

31st July, 2018

CMP – ₹2067

View – Positive

Company Background And Business Model

Headquartered out of Hyderabad, Dr. Reddy's Lab manufactures and sells a wide range of pharmaceutical products in India and Internationally. The Company operates out of three business segments - Pharmaceutical Services & Active Ingredients, Global Generics, and Proprietary Products. Its major markets include India, USA, Russia and CIS, Germany, UK, Venezuela, S. Africa, Romania and New Zealand. US accounts for 42% of consolidated sales.

Important Statistics

M.Cap (₹Cr)	34,295
52 Week H/L (₹)	1888/2611
NSE Code	DRREDDY
BSE Code	500124

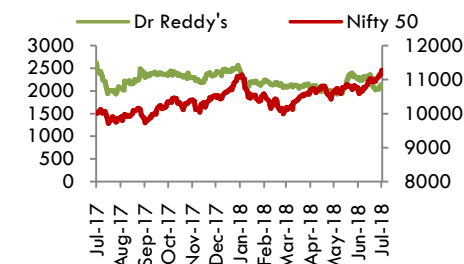
Investment Argument

- **Strong Product Pipeline** – As on 31 March 2018, Dr. Reddy's Laboratories had 110 generic filings that are pending for approval (107 ANDAs and 3 NDAs). Of these, 107 ANDAs, 63 are Para IV filings of which we believe 30 to have 'First-to-File' status.
- **Focus on new launches going ahead** – Dr. Reddy's Laboratories successfully launched 139 new products in FY18, of which 15 were launched in NAG, 18 in Europe, 86 in Emerging Markets and 20 in India. Some key launches were Sevelamer, Lipo Dox, Palonosetron Inj, and OTC Levocetirizine. We believe this trend will continue in FY19 as the company has a strong product pipeline awaiting approval.
- **Regulatory issues tapering** – In the last few months, we have witnessed regulatory issues have tapered for Indian pharmaceutical companies. Dr. Reddy's Duvvada Oncology facility has been under USFDA scanner for a while. The company expects re-inspection of this site in next few quarters and is confident to pass the inspection successfully. Duvvada facility is of great importance as filings like Aloxi, Alimta, Faslodex, Gleevec, and Jevtana among others are filed from this facility.
- **Suboxone outcome & way forward** – Dr. Reddy's received US FDA approval to launch generic Suboxone in Jun 2018. Days after the launch Indivior filed patent infringement lawsuits against Dr. Reddy's which led to US court decisions to stop further Suboxone sales by Dr.Reddy. We expect the company to appeal in the higher courts. A settlement with Indivior will allow Dr.Reddy to begin selling a generic version of Suboxone.

Financials (Consolidated)

(₹ mn)		
Particulars	FY18	FY17
Revenue from Operations	142,810	141,961
PBT	13,504	15,537
PAT	9,468.	12,921
EPS (₹)	57.08	77.53

Source: Annual Report


Valuation

At CMP of ₹2067, Dr. Reddy's Laboratories Ltd trades at a consensus P/E estimate of 22.8x for FY19. We are *POSITIVE* on the stock given the worst is over the company. NuvaRing and Copaxone are lined up for launch in FY19 and FY20. We expect that will drive sustainable earnings growth.

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Disclosure of Interest Statement in Dr. Reddy's Laboratories Ltd. as on July 31st, 2018

Name of the Security	Dr. Reddy's Laboratories Ltd.
Name of the analyst	Tausif Shaikh
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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