

Week Gone

- ⇒ In the week ended on Friday, 12 August 2022, the Sensex gained 1074.85 points or 1.84% to settle at 59,462.78. The Nifty 50 index advanced 300.65 points or 1.73% to settle at 17,698.15.
- ⇒ The BSE Mid-Cap index rose 1.17% to settle at 24,765.05.
- ⇒ The BSE Small-Cap index gained 1.09% to settle at 27,905.91.

Week Ahead

- ⇒ On the macro front, China will announce Industrial Production data for July on 15 August 2022
- ⇒ Japan will announce Inflation Rate for July on 17 August 2022
- ⇒ In US, Retail Sales data will be announced on 17 August 2022

Technical Overview

Nifty extended its winning streak over fourth consecutive week and ended the week at 4 months high at 17698. In the process index has hit a significant slanting resistance trendline which has acted key resistance earlier. Breakout above the same will be significant, to continue its upward momentum. RSI placed around 60 readings, surpassing above the same shall trigger fresh upward momentum. On the level front, Nifty has an intermediate resistance around 17750-17880-18000. While on the downside support is placed around 17500-17300-17000.



Source: Falcon, BP Equities Research

Weekly Wealth

DOMESTIC INDICES

Index	12-Aug-22	05-Aug-22	Weekly % Chg
Nifty 50	17,698.2	17,397.5	1.7
Nifty Next 50	42,211.4	41,684.3	1.3
Nifty 100	17,956.8	17,655.5	1.7
Nifty 500	15,140.6	14,900.4	1.6
NIFTY MIDCAP 100	30,806.4	30,258.4	1.8
S&P BSE SENSEX	59,462.8	58,387.9	1.8
S&P BSE 100	18,077.7	17,775.3	1.7
S&P BSE 200	7,715.5	7,582.8	1.8
S&P BSE 500	24,136.4	23,731.7	1.7
S&P BSE MidCap	24,765.1	24,479.1	1.2
S&P BSE SmallCap	27,905.9	27,605.1	1.1

WORLD INDICES

Index	12-Aug-22	05-Aug-22	Weekly % Chg
Nikkei Index	28,547.0	28,175.9	1.3
Hang Seng Index	20,175.6	20,201.9	-0.1
Kospi Index	2,527.9	2,490.8	1.5
Shanghai SE Composite	3,276.9	3,227.0	1.5
Strait Times Index	3,269.3	3,282.9	-0.4
Dow Jones	33,761.1	32,803.5	2.9
NASDAQ	13,047.2	12,657.6	3.1
FTSE	7,500.9	7,439.7	0.8

FOREX

Currency	12-Aug-22	05-Aug-22	Weekly % Chg
US\$ (Rs.)	79.7	79.4	0.3
GBP (Rs.)	96.7	95.8	0.9
Euro (Rs.)	81.7	80.7	1.2
Yen (Rs.) 100 Units	59.6	58.7	1.6

NIFTY TOP GAINERS (WEEKLY)

Scrip	12-Aug-22	05-Aug-22	Weekly % Chg
UPL	788.9	731.8	7.8%
Coal India	221.7	207.2	7.0%
ICICI Bank	874.4	820.3	6.6%
Axis Bank	760.6	721.6	5.4%
Vedanta	262.5	250.3	4.9%

FII - ACTIVITY

(INR. Cr.)

Date	Purchases	Sales	Net
12-Aug-22	8,260.1	5,219.7	3,040.5
11-Aug-22	9,030.9	6,732.8	2,298.1
10-Aug-22	9,357.9	8,296.1	1,061.9
08-Aug-22	15,834.7	14,385.0	1,449.7
<u>MTD</u>	42,483.7	34,633.5	7,850.1

NIFTY TOP LOSERS (WEEKLY)

Scrip	12-Aug-22	05-Aug-22	Weekly % Chg
BPCL	333.9	328.35	1.7%
Bajaj Finance Ltd	7309.4	7318.95	-0.1%
HCL Technologies Ltd	956.4	962.35	-0.6%
Mahindra & Mahindra Ltd	1259.45	1266.2	-0.5%
ITC Ltd	308.55	306.25	0.8%

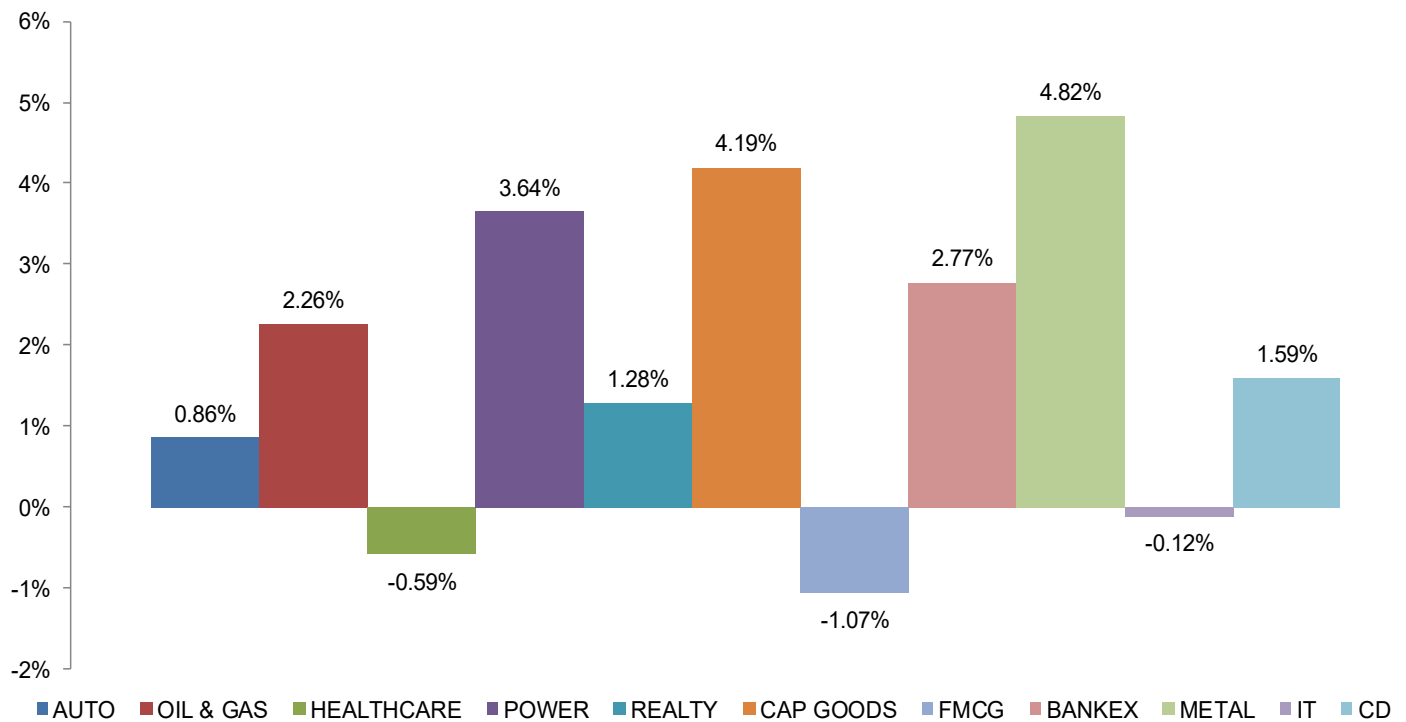
DII - ACTIVITY

(INR. Cr.)

Date	Purchases	Sales	Net
12-Aug-22	5,752.4	6,591.9	-839.5
11-Aug-22	5,758.1	6,487.7	-729.6
10-Aug-22	5,466.4	6,234.8	-768.5
08-Aug-22	5,126.3	5,267.0	-140.7
<u>MTD</u>	22,103.2	24,581.4	-2,478.2

Weekly Wealth

BSE WEEKLY SECTORAL PERFORMANCE



Source: BSE, BP Equities Research

TOP OPEN INTEREST GAINERS (WEEKLY)

SCRIP NAME	12/08/22	05/08/22	Weekly % Chg	12/08/22	05/08/22	Weekly % Chg
	Share Price (Rs.)			Open Interest		
BALRAMCHIN	340.55	351.55	3.2	7240000	9388800	29.7
DRREDDY	4,267.5	4,177.55	-2.1	1900000	2413875	27.0
IDFCFIRSTB	45.15	43.55	-3.5	186120000	230325000	23.8
EICHERMOT	3,211.85	3,077.5	-4.2	3301550	3979850	20.5
HINDPETRO	246.6	251.3	1.9	19456200	23195700	19.2

TOP OPEN INTEREST LOSERS (WEEKLY)

SCRIP NAME	12/08/22	05/08/22	Weekly % Chg	12/08/22	05/08/22	Weekly % Chg
	Share Price (Rs.)			Open Interest		
IPCALAB	919.2	1013.5	10.3	1529450	813150	-46.8
TATACHEM	1123.4	953.6	-15.1	8498000	4781000	-43.7
INDIACEM	193.5	191.05	-1.3	13717000	9526500	-30.5
DIVISLAB	3734	3891.8	4.2	3099750	2476800	-20.1
ABB	2810.7	2698.75	-4.0	978500	796250	-18.6

Company Background

Dr. Reddy's Laboratories Ltd. (DRL) was incorporated by its promoter and founder chairman, the Late Dr. K. Anji Reddy on February 24, 1984. The company offers a portfolio of products and services, including pharmaceutical generics, APIs, custom pharmaceutical services, biosimilars, and differentiated formulations. It has three divisions—global generics (which accounted for 83.6% of its revenues in FY2022), PSAI (Pharmaceutical Services and Active Ingredients-14.3%), and proprietary products and others (PP and Aurigene Discovery Technologies Limited; 2.1%). DRL has nine API-manufacturing facilities, of which 6 are in India, one in Mexico, one in the US, and one in the UK, coupled with 10 formulations manufacturing facilities in India, and one each in the UK and US. In addition, the company has one biologics facility in India and nine technology development and R&D centers in India and across the globe. DRL focuses on its core businesses of API, generics, branded generics, and biosimilars through improved execution on product development and launch, improved productivity driven by continuous improvement as well as digitalization. The Company is also exploring new spaces such as digital healthcare services, clinically differentiated assets, biologics and cell & gene therapy, and disease management.

Investment Rationale

Dynamic Strategy in Domestic Market

DRL's strategy in domestic business has resulted in 26% YoY growth in the top line for Q1FY23. DRL's domestic business benefited from the acquisition of Cidmus (a cardiovascular brand) from Novartis along with new product contribution, and divestment of non-core brands which it sold off to companies like JB Chemicals and Torrent Pharma. To further increase its market share in the Domestic Market, the company is focusing on growing big brands, acquisitions/partnerships in focus therapy areas, and divesting non-core brands. Through focussing on the divestment of its non-core brands the company has a clear strategy of focusing on segments that it believes to be monetized through brand building. This will help the company in allocating its capital in focussed areas which shall further enhance the company's performance in the domestic market.

Enhancing presence globally through new product launches and acquisitions

In the United States, DRL has acquired an Injectable portfolio from Eton Pharma. Alongside, there has been the completion of the USFDA inspection of the new sterile injectable manufacturing facility, referred to as FTO-11, leading to subsequent approval of a product from the site. This strengthens the company's presence in injectable products in the US market. In Q1FY23, it launched 7 new products and is preparing for a volume-limited launch of Lenalidomide (to treat misshapen healthy blood cells) ANDA product during Q2FY23. This shall help the company to continue with the growth momentum for the rest of FY23 in the United States. In China, DRL has been awarded Abiraterone (to treat prostate Cancer) tender, which will be their 2nd product through the GPO (Group Purchasing Organization) model. Abiraterone is the 2nd such material supply opportunity, post a similar tender win for Olanzapine (psychotic drug) earlier. The company has so far filed 17 products in China and plans to launch 7 more in FY23, thus marking its presence in China.

Valuation and Outlook

Dr. Reddys Laboratories Ltd.'s (DRL) expertise in R&D and its constant innovation in API, generics, branded generics, biosimilars, and OTC has led the company to be one of the leading names in the Pharmaceutical Industry. The company's margins are expected to improve going forward with easing in commodity prices, while revenue growth will be supported by new launches and recent acquisitions. In FY23, DRL is targeting 130 launches in EMs, of which 30 would be for India. The company is planning to increase its revenue by a mix of both organic and inorganic initiatives. However, any delays in approvals or any adverse findings from the Regulatory authorities can impact the company's earning potential. Based on the above factors, we give a "BUY" rating to this stock. On the valuation front, we value the company based on 25x of FY24e earnings and arrived at a target price of INR 5100 (20% upside from CMP) with a 12 months investment horizon.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

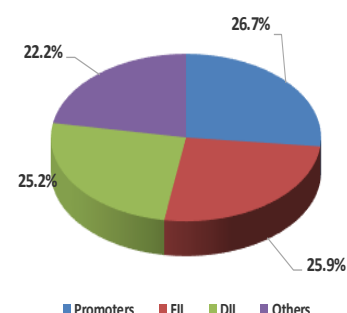
Stock

CMP (INR)	4,261
Target Price (INR)	5,100
NSE Symbol	DRREDDY
BSE Code	500124
Bloomberg	DRRD IN
Reuters	REDY.BO

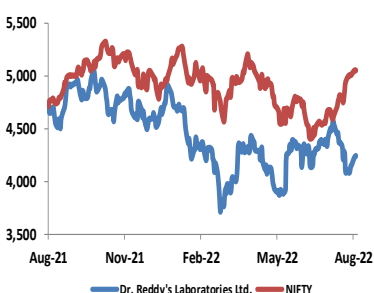
Key Data

Nifty	17,698
52WeekH/L(INR)	5079/3655
O/s Shares (Mn)	166
Market Cap (INR bn)	709
Face Value (INR)	5
Average volume	
3 months	5,219
6 months	5,397
1 year	5,005

Share Holding Pattern (%)



Relative Price Chart



Weekly Wealth

Key Financials

YE March (Rs. millions)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,54,482	1,75,170	1,90,475	2,15,452	2,32,904	2,53,399
<i>Revenue Growth (Y-o-Y)</i>	8.2%	13.4%	8.7%	13.1%	8.1%	8.8%
EBIDTA	35,157	30,910	41,613	42,521	50,540	57,015
<i>EBIDTA Growth (Y-o-Y)</i>	40.3%	(12.1%)	34.6%	2.2%	18.9%	12.8%
Net Profit	19,062	19,699	19,036	21,122	30,510	33,955
<i>Net Profit Growth (Y-o-Y)</i>	108.9%	3.3%	(3.4%)	11.0%	44.4%	11.3%
Diluted EPS	114.5	118.3	114.4	126.9	183.3	204.0
<i>Diluted EPS Growth (Y-o-Y)</i>	108.9%	3.3%	(3.4%)	11.0%	44.4%	11.3%

Key Ratios

EBIDTA margin (%)	22.8%	17.6%	21.8%	19.7%	21.7%	22.5%
NPM (%)	12.3%	11.2%	10.0%	9.8%	13.1%	13.4%
RoE (%)	13.6%	12.6%	10.8%	11.0%	13.8%	13.4%
RoCE (%)	20.2%	17.8%	20.2%	18.9%	19.9%	19.9%

Valuation Ratios

P/E (x)	37.2x	36.0x	37.3x	33.6x	23.2x	20.9x
EV/EBITDA	21.1x	23.5x	17.3x	16.9x	13.9x	12.2x
P/BV (x)	5.1x	4.5x	4.0x	3.7x	3.2x	2.8x
Market Cap. / Sales (x)	4.6x	4.0x	3.7x	3.3x	3.0x	2.8x

Source: Company, BP Equities Research



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