

Dr Reddy's Laboratories Q2FY21

Financial Results & Highlights

Brief Introduction:

Dr. Reddy's Laboratories Limited operates as an integrated pharmaceutical company worldwide. It operates through three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and Proprietary Products. Dr. Reddy's Laboratories Limited operates as an integrated pharmaceutical company worldwide. It operates through three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and Proprietary Products. The company also engages in developing therapies in the fields of oncology and inflammation.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3346	3446	-2.90%	3244	3.14%	6590	5954	10.68%
PBT	620	1021	-39.28%	1362	-54.48%	1981	1714	15.58%
PAT	481	1365	-64.76%	950	-49.37%	1431	1913	-25.20%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	4962	4867	1.95%	4514	9.92%	9476	9155	3.51%
PBT	973	786*	23.79%	901	7.99%	1773	1655**	7.13%
PAT	772	1107	-30.26%	595	29.75%	1366	1783	-23.39%

*Includes tax benefit of Rs 320 Cr

**Includes tax benefit of Rs 128 Cr

Detailed Results:

1. Consolidated revenues were up a modest 2% YoY while profit saw a fall of 30% YoY in Q2 mainly due to large PAT in Q2FY20 due to the above-mentioned tax benefit.
2. EBITDA was up 9% YoY with EBITDA margins were at 25.9% vs 29.9% a year ago.
3. Revenue growth was muted due to large Proprietary products out-licensing income of 723 Cr in Q2 FY20. Revenue from sales growth was at 20%.
4. Gross margins declined to 53.9% in Q2FY21 vs 57.5% last year.
5. R&D expenses increased 19% YoY to Rs 436 Cr which is 8.9% of sales in Q2.
6. North America saw revenue growth of 28% YoY with 9 new product launches (Ciprofloxacin & Dexamethasone, OTC Nicotine Lozenge, Penicillamine Caps, Methylphenidate ER, Dexmedetomidine, Fulvestrant Inj, OTC Diclofenac, OTC Olopatadine, and Dimethyl Fumarate) and accounts for 37% of sales. The growth was due to an increase in base product volumes & new products while favourable forex partially offset by price erosion.
7. The company filed 2 new ANDAs in Q2 and has around 92 ANDAs and 2 NDAs pending approval.
8. India saw revenue growth of 21% YoY on account of full quarter sales from portfolio acquired from Wockhardt and new product launches of COVID-19 products like Avigan (Favipiravir) and Remdesivir.

9. The company grew 4% YoY in other markets. Russia declined 3% YoY due to the weakening of the ruble while CISR grew 19% YoY due to new product launches. The Rest of the World saw growth of 7% YoY due to good growth in China.
10. EU saw growth of 36% YoY to Rs 375 Cr with growth driven by new product launches and favourable forex movement across all markets.
11. Global Generics segment revenue grew 21% YoY to Rs 3984 Cr.
12. PSAI segment saw growth of 20% YoY due to:
 1. Growth in the services business
 2. New product sales
 3. Favourable forex movement
13. The company filed 39 global DMFs and 1 US DMF in Q2.
14. The proprietary products segment declined 92% YoY to Rs 62 Cr due to the absence of the Neurology franchise products which were sold off last year.
15. The Capex done in Q1 was at Rs 150 Cr. Net debt to equity was at 0.02 as of 30th June 2020.
16. The company has cash and cash equivalents of Rs 2607 Cr as of 30th Sep 2020.

Investor Conference Call Highlights

1. The gross margin for the Global Generics and PSAI was at 59.4% and 26.8% for the quarter.
2. SG&A spending for Q2 was down 1% YoY and it now accounts for 26.8% of sales, an improvement of 80 bps YoY.
3. The effective tax rate for the quarter is at 11.6%. The overall tax rate for FY21 is expected to be 25%.
4. The free cash generated during this quarter was Rs 606 Cr. Net debt to equity was at 0.01.
5. The company recorded its highest-ever quarterly sales of Rs 4897 Cr.
6. The company has entered into a deal with RDIF Russia for Sputnik V vaccines to conduct clinical trials and distribution in India. It will be starting combined Phase II and III clinical trials for the vaccine in the near future.
7. The company expects to launch more than 30 new products in FY21.
8. The company is looking to expand its capacity for Remdesivir to meet demand from India and other emerging markets.
9. The company is also conducting clinical trials for Favipiravir in Kuwait and UAE and additional trials in the USA, Canada, and India.
10. The company faced a recent cyberattack and is now isolating the impacted IT service part and taking the help of international experts in cybersecurity to contain and restore from its backup systematically in a cautious and controlled manner.
11. The management has stated that the company is going to use more digital marketing going forward. This should help keep overall SG&A spend under control and make it more productive.
12. In the clinical trials for the Sputnik vaccine, the company is taking in 100 patients for Phase II. The company expects these trials to be over by March '21.

13. The company expects to have its Sputnik capacity ready by the time the vaccine is ready to go commercial. The company will then be looking to scale up capacity to 100 million doses.
14. The Wockhardt deal gives the company synergies on both top line and bottom line, enabling it to sell more at less cost.
15. The company has a sales force of close to 6500 people in India.
16. The increase in intangible assets in the balance sheet is from Wockhardt.
17. The company is gearing up for the launch of Vascepa in the near future.
18. The most significant contributors to domestic QoQ growth was the end of the lockdown, Wockhardt product portfolio, and COVID products.
19. The company is seeking emergency use authorization in the United States for Favipiravir.
20. The global generics business has seen gross margins fall 200 bps QoQ due to lower export incentives, lower forex rates, and product mix.
21. The company is optimistic about the prospects in China and is looking to introduce more of its global portfolio in China going forward.

Analyst's View:

Dr. Reddy's Labs has been one of the biggest Indian pharma companies on the global stage. The company is doing well in maintaining its strength in developed markets like the USA and EU and in expanding into emerging markets. It had a steady performance in Q2 with good domestic growth of 21% YoY and 46% QoQ. The API business is expected to continue its growth momentum. The company has also done well to acquire marketing rights to the Sputnik V vaccine for COVID-19 in India. It remains to be seen how the company will be able to sustain the high gross margins seen in H1. It also remains to be seen how will the clinical trials for the Sputnik V vaccine go. Nonetheless, given the company's history of excellent performance and its standing in the global pharma industry, Dr. Reddy's Laboratories is a pivotal pharma stock in India.

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