

## Equities

6 December 2010 | 6 pages

# Dr Reddy (REDY.BO)

## Alert: Takeaways from India Pharma Conference, December 6-7

**Takeaways from Mumbai** — Dr Reddy presented at our India Pharma Mini-Conference in Mumbai. Here are our key takeaways.

### ■ Company Update

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- **Guidance Update** — Dr Reddy's continues to work towards targeted revenues of US\$3bn by FY13 (does not include any material 180 days upside). While the company does not have complete visibility on the final target yet, it will not overreach or try to achieve the targeted number at any cost. The focus remains on achieving growth while improving return ratios. It remain quite confident on its US generics and branded businesses while the PSAI & German businesses remain challenging. Initiatives such as the recent acquisition of GSK's penicillins biz will also help towards achieving the target.
- **Update on Key Product Opportunities** — a) Fondaparinux remains confident of approval in early CY11; b) Omeprazole OTC is gaining traction, should exit FY11 with an annualised run rate of cUS\$50m; c) Allegra D24 is confident of a favourable verdict in Jan'11; d) Allegra D12 to be a very crowded market post Impax's exclusivity; e) Lansoprazole has decent traction post launch, to reflect in numbers over the next few quarters; f) Olanzapine could be a key opportunity in FY12.
- **Update on Key Markets / Businesses** — a) India - benefits of restructuring visible, growth rates to remain high; b) US generics - biz in good shape, limited competition products to add to growth momentum; c) Germany - has bid more aggressively for AOK tenders (to open in Jan '11) this time but the market remains challenging, worst however appears behind; d) Russia - remains a good market, pricing regulations have not had a material impact; e) PSAI - custom biz has been hurt & APIs sluggish, growth to pick up in FY12/13, on several interesting launches.
- **Other Takeaways** — a) Biosimilars: will launch its fourth product in India shortly, also targeting a launch in the Russia / CIS, may look to partner for regulated markets at some stage; b) GSK Alliance - unlikely to be material in the near term but a key growth driver over 3-4 years; c) Japan - is an interesting market but no intent to make any large inorganic move on this front.

Dr Reddy (REDY.BO; Rs1,817.40; 2M)

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Dr Reddy

### Valuation

Our Rs1,810 target price for DRL is based on a sum-of-the-parts valuation approach. We use a target multiple of 20x to value DRL's core earnings. This is in line with its historical trading range. At 20x March 12E earnings, we value DRL's base business at Rs1,735. We continue to value DRL's Para IV pipeline separately at Rs75/sh, based on a probability adjusted DCF valuation. We use a range of probabilities from 25% to 90%, based on individual product dynamics, and a discount factor of 12.5% for the opportunities being targeted over the next few years. Cumulatively, we arrive at a target price of Rs1,810.

### Risks

We rate DRL Medium Risk, as against Low Risk suggested by our quant-based risk rating system. We believe that the higher risk rating is justified, given the uncertainty over timing of key product approvals & current high valuations. Downside risks to our target price include: (1) Any delay in approval for fondaparinux (Arixtra) could entail downward revision of estimates; (2) Patent challenges are win-lose situations and often cause stock-price volatility; and (3) Any rise in regulatory pressure on pricing / competition in Russia/CIS. Key upside risks to our target price include: (1) better-than-expected performance in Germany either due to lower pricing pressure or higher savings on sourcing from India could lead to upside to our earnings estimates and target price; (2) Success in either its NCE R&D program or any of its patent challenges could act as a positive catalyst.

## Appendix A-1

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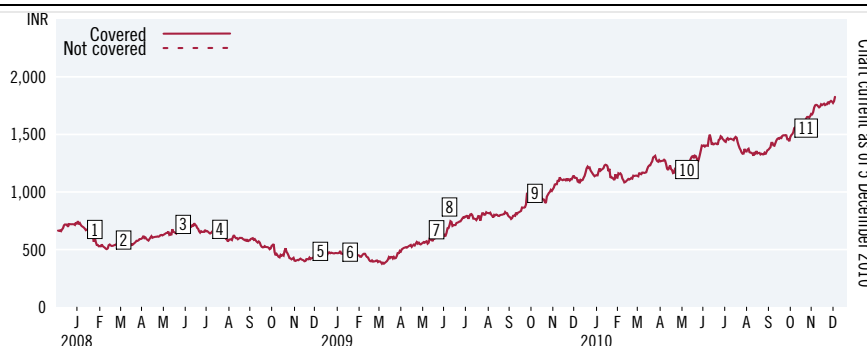
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### Dr Reddy (REDY.BO)

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Analyst: Prashant Nair, CFA



Date	Rating	Target Price	Closing Price
1 25-Jan-08	1M	*725.00	605.40
2 6-Mar-08	*2M	*642.00	579.90
3 29-May-08	*2L	*708.00	676.45
4 21-Jul-08	*2M	*739.00	675.65

Date	Rating	Target Price	Closing Price
5 9-Dec-08	2M	*535.00	481.20
6 20-Jan-09	2M	*547.00	467.90
7 21-May-09	2M	*700.00	635.75
8 9-Jun-09	*1M	*825.00	711.40

Date	Rating	Target Price	Closing Price
9 7-Oct-09	1M	*1,180.00	948.25
10 10-May-10	*2M	*1,350.00	1,220.40
11 25-Oct-10	2M	*1,810.00	1,638.10

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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