.2	73.2	73.2	73.3	73.3

Source: ICICI Direct Research, Company



## Financial Summary

**Exhibit 18: Profit & Loss (₹ crore)**

	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>15,448.2</b>	<b>17,517.0</b>	<b>19,255.9</b>	<b>22,204.5</b>
Growth (%)	8.2	13.4	9.9	15.3
Raw Material Expenses	4,494.8	5,554.4	6,014.8	6,937.1
Employee expenses	3,356.2	3,380.2	3,681.3	4,115.7
Other expenses	4,445.6	6,116.4	5,043.0	5,773.2
Total Operating Expenditure	12,296.6	15,051.0	14,739.1	16,826.0
<b>EBITDA</b>	<b>3,151.6</b>	<b>2,466.0</b>	<b>4,516.7</b>	<b>5,378.6</b>
Growth (%)	34.0	-21.8	83.2	19.1
Interest	88.9	98.3	49.8	44.9
Depreciation	1,134.8	1,163.1	1,169.2	1,240.0
PBT before Exceptional Items	2,248.3	1,829.6	3,607.2	4,451.1
Share of profit/ (loss) of others	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>2,248.3</b>	<b>1,829.6</b>	<b>3,607.2</b>	<b>4,451.1</b>
Total Tax	385.8	-140.3	957.4	1,157.3
PAT	1,906.3	2,026.0	2,680.7	3,324.6
<b>Adjusted PAT</b>	<b>1,906.3</b>	<b>2,026.0</b>	<b>2,680.7</b>	<b>3,324.6</b>
Growth (%)	101.3	6.3	32.3	24.0
EPS	114.7	121.9	161.3	200.0
<b>EPS (Adjusted)</b>	<b>114.7</b>	<b>121.9</b>	<b>161.3</b>	<b>200.0</b>

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	2,680.7	3,324.6
Add: Depreciation & Amortization	1,134.8	1,163.1	1,169.2	1,240.0
Net Increase in Current Assets	-669.9	-1,393.3	-349.5	-1,413.3
Net Increase in Current Liabilities	92.8	639.7	295.7	406.8
<b>CF from operating activities</b>	<b>2,870.4</b>	<b>2,984.1</b>	<b>3,845.9</b>	<b>3,603.1</b>
(Inc)/dec in Fixed Assets	-622.6	-572.5	-2,650.0	-1,400.0
(Inc)/dec in Investments	-228.2	-21.4	600.0	-1,700.0
Others	72.0	108.2	-66.0	-68.6
<b>CF from investing activities</b>	<b>-778.8</b>	<b>-485.7</b>	<b>-2,116.0</b>	<b>-3,168.6</b>
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	-368.4	-456.9
Others	-160.7	-209.0	-49.8	-44.9
<b>CF from financing activities</b>	<b>-2,132.6</b>	<b>-2,515.9</b>	<b>-1,618.2</b>	<b>-501.8</b>
Net Cash flow	-41.0	-17.5	111.8	-67.3
Opening Cash	263.8	222.8	205.3	317.1
<b>Closing Cash</b>	<b>222.8</b>	<b>205.3</b>	<b>317.1</b>	<b>249.7</b>
<b>Free Cash Flow</b>	<b>2,247.8</b>	<b>2,411.6</b>	<b>1,195.9</b>	<b>2,203.1</b>

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 Networth	13,940.6	15,515.7	17,828.0	20,695.8
Total Shareholders fund	14,023.6	15,598.8	17,911.1	20,778.9
Total Debt	3,838.1	2,210.2	1,010.2	1,010.2
Deferred Tax Liability	47.3	2.0	2.1	2.2
Other Non Current Liabilities	218.1	205.5	213.7	222.3
Long term Provisions	79.3	74.5	77.5	80.6
<b>Source of Funds</b>	<b>18,206.4</b>	<b>18,091.0</b>	<b>19,214.6</b>	<b>22,094.1</b>
Gross Block - Fixed Assets	14,532.7	15,616.9	18,766.9	20,666.9
Accumulated Depreciation	7,807.6	9,257.9	10,427.1	11,667.1
Net Block	6,725.1	6,359.0	8,339.8	8,999.8
Capital WIP	2,933.5	1,535.1	1,035.1	535.1
Net Fixed Assets	9,658.6	7,894.1	9,374.9	9,534.9
Goodwill	465.9	491.3	491.3	491.3
Investments	2,587.1	2,677.8	2,077.8	3,777.8
Inventory	3,357.9	3,506.7	3,854.8	4,445.1
Cash	222.8	205.3	317.1	249.7
Debtors	3,986.9	5,027.8	4,969.6	5,730.6
Loans & Advances & Other	1,289.6	1,490.6	1,550.2	1,612.2
Total Current Assets	8,857.2	10,230.4	10,691.7	12,037.7
Creditors	1,367.1	1,524.8	1,676.2	1,932.8
Provisions & Other CL	2,892.1	3,609.5	3,753.9	3,904.0
Total Current Liabilities	4,259.2	5,134.3	5,430.0	5,836.9
Net Current Assets	4,598.0	5,096.1	5,261.6	6,200.8
LT LA & 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
<b>Application of Funds</b>	<b>18,206.4</b>	<b>18,091.0</b>	<b>19,214.6</b>	<b>22,094.1</b>

Source: ICICI Direct Research

**Exhibit 21: Key Ratios (₹ crore)**

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	114.7	121.9	161.3	200.0
BV per share	843.7	938.4	1,077.5	1,250.1
<b>Operating Ratios (%)</b>				
Gross Profit Margins	70.9	68.3	68.8	68.8
EBITDA margins	20.4	14.1	23.5	24.2
Net Profit margins	12.3	11.6	13.9	15.0
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	1.0	1.1
EBITDA conversion Rate	91.1	121.0	85.1	67.0
<b>Return Ratios (%)</b>				
RoE	13.6	13.0	15.0	16.0
RoCE	10.7	9.6	18.4	19.7
RoIC	18.0	11.5	25.1	27.6
<b>Valuation Ratios (x)</b>				
P/E	37.5	35.3	26.7	21.5
EV / EBITDA	23.0	28.8	15.5	12.7
EV / Revenues	4.7	4.0	3.6	3.1
Market Cap / Revenues	4.6	4.1	3.7	3.2
Price to Book Value	5.1	4.6	4.0	3.4
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.1	0.1	0.0
Debt / EBITDA	1.2	0.9	0.2	0.2
Current Ratio	2.0	2.0	1.9	2.0

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	FY20	Y21E	Y22E	FY19	FY20	Y21E	Y22E	FY19	FY20	Y21E	Y22E	FY19	FY20	Y21E	Y22E
Ajanta Pharma	AJAPHA	1509	1,730	Buy	13168	43.5	53.4	56.1	72.1	34.7	28.3	26.9	20.9	21.8	24.7	22.4	24.2	17.1	18.1	16.7	18.5
Alembic Pharma	ALEMPHA	1006	1,140	Buy	18956	31.4	46.3	52.6	51.9	32.0	21.7	19.1	19.4	19.6	21.0	21.9	20.1	21.8	27.1	24.1	19.7
Apollo Hospital	APOHOS	1690	1,490	Buy	23514	17.0	23.3	37.3	68.0	99.6	72.4	45.4	24.8	8.8	10.4	11.2	14.6	7.1	9.7	12.8	19.6
Aurobindo Pharma	AURPHA	826	920	Buy	48390	41.9	48.8	57.8	63.0	19.7	16.9	14.3	13.1	15.9	17.2	19.1	19.1	17.7	17.0	17.0	15.8
Biocon	BIOCON	400	490	Buy	48018	6.2	5.8	11.5	21.0	64.5	68.8	34.8	19.1	10.9	10.2	16.1	23.3	12.2	10.4	17.4	24.6
Cadila Healthcare	CADHEA	365	420	Buy	37372	18.1	14.0	16.8	20.5	20.2	26.1	21.7	17.8	13.0	11.0	12.3	13.8	17.8	13.8	14.7	15.7
Cipla	CIPLA	694	670	Buy	55958	18.6	19.2	23.0	30.2	37.3	36.1	30.1	23.0	10.9	12.0	13.0	15.4	10.0	9.8	10.8	12.6
Divi's Lab	DIVLAB	2521	2,355	Hold	66925	51.0	51.9	60.7	73.6	49.5	48.6	41.5	34.3	25.5	23.9	23.8	24.0	19.4	18.8	18.7	19.1
Dr Reddy's Lab	DRREDD	4300	5,000	Buy	71476	114.7	121.9	161.3	200.0	37.5	35.3	26.7	21.5	10.7	9.6	18.4	19.7	13.6	13.0	15.0	16.0
Glenmark Pharma	GLEPHA	447	510	Hold	12613	26.9	26.4	25.0	36.6	16.6	16.9	17.9	12.2	15.3	12.7	11.4	14.1	13.5	12.2	10.5	13.4
Hikal	HIKCHE	153	165	Buy	1883	8.4	8.1	10.8	13.8	18.3	18.9	14.2	11.1	14.3	13.0	14.2	15.7	13.6	12.2	14.2	15.6
Ipca Laboratories	IPCLAB	1818	1,900	Buy	22967	35.1	47.8	61.7	76.8	51.9	38.0	29.5	23.7	15.0	17.4	19.4	20.2	14.2	16.6	17.8	18.2
Jubilant Life	JUBLIF	788	550	Buy	12547	54.9	59.9	69.8	89.8	14.4	13.2	11.3	8.8	14.3	14.6	17.2	19.7	17.8	16.6	16.4	17.5
Lupin	LUPIN	880	930	Hold	39854	16.5	-12.7	25.3	38.9	53.2	-69.3	34.8	22.6	9.4	10.6	10.7	14.6	5.4	-4.6	8.5	11.6
Narayana Hrudayam	NARHRU	287	340	Buy	5863	2.9	6.4	-3.1	9.6	98.8	45.2	-93.4	29.9	7.7	11.0	0.0	14.2	5.5	11.4	-5.8	15.7
Natco Pharma	NATPHA	723	740	Buy	13169	35.4	25.3	23.9	22.4	20.4	28.6	30.2	32.3	21.3	14.0	12.9	11.3	18.5	12.2	10.7	9.3
Sun Pharma	SUNPHA	500	540	Buy	120000	15.9	16.8	15.5	24.1	31.6	29.8	32.3	20.8	10.3	10.0	8.9	12.3	9.2	8.9	7.7	10.7
Syngene Int.	SYNINT	470	485	Buy	18812	8.3	10.3	9.2	12.8	56.9	45.7	45.3	32.7	14.8	14.5	13.1	16.4	16.8	15.7	14.5	16.8
Torrent Pharmaceuticals	TORPHA	2462	2,475	Hold	41662	48.9	60.6	67.0	87.3	50.3	40.6	36.7	28.2	14.2	15.4	17.5	20.7	17.5	21.2	20.0	21.8
Shalby	SHALIM	77	70	Hold	831	2.9	2.6	0.7	4.0	26.3	30.1	####	19.1	6.8	7.2	1.8	7.0	4.1	3.5	1.0	5.2
Aster DM	ASTDM	133	160	Buy	6619	6.7	5.5	-1.4	9.6	19.9	23.9	-92.0	13.8	8.3	7.5	2.6	9.7	10.4	8.5	-2.2	13.1
Indoco Remedies	INDREM	214	260	Buy	1969	-0.3	2.6	7.4	14.3	-678.9	81.7	28.7	14.9	1.0	5.1	10.0	16.5	-0.4	3.5	9.3	15.5

Source: ICICI Direct Research, Bloomberg

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