

DR REDDY'S LAB - Olanzapine and Forex Drive Growth

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Abstracts

We reiterate our Market Perform rating on Dr Reddy's after its Q3 FY12 result that was higher than our estimate only due to higher than expected generic Zyprexa (Olanzapine) sales and favorable forex. As per the company, ex-Zyprexa and forex benefit, EBITDA margin declined Y-o-Y due to change in sales mix and also partly due to halting of DEPB benefits. This is largely due to the marketing costs related to OTC products in US and Russia both. This vindicates our stance that DRRD's low competition opportunities are less lucrative due to such product specific issues.

We still like DRRD's low competition products pipeline with generic Zyprexa and generic Geodon being the biggest opportunities in FY12, however, that the valuations are nearly full and exposing the investor to the risks of execution.

We keep our FY12 & FY13 estimates largely unchanged as the reduction in base business margin is compensated by the increase in generic Zyprexa sales. We derive our target price by applying a PE of 19x on FY13 base business EPS of Rs.81.1 and valuing the Para IV pipeline at Rs.150 per share.

Contents

COMPANIES MENTIONED

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