

Dr Reddy'S Lab - Market Perform, Great Result, Still Growth To Remain Modest

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Abstracts

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Sub: DR REDDY'S LAB - Market Perform, Great Result, Still Growth to Remain Modest

We reiterate our Market Perform rating on DRRD with an upward revision in target price from 1694 to 1929. The Q2 FY13 result was higher than our estimate largely due to high growth in the US generics market business (17% Q-o-Q, constant currency). Other expenses remained lower sequentially in absolute terms helping the EBITDA margin increase by 500 bps Q-o-Q. As per the company, the higher US performance was led by products launched before Q2 FY13.

Going forward growth will be driven by ramp up in generic Toprol XL and Amoxil in US. The company expects 2 more niche (non-Para IV) launches to happen in FY13 – one of them could be generic Vidaza (\$350m branded sales, no generic competition currently). Despite a respectable launch pipeline we expect FY13 and FY14 earnings growth to remain at a modest ~11% due to (1) higher earnings sensitivity to other expenses that are likely to go up as promotional expenses on OTC products increase in Russia. (2) higher base coupled with fewer no. of launches in coming quarters and (3) investment in complex generics continues with the acquisition of OctoPlus pharma (annual EBITDA loss of Euro 3.3m annually).

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