



Wednesday


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Telefolio Plus

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Dr. Reddy's Laboratories

Multifold growth

The company is showing strong growth on all the fronts

Buy	Dr. Reddy's Laboratories
BSE Code	500124
NSE Code	DRREDDY
Bloomberg	DRRD@IN
Reuter	REDY.BO
52-week High/Low	Rs 877 / Rs 579
Current Price	Rs 677 (as on 23rd February 2007)

Related Tables
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Dr. Reddy's Laboratories (DRL) is a leading pharmaceutical company in the country, having a presence across the pharmaceutical value chain - basic research, finished dosages, generics, bulk actives, biotechnology and diagnostics. The company was the first from India to get an Exclusive Marketing Right (EMR) in the US market for Fluoxetine Axetil. In 2005, the company formed India's first integrated drug research company Perlecan Pharma for the purpose of conducting clinical trials on its NCE assets.

Impressive results but not comparable due to recent acquisitions made

On a consolidated basis, the results of the company for December 2006 quarter are not comparable with those of December 2005 quarter due to the acquisitions made by the company during last 12 months. On 3rd March 2006 the company, through its step down subsidiary Reddy Holding GmbH, acquired 100% stake of Betapharm – a leading generics pharmaceuticals company in Germany. The strategic investment in Betapharm is a step towards realizing the Company's intention of building a global generics business in key European markets.

Similarly, on 30th December 2005, the company had acquired 100% of the share capital of Falcon, a Roche group company in Mexico. Falcon is primarily engaged in the manufacturing and selling of active pharmaceutical ingredients Naproxen, Naproxen Sodium and steroids.

During the previous quarter, the Group has entered in a supply and distribution agreement for sale of authorized generic version of *Zocor* and *Proscar* with an innovator company. Under the terms of the agreement, the Group has agreed to procure these products at an agreed term from the innovator company during the six-month exclusivity period and sell the products to ultimate customers. The related costs have been accounted under material cost. Sales under the above arrangement amounted to Rs 780.14 crore and Rs 1116.13 crore for the quarter and half year ended September 30, 2006 respectively.

On 19th May 2006, the company through its wholly owned subsidiary Reddy Pharma Iberia, S.A., acquired marketing authorizations of the pharmaceutical specialties, marketing authorization applications and a trademark along with physical inventories of the related products from Laboratories Litaphar, S.A. (Litaphar).

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As a result of these acquisitions and sale of authorised generics, all the sales, expenses and profits figures for December 2006 quarter were significantly higher on y-o-y basis.

For the quarter ended December 2006, net sales were higher by 165% to Rs 1478.37 crore on a consolidated basis. Other operating income rose multifold to Rs 16.2 crore leading to a 168% spurt in operating revenues at Rs 1494.57 crore. Operating margins jumped impressively by 700 basis points to 19.5% boosting the operating profits by 319% to Rs 290.8 crore. Other income for the quarter was 57% down at Rs 26.91 crore leading to 140% higher PBDIT at Rs 317.71 crore. Interest costs zoomed 959% to Rs 52.33 crore and depreciation spurted 145% to Rs 92.64 crore restricting the growth in PBT to only 93% at Rs 172.74 crore. The tax incidence rose significantly due to high deferred tax provisions resulting in a PAT growth of only 66% to Rs 105.59 crore.

For the 9-month ended December 2006, DRL reported 187% higher revenues at Rs 4759.09 crore on consolidated basis. Operating margins were 620 basis points higher at 21.4% boosting operating profits by 306% to Rs 1031.02 crore. Even after heavy increase in interest, depreciation and tax provisions, the PAT for the period stood 184% higher at Rs 527.05 crore.

Commenting on the results, GV Prasad, CEO, Dr. Reddy's Laboratories, said, "Fiscal 2007 has been a truly extraordinary year for Dr. Reddy's in many ways. For the first time in the history of Dr. Reddy's, we have crossed USD 1 billion in revenues. Starting as an API manufacturer addressing the Indian market, over the last 22 years of our journey, Dr. Reddy's has grown into a vertically integrated global pharmaceutical company with activities spanning the entire pharmaceutical value chain."

Hosts of positives to benefit the company going forward

On October 10 2006, Dr Reddys Laboratories settled patent litigation with GlaxoSmithKline relating to sumatriptan succinate tablets, the generic version of GlaxoSmithKline's Imitrex tablets. Now, DRL will sell the generic version authorized by Glaxo even while the patent is in force. Dr. Reddy's is likely to be the only generic player in this formulation till the parent expiry, thus it likely that the pricing would be high along with commanding market share.

In late December 2006, DRL received approval for the four strengths (4, 8, 16, 24 mg) of ondansetron tablets (Glaxo's generic Zofran). DRL is the only company to have received this approval. DRL will enjoy the 180 days exclusivity on this product. This is a roughly US\$700 million sales market (for the brand). At 50% price erosion and 50% market share (assuming one Authorised Generic), this could translate into US\$90 million (Rs 400 crore) sales opportunity with high margins. However, the company has booked only \$5 million as sales in the December 2006 quarter. Thus, the product will have major positive impact for the company in coming quarter.

The company filed 15 US DMFs during the quarter taking the total filings to 101. The company also filed 3 DMFs in Canada. During the quarter, the Company filed 5 ANDAs and received final approval for 4 ANDAs. As at the end of December, the total ANDAs pending approval (including tentative) are 58. The company expects to file another 25 ANDAs in coming 12 months.

In November 2006, the company through a secondary offering in the United States of America raised Rs 1024.12 crore by issuing 143 lakhs ADR's, representing 143 lakh equity shares (one ADR represents one equity share). The ADR proceeds are likely to be used for inorganic growth.

Valuation

In FY 2007, we expect DRL to register consolidated sales and net profit of Rs 6237.46 crore and Rs 720.53 crore. On equity of Rs 83.95 crore and face value of Rs 5, EPS works out to Rs 42.9 on post-ADR basis. The share price trades at Rs 677. P/E works out to 15.8. While this year's EPS is boosted by the authorized generics, the core

business is also growing strongly organically as well as inorganically. The base business of the company excluding acquisitions and new product launches grew by a healthy 38% in calendar year 2006. The company expects all round growth from its existing businesses to be supported by new products and acquisitions.

Dr. Reddy's Laboratories: Consolidated Financials

	0503(12)	0603(12)	0703 (12P)
Sales	1826.46	2338.93	6237.46
License Fees	6.23	16.09	64.4
Total operating income	1832.69	2355.02	6401.86
OPM (%)	4.6	13.0	22.3
OP	84.58	306.89	1429.66
Other income	65.69	120.55	84.80
PBIDT	150.27	427.44	1514.46
Interest	10.81	64.42	210.46
PBDT	139.46	363.02	1304.00
Depreciation	125.6	161.69	359.38
PBT	13.86	201.33	944.63
Tax	-18.09	54.60	219.47
PAT	31.95	146.73	720.09
Minority Interest	0.96	0.01	0.44
Net profit	30.99	146.72	720.53
EPS (Rs)*	1.8	8.7	42.9

* Annualised on current equity of Rs 83.95 crore. Face Value: Rs 5 each

(P): Projections

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Source: Capitaline Corporate Databases

Dr. Reddy's Laboratories: Consolidated Results

	0612 (3)	0512 (3)	Var. (%)	0612 (9)	0512 (9)	Var. (%)	0603(12)	0503(12)	Var. (%)
Sales	1478.37	557.23	165	4759.09	1656.70	187	2338.93	1826.46	28
License Fees	16.2	0.40	999	48.20	4.73	919	16.09	6.23	158
Total operating income	1494.57	557.63	168	4807.29	1661.43	189	2355.02	1832.69	29
OPM (%)	19.5	12.5		21.4	15.3		13.0	4.6	
OP	290.8	69.47	319	1031.02	253.74	306	306.89	84.58	263
Other income	26.91	62.97	-57	70.46	101.43	-31	120.55	65.69	84
PBIDT	317.71	132.44	140	1101.48	355.17	210	427.44	150.27	184
Interest	52.33	4.94	959	138.54	13.05	962	64.42	10.81	496
PBDT	265.38	127.5	108	962.94	342.12	181	363.02	139.46	160
Depreciation	92.64	37.87	145	260.16	108.06	141	161.69	125.6	29
PBT	172.74	89.63	93	702.78	234.06	200	201.33	13.86	999
Tax	-12.11	22.01	PL	125.92	30.39	314	17.25	0.13	999
Deferred Tax	77.3	1.86	999	45.18	13.28	240	6.97	0	100
FBT	1.96	1.98	-1	5.07	5.14	-1	30.37	-18.22	LP
PAT	105.59	63.78	66	526.61	185.25	184	146.73	31.95	359

Minority Interest	0.04	-0.06	LP	0.44	0.07	529	0.01	0.96	-99
Net profit	105.63	63.72	66	527.05	185.32	184	146.72	30.99	373
EPS (Rs)*	25.2	15.2		45.8	16.1		8.7	1.8	

* Annualised on current equity of Rs 83.95 crore. Face Value: Rs 5 each

Var. (%) exceeding 999 has been truncated to 999

LP: Loss to Profit PL: Profit to Loss

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Source: Capitaline Corporate Databases

Dr Reddy's Laboratories: Standalone Results

Particulars	0612 (3)	0512 (3)	Var. (%)	0612 (9)	0512 (9)	Var. (%)	0603(12)	0503(12)	Var. (%)
Sales	1153.39	475.6	143	2690.77	1508.06	78	1996.8	1548.29	29
License Fees	33.73	0.34	999	168.6	3	999	9.05	1.7	432
Total op. income	1187.12	475.94	149	2859.37	1511.06	89	2005.85	1549.99	29
OPM (%)	48.1	11.9		37.3	17.7		13.6	5.0	
OP	570.58	56.72	906	1067.38	267.21	299	273.45	77.14	254
Other income	24.99	56.28	-56	73.88	100.53	-27	123.07	69.64	77
PBIDT	595.57	113	427	1141.26	367.74	210	396.52	146.79	170
Interest	12.88	4.69	175	43.41	12.23	255	21.42	9.96	115
PBDT	582.69	108.31	438	1097.85	355.51	209	375.1	136.83	174
Depreciation	33.82	28.25	20	98.45	81.59	21	111.33	92.46	20
PBT	548.87	80.06	586	999.4	273.92	265	263.76	44.37	494
Current Tax	44.66	21.63	106	71.51	29.11	146	13.83	0	100
FBT	1.95	1.96	-1	5.02	5.07	-1	6.88	0	100
Deferred Tax	-1.23	2.22	PL	14.91	14.61	2	31.93	-21.1	LP
PAT	503.49	54.25	828	907.96	225.13	303	211.12	65.47	222
EPS (Rs)*	120.0	12.9		72.1	17.9		12.6	3.9	

* Annualized on current equity of Rs 83.95 crore. Face Value: Rs 5 each

LP: Loss to Profit PL: Profit to Loss

EO: Extraordinary items

EPS is calculated after excluding EO and relevant tax

Figures in Rs crore

Var (%) exceeding 999 has been truncated to 999

Source: Capitaline Corporate Databases

Dr Reddy's Laboratories: Standalone Segment Results

Particulars	0612 (3)	0512 (3)	Var %	% of Total	0612 (9)	0512 (9)	Var %	% of Total
Segment revenue								
a) API and Intermediates	300.2	219.01	37	24	863.99	637.52	36	28
b) Formulations	291.34	264.25	10	24	930.19	772.76	20	30
c) Generics	545.8	44.16	999	44	930.87	178.28	422	30
d) Critical Care and Biotech	16.79	14.76	14	1	55.14	44.65	23	2
e) CPS	76.52	3.48	999	6	267.43	15.48	999	9
f) Drug Discovery	2.96	0.08	999	0	9.23	0.2	999	0
Total	1233.61	545.74	126	100	3056.85	1648.89	85	100

Less: Inter-segment revenue	52.96	31.88	66		171.33	93.16	84	
Add: unallocable income	31.46	18.36	71		47.73	55.86	-15	
Net sales	1212.11	532.22	128		2933.25	1611.59	82	
Segment results								
a) API and Intermediates	75.25	29.11	159	12	165.93	77.77	113	14
b) Formulations	90.38	114.74	-21	15	334.63	310.7	8	29
c) Generics	439.45	-3.45	LP	71	660.08	12.81	999	57
d) Critical Care and Biotech	-2.54	0.26	PL	0	-3.11	4.87	PL	0
e) CPS	34.39	-3.52	LP	6	56.77	-4.98	LP	5
f) Drug Discovery	-19.8	-22.77	-13	-3	-60.86	-63.1	-4	-5
Total	617.13	114.37	440	100	1153.44	338.07	241	100
Less: Interest	12.88	4.69	175		43.41	12.23	255	
Less: Unallocable Exp	55.38	29.62	87		110.63	51.92	113	
PBT	548.87	80.06	586		999.4	273.92	265	
Capital Employed								
a) API and Intermediates	724.64	632.67	15	17	724.64	632.67	15	17
b) Formulations	604.34	417.74	45	14	604.34	417.74	45	14
c) Generics	823.35	231.05	256	20	823.35	231.05	256	20
d) Critical Care and Biotech	120.3	105.99	14	3	120.3	105.99	14	3
e) CPS	136.26	46.44	193	3	136.26	46.44	193	3
f) Drug Discovery	66.47	10.41	539	2	66.47	10.41	539	2
Others	1703.03	865.75	97	41	1703.03	865.75	97	41
Total	4178.39	2310.05	81	100	4178.39	2310.05	81	100
Figures in Rs crore LP: Loss to Profit PL: Profit to Loss Source: Capitaline Corporate Databases								

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