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Dr. Reddy's Lab

Higher traction from FY12 onwards

Result Update

October 25, 2010

Reco	Previous Reco
Accumulate	Accumulate
CMP	**Target Price**
Rs1616	Rs1763

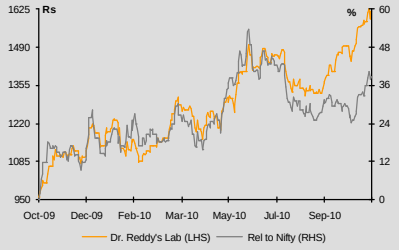
EPS change FY11E/12E (%)	6.4
Target Price change (%)	14.3
Nifty	6,066
Sensex	20,166

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	17	33	79
Rel. to Nifty	7	5	17	47

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	DRRD@IN
Equity Capital (Rs mn)	846
Face Value(Rs)	5
No of shares o/s (mn)	169
52 Week H/L	1,643/892
Market Cap (Rs bn/USD mn)	273/6,123
Daily Avg Volume (No of sh)	503283
Daily Avg Turnover (US$mn)	16.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	25.7	25.7	25.8
FII/NRI	44.6	46.0	43.5
Institutions	15.7	16.2	18.0
Private Corp	5.0	3.4	3.8
Public	9.0	8.7	8.9

Source: Capitaline

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- **Muted performance in US and decline in PSAI segment impacted top line performance in Q2FY11; significant ramp-up in niche products to drive sales from H2FY11 onwards**
- **Branded formulation markets of India and CIS reported strong traction**
- **361 bps YoY expansion in EBITDA margins at 18.6% and 33% growth in recurring PAT led by 592bps expansion in gross margins and lower tax provisioning**
- **Revise base business earnings for FY11E, FY12E and introduce NPV for limited competition opportunities; Upgrade to Buy with a price target of Rs1769**

Revenue growth is impacted by US performance despite good show in CIS and Indian markets

Despite 17% and 25% growth in the branded CIS and Indian markets, 5% growth in recurring revenue was largely impacted because of a) Muted performance in the US (up 3% YoY), b) 14% decline in PSAI segment and c) 17% decline in European markets on the back of 14% reduction in Betapharm sales. The higher growth in CIS market is mainly aided by re-stocking, volume expansion and minimum impact (~5%) of reference pricing on its product portfolio. Going ahead, higher focus on OTC products and potential launch of the bio-similar portfolio will drive CIS business. In domestic market, Dr Reddy has outpaced the industry growth by 800bps and grew by 25% on back of 13 new launches during the quarter. In the US, excluding imitrex, revenue growth of 5% was on account of new product such as Lotrel (MS 8%) & Tacrolimus (MS 16%). However going forward, company expect its US business to ramp-up on the back of a) Gradual improvement in the revenue of Omeprazole-OTC (commenced shipments to 2 more customers) and generic Prograf (currently there is only one more generic company, b) Recovery in the lost market share of generic Allegra over the next few quarters and c) 3-4 new limited competition launches (less than 3 players) in 2HFY11E.

Revenue break-up

(Rs mn)	Q2FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	H1FY10	H1FY11	YoY (%)
Global Generics	**12,706**	**11,918**	**13,667**	**8**	**15**	**25,726**	**25,585**	**-1**
NA	4285	3,897	4416	3	13	10311	8313	-19
Europe	2848	1,937	2366	-17	22	4957	4303	-13
India	2521	2,778	3160	25	14	4914	5938	21
Russia/CIS	2351	2,552	2751	17	8	4222	5303	26
Others	701	754	974	39	29	1322	1728	31
PSAI	**5,375**	**4,499**	**4,617**	**-14**	**3**	**10,245**	**9,116**	**-11**
North America	1150	837	814	-29	-3	2145	1651	-23
Europe	1761	1,555	1551	-12	0	3132	3106	-1
India	629	633	653	4	3	1258	1286	2
RoW	1835	1,474	1599	-13	8	3710	3073	-17
Proprietary prdts	**287**	**415**	**420**	**46**	**1**	**587**	**835**	**42**
Total	**18,368**	**16,832**	**18,704**	**2**	**11**	**36,558**	**35,536**	**-3**
Base Business	**17,861**	**16,832**	**18,704**	**5**	**11**	**33,963**	**35,536**	**5**

Financials **Rs mn**

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY10	70,310	15,761	22.4	8,434	50.0	101.9	9.6	32.3	17.8	7.2
FY11E	83,022	19,722	23.8	12,930	76.6	10.8	29.8	21.1	13.8	5.6
FY12E	102,422	26,346	25.7	18,564	110.0	53.3	32.3	14.7	9.9	4.2
FY13E	108,295	25,430	23.5	18,176	107.7	43.6	24.8	15.0	9.6	3.4

EBITDA margin expansion led by better product mix on account of higher contribution of branded formulations

EBITDA margin expansion of 361bps (led by 592bps improvement in gross margins) was largely on account of a) higher contribution from high margin branded formulation business in India and Russia, and b) incremental contribution of limited competition products such as Lotrel and Tacrolimus. This was in spite of higher fixed overhead in PSAI business (gross margin in PSAI business has come down from 36% to 22% in Q2FY11). Going forward, we believe that reduction in SGA cost in Betapharm (cost has come down from 4-5mn euro/ month to 1.5mn euro/month) and higher uptake of products like Omeprazole OTC and potential generic Prograf coupled with strong momentum in India will improve the operating performance of the company.

33% growth in APAT driven by higher other income and lower tax provision

APAT for the quarter increased by 33% to Rs2.87bn, mainly driven by higher other income (up by 75%) and lower tax provisioning (10% of PBT vs. 22% of PBT in Q2FY10). Management has re-iterated its guidance of US$3bn revenue and 25% ROCE by FY13E.

Branded formulation business in India and Russia poised for a strong growth trajectory

After a subpar industry performance (due to fewer product launches and change in domestic business strategy), Dr. Reddy (DRL) is likely to witness strong momentum owing to a) restructuring of field operations by addressing weaker zones, b) ramp up in new product launches including bio-similars, c) higher thrust on prescription generation leading to higher brand sales and, d) capitalizing on existing presence in oncology, CVS and dermatology. The benefits of these are already visible by way of strong performance during the last 2 quarters. Moreover, company's initiative to tap rural market (added 600 people in FY10) is expected to gain traction from FY11E onwards. We expect the domestic business to catch up with the industry growth rates of ~16-18% during the next 2-3 years, touching Rs15.7bn in FY13E.

GSK alliance – imparts long term visibility

DRL's tie-up with GSK for supplying branded products in the emerging markets imparts long term visibility to the stock. DRL has already started its first shipment of 4 products to Mexico, followed by Brazil and has filed over 100 dossiers in various markets under this alliance. The full impact on revenues from this deal would be visible in the next 2-3 years, as it will require at least two years for GSK to build sizable portfolio. The management has guided for US$1bn revenue in FY13E from emerging markets on account of a) 18-20% growth from India, b) 20% CAGR from CIS and c) significant contribution from GSK deal.

Gaining traction in limited competition products

- Consolidation in existing products as well as new product launches is expected drive DRL's US revenues from US$350mn in FY10 to US$1bn in FY13E. Some of its limited competition products already commercialized in the market are a) Lotrel (13-15% market share; market size $500mn; 4 competitors), b) Tacrolimus (12% market share; market size $500mn; 4-5 players), c) Omeprazole OTC (current run-rate is US$1.5-2mn; expect it to go up to US$3-4mn/month), c) Prevacid (market size $700mn; launched on 19th Oct 2011; 3 other generic players). These products are expected to add US$31mn, US$118mn and US$78mn in revenues in FY11E, FY12E and FY13E respectively.

Potential launch of limited competition opportunities to drive earnings momentum

- **Allegra-D-24 (market size $200mn):** Management is confident of vacating PI on Allegra-D-24. Expect launch to happen in Q4FY11. We do not expect other competitors for next 2-3 years.
- **Fondaparinux:** FDA is set to inspect the facility in early Dec'10. We expect launch to happen in Q1FY12 against our earlier expectation of 2HFY11E. Alchemia (DRLs marketing partner) has further expanded the scope of agreement to all territories outside of North America as well
- **Propecia:** We expect DRL to launch Propecia in Dec"12 with 180-day exclusivity (DRL is the sole filer).

Unfolding of Para IV opportunities – extend visibility beyond FY12E

DRL has built a sizeable Para IV pipeline of 32 products, of which 19 are FTFs. Some of the opportunities likely to materialize in the near term are Exelon, Clarinex, Zyprexa, Accolate, Ibandronate and Geodon. We are of the view that DRL will be able to monetize a sizeable portion of its Para IV and limited competition opportunities in the next 18-24 months. The probability of monetizing these opportunities is reasonably high as historically, even in adverse cases, DRL has been able to settle its litigation effectively. The NPV of Para IV pipeline is Rs114.

We expect potential upside from these opportunities to be the key upgrade triggers for the company. For valuation purpose, we have considered NPVs of products that have a higher probability of getting monetized.

a) **Accolate** (market size $50mn; expect launch in Dec'10 post USFDAs final approval; DRL is the only filer),

b) **Zyprexa** (market size $1bn; expect launch of 20mg strength in Q1FY12; DRL is FTF with 180 day exclusivity.),

c) **Geodon** (market size $1.2bn; expected launch in Q4FY12)

Para IV/limited competition opportunity matrix

	FY11E	FY12E	FY13E	FY14E
		Revenue (US$ mn)		
Allegra-D-24	18	56	45	-
Lotrel	45	-	-	-
Exelon	-	-	27	-
Clarinex	-	18	-	-
Avandia	-	60	-	-
Accolate	-	18	-	-
Boniva	-	90	-	-
Tacrolimus	70	-	-	-
Propecia	-	-	60	60
Lunesta	-	-	36	-
Avelox	-	-	-	84
Micardis	-	-	-	59
Zyprexa	-	221	-	-
Geodon	-	-	96	-
Prevacid	84	-	-	-
Total	**217**	**462**	**264**	**203**
		Per Share Value		
Allegra-D-24	3.3	9.7	8.9	-
Lotrel	4.9	-	-	-
Exelon	-	-	2.3	-
Clarinex	-	1.2	-	-
Avandia	-	4.0	-	-
Accolate		1.2	-	-
Boniva	-	7.2	-	-
Tacrolimus	11.2	-		
Propecia	-	-	3.3	10.5
Lunesta	-	-	2.1	-
Avelox	-	-	-	5.4
Micardis	-	-	-	3.8
Zyprexa	-	21.1	-	-
Geodon	-	-	6.8	-
Prevacid	6.2	-	-	-
Total NPV	**25.6**	**44.4**	**23.5**	**19.6**

Dr Reddy's Para IV/ limited competition opportunities in the US

Opportunities	FY09	FY10	FY11	FY12	FY13
Assured 180 days Exclusivity				1 launch	2 launches
Settlements / Go early	Sumatriptan		Amlodipine Benazepril	Rivastigmine + Desloratadine	Finasteride 1 mg
Limited Competition / Difficult to make		Omeprazole Mg OTC	Tacrolimus		
			Fondaparinux Fexofenadine Pseudoephedrine 2 more launches		

One-off opportunities partly offset disappointment in delayed launch of Allegra/ Fondaperinux

We highlight that the delay in launch of generic Allegra D-24 coupled with the slower-than expected ramp-up in Omeprazole has been partly offset by upside from one-off opportunities – generic Lotrel, Prevacid and generic Prograf.

Allegra-D

DRL had received final approval for Allegra D 24 and planned to launch at-risk in Q4FY11. DRL can potentially enjoy 'no competition' status over the next 3 years for this product as it is the only Para IV filer till date. Albany Molecular Research Inc (AMRI) has won a motion for a preliminary injunction, which delays the launch until the appeal process is complete. We have factored in sales of $18mn in FY11E assuming at-risk launch in Q4FY11.

Arixtra

Alchemia, DRL's partner for the product, has indicated that the facility in which syringes are filled with fondaparinux will be inspected by the FDA in Jan '11. While DRL manufactures the API, the filling is done in an outside facility. We believe that the final launch may get extended from Q4FY11 to Q1FY12. We have factored in sales of $22mn in FY12E, and $30mn in FY12E in our estimates.

Omeprazole OTC

Ramp-up in Omeprazole has been slower than anticipated as it requires higher promotion and marketing expenses, being an OTC. DRL currently has tied up with four distributors for this product. Current run-rate is US$1.5-2mn; expect it to go up to US$3-4mn/month. Going ahead, we expect faster ramp up in revenues on account of higher promotional push. In our forecast, we have incorporated sales of $31mn, $37mn and $41mn in FY11E, FY12E and FY13E respectively.

Generic Lotrel (market size US$540m):

This was the first limited-competition opportunity for DRL in FY11. Although the company reported lower contribution from this product in 1QFY11, DRL now enjoys 8% of the market share. We have built a FY12E and FY13E revenue contribution of $15mn and $12mn respectively, into our forecasts.

Generic Prograf:

DRL launched tacrolimus capsules (generic Prograf) on May 2010, which is a limited competition product. DRL was the second generic company to get approval. Again, after a lower market share in Q1FY11, it currently enjoys about 16% market share. However, we expect more competition to enter in FY12. We have assumed a 12-14% market share for DRL, which could potentially reap revenues of about $70mn in FY11E and $15mn in FY12E, in our view.

Prevacid

DRL has received final approval in Oct'10 and shipments have commenced form Oct 19, 2010. With market size of ~$700mn, Lansoprazole is an attractive opportunity as this is likely to be less genericised as bio-equivalence and stability is difficult. This is evident from the fact that despite being genericised almost a year back, price erosion has been limited, with only 3 generic filers. We anticipate entry of 2-3 more players over FY11-13E. We believe monetization of this opportunity could compensate for delayed sales of fondaparinux in FY11E. In our forecast, we have incorporated sales of $84mn, $50mn and $25mn in FY11E, FY12E and FY13E respectively.

Update on Para IV opportunities in the near future

- **Allegra D-24 (fexofenadine HCl 180 mg and pseudoephedrine HCl 240 mg):**

DRL had received final approval for Allegra D 24 and planned to launch at-risk in Q4FY11. DRL can potentially enjoy 'no competition' status over the next 3 years for this product as it is the only Para IV filer till date. Albany Molecular Research Inc (AMRI) has won a motion for a preliminary injunction, which delays the launch until the appeal process is complete. We have factored in sales of US$18mn in FY11E (3 months sales), US$56mn in FY12E and US$45mn in FY13E, assuming at-risk launch in Q4FY11.

Key stats:

Innovator: Sanofi Aventis

Sales: $200mn

Patent expiry: May 2018/ Dec 2020

Generic filers: Mylan, Teva, Ranbaxy, Wockhardt & Sun Pharma

- **Arixtra (fondaparinux):**

Alchemia, DRL's partner for the product, has indicated that the facility in which syringes are filled with fondaparinux will be inspected by the FDA in Dec '10. While DRL manufactures the API, the filling is done in an outside facility. We believe that the final launch may get extended from Q4FY11 to Q1FY12. We have factored in sales of $22mn in FY12E and $30mn in FY13E in our estimates.

Key stats:

Innovator: GSK

Sales: $200mn

Patent expiry: Product patent already expired

Generic filers: Alchemia/DRL, no other filer expected till the next 3 years

- **Accolate (Zafirlukast):**

DRL has received tentative approval in Jun'10 and the 30 month stay on the product expires in Nov'10. We expect final approval followed by immediate launch to kick in Q1FY12. Till date, DRL is the only filer with a FTF status on all strengths. We have factored in sales of $18mn in FY12E, assuming 30% price erosion and 50% market share.

Key stats:

Innovator: Astra Zeneca

Sales: $50mn

Patent expiry: Dec 2011/ Mar Mar 2014

Generic filers: Only DRL. DRL is FTF on all strengths and is the only filer.

■ **Zyprexa (Olanzapine, 20mg):**

With US$1bn in revenues at the innovator level and an FTF status for DRL, we believe Zyprexa to be one of the key opportunities DRL would have in the near future. DRL is expected to launch Zyprexa in the US in Q4FY12, post the final approval from USFDA. DRL's first-to-file status (on 20mg strength) will result in 180-day exclusivity for the company. Earlier, Barr Labs amended its Para IV certification to a Para III certification, whereby Eli Lilly dropped its related patent suit against Barr.

Key stats:

Innovator: Eli Lilly

Sales: $2.3bn; ($*840mn for 20mg*)

Patent expiry: Apr 2011; (*Oct 2011 incl. pediatric exclusivity*)

Generic filers: Teva, Barr

■ **Geodon (Ziprasidone):**

We expect DRL to launch the drug in mid 2012 with shared exclusivity with 4 players. We expect revenue potential of $96mn in FY13E for DRL, assuming 60% price erosion and 20% market share.

Key stats:

Innovator: Pfizer

Sales: $1.16bn

Patent expiry: Mar 2012

Generic filers: 4

■ **Exelon (Revastigimine):**

DRL has shared exclusivity between 3 first-to-filers. Case has been settled for launch prior to patent expiry. Sun Pharma, one of the FTF for generic Exelon with a Para IV certification, shares a 180-day marketing exclusivity. We have factored in sales of $27mn in FY13E in our estimates, assuming 40% price erosion and 20% market share.

Key stats:

Innovator: Novartis

Sales: $225mn

Patent expiry: Aug 2012

Generic filers: 3 filers, including Sun pharma

■ **Clarinex D-12/ D-24 (Desloratadine, 2.5/5mg):**

DRL entered into a settlement with Shering and Sepracor in 2009. As per the agreement, DRL will launch the 5mg strength product with 6 months marketing co-exclusivity in 2012. The 2.5 mg tablet can be launched 6 months after the launch of the first generic version of that product. We have factored in sales of $18mn in FY12E in our estimates, assuming 40% price erosion and 20% market share.

Key stats:

Innovator: Schering Plough

Sales: $172mn

Patent expiry: 2012

Generic filers: Multiple

Execution of limited competition opportunities is the key

We revise our base business earnings estimates upwards by 6.4% in FY12E (from Rs73.3 to Rs78.0) driven by improved base business visibility and inclusion of new exclusivity opportunities. Given the increased earnings visibility on account of strong traction in branded generic markets of India and Russia/CIS and upside from GSK deal in emerging markets, we have factored FY13 earnings estimate of Rs88.1. Post revision; we expect 30% CAGR in base business over FY10-13E.

The NPV of Para IV pipeline works out to Rs125. We have assigned a multiple of 21x to base business EPS of Rs78. Our target price works out to be Rs1763 (9% upside from CMP). Management has guided for US$3bn in revenues and RoCE of 25% by FY13E. However, as of now, they have a revenue visibility of US$2.7bn. At CMP of Rs1616, the stock is trading at 15x FY12E.

Key downside risks to our valuation:

- Unfavourable verdict in Allegra D-24 litigation
- Slower than expected ramp-up in generic Prilosec OTC and delay in launch of generic Arixtra
- Adverse healthcare reforms in Russia impacting sales performance
- Unfavourable currency movements
- Higher proportion of products falling under DPCO

Key Financials – Quarterly **Rs mn**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)
Revenues	**18,368**	**17,296**	**16,424**	**16,831**	**18,704**	**1.8**	**11.1**
Total Revenues	**18,368**	**17,296**	**16,424**	**16,831**	**18,704**	**1.8**	**11.1**
Expenditure	**15,619**	**14,436**	**13,870**	**14,104**	**15,229**	**(2.5)**	**8.0**
as % of sales	*85.0*	*83.5*	*84.4*	*83.8*	*81.4*	*(361) bps*	*(238) bps*
Consumption of RM	9,649	8,487	7,784	7,918	8,718	(9.7)	10.1
as % of sales	*52.5*	*49.1*	*47.4*	*47.0*	*46.6*	*(592) bps*	*(43) bps*
Employee Cost	5,007	5,057	5,133	5,194	5,241	4.7	0.9
as % of sales	*27.3*	*29.2*	*31.3*	*30.9*	*28.0*	*76 bps*	*(284) bps*
Other expenditure	963	892	953	993	1,270	31.9	27.9
as % of sales	*5.2*	*5.2*	*5.8*	*5.9*	*6.8*	*155 bps*	*89 bps*
EBITDA	**2,749**	**2,860**	**2,554**	**2,727**	**3,475**	**26.4**	**27.4**
Depreciation	329	374	269	288	468	42.1	62.4
EBIT	**2,420**	**2,486**	**2,285**	**2,439**	**3,008**	**24.3**	**23.3**
Other Income	125	220	238	285	219	75.2	(23.3)
Interest (gain)/expense	-208	53	-26	276	35	(116.8)	(87.4)
PBT	**2,753**	**2,653**	**2,549**	**2,449**	**3,192**	**15.9**	**30.4**
Total Tax	595	265	441	357	327	(45.1)	(8.5)
Adjusted PAT	**2,158**	**2,388**	**2,039**	**2,092**	**2,865**	**32.8**	**37.0**
Minority Interest	15	0	20	5	3		
APAT after MI	**2,410**	**2,388**	**2,019**	**2,288**	**2,912**	**20.8**	**27.3**
Extra ordinary items	237	7605	(474)	(192)	(44)		
Reported PAT	**2,173**	**(5,217)**	**1,668**	**2,096**	**2,868**	**32.0**	**36.8**
Adjusted EPS	**14.3**	**14.1**	**11.8**	**13.5**	**17.2**	**20.6**	**27.0**

Margins (%)						**(bps)**	**(bps)**
EBIDTA	15.0	16.5	15.6	16.2	18.6	361	238
EBIT	13.2	14.4	13.9	14.5	16.1	291	159
EBT	15.0	15.3	15.5	14.5	17.1	208	252
PAT	13.1	13.8	12.3	13.6	15.6	245	198
Effective Tax rate	21.6	10.0	17.3	14.6	10.2	(1,138)	-435

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	**70,310**	**83,022**	**102,422**	**108,295**
Growth (%)	*2.2*	*18.1*	*23.4*	*5.7*
Expenditure	**54,549**	**63,300**	**76,076**	**82,866**
Raw Materials	22,688	26,798	32,650	34,988
SGA	18,179	21,050	25,389	27,297
Employee Cost	10,948	12,700	14,732	16,941
Other Exp	2,734	2,753	3,305	3,640
EBITDA	**15,761**	**19,722**	**26,346**	**25,430**
Growth (%)	*6.9*	*25.1*	*33.6*	*-3.5*
EBITDA margin (%)	***22.4***	***23.8***	***25.7***	***23.5***
Depreciation	4,131	4,565	4,986	5,407
EBIT	**11,630**	**15,157**	**21,360**	**20,023**
EBIT margin (%)	***16.5***	***18.3***	***20.9***	***18.5***
Other Income	1,014	915	1,562	2,267
Interest expenses	312	494	284	124
PBT	**6,183**	**15,579**	**22,638**	**22,166**
Tax	2,668	2,648	4,075	3,990
Effective tax rate (%)	*43.2*	*17.0*	*18.0*	*18.0*
Adjusted PAT	**8,434**	**12,930**	**18,564**	**18,176**
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	**8,434**	**12,930**	**18,564**	**18,176**
Growth (%)	*11.0*	*53.3*	*43.6*	*-2.1*
Net Margin (%)	***12.0***	***15.6***	***18.1***	***16.8***
E/O items	-6,150	0	0	0
Reported PAT	**3,515**	**12,930**	**18,564**	**18,176**
Growth (%)	*-138.3*	*267.9*	*43.6*	*-2.1*

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	844	844	844	844
Reserves & surplus	36,924	48,274	64,863	80,077
Net worth	**37,768**	**49,118**	**65,707**	**80,921**
Minority Interest	**0**	**0**	**0**	**0**
Secured Loans	12,043	7,543	3,043	1,543
Unsecured Loans	2,797	2,297	1,297	297
Loan Funds	**14,840**	**9,840**	**4,340**	**1,840**
Net deferred tax liability	71	71	71	71
Total Liabilities	**52,678**	**59,029**	**70,117**	**82,831**
Gross Block	64,469	70,762	76,115	81,518
Less: Depreciation	40,946	45,486	50,472	55,879
Net block	**23,522**	**25,277**	**25,643**	**25,639**
Capital work in progress	7,622	4,246	4,567	4,891
Investment	**3,580**	**3,580**	**3,580**	**3,580**
Current Assets	**38,202**	**47,584**	**63,349**	**78,065**
Inventories	13,394	15,723	19,350	20,540
Sundry debtors	11,599	13,763	17,026	17,986
Cash & bank balance	6,600	10,326	17,358	29,382
Loans & advances	0	0	0	0
Other current assets	6,609	7,772	9,615	10,157
Current lia & Prov	**20,248**	**21,658**	**27,022**	**29,344**
Current liabilities	16,746	19,093	23,603	24,930
Provisions	3,502	2,565	3,418	4,414
Net current assets	**17,954**	**25,926**	**36,327**	**48,721**
Misc. exp & Def. Assets	0	0	0	0
Total Assets	**52,678**	**59,029**	**70,117**	**82,831**

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	5,169	14,664	21,076	19,899
Depreciation	4,131	4,565	4,986	5,407
Interest Provided	312	494	284	124
Other Non-Cash items	0	0	0	0
Chg in working cap	4,709	-4,246	-3,369	-370
Tax paid	-2,668	-2,648	-4,075	-3,990
Operating Cashflow	**11,653**	**12,828**	**18,902**	**21,069**
Capital expenditure	-1,709	-2,943	-5,674	-5,727
Free Cash Flow	**9,944**	**9,884**	**13,228**	**15,342**
Other income	1,014	915	1,562	2,267
Investments	-3,057	0	0	0
Investing Cashflow	**-3,752**	**-2,028**	**-4,112**	**-3,460**
Equity Capital Raised	226	0	0	0
Loans Taken / (Repaid)	-5,136	-5,000	-5,500	-2,500
Interest Paid	-312	-494	-284	-124
Dividend paid (incl tax)	-2,217	-1,580	-1,975	-2,962
Income from investments	0	0	0	0
Others	516	0	0	0
Financing Cashflow	**-6,924**	**-7,074**	**-7,759**	**-5,586**
Net chg in cash	**977**	**3,726**	**7,032**	**12,024**
Opening cash position	5,623	6,600	10,326	17,358
Closing cash position	**6,600**	**10,326**	**17,358**	**29,382**

Key ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	22.4	23.8	25.7	23.5
Net Margin	12.0	15.6	18.1	16.8
ROCE	23.4	28.8	35.5	29.2
ROE	9.6	29.8	32.3	24.8
RoIC	13.8	26.6	34.6	31.0
Per Share Data (Rs)				
EPS	50.0	76.6	110.0	107.7
CEPS	110.9	103.6	139.5	139.7
BVPS	223.7	291.0	389.3	479.4
DPS	11.3	8.0	10.0	15.0
Valuations (x)				
PER	32.3	21.1	14.7	15.0
P/CEPS	14.6	15.6	11.6	11.6
P/BV	7.2	5.6	4.2	3.4
EV / Sales	4.0	3.3	2.5	2.3
EV / EBITDA	17.8	13.8	9.9	9.6
Dividend Yield (%)	0.7	0.5	0.6	0.9
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.0	-0.2	-0.3
Net Debt/EBIDTA	0.5	0.0	-0.6	-1.0
Working Cap Cycle (days)	77	80	80	80

Recommendation History: Dr Reddy's Lab – DRRD IN

Date	Reports	Reco	CMP	Target
23/07/2010	*Dr Reddy's Lab Q1FY11 Result Update*	Accumulate	1,380	1,543
02/07/2010	*Dr Reddy's Management Meet Update*	Buy	1,440	1,543
07/05/2010	*Dr Reddy Q4FY10 Result Update*	Buy	1,218	1,400
21/01/2010	*Dr Reddy Q3FY10 Result Update*	Buy	1,202	1,409

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/10/2010	*Cadila Healthcare Q2FY11 Result Update*	Accumulate	680	720
18/10/2010	*Unichem Labs Initiating Coverage*	Buy	530	670
08/10/2010	*Pfizer Q3CY10 Result Update*	Hold	1,093	1,100
05/10/2010	*Aurobindo Pharma Visit Note*	Buy	1,066	1,242

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