Dr Reddy's Laboratories REDY.NS DRRD IN

HEALTH CARE & PHARMACEUTICALS

NOMURA EQUITY RESEARCH

Dr Reddy's- Merck Serono biologic partnership

The deal contours present right balance between risks and rewards

June 8, 2012

Rating Remains	**Buy**
Target price Remains	INR 1918
Closing price June 7, 2012	INR 1617
Potential upside	+18.6%

Action: Dr Reddy's partnership with Merck Serono is strategically positive

We believe the deal catapults Dr Reddy's as a global player in biosimilars. We believe the partnership provides Dr Reddy's with: a) Merck Serono's development, manufacturing and commercial expertise across markets; b) financial support that can expedite some of Dr Reddy's development programmes; c) the option of an efficient integrated worldwide product development; d) lower risks as investments in R&D, manufacturing and sales force are lowered and e) reasonable upsides as it gets to keep a share of profits in the most lucrative US market and certain branded markets like India and Russia. We think the deal may not have resulted in any immediate value discovery as there are no upfront and milestone payments disclosed. But the partnership, we believe, is the right strategic move and the deal has struck a right balance between risks and rewards.

Catalyst: Biosimilar remains an interesting opportunity

The deal appears well timed, as some clarity on regulatory pathways has begun to emerge in its developed markets of the US and Europe. With biologic drugs of USD100bn+ in sales going off-patent by 2020, we estimate the biosimilar opportunity in developed markets to record ~50% CAGR to reach USD20bn by 2020F. Also, we expect a 3-fold growth in patient volumes in emerging markets by 2020F as affordability increases on lower prices of biosimilars. Dr Reddy's biosimilar revenue of USD25mn (FY12) is <5% of the overall biosimilar market currently, on our reading.

Valuation: Maintain Buy

The deal does not impact our estimates but reduces risk. At 16x FY13F P/E, the valuations appear reasonable. Our TP implies 19% upside.

Anchor themes

DRRD is a play on patent expiry in the US. DRRD should benefit from its own product filings and API supply. In addition, DRRD is exposed to growth in emerging markets, including India. The company has partnered with Glaxo PLC for emerging markets.

Nomura vs consensus

We are ~4-6% higher than consensus on FY13F and FY14F rev. Our ests imply 19% y-y rev growth in FY13F lower than the company's implied guidance of 30%.

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31 Mar	FY11		FY12F		FY13F		FY14F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	74,692	96,737	96,737	115,442	115,442	129,461	129,461
Reported net profit (mn)	11,040	14,260	14,260	17,009	17,009	18,115	18,115
Normalised net profit (mn)	11,040	14,260	14,260	17,009	17,009	18,115	18,115
Normalised EPS	64.94	83.88	83.88	100.05	100.05	106.56	106.56
Norm. EPS growth (%)	925.8	29.2	29.2	19.3	19.3	6.5	6.5
Norm. P/E (x)	24.9	N/A	19.3	N/A	16.2	N/A	15.2
EV/EBITDA (x)	16.4	11.4	11.1	9.5	9.2	8.6	8.4
Price/book (x)	5.9	N/A	4.7	N/A	3.8	N/A	3.1
Dividend yield (%)	0.8	N/A	0.8	N/A	0.8	N/A	0.8
ROE (%)	24.8	27.4	27.4	26.0	26.0	22.4	22.4
Net debt/equity (%)	net cash	0.2	0.2	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

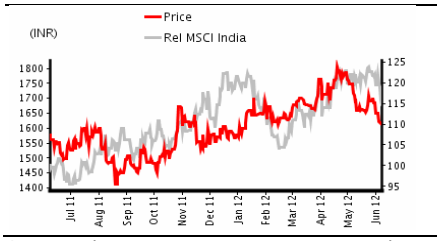
Key data on Dr Reddy's Laboratories

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**70,277**	**74,692**	**96,737**	**115,442**	**129,461**
Cost of goods sold	-46,671	-38,395	-49,739	-58,747	-66,524
Gross profit	**23,606**	**36,297**	**46,998**	**56,695**	**62,937**
SG&A	-21,598	-23,668	-28,747	-34,607	-39,968
Employee share expense					
Operating profit	**2,008**	**12,629**	**18,251**	**22,088**	**22,970**
EBITDA	**14,742**	**16,595**	**24,558**	**28,133**	**29,629**
Depreciation	-12,734	-3,966	-6,307	-6,045	-6,659
Amortisation					
EBIT	2,008	12,629	18,251	22,088	22,970
Net interest expense	-3	-189	160	-826	-326
Associates & JCEs	48	3	54	0	0
Other income					
Earnings before tax	**2,053**	**12,443**	**18,465**	**21,261**	**22,644**
Income tax	-985	-1,403	-4,205	-4,252	-4,529
Net profit after tax	**1,068**	**11,040**	**14,260**	**17,009**	**18,115**
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	**1,068**	**11,040**	**14,260**	**17,009**	**18,115**
Extraordinary items					
Reported NPAT	**1,068**	**11,040**	**14,260**	**17,009**	**18,115**
Dividends	-2,217	-2,217	-2,217	-2,217	-2,217
Transfer to reserves	**-1,149**	**8,823**	**12,043**	**14,792**	**15,898**
Valuation and ratio analysis					
FD normalised P/E (x)	257.4	24.9	19.3	16.2	15.2
FD normalised P/E at price target (x)	305.3	29.5	22.9	19.2	18.0
Reported P/E (x)	255.4	24.9	19.3	16.2	15.2
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
Price/cashflow (x)	14.9	36.4	22.3	11.5	13.9
Price/book (x)	6.4	5.9	4.7	3.8	3.1
EV/EBITDA (x)	18.6	16.4	11.1	9.2	8.4
EV/EBIT (x)	133.9	21.6	14.9	11.7	10.8
Gross margin (%)	33.6	48.6	48.6	49.1	48.6
EBITDA margin (%)	21.0	22.2	25.4	24.4	22.9
EBIT margin (%)	2.9	16.9	18.9	19.1	17.7
Net margin (%)	1.5	14.8	14.7	14.7	14.0
Effective tax rate (%)	48.0	11.3	22.8	20.0	20.0
Dividend payout (%)	207.6	20.1	15.5	13.0	12.2
Capex to sales (%)	13.8	15.4	8.8	6.1	4.6
Capex to depreciation (x)	0.8	2.9	1.3	1.2	0.9
ROE (%)	2.5	24.8	27.4	26.0	22.4
ROA (pretax %)	2.7	15.5	18.9	20.9	20.8
Growth (%)					
Revenue	1.2	6.3	29.5	19.3	12.1
EBITDA	-1.7	12.6	48.0	14.6	5.3
EBIT	na	528.9	44.5	21.0	4.0
Normalised EPS	na	925.8	29.2	19.3	6.5
Normalised FDEPS	na	933.7	29.2	19.3	6.5
Per share					
Reported EPS (INR)	6.33	64.94	83.88	100.05	106.56
Norm EPS (INR)	6.33	64.94	83.88	100.05	106.56
Fully diluted norm EPS (INR)	6.28	64.94	83.88	100.05	106.56
Book value per share (INR)	254.39	272.61	341.37	428.38	521.90
DPS (INR)	13.14	13.14	13.04	13.04	13.04

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-5.7	-4.5	0.8
Absolute (USD)	-9.3	-12.7	-18.1
Relative to index	-3.7	-0.3	11.9
Market cap (USDmn)	4,961.6		
Estimated free float (%)	0.7		
52-week range (INR)	1815.85/1386.1		
3-mth avg daily turnover (USDmn)	9.37		
Major shareholders (%)			
Promoter	25.8		

Source: Thomson Reuters, Nomura research

Notes

We value Dr Reddy's at 18x FY14F EPS

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	14,742	16,595	24,558	28,133	29,629
Change in working capital	3,741	1,353	-8,788	75	-5,308
Other operating cashflow	27	-10,394	-3,462	-4,252	-4,529
Cashflow from operations	**18,510**	**7,554**	**12,309**	**23,955**	**19,792**
Capital expenditure	-9,665	-11,539	-8,500	-7,000	-6,000
Free cashflow	**8,845**	**-3,985**	**3,809**	**16,955**	**13,792**
Reduction in investments	-3,070	2,783	0	0	0
Net acquisitions	0	-1,038	0	0	0
Reduction in other LT assets	-586	-601	0	0	0
Addition in other LT liabilities	-2,054	4,799	0	0	0
Adjustments	2,913	-3,392	-625	1,000	1,500
Cashflow after investing acts	**6,048**	**-1,434**	**3,184**	**17,955**	**15,292**
Cash dividends	-1,232	-8,192	-2,217	-2,217	-2,217
Equity issue	17	29	0	0	0
Debt issue	-3,781	8,915	8,638	0	0
Convertible debt issue					
Others	-64	-173	-1,541	-1,827	-1,826
Cashflow from financial acts	**-5,060**	**579**	**4,880**	**-4,044**	**-4,043**
Net cashflow	**988**	**-855**	**8,063**	**13,911**	**11,249**
Beginning cash	5,596	6,584	5,729	13,792	27,704
Ending cash	6,584	5,729	13,792	27,703	38,953
Ending net debt	2,507	-446	129	-13,783	-25,032

Source: Company data, Nomura estimates

Notes

We expect strong cashflows ahead

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	6,584	5,729	13,792	27,704	38,953
Marketable securities	3,600	817	817	817	817
Accounts receivable	11,960	17,615	25,339	24,208	27,859
Inventories	13,371	16,059	19,352	22,695	26,118
Other current assets	6,018	6,931	6,931	6,931	6,931
Total current assets	**41,533**	**47,151**	**66,231**	**82,354**	**100,677**
LT investments	0	0	0	0	0
Fixed assets	22,459	29,642	34,461	37,001	37,928
Goodwill	2,174	2,180	2,180	2,180	2,180
Other intangible assets	11,799	13,066	12,078	10,492	8,906
Other LT assets	2,365	2,966	2,966	2,966	2,966
Total assets	**80,330**	**95,005**	**117,915**	**134,993**	**152,657**
Short-term debt	3,706	12	12	12	12
Accounts payable	9,322	8,480	10,709	12,995	14,761
Other current liabilities	15,994	27,445	27,445	27,445	27,445
Total current liabilities	**29,022**	**35,937**	**38,166**	**40,452**	**42,218**
Long-term debt	5,385	5,271	13,909	13,909	13,909
Convertible debt					
Other LT liabilities	3,008	7,807	7,807	7,807	7,807
Total liabilities	**37,415**	**49,015**	**59,882**	**62,168**	**63,934**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	844	846	846	846	846
Retained earnings	42,071	45,144	57,187	71,979	87,877
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	**42,915**	**45,990**	**58,033**	**72,825**	**88,723**
Total equity & liabilities	**80,330**	**95,005**	**117,915**	**134,993**	**152,657**
Liquidity (x)					
Current ratio	1.43	1.31	1.74	2.04	2.38
Interest cover	669.3	66.8	na	26.7	70.4
Leverage					
Net debt/EBITDA (x)	0.17	net cash	0.01	net cash	net cash
Net debt/equity (%)	5.8	net cash	0.2	net cash	net cash
Activity (days)					
Days receivable	69.0	72.3	81.3	78.3	73.4
Days inventory	104.0	139.9	130.3	130.6	133.9
Days payable	59.9	84.6	70.6	73.6	76.1
Cash cycle	113.1	127.5	140.9	135.3	131.2

Source: Company data, Nomura estimates

Notes

We believe the balance sheet presents leeway to invest for the future

Dr Reddy’s - Merck Serono partners for generic monoclonal antibodies

Dr Reddy’s announced a collaboration with Merck Serono (MRK GR) for the development and commercialisation of its biosimilar portfolio, particularly monoclonal antibodies. As per the deal, Merck Serono shall commercialise the products globally, except for the US and certain emerging markets. These emerging markets most likely include India and Russia, where Dr Reddy’s has a significant presence in front-end branded generics. For the markets where Merck Serono exclusively commercialises the product, Dr Reddy’s receives royalty on sales. In the US, both companies will co-commercialise the products on a profit-sharing basis. Manufacturing-related investments will largely be done by Merck Serono. However, Dr Reddy’s will retain the option of manufacturing, if required. Development expenses on select products will be shared from here on. Though the sharing proportion has not been disclosed, it does take into account the costs incurred by Dr Reddy's on the development of biosimilars, so far. The products for development haven't been disclosed, but we assume they would include more recent opportunities and would exclude any innovation product in Merck Serono's portfolio like Erbitux.

The deal follows a series of deals in the recent past

The Dr Reddy’s-Merck Serono deal follows a large number of biosimilar deals concluded in the recent past. Some of the deals are listed below.

Fig. 1: Deals in biosimilars

Deal	Period	Comments
Teva-Lonza	Jan ‘09	Teva and Lonza established a 50:50 JV. Lonza brings development and manufacturing expertise, Teva brings expertise in clinical development and marketing of generics
Mylan-Biocon	Jun ‘09	Five products- Herceptin, Neulasta, Avastin, Humina and Enbrel are part of the deal. Mylan would have rights to commercialize in the US/Canada, EU, Australia/NZ through a profit sharing arrangement. In other countries Mylan/Biocon have co exclusive marketing rights
Hospira-Celltrion	Oct ‘09	The deal covers eight biologic products and geographies of the US, Canada, Europe, Australia/NZ. The company has a separate deal with Nippon Kayaku in Japan.
JCR-Glaxo	May ‘10	JCR has presence in recombinant DNA technology and Glaxo currently has ~25% stake in the company. To start with Glaxo shall commercialize EPO outside of Japan
Hanwha-Merck	Jun ‘11	The deal is only for Enbrel. Merck will conduct clinical trials and do manufacturing. Hanwha retains commercial rights in Korea and Turkey and for other markets, Merck will commercialise the product. This is like a licensing deal where Hanwha gets upfront and milestone payments and gets royalty on sales.
Kyowa Hakko Kirin- Fujifilm	Nov ‘11	This is a 50:50 JV
Samsung-Biogen Idec	Dec ‘11	85:15 JV (85 for Samsung) to develop, manufacture and market biosimilar.
Watson-Amgen	Dec ‘11	Developing, commercialisation and manufacturing responsibilities are with Amgen. Watson provides financial support and in-kind development services.
Baxter-Momenta	Dec ‘11	The deal involves six drugs. Baxter brings in clinical, manufacturing and commercial expertise whereas Momenta has established track record of developing difficult to make generics. The deal involved an upfront payment of USD33m and milestone payment up to USD419m.
Dr Reddy's-Merck Serono	Jun ‘12	The deal is for monoclonal antibodies. In the US, both the parties have co-promotion rights and will share profits. In certain emerging markets like India and Russia, Dr Reddy's will retain commercial rights. In all other markets, Merck would commercialise. Dr Reddy's will do initial trials and later trails will be taken up by Merck. R&D costs will be shared.

Source: Nomura research

Almost all large generic companies such as Teva, Mylan, Watson, and Hospira have, in the past, entered into collaborations to gain synergies and de-risk development programmes. Sandoz, which is currently the largest player in the biosimilar market, has

the support of parent Novartis. We note the deals are structured to bring together complementary skills in development, manufacturing and commercialisation. The contours of the Dr Reddy's-Merck deal are interesting, as it brings in a good balance of risks and rewards, in our view. The Dr Reddy's-Merck deal has not resulted in any immediate value discovery as there is no upfront and milestone payment disclosed. But the partnership, we believe, is the right strategic move.

We think the deal is well timed as the regulatory landscape is gradually clearing up in the regulated markets of Europe and the US. Having developed some products for emerging markets, Dr Reddy's is on the verge of expanding development for developed markets. We think the EU opportunity is likely to be realised sooner, compared with the US. In the EU, clinical study requirements are relatively short and less stringent. Since producers are required to establish clinical activity and not any clinical end-points, entry barriers are relatively low in the EU. For the US, the draft guidelines suggest that the extent of clinical studies shall be determined by the level of characterisation of the higher order biological structures. Therefore, the draft does suggest a possibility of limited bridged studies. Across the world, we believe, complex generic biologics like monoclonal antibodies are likely to remain branded and non-substitutable, at least in the initial stages of genericisation and, hence, would require a strong front-end.

Positives from the deal

- **Merck Serono brings in development and regulatory expertise:** As an innovator, Merck Serono brings relevant expertise, particularly in product development and on the regulatory front. Merck Serono has a strong biologics portfolio with a presence in therapeutic areas such as neurodegenerative disorders, oncology and fertility. The company's top-three selling products are biologics (contributing 55% of Merck Serono's revenue in 2011).
- **Dr Reddy's has the relevant front end:** Merck Serono has a significant presence in Europe, which we think is possibly the most attractive market in the near term. Europe contributes 46% of Merck Serono's revenue. Emerging markets is a high growth area contributing 35% of revenue. Merck Serono has revenue base of EUR6bn (2011).
- **Merck Serono's expertise and financial support could accelerate development programmes**: Dr Reddy's is one of the early mover in biologics among Indian pharmaceutical companies. However, we note, globally, its development programme lags behind the likes of Teva, Sandoz in terms of product development. Therefore, the deal could help expedite Dr Reddy's development programme, in our view. The Dr Reddy's-Merck Serono entity may not participate in the first wave, but may be a later entrant, in our view. This could imply a relatively lower market share but could benefit the combined entity from the learnings of the early movers.
- **A more integrated development approach:** So far, Dr Reddy's biologic development programme had a step-by-step approach. For instance, the development programme was first focused on India, then on other emerging markets and thereafter for developed markets. With its partnership with Merck Serono, we expect a more integrated worldwide development programme simultaneously, which we believe is more efficient.
- **Lower risks:** Biologics development programme entails higher risks given uncertainties around regulatory pathways, commercialisation and market share gains. We estimate the development cost for biologics to range from USD40-50mn to more than USD100m per product. The sharing of R&D costs reduces risk. Dr Reddy's had indicated recently, the possibility of R&D costs increasing significantly in the coming years due to biosimilar development. More than cost-sharing, Merck Serono's development expertise reduces risk, in our view. Apart from R&D, Dr Reddy's would have to invest less in manufacturing and the front-end. We understand that manufacturing will largely be driven by Merck Serono.
- **Decent rewards:** We believe the risk-reward is well balanced. Dr Reddy's will get to keep the entire upside in certain emerging markets, which we believe include India and

Russia. In addition, the deal allows Dr Reddy's to co-market and retain material upsides in the US which we believe should emerge as the most lucrative market over time. The deal is therefore in sync with Dr Reddy's long-term objective of a branded presence in the US market.

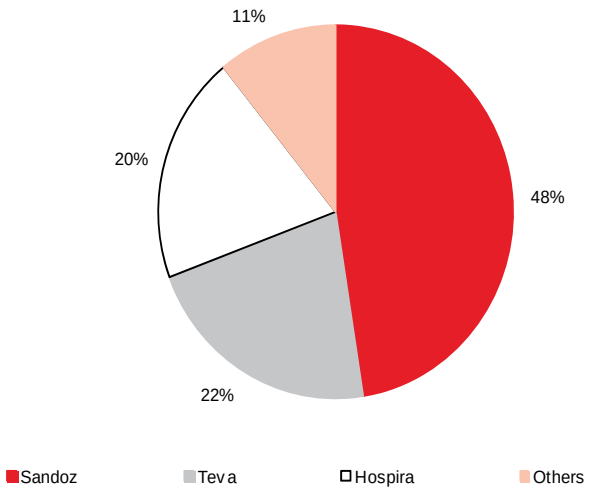
Are biologics worth pursuing?

Given the numerous risks right from development, regulatory to commercialisation and the limited expertise of Indian companies, the moot question is whether Indian generic companies should pursue this opportunity?

Biologics would contribute a greater portion of the overall pharma market and, with patents expiring would contribute even more to the generics market, we estimate. Approximately 30% of the industry pipeline and ~20% of the current pharma market is biologics. As per Sandoz's estimates, biologic drugs with brand sales of USD63bn shall go off patent by 2016, which is likely to increase further to USD100bn by 2020. Nomura estimates the biosimilar market in regulated markets to increase to USD20bn-plus by 2020F, compared with just under USD500mn currently, which implies a CAGR of >50% over the next nine-year period. The opportunity in emerging markets is also large, as a drop in prices could lead to significant market expansion, resulting in an overall increase in sales. For instance, in the case of generic Rituximab in India, the market size has grown six-times since the price was reduced by half. Similarly, for GCSF in India, market volume has expanded 30x and prices have fallen by 80% over the past decade as per Dr. Reddy's. As per Nomura estimates, the patient population using biologics in the emerging world will triple from the current baseline by 2020F.

The opportunity is too large to be ignored, on our assessment. However, given the uncertainties and risks, a calibrated approach is required, we think. Given the growth opportunities, we note that almost all generic and big pharma companies intend to pursue this opportunity. Even non-pharma players such as Fujifilm and Samsung are entering the space, as per company data. Dr Reddy's current biosimilar sales of USD25mn are less than 5% of the market, in our view. Dr Reddy's has four biosimilar products in the market, while seven others are in early development and pre-clinical testing stages. We believe the partnership with Merck Serono would catapult Dr Reddy's into the league of a serious global player.

Fig. 2: Market share of biologics in developed markets



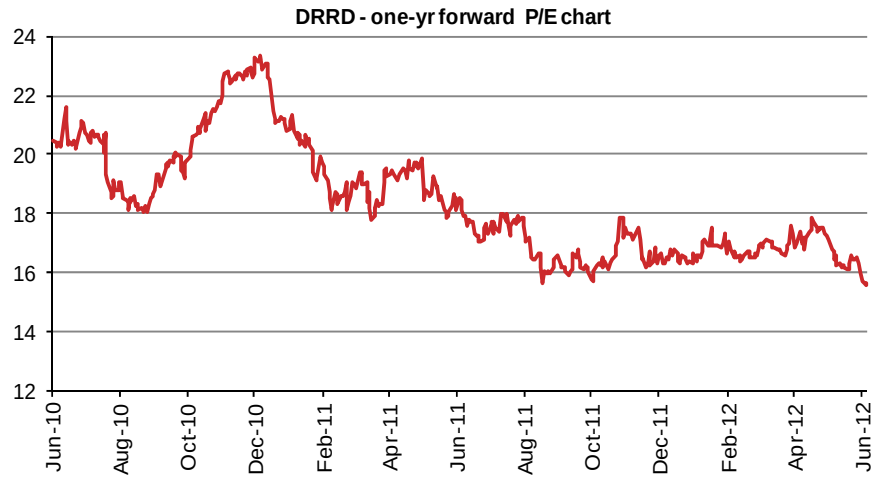
Source: Bloomberg, Nomura research

We reaffirm Buy, as low expectations make risk-reward favourable

Current consensus estimates for FY13F imply revenue growth of 15%, much lower than management expectations of maintaining growth at FY12F levels of 30%. A depreciating INR presents a tailwind to revenue growth. Furthermore, consensus earnings estimates of INR16.1bn for FY13F on the back of 4Q profit of INR4.16bn appear conservative to us. Valuations are relatively attractive at 16x FY13F P/E vs. 18-20x for its larger peers. We retain our target price at INR 1,918.

Our valuation is based on 18x FY14F EPS estimates. We expect front-line generic companies to trade at 18-20x FY14 EPS estimates. We attribute our lower multiple for Dr Reddy's to account for the relatively higher dependence on the US business and expected slowdown in growth post FY14.

Fig. 3: Dr. Reddy's 1-year fwd P/E chart



Source: Bloomberg, Nomura estimates

Fig. 4: Multiples for companies under our coverage

Current trading multiples - Actual											
		CMP	P/E			EV/EBITDA			EV/Sales		
Company	Recommendation	(INR/share)*	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F	FY12F	FY13F	FY14F
Sun Pharma	NEUTRAL	579	24.2	23.1	19.5	17.5	13.9	12.7	7.1	5.4	4.6
Cipla	NEUTRAL	308	21.4	18.5	15.7	14.9	12.8	10.8	3.5	3.0	2.6
Ranbaxy	REDUCE	487	13.3	11.2	13.1	9.8	4.5	9.0	2.1	1.5	1.6
Dr. Reddy's	BUY	1,617	19.3	16.2	15.2	11.6	9.7	8.8	3.0	2.4	2.0
GlaxoSmithKline	NEUTRAL	1,990	26.8	23.7	22.0	18.3	16.5	14.3	6.2	5.4	4.7
Lupin	BUY	548	24.2	20.8	17.5	16.9	14.1	11.7	3.7	2.9	2.5
Glenmark	BUY	375	16.5	17.9	14.5	16.2	13.5	9.5	3.2	2.7	1.9
Cadila Healthcare	BUY	734	24.1	21.6	15.5	15.4	13.3	9.2	3.3	2.7	2.1
Apollo Hospitals	BUY	680	36.2	28.8	21.7	17.5	14.2	11.3	2.9	2.4	2.0
Jubilant Organosys	BUY	178	8.9	7.0	5.9	6.8	5.7	5.1	1.4	1.2	1.0

Source: Bloomberg, Nomura estimates. Note: EV/EBITDA numbers do not include non-recurring items.

Appendix A-1

Analyst Certification

We, Saion Mukherjee and Aditya Khemka, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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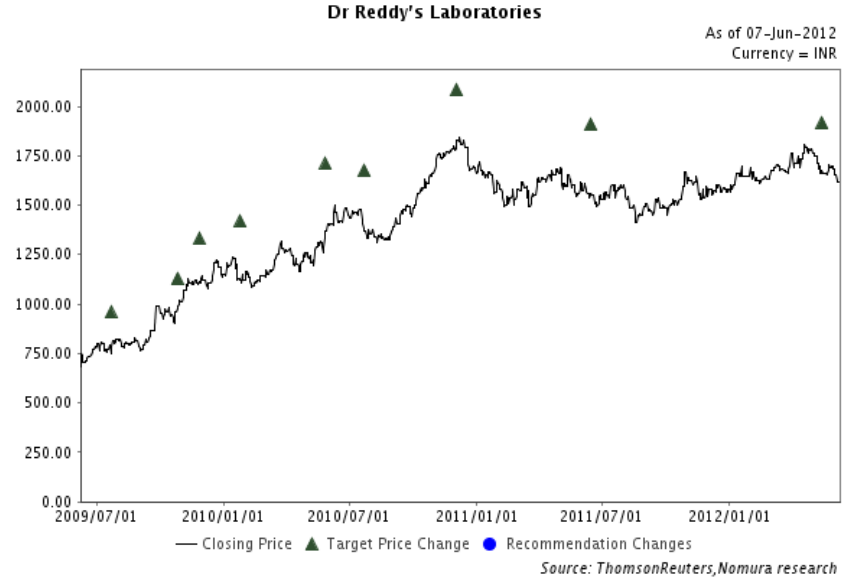
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Dr Reddy's Laboratories	DRRD IN	INR 1617	07-Jun-2012	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Dr Reddy's Laboratories	Not Rated	11-Dec-2008

Dr Reddy's Laboratories (DRRD IN) **INR 1617 (07-Jun-2012)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
14-May-12		1,918.00	1,671.95
15-Jun-11		1,911.00	1,555.60
03-Dec-10		2,084.00	1,827.95
23-Jul-10		1,677.00	1,365.30
28-May-10		1,709.00	1,370.10
25-Jan-10		1,418.00	1,121.90
27-Nov-09		1,329.00	1,109.05
26-Oct-09		1,131.00	975.60
22-Jul-09		957.00	751.05

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Dr. Reddy's at 18x FY14F earnings of INR106.6/sh. We expect front line generic companies to trade at 18-20x FY14 ests. We attribute lower multiple to account for relatively higher dependence on the US business and expected slowdown in growth post FY14.

Risks that may impede the achievement of the target price The key risk to our call are: a) adverse impact of pricing pressure/ price control in India, Russia; b) delay in key product approvals in the US; c) further drop in volumes and pricing in Germany; d) substantial INR appreciation and e) substantial increase in high risk innovation.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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