

# Dr Reddy's Laboratories

| BSE SENSEX            | S&P CNX     | CMP: INR1,757 | TP: INR2,080 | Buy     |      |      |      |      |       |        |
|-----------------------|-------------|---------------|--------------|---------|------|------|------|------|-------|--------|
| 18,505                | 5,620       |               |              |         |      |      |      |      |       |        |
| Bloomberg             | DRRD IN     |               |              |         |      |      |      |      |       |        |
| Equity Shares (m)     | 169.2       |               |              |         |      |      |      |      |       |        |
| 52-Week Range (INR)   | 1,818/1,501 |               |              |         |      |      |      |      |       |        |
| 1,6,12 Rel. Perf. (%) | 8/-/7/1     |               |              |         |      |      |      |      |       |        |
| M.Cap. (INR b)        | 297.3       |               |              |         |      |      |      |      |       |        |
| M.Cap. (USD b)        | 5.5         |               |              |         |      |      |      |      |       |        |
| Year                  | Net Sales   | PAT           | EPS          | EPS     | P/E  | P/BV | RoE  | RoCE | EV/   | EV/    |
| End                   | (INR M)     | (INR M)       | (INR)        | GR. (%) | (X)  | (X)  | (%)  | (%)  | Sales | EBITDA |
| 03/11A                | 74,693      | 11,099        | 65.6         | -       | -    | -    | 24.1 | 16.7 | -     | -      |
| 03/12A                | 96,737      | 12,109        | 71.4         | 12.6    | 24.6 | 5.2  | 21.1 | 20.3 | 3.2   | 13.1   |
| 03/13E                | 108,820     | 15,145        | 89.3         | 25.1    | 19.7 | 4.4  | 22.6 | 17.4 | 2.9   | 13.7   |
| 03/14E                | 116,944     | 17,619        | 103.9        | 16.3    | 16.9 | 3.9  | 23.1 | 17.0 | 2.7   | 13.1   |

Dr. Reddy's Labs 2QFY13 performance was above our estimates. Key highlights:

- Dr. Reddy's Labs' (DRRD) sales (including one-offs) were up 27% to INR28.8b v/s our estimate of INR26.45b. Excluding one-offs, sales were up 23% to INR26.46b v/s our estimate of INR24.82b.
- Reported EBITDA was up 44% to INR6.9b v/s our estimate of INR5.3b. Excluding one-offs EBITDA was up 37% to INR5.83b v/s our estimate of INR4.5b. Core EBITDA margins were up 240bps YoY to 22.1% v/s our estimate of 18.3%. EBITDA was driven by higher-than-expected top line growth and lower SG&A expenses (led by operational leverage and lower promotional spend for the Russian OTC business).
- Reported PAT was up 32% to INR4.1b v/s our estimate of INR2.73b, while core PAT (excl one-offs) was up 25% to INR3.35b v/s our estimate of INR2.22b. Core PAT growth was higher than estimates (despite a impairment charge of INR688m) due to better operational performance and partly due to a forex gain of INR338m v/s our estimate of a forex loss of INR450m, higher other operating income at INR397m v/s estimate of INR202m and higher other income.

Traction in the US, branded formulations and PSAI businesses would be the key growth drivers for DRRD for FY13. We believe that with strong growth visibility for FY13, the stock is poised to give reasonable returns for investors. While investors are rightly concerned about the likely muted growth for FY14 (given the adverse impact of patent cliff for DRRD's US and PSAI businesses), we believe that these concerns are already discounted in current valuations. Post the higher-than-expected 2QFY13 performance, we have raised FY13E EPS by 5% and FY14E EPS by 4%. EPS upgrade is not very significant despite the huge improvement in 2QFY13 performance as we now assume a higher tax rate of 22% for FY13E v/s our previous estimate of 18%. We estimate core EPS of INR89.3 for FY13E and INR103.9 for FY14E; our estimates exclude upsides from patent challenges/low competition opportunities in the US (we estimate one-time PAT contribution of INR3.6b from such opportunities for FY13). The stock trades at 19.7x FY13E and 16.9x FY14E core earnings. Maintain **Buy** with a target price of INR2,080.

## Quarterly Performance - IFRS

| Y/E March                         | FY12   |        |        |        | FY13   |        |        |        | (INR Million) |         |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------|
|                                   | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3QE    | 4QE    | FY12          | FY13E   |
| Gross Sales                       | 19,783 | 22,679 | 27,692 | 26,583 | 25,406 | 28,809 | 27,178 | 27,427 | 96,737        | 108,820 |
| YoY Change (%)                    | 17.5   | 21.3   | 45.9   | 31.8   | 28.4   | 27.0   | -1.9   | 3.2    | 29.5          | 12.5    |
| Total Expenditure                 | 15,948 | 17,880 | 19,003 | 20,167 | 20,410 | 21,900 | 21,471 | 21,969 | 72,997        | 85,750  |
| EBITDA                            | 3,835  | 4,799  | 8,689  | 6,416  | 4,996  | 6,909  | 5,707  | 5,457  | 23,740        | 23,070  |
| Margins (%)                       | 19.4   | 21.2   | 31.4   | 24.1   | 19.7   | 24.0   | 21.0   | 19.9   | 24.5          | 21.2    |
| Amortization                      | 1,233  | 1,268  | 1,307  | 2,444  | 1,296  | 2,064  | 1,467  | 1,550  | 6,254         | 6,377   |
| Other Income                      | 144    | 178    | 365    | 292    | 25     | 796    | 330    | 54     | 979           | 1,205   |
| Profit before Tax                 | 2,746  | 3,709  | 7,747  | 4,264  | 3,725  | 5,641  | 4,570  | 3,962  | 18,465        | 17,898  |
| Tax                               | 120    | 631    | 2,616  | 837    | 365    | 1,567  | 1,051  | 954    | 4,204         | 3,938   |
| Rate (%)                          | 4.4    | 17.0   | 33.8   | 19.6   | 9.8    | 27.8   | 23.0   | 24.1   | 22.8          | 22.0    |
| Net Profit                        | 2,626  | 3,078  | 5,131  | 3,427  | 3,360  | 4,074  | 4,091  | 4,291  | 14,261        | 15,816  |
| One-off/low-competition PAT in US | 363    | 393    | 2,726  | 1,372  | 1,031  | 720    | 571    | 1,284  | 4,854         | 3,607   |
| Adjusted PAT                      | 2,263  | 2,685  | 2,405  | 2,055  | 2,329  | 3,354  | 3,519  | 3,007  | 9,408         | 12,209  |
| YoY Change (%)                    | 47.6   | 9.3    | 0.8    | -3.5   | 2.9    | 24.9   | 46.3   | 46.3   | 10.6          | 29.8    |
| Margins (%)                       | 11.4   | 11.8   | 8.7    | 7.7    | 9.2    | 11.6   | 12.9   | 11.0   | 9.7           | 11.2    |

Note-Estimates do not include one-off upsides.

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Investors are advised to refer through disclosures made at the end of the Research Report.

## 2QFY13 performance was above estimates driven by US generics, PSAI

Sales (including one-offs) were up 27% to INR28.8b v/s our estimate of INR26.45b. Excluding one-offs, sales were up 23% to INR26.46b v/s our estimate of INR24.82b. Core top line growth is above estimates and was driven by higher-than-expected core revenues in US (INR7b v/s estimate of INR6.1b), higher PSAI sales (INR7.87b v/s estimate of INR6.85b) and incrementally higher sales for emerging markets at INR5.17b v/s estimate of INR4.97b. We estimate one-off sales in US at INR2.3b, which were higher than our estimate of INR1.6b.

### Sales mix & EBITDA trend (INR m)

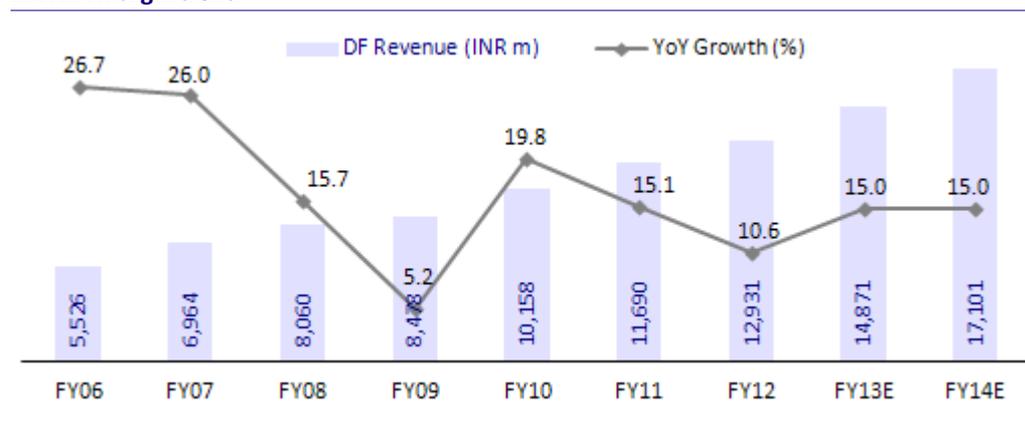
|                             | 2QFY13        | 2QFY12        | % Change    | 1QFY13        | % Change    |
|-----------------------------|---------------|---------------|-------------|---------------|-------------|
| <b>PSAI</b>                 | <b>7,876</b>  | <b>5,933</b>  | <b>32.7</b> | <b>5,527</b>  | <b>42.5</b> |
| India                       | 1,148         | 752           | 52.7        | 611           | 87.9        |
| International               | 6,728         | 5,181         | 29.9        | 4,916         | 36.9        |
| <b>Branded Formulations</b> | <b>9,056</b>  | <b>7,732</b>  | <b>17.1</b> | <b>8,968</b>  | <b>1.0</b>  |
| India                       | 3,879         | 3,459         | 12.1        | 3,482         | 11.4        |
| International               | 5,177         | 4,273         | 21.2        | 5,486         | -5.6        |
| <b>Generics</b>             | <b>11,047</b> | <b>8,404</b>  | <b>31.4</b> | <b>10,098</b> | <b>9.4</b>  |
| North America               | 9,270         | 6,287         | 47.4        | 7,920         | 17.0        |
| Europe                      | 1,777         | 2,117         | -16.1       | 2,178         | -18.4       |
| Others                      | 830           | 610           | 36.1        | 813           | 2.1         |
| <b>Total Revenues</b>       | <b>28,809</b> | <b>22,679</b> | <b>27.0</b> | <b>25,406</b> | <b>13.4</b> |

Source: Company, MOSL

### Core EBITDA was above estimate

- Reported EBITDA was up 44% to INR6.9b v/s our estimate of INR5.3b. Excluding one-offs, EBITDA was up 37% to INR5.83b v/s our estimate of INR4.5b. Core EBITDA margins were up 240bps YoY to 22.1% v/s our estimate of 18.3%. EBITDA was driven by higher-than-expected top line growth and lower SG&A expenses (led by operational leverage and lower promotional spend for the Russian OTC business).
- Reported PAT was up 32% to INR4.1b v/s our estimate of INR2.73b, while core PAT (excl one-offs) was up 25% to INR3.35b v/s our estimate of INR2.22b. Core PAT growth was higher than estimates (despite a impairment charge of INR688m) due to better operational performance and partly due to a forex gain of INR338m v/s our estimate of a forex loss of INR450m, higher other op income at INR397m v/s estimate of INR202m and higher other income.

### EBITDA margin trend



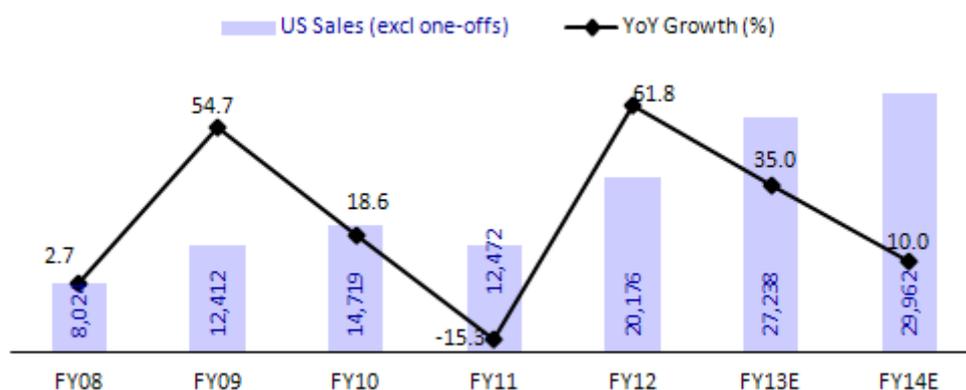
Source: Company, MOSL

### Key highlights from concall

- **Reiterates strong growth traction for FY13:** Management expects strong growth traction in FY13, with 2HFY13 better than 1HFY13, led mainly by strong ramp-up in the US and PSAI and sustained growth momentum in branded formulation exports. In the past, management guided for a top line of USD2.5-2.7b for FY13 (1HFY13 top line was ~USD1b). Growth traction in the US business is likely to be led by new launches and ramp-up in recently launched products like generic Toprol, Boniva and Lipitor and expected market share gains for Fondaparinux and potential launch of two more niche products (details not disclosed). PSAI business' growth recovery is linked to the large number of patent expiries expected in the next few quarters.
- **Other guidance parameters:** Management guided for FY13 tax rate of 18-22%, compared to its previous guidance of 18%.
- **Emerging market formulations** are likely to sustain higher growth in the coming quarters led by Russia and emerging markets. While growth in Russia and CIS markets at 14% was somewhat lower than its normal growth trend, management indicated that this was mainly due to delayed onset of winter season.
- **India formulations business** is expected to show better performance from FY13 (FY12 growth was just 11%). Management has guided that it expects to record 14-15% growth for this business in FY13. Company is targeting annual revenues of USD100m from the launch of biosimilars in emerging markets (including India) over the next 2-3 years v/s existing revenues of USD30m.
- **Future hedges to realize better rates** - Forex hedges were almost constant at ~USD600m (at average of INR53-55). While the company hedges ~60% of its net exposure (and hence is reasonably hedged), we note that incremental hedges are coming at better rates. In fact, management indicated that given its current hedges, the realization for next three quarters will be higher at INR51-53, compared to INR49-50 which it realized for the past few quarters.

### US generics, PSAI and emerging markets to be key growth contributors for FY13E

- The US market will be a key contributor to the company's goal of achieving USD2.5-2.7b revenues in FY13, with a contribution of USD0.8-0.9b.
- Further, unlike the consensus belief, management is confident of achieving 10-15% CAGR in US revenues from FY14 (despite the patent cliff), led by the commercialization of its pipeline of 63 ANDAs (pending approval) and the contribution from FTF/low-competition opportunities. We estimate core US revenue CAGR at 22% for FY12-14 (ex one-offs), mainly led by a strong 35% growth in FY13E. Our growth estimates for FY14E at 10% factors the potential adverse impact of patent cliff.

**Dr. Reddy's - Core US Sales (INR M)**

Source: Company, MOSL

- We expect DRRD to earn one-time PAT of INR3.6b in FY13 from the low competition/Para-IV product opportunities. Management indicated that it has a few more potential opportunities in its US pipeline for FY13 (besides that indicated in the table below), which it has not yet disclosed due to competitive reasons.

**DRL US Portfolio - One-time PAT contribution (INR m)**

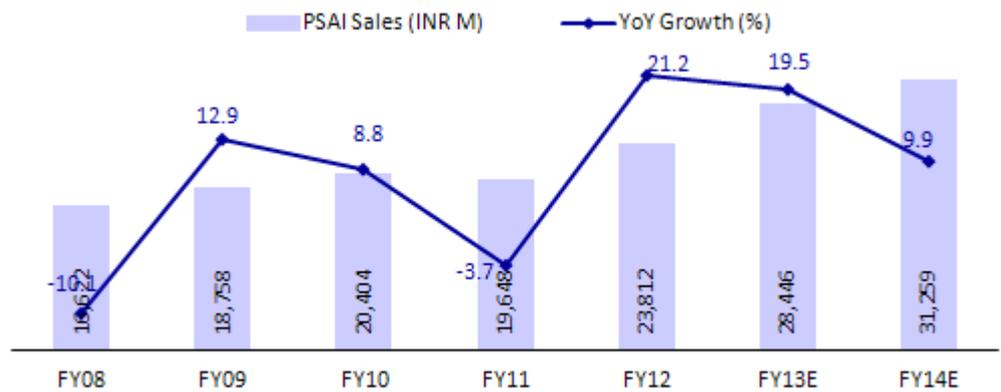
| Product          | Launch Status           | FY13E        |
|------------------|-------------------------|--------------|
| Generic Arixtra  | Launched in Jul-2011    | 695          |
| Generic Accolate | Launched                | 443          |
| Generic Prevacid | Launched on 15-Oct-2010 | 515          |
| Generic Exelon   | Launched on 22-Sep-2011 | 53           |
| Generic Clarinex | Expected in FY13        | 153          |
| Generic Geodon   | Launched in Mar 2012    | 685          |
| Generic Lipitor  | Launched in Jul-2012    | 204          |
| Generic Toprol   | Launched in Sep-2012    | 258          |
| Generic Propecia | Expected in Jan 2013    | 601          |
| <b>Total</b>     |                         | <b>3,607</b> |

Source: Company, MOSL

**PSAI business to record strong growth for FY13 - growth will normalize in FY14 due to patent cliff**

- Company's PSAI business recorded a strong growth of 24% for 1HFY13 led mainly by higher API supplies linked to patent expiries in the US and incremental ramp-up in its CRAMS business.
- We believe that the strong growth traction is likely to sustain in FY13; however, growth will come-off in FY14 due to the reduced number of patent expiries.

**Dr. Reddy's - PSAI Sales (INR m)**

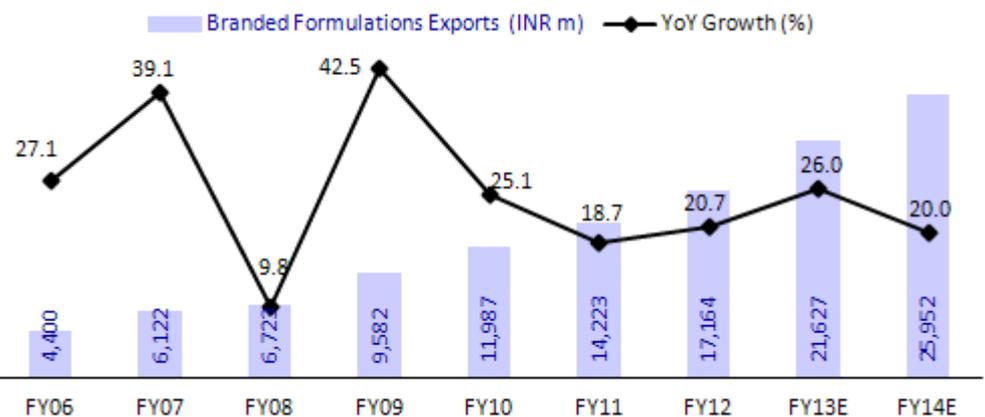


Source: Company, MOSL

**Branded formulations exports to sustain double-digit growth; potential change in regulations a key long-term risk**

- We expect DRRD to sustain ~23% revenue CAGR for this business led by:
  - a) Expanding presence in Russian OTC market coupled with additional growth drivers like in-licensed products
  - b) Ramp-up in the biogeneric portfolio in emerging markets - management expects revenues of USD100m in the next 2-3 years v/s the current USD30m
  - c) Gradual ramp-up in revenues from the company's partnership arrangement in emerging markets.
- However, the Russian market (a key contributor for DRRD's emerging markets business) is gradually transitioning from an out-of-pocket market to the model of centralized reimbursement with the Russian government expected to play a key role in regulating both, access and price of essential medicines. This is a key long-term risk for DRRD given that this is one of the most profitable markets.

**Dr. Reddy's - Branded Formulation Exports (INR m)**

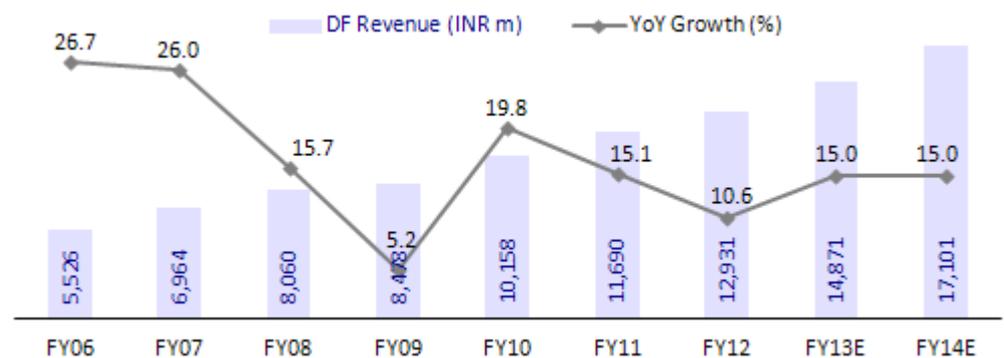


Source: Company, MOSL

## India formulations business - Growth Recovery

- **DRRD's India formulations business faced multiple growth challenges** in the past few years mainly due to execution shortfalls:
  - a) The company redeployed its experienced urban sales force in rural areas, which resulted in a decline in urban doctor coverage and loss of business in the metros. The management claims it has taken corrective action and the results should be visible in the next few quarters.
  - b) Further, during the last few years, DRRD's focus was on US and Europe, post the Betapharm acquisition. India was ignored, which resulted in fewer product launches here. However, the company has now resumed a healthy rate of product introductions (23 new launches in FY12).
  - c) The management believes it will be able to match the industry growth rate from FY13 (14-15%) while 1HFY13 growth was at 15%.
- **We expect this business to record 15% CAGR for FY12-14**, slightly lower than the average market growth.

### Dr. Reddy's - Domestic Formulations growth recovering (INR m)



Source: Company, MOSL

## Valuation and view

Traction in the US, branded formulations and PSAI businesses will be the key growth drivers for DRRD for FY13. We believe that with strong growth visibility for FY13, the stock is poised to give reasonable returns for investors. While investors are rightly concerned about the likely muted growth for FY14 (given the adverse impact of patent cliff for DRRD's US and PSAI businesses), we believe that these concerns are already discounted in current valuations. Post the higher-than-expected 2QFY13 performance, we have raised our FY13E EPS by 5% and FY14E EPS by 4%. EPS upgrade is not very significant despite the huge improvement in 2QFY13 performance as we now model a higher tax rate of 22% for FY13E v/s our previous estimate of 18%. We estimate core EPS of INR89.3 for FY13E and INR103.9 for FY14E. Our core estimates exclude upsides from patent challenges / low-competition opportunities in the US (we estimate one-time PAT contribution of INR3.6b from such opportunities for FY13). The stock trades at 19.7x FY13E and 16.9x FY14E core earnings. Maintain **Buy** with a target price of INR2,080.

## Dr. Reddy's Laboratories: an investment profile

### Company description

Dr. Reddy's is a vertically integrated company with presence across the pharmaceutical value chain through its core businesses of Global Generics, Pharmaceutical Services & Active Ingredients (PSAI), and Proprietary Products. The company is currently developing bio-generics and NCEs. Key focus markets include India, US, Europe and Russia.

### Key investment arguments

- **Reiterates strong growth traction for FY13:** Management expects to achieve strong growth led by the US, PSAI and emerging market and without any major inorganic growth initiatives. Company continues to focus on its five key markets - US, India, Russia, Germany and the UK.
- The US market will be a key contributor led by the commercialization of its pipeline of 63 ANDAs (pending approval) and the contribution from FTF/low-competition opportunities.

### Key investment risks

- Government mandated price controls could impact the profitability of the India formulations business. Higher-than-expected currency appreciation could adversely impact future earnings.

### Recent developments

- Nil.

### Valuation and view

- We estimate core EPS of INR89.3 for FY13E and INR103.9 for FY14E.
- Trades at 19.7x FY13E and 16.9x FY14E core earnings adjusted for DCF value of FTFs and the proposed bonus debentures.

### Sector view

- Emerging markets coupled with low competition/Para-IV upsides in the US would remain the key sales and profit drivers in the medium term.
- We are Overweight on companies that have a differentiated business model for the US market.

### Comparative valuations

|               |       | DRL  | Cipla | Ranbaxy |
|---------------|-------|------|-------|---------|
| P/E (x)       | FY13E | 19.7 | 22.0  | 25.9    |
|               | FY14E | 16.9 | 19.6  | 21.3    |
| P/BV (x)      | FY13E | 4.4  | 3.3   | 3.8     |
|               | FY14E | 3.9  | 2.9   | 3.4     |
| EV/Sales (x)  | FY13E | 2.9  | 3.6   | 2.0     |
|               | FY14E | 2.7  | 3.2   | 2.2     |
| EV/EBITDA (x) | FY13E | 13.7 | 14.7  | 12.3    |
|               | FY14E | 13.1 | 14.1  | 16.4    |

### Shareholding pattern (%)

|               | Sep-12 | Jun-12 | Sep-11 |
|---------------|--------|--------|--------|
| Promoter      | 25.6   | 25.6   | 25.6   |
| Domestic Inst | 15.2   | 14.4   | 14.4   |
| Foreign       | 42.9   | 44.2   | 45.6   |
| Others        | 16.3   | 15.8   | 14.4   |

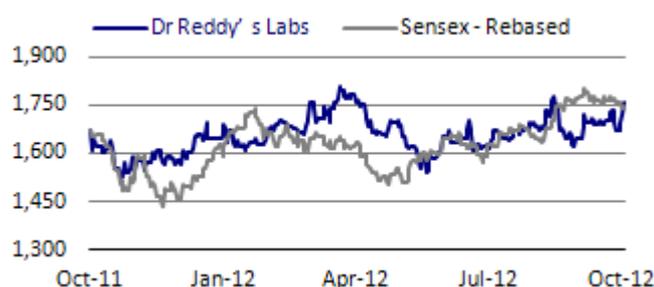
### EPS: MOSL forecast v/s consensus (INR)

|      | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|---------------|--------------------|---------------|
| FY13 | 89.3          | 94.4               | -5.4          |
| FY14 | 103.9         | 105.0              | -1.1          |

### Target price and recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|---------------------|--------------------|------------|-------|
| 1,757               | 2,080              | 18.4       | Buy   |

### Stock performance (1 year)



## Financials and Valuation

| Income Statement            |               | (INR Million) |               |               |  |
|-----------------------------|---------------|---------------|---------------|---------------|--|
| Y/E March                   | 2011          | 2012          | 2013E         | 2014E         |  |
| Net Sales                   | 74,693        | 96,737        | 108,820       | 116,944       |  |
| Change (%)                  | 6.3           | 29.5          | 12.5          | 7.5           |  |
| Other Income                | 1,118         | 819           | 1,085         | 1,094         |  |
| Total Expenditure           | 59,073        | 72,997        | 85,750        | 92,737        |  |
| <b>EBITDA</b>               | <b>15,620</b> | <b>23,740</b> | <b>23,070</b> | <b>24,207</b> |  |
| Margin (%)                  | 20.9          | 24.5          | 21.2          | 20.7          |  |
| Depreciation & Amortization | 4,107         | 6,254         | 6,377         | 6,398         |  |
| <b>EBIT</b>                 | <b>11,513</b> | <b>17,486</b> | <b>16,693</b> | <b>17,809</b> |  |
| Net Interest Exp            | 132           | 529           | 9             | 58            |  |
| Forex (Gains)/Losses        | 57            | -689          | -129          | 225           |  |
| <b>PBT &amp; EO Expense</b> | <b>12,442</b> | <b>18,465</b> | <b>17,898</b> | <b>18,620</b> |  |
| Change (%)                  | 506.0         | 48.4          | -3.1          | 4.0           |  |
| <b>PBT after EO Expense</b> | <b>12,442</b> | <b>18,465</b> | <b>17,898</b> | <b>18,620</b> |  |
| Tax                         | 1,403         | 4,204         | 3,938         | 4,096         |  |
| Tax Rate (%)                | 11.3          | 22.8          | 22.0          | 22.0          |  |
| <b>Adjusted Net Profit</b>  | <b>11,099</b> | <b>12,109</b> | <b>15,145</b> | <b>17,619</b> |  |
| Change (%)                  | 939.2         | 9.1           | 25.1          | 16.3          |  |
| Margin (%)                  | 14.9          | 12.5          | 13.9          | 15.1          |  |

| Balance Sheet                      |               | (INR Million) |               |                |  |
|------------------------------------|---------------|---------------|---------------|----------------|--|
| Y/E March                          | 2011          | 2012          | 2013E         | 2014E          |  |
| Equity Share Capital *             | 846           | 848           | 848           | 848            |  |
| Reserves                           | 45,144        | 56,596        | 66,142        | 75,530         |  |
| <b>Net Worth</b>                   | <b>45,990</b> | <b>57,444</b> | <b>66,990</b> | <b>76,378</b>  |  |
| Loans                              | 23,572        | 32,210        | 29,710        | 29,710         |  |
| Deferred Liabilities/Tax           | 87            | -833          | -833          | -833           |  |
| <b>Capital Employed</b>            | <b>69,649</b> | <b>88,821</b> | <b>95,867</b> | <b>105,255</b> |  |
| <b>Net Fixed Assets</b>            | <b>29,955</b> | <b>33,614</b> | <b>41,114</b> | <b>46,114</b>  |  |
| Investments                        | 309           | 411           | 411           | 411            |  |
| Goodwill/Intangible Assets         | 15,246        | 13,529        | 13,529        | 13,529         |  |
| <b>Curr. Assets</b>                | <b>47,560</b> | <b>69,958</b> | <b>69,106</b> | <b>74,437</b>  |  |
| Inventory                          | 16,059        | 19,352        | 21,764        | 24,558         |  |
| Account Receivables                | 17,615        | 25,339        | 28,293        | 31,575         |  |
| Cash and Bank Balance              | 5,729         | 18,158        | 11,105        | 9,533          |  |
| Others                             | 8,157         | 7,109         | 7,944         | 8,771          |  |
| <b>Curr. Liability &amp; Prov.</b> | <b>23,421</b> | <b>28,691</b> | <b>28,293</b> | <b>29,236</b>  |  |
| Account Payables                   | 8,480         | 9,502         | 11,970        | 11,694         |  |
| Other Current Liabilities          | 14,941        | 19,189        | 16,323        | 17,542         |  |
| <b>Net Current Assets</b>          | <b>24,139</b> | <b>41,267</b> | <b>40,813</b> | <b>45,201</b>  |  |
| <b>Appl. of Funds</b>              | <b>69,649</b> | <b>88,821</b> | <b>95,867</b> | <b>105,255</b> |  |

\* IFRS reporting from FY09 onwards. Financials prior to FY09 are as per US GAAP  
E: MOSL Estimates

| Ratios                        |  | 2011  | 2012  | 2013E | 2014E |
|-------------------------------|--|-------|-------|-------|-------|
| <b>Basic (INR)</b>            |  |       |       |       |       |
| EPS                           |  | 65.6  | 71.4  | 89.3  | 103.9 |
| Cash EPS                      |  | 89.9  | 108.3 | 126.9 | 141.6 |
| BV/Share                      |  | 271.8 | 338.7 | 395.0 | 450.3 |
| DPS                           |  | 8.2   | 8.9   | 11.1  | 12.9  |
| Payout (%)                    |  | 29.2  | 29.2  | 29.2  | 29.2  |
| <b>Valuation (x)</b>          |  |       |       |       |       |
| P/E                           |  |       | 24.6  | 19.7  | 16.9  |
| Cash P/E                      |  |       | 16.2  | 13.8  | 12.4  |
| P/BV                          |  |       | 5.2   | 4.4   | 3.9   |
| EV/Sales                      |  |       | 3.2   | 2.9   | 2.7   |
| EV/EBITDA                     |  |       | 13.1  | 13.7  | 13.1  |
| Dividend Yield (%)            |  |       | 0.5   | 0.6   | 0.7   |
| <b>Return Ratios (%)</b>      |  |       |       |       |       |
| RoE                           |  | 24.1  | 21.1  | 22.6  | 23.1  |
| RoCE                          |  | 16.7  | 20.3  | 17.4  | 17.0  |
| <b>Working Capital Ratios</b> |  |       |       |       |       |
| Fixed Asset Turnover (x)      |  | 2.8   | 3.0   | 2.9   | 2.7   |
| Debtor (Days)                 |  | 86    | 96    | 95    | 99    |
| Inventory (Days)              |  | 78    | 73    | 73    | 77    |
| Working Capital (Days)        |  | 90    | 87    | 100   | 111   |
| <b>Leverage Ratio</b>         |  |       |       |       |       |
| Current Ratio (x)             |  | 2.0   | 2.4   | 2.4   | 2.5   |
| Debt/Equity (x)               |  | 0.5   | 0.6   | 0.4   | 0.4   |

| Cash Flow Statement                  |               | (INR Million) |                |                |  |
|--------------------------------------|---------------|---------------|----------------|----------------|--|
| Y/E March                            | 2011          | 2012          | 2013E          | 2014E          |  |
| Op. Profit/(Loss) before Tax         | 15,620        | 23,740        | 23,070         | 24,207         |  |
| Interest/Dividends Recd.             | 929           | 979           | 1,205          | 811            |  |
| Direct Taxes Paid                    | -1,403        | -4,204        | -3,938         | -4,096         |  |
| (Inc)/Dec in WC                      | -6,531        | -4,699        | -6,599         | -5,960         |  |
| <b>CF from Operations</b>            | <b>8,615</b>  | <b>15,816</b> | <b>13,738</b>  | <b>14,962</b>  |  |
| <b>CF from Operating incl EO Exp</b> | <b>8,615</b>  | <b>15,816</b> | <b>13,738</b>  | <b>14,962</b>  |  |
| (inc)/dec in FA                      | -12,566       | -8,196        | -13,877        | -11,398        |  |
| (Pur)/Sale of Investments            | 3,534         | -102          | 0              | 0              |  |
| <b>CF from Investments</b>           | <b>-9,032</b> | <b>-8,298</b> | <b>-13,877</b> | <b>-11,398</b> |  |
| Change in networth                   | -4,729        | 723           | 0              | 0              |  |
| (Inc)/Dec in Debt                    | 8,877         | 8,638         | -2,500         | 0              |  |
| Other Items                          | -1,351        | -920          | 0              | 0              |  |
| Dividend Paid                        | -3,235        | -3,530        | -4,415         | -5,136         |  |
| <b>CF from Fin. Activity</b>         | <b>-438</b>   | <b>4,911</b>  | <b>-6,915</b>  | <b>-5,136</b>  |  |
| <b>Inc/Dec of Cash</b>               | <b>-855</b>   | <b>12,429</b> | <b>-7,053</b>  | <b>-1,572</b>  |  |
| Add: Beginning Balance               | 6,584         | 5,729         | 18,158         | 11,105         |  |
| <b>Closing Balance</b>               | <b>5,729</b>  | <b>18,158</b> | <b>11,105</b>  | <b>9,533</b>   |  |

Note: Reported cashflow differs due to acquisitions & change to IFRS reporting from FY09 onwards

**N O T E S**

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