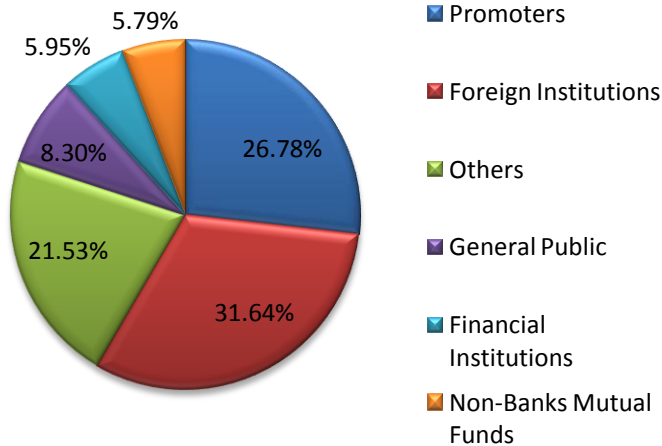


# DR. REDDY'S LAB

CMP: Rs.2, 320.00

DATE: 4.7.2018

COMPANY DETAILS			
<b>Industry Type</b>		Pharmaceuticals	
<b>Headquarter &amp; Incorporated</b>		Hyderabad,1984	
<b>Market cap (In Cr.)</b>		Rs.38,790.75	
<b>BSE/ NSE CODE</b>		500124/DRREDDY	
<b>52wk Low/high</b>		1888.00/2788.00	
KEY FINANCIALS (In Mn.)			
YEAR	REVENUE	EXPENSES	PROFIT
2013-14	135,850	109,387	19,632
2014-15	152,974	123,978	23,364
2015-16	159,671	128,299	21,514
2016-17	143,676	128,139	12,921
2017-18	144,362	130,858	9,468
SHAREHOLDING PATTERN			



## HIGHLIGHTS:

India enjoys an important position in the global pharmaceuticals sector. India is the largest provider of generic drugs globally. Indian pharmaceutical sector industry supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in UK. The pharmaceutical sector was valued at US\$ 33 billion in 2017. The country's pharmaceutical industry is expected to expand at a CAGR of 22.4 per cent over 2015–20 to reach US\$ 55 billion. India's pharmaceutical exports stood at US\$ 17.27 billion in 2017-18 and are expected to reach US\$ 20 billion by 2020.

**Dr. Reddy's Laboratories** with market cap of Rs. 38,790.75

crore and BSE /NSE code of 500124/DRREDDY is an Indian multinational pharmaceutical company based in Hyderabad, Telangana, India. Dr. Reddy's manufactures and markets a wide range of pharmaceuticals in India and overseas. The company has over 190 medications, 60 active pharmaceutical ingredients (APIs) for drug manufacture, diagnostic kits, critical care, and biotechnology products. Revenue of the company has increased to Rs.144,362 million in FY2017-18 from Rs.143,676 million in FY2016-17. Expenses of the company has shown a growth of 2.12% in FY2017-18. Profit has declined to Rs9,468 million in FY2017-18 From Rs.12,921 million in FY2016-17. Foreign Institutions held 31.64% shares of total equity shares and followed by promoters, others, General public, Financial

institutions and Non -Bank Mutual funds having shares of 26.78%, 21.53%,8.30%,5.95% and 5.79% respectively.

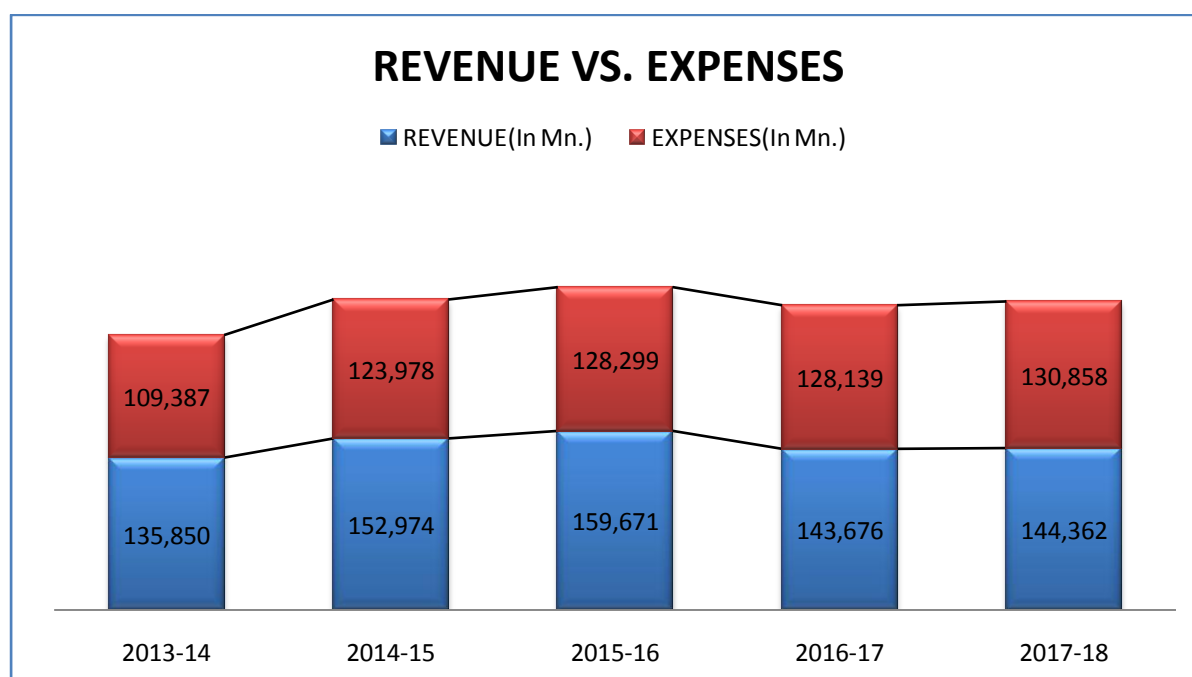
## FINANCIAL PERFORMANCE:

PARTICULARS	2016-17	2017-18
ASSETS (In Mn.)	218,165	225,443
SHAREHOLDER'S FUND (In Mn.)	122,621	125,716
LIABILITIES (In Mn.)	95,544	99,727
ROA (%)	5.92	4.20
ROE (%)	10.54	7.53
ROCE (%)	9.64	6.04
PROFIT MARGIN (%)	8.99	6.56
EPS(Rs.)	77.37	56.96

The company has provided a mixed financial Performance in FY2017-18.Assests of the company has increased to Rs.225,443 million in FY2017-18 From Rs.218,165 million in FY2017-18.Shareholder's fund has shown a growth of 2.52% in FY2017-18 which stood at Rs.125,716 million in FY2017-18 as against Rs.122,621 million in FY2016-17.Liabilities of the company has increased to Rs.99,727 million in FY2017-18 from Rs.95,544 million in FY2016-17>Returns of the company has shown a decline in FY2017-18.ROA ,ROE,ROCE stood at 4.20%, 7.53%, 6.04% respectively in FY2017-18.Profit Margin of the company has declined to 6.56% in FY2017-18 from 8.99% in FY2016-17.EPS stood at Rs.56.96 in FY2017-18.

## FINANCIAL ANALYSIS:

### REVENUE VS. EXPENSES:



This graph has shown 5 year's trend of Revenue & expenses. In FY2017-18, the company has registered a growth of 0.48% in Revenue and 2.12% in Expenses.

### Revenue:

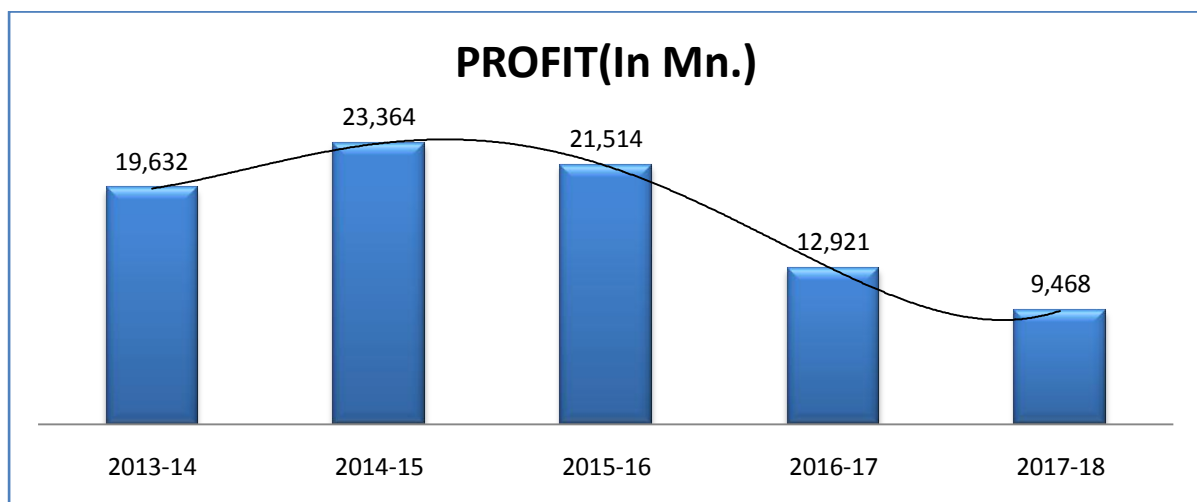
- Revenue of the company has recorded a growth of 0.48% which stood at 144,362 Million in FY2017-18 as against Rs.143,676 million in FY2016-17. The company has registered a little growth due to the significant price erosion in the US market, lower contribution from India due to GST transition, and temporary supply constraints in Europe on account of the German regulatory audit.

### Expenses:

Expenses of the company has increased by 2.12% to Rs.130,858 million in FY2017-18 from Rs.128,139 million in FY2016-17. This Increase of Expenses is due to increase in Cost of material consumed of 19.97%, Employee Benefit Expenses of 3.48%, Finance cost of 24.29%, Depreciation & Amortization Expenses of 4.93%.

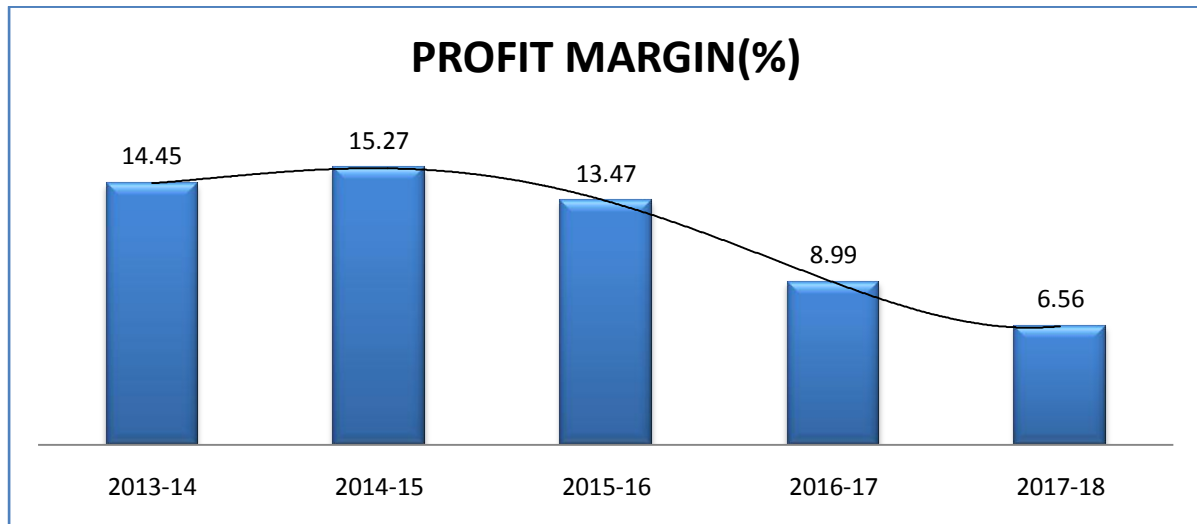
- Cost of material consumed has increased to Rs.26,309 million in FY2017-18 from Rs.21,930 million in FY2016-17, recording a growth of 19.97%.
- Employee benefit expenses has shown a growth of 3.48%, Rs.32,149 million as against Rs. 31,068 million. This growth was on account of increase in Salaries, wages and bonus of 3.20%, Contribution to provident and other funds of 10.77%, Share-based payment expenses of 21.10%
- Finance cost has increased by 24.29% due to increase in Interest on long-term borrowings of 71.14%, Interest on other borrowings of 9.89%.
- Depreciation & Amortization Expenses has increased by 4.93% as Depreciation of property, plant and equipment increased by 8.96%.

### PROFIT:



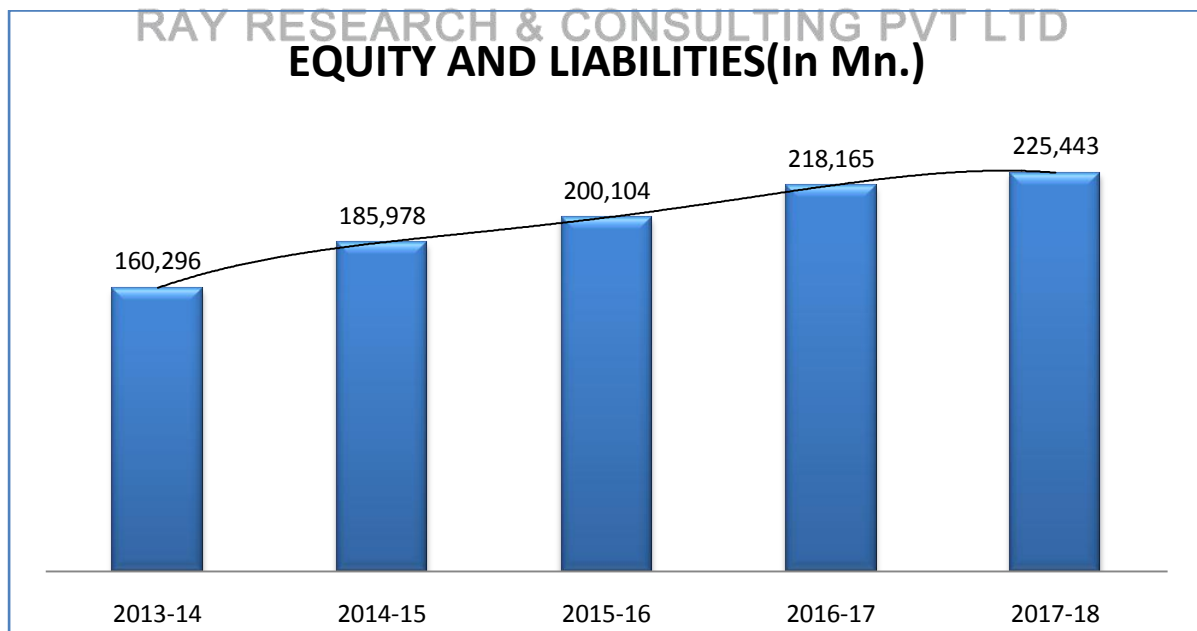
Profit of the company has declined by 26.72% to Rs.9,468 million in FY2017-18 from Rs.12,921 million in FY2016-17. The profit was impacted due to higher price erosion on account of channel consolidation and new competition in the US and increase in Expenses as compared to revenue.

#### PROFIT MARGIN:



Profit Margin of the company stood at 6.56% in FY2017-18 as compared to 8.99% in FY2016-17. The decline in Profit Margin was mainly driven by an unfavourable product mix.

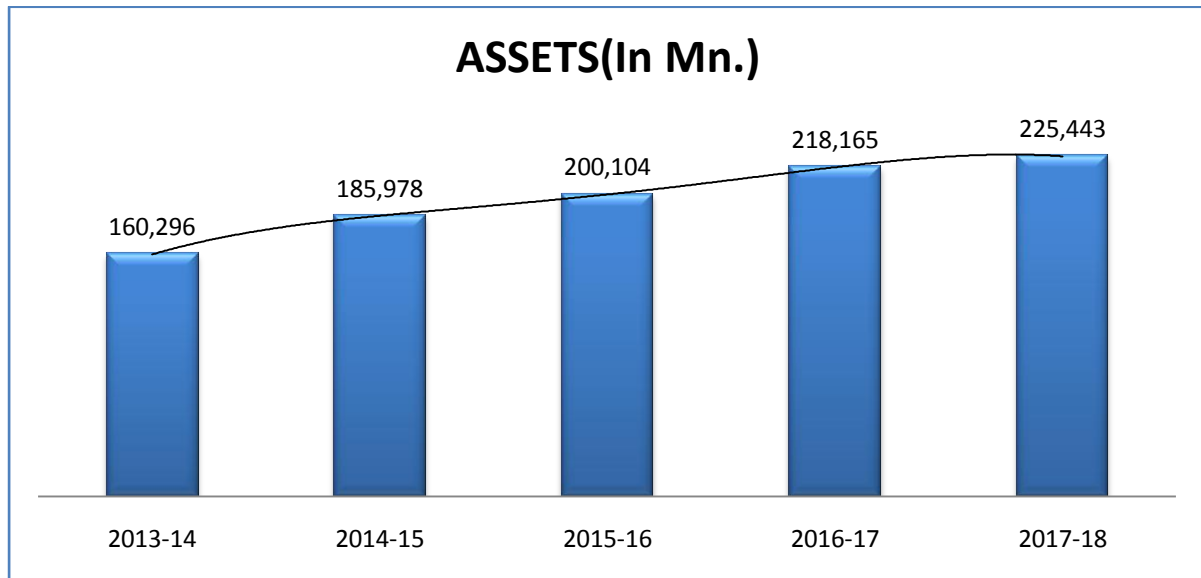
#### EQUITY & LIABILITIES:



Equity & Liabilities of the company has increased to Rs.225, 443 million in FY2017-18 from Rs.218, 165 million in FY2016-17, recording a growth 3.34%. This Increase is due to increase in share capital of 0.12%, Reserve & Surplus of 2.54%, Long term Borrowings of 360.43%,

Deferred tax liabilities of 30.14%, Trade Payables of 26.27%, Other Financial Liabilities of 3.98%, Liabilities for current tax of 3.24%.

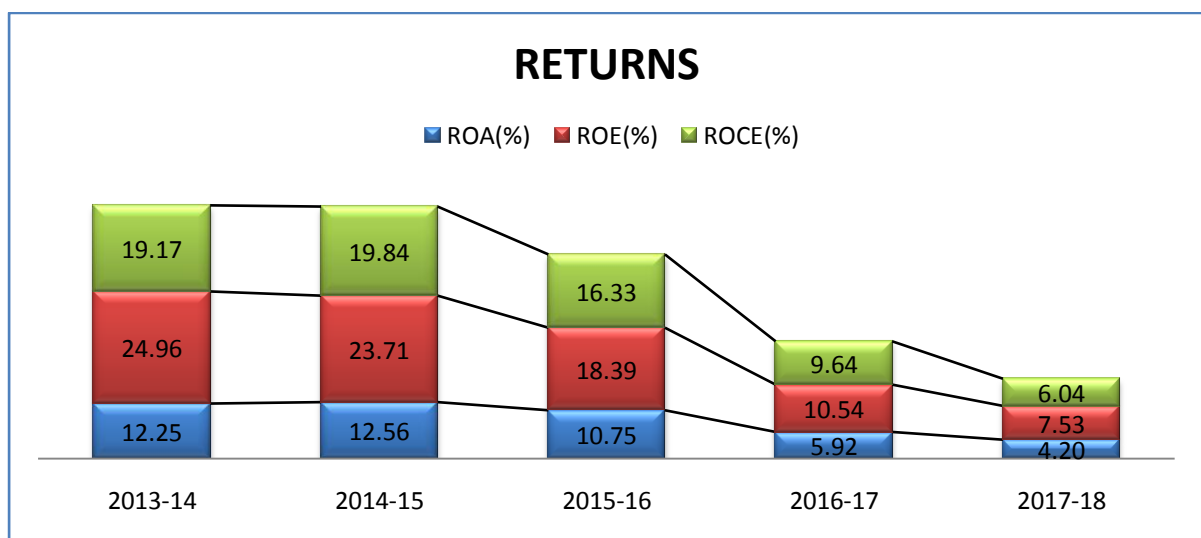
### ASSETS:



Assets of the company have recorded a growth of 3.34% which stood at Rs.225,443 million in FY2017-18 as compared to Rs.218,165 million in FY2016-17. This increase in Assets is due to increase in Intangible Assets of 837.75, Capital work –in-progress of 25.97%, Other Intangible Assets of 2.47%, Other intangible assets of 31.25%, Current Investments of 28.44%, Inventories of 1.97%, Trade Receivables of 6.93%, Other Financial Assets of 21.65%.

RAY RESEARCH & CONSULTING PVT LTD

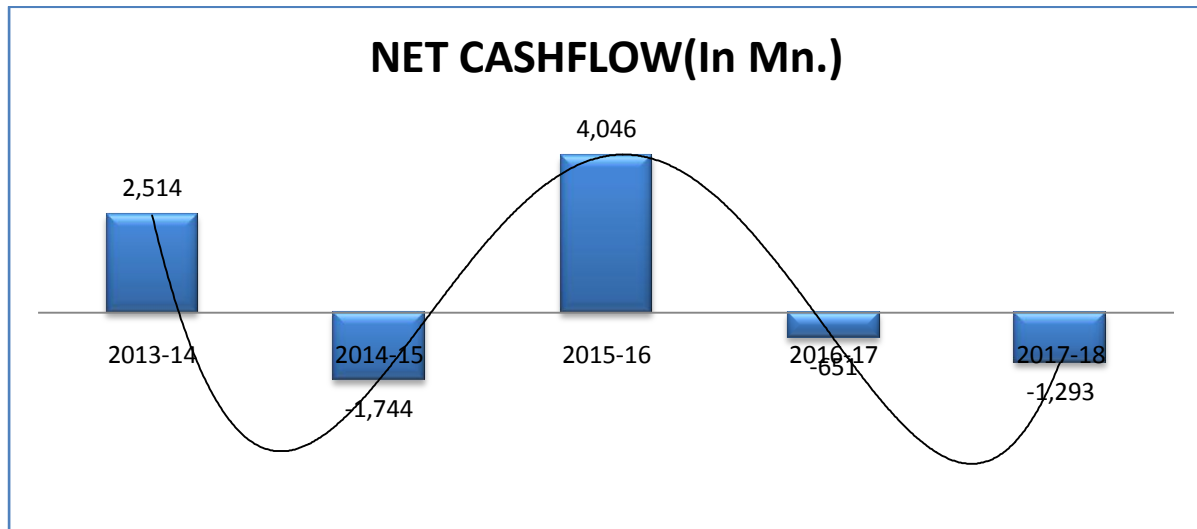
### RETURNS:



Returns of the company have shown a decline in FY2017-18 due to decline in profit. ROA of the company stood at 4.20% in FY2017-18 as compared to 5.92% in FY2016-17. ROE of the

company was at 7.53% as against 10.54% in FY2016-17. ROCE stood at 6.04% in FY2017-18 as compared to 9.64% in FY2016-17.

### CASHFLOW:



The company had a negative cash flow in FY2017-18 which stood at Rs.(1,293) Million in FY2017-18 as against Rs.(651) million in FY2016-17. This negative cash flow was due to loss on foreign Exchange, Purchase of Fixed Assets, Proceeds from sale of fixed assets, Purchase of intangible assets, Purchase of investments, Repayment of long term borrowings, Interest paid.

### OUTLOOK:

RAY RESEARCH & CONSULTING PVT LTD

FY2018 has been challenging on account of significant price erosion in the US market, the GST transition impact in India, and the temporary supply disruption in Europe. While price competitiveness will remain the leitmotif in the US, the company believe that the rate of price erosion peaked in FY2018 and ought to taper down. The other two disruptions were of temporary nature and should not have an impact on FY2019 performance. Dr. Reddy's will be able to improve its performance in FY2019. The company is preparing for a set of new product launches in the US and expanding its footprint in emerging markets through volume growth and new launches; the company expect to do better in Europe now that the setback on account of the German regulatory inspection is behind it; and the company is striving to perform better than the overall market in India.

### FINANCIAL STATEMENT:

#### PROFIT & LOSS STATEMENT:

<b>CONSOLIDATED PROFIT AND LOSS</b>					
<b>(RS. IN MILLION)</b>					
	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>INCOME</b>					

<b>Sales, gross</b>	131,715	147,855	154,639	138,663	138,022
<b>Less: Excise duty</b>	-820	-829	-842		
<b>Sales, net</b>	130,895	147,026	153,797		
<b>Service income</b>	1,632	1,689	1,466		
<b>License fees</b>	280	369	767	2,146	4,006
<b>Other operating revenues</b>	1,346	1,149	948	1,152	782
<b>Revenue from operations</b>	134,153	150,233	156,978	141,961	142,810
<b>Other income</b>	1,697	2,741	2,693	1,715	1,552
<b>Total revenue</b>	135,850	152,974	159,671	143,676	144,362
<b>EXPENSES</b>					
<b>Cost of material consumed (including packing material consumed)</b>	28,407	28,259	24,667	21,930	26,309
<b>Purchase of stock-in-trade</b>	7,398	9,420	11,743	13,752	14,501
<b>Changes in inventories of finished goods, work-in-progress and stock-in-trade )</b>	-3,196	-558	-1,003	-1,233	-415
<b>Conversion charges</b>	2,207	1,929	2,436	2,516	
<b>Excise duty</b>	562				
<b>Employee benefits expense</b>	22,130	29,446	31,874	31,068	32,149
<b>Finance costs</b>	1,267	1,082	824	634	788
<b>Depreciation and amortisation expense</b>	6,475	7,599	9,705	10,266	10,772
<b>Research and development cost</b>	12,632				
<b>Other expenses</b>	31,505	46,801	48,053	49,206	46,754
<b>Total expenses</b>	109,387	123,978	128,299	128,139	130,858
<b>Profit before exceptional and extraordinary items and tax</b>	26,463	28,996	31,372	15,537	13,504
<b>Exceptional items</b>	4.72	-		-	
<b>Foreign exchange loss</b>	-	-	4,621	-	-
<b>Profit before extraordinary items and tax</b>	26,463	28,996	26,751	-	13,504

Extraordinary items	-	-	-	-	-
Profit before tax	26,463	28,996	26,751	15,537	13,504
Tax expense					
Current tax expense	6,568	6,242	6,620	3,096	1,753
Deferred tax benefit	263	-610	-1,383	-131	2,627
Net profit for the year				12,572	9,124
Share of profit of equity accounted investees, net of tax				349	344
Profit for the year	19,632	23,364	21,514	12,921	9,468
Other comprehensive income (OCI)					
Items that will not be reclassified subsequently to profit or loss				1930.00	-3,710
Income tax on items that will not be reclassified subsequently to profit or loss				-404.00	874
				1526.00	-2,836
Items that will be reclassified subsequently to profit or loss				1279.00	-23
Income tax on items that will be reclassified subsequently to profit or loss				136.00	23
				1415.00	0
Total other comprehensive income/(loss) for the year, net of tax				2941.00	-2,836
Total comprehensive income for the year				15862.00	6,632



Profit for the year					
Attributable to:					
Equity holders of the parent				12921.00	9,468
Non-controlling interests				-	-
Total comprehensive income for the year					
Attributable to:					
Equity holders of the parent				15862.00	6,632
Non-controlling interests				-	-
Earnings per share					
Basic - Par value ` 5/- per share	115.45	137.18	126.15	77.53	57.08
Diluted - Par value ` 5/- per share	114.9	136.59	125.7	77.37	56.96
Number of shares used in computing earnings per share					
Basic	170,044,518	170,314,506	170,547,643	-	-
Diluted	170,857,689	171,056,969	171,151,025	-	-

#### BALANCESHEET:

BALANCE SHEET					
(IN MILLIONS)					
	2013-14	2014-15	2015-16	2016-17	2017-18
<b>EQUITY AND LIABILITIES</b>					
Shareholders' funds					
Share capital	851	852	853	829	830
Reserves and surplus	77,801	97,679	116,156	121,792	124,886
	78,652	98,531	117,009	122,621	125,716
Non current liabilities					
Long term borrowings	20,755	14,315	10,690	5,449	25,089
Other financial liabilities				183	144
Deferred tax liabilities, net	1,241	1,407	592	1,620	1,950
Other long term liabilities	1,181	2,733	2,498	3,251	2,789
Long term provisions	563	779	947	842	-
	23,740	19,234	14,727	11,345	30,789
Current liabilities					

Short term borrowings	20,607	21,857	22,718	43,626	25,562
Trade payables	8,932	8,673	9,289	10,569	13,345
Derivative instruments					85
Other financial liabilities				18,750	19,497
Liabilities for current tax (net)				1,482	1,530
Other current liabilities	20,208	26,244	24,395	4,647	4,532
Short term provisions	8,157	11,439	11,946	5,125	4,387
	57,904	68,213	68,348	84,199	68,938
<b>TOTAL</b>	<b>160,296</b>	<b>185,978</b>	<b>200,104</b>	<b>218,165</b>	<b>225,443</b>
<b>ASSETS</b>					
<b>Non current assets</b>					
<b>Fixed assets</b>					
Tangible assets	37,496	41,837	46,296	50,281	49,733
Goodwill					5,331
Intangible assets	8,912	11,933	19,338	4,763	44,665
Capital work-in-progress	6,388	5,290	6,631	6,095	7,678
Other intangible assets				14,263	14,616
Intangible assets under development				27,150	27,027
Investment in joint ventures				1,603	2,104
<b>Financial assets</b>					
Investments				5,223	2,549
Trade receivables				210	169
Investment in equity accounted investees					
Other financial assets				829	756
Non current investments	4	1,456	1,456		2,549
Deferred tax assets, net	1,917	2,450	2,853	6,784	5,405
Long term loans and advances	2,322	4,181	5,194		
Tax assets, net					4,567
Other non current assets	-	64	135	4,127	524
	57,039	67,211	81,903		120,459
<b>Current assets</b>					
Current investments	10,664	21,022	21,122	14,271	18,330
Inventories	24,188	25,699	25,799	28,528	29,089
Trade receivables	33,253	41,012	41,667	37,986	40,617
Derivative instruments				264	105
Cash and bank balances	23,006	18,724	18,358	3,865	2,638
Current tax assets					4,567
Short term loans and advances	10,989	10,747	10,058		
Other financial assets				1,432	1,533
Other current assets	1,157	1,563	1,197	10,491	12,762
	103,257	118,767	118,201	96,837	104,984
<b>TOTAL</b>	<b>160,296</b>	<b>185,978</b>	<b>200,104</b>	<b>218,165</b>	<b>225,443</b>

**CASHFLOW:**

<b>CONSOLIDATED CASHFLOW STATEMENT</b>					
<b>(RS. IN MILLION)</b>					
	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
<b>CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>					
Profit before taxation	26,463	28,996	26,751	15,537	13,504
Adjustments:					
Depreciation and amortisation expense	6,475	7,599	9,705	10,266	10,772
Impairment of property, plant and equipment				335	-
Impairment of intangible assets				110	53
Share-based payment expense				398	454
Fair value gain on financial instruments at fair value through profit or loss				-700	-75
Net foreign exchange differences				428	-281
Loss on disposal of property, plant and equipment				80	55
Provision for wealth tax	2	2	-	-	
Profit on sale of current investments, net	-213	-729	-800	-	
Dividend from mutual fund units		-26	-53	-	
Foreign exchange gain/ loss, net	-1,107	1,381	1,211	-	
Foreign exchange loss related to Venezuela operations	-	-	4,621	-	
Loss on de-recognition / Impairment of fixed assets	86	267	155	-	
Stock compensation expense, net	468	519	455	-	
Allowance for sales returns	2,451	3,536	3,272	-	
Interest income	-1,085	-1,054	-1,403	-558	-540
Finance costs	1,267	1,082	824	634	788
Profit/Loss on sale of fixed assets, net	-24	144	112	-	-806
Profit on sale of mutual funds, net	-	-	-	-497	
Dividend from mutual fund units	-	-	-	3,177	
Allowance for sales returns	-	-	-	-	2,702
				-	
Provision for inventory obsolescence	1,941	3,635	2,746	3,085	2,946
Allowance for sales returns	-	-	-	3,177	

Allowances for credit losses, net	-	-	-	158	169
Allowances for doubtful advances, net	-	-	-	11	16
Provision for doubtful debts, net	168	168	137	-	
Provision for doubtful advances, net	-2	16	17	-	
Operating cash flows before working capital changes	36,890	45,536	47,750	-	
Changes in operating assets and liabilities	-	-	-	-	
Trade receivables	-261	-10,935	733	3,036	-2,097
Inventories	-4,047	-5,413	-2,570	-6,324	-3,233
Trade payables	-1,019	-45	829	1,799	2,550
Other assets and liabilities, net	-4,723	1,556	833	-3,761	-6,186
Cash generated from operations	26,840	30,699	47,575	27,214	20,791
Income taxes paid, net	-7,143	-5,464	-7,099	-5,770	-2,761
Net cash from operating activities	19,697	25,235	40,476	21,444	18,030
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>					
Purchase of fixed assets	-10,831	-15,315	-13,879	-12,225	-9,291
Proceeds from sale of fixed assets	85	172	84	44	139
Increase/Decrease in deposit accounts (having original maturity of more than 3 months) and other bank balances	1,361	1,581	321	-	
Purchase of intangible assets	-	-	-	-28,706	-1,752
Finance income received	-	-	-	628	274
Purchase of investments	-25,091	-37,005	-55,163	-49,723	-68,291
Proceeds from sale of investments	16,594	27,386	55,864	71,595	64,038
Interest received	965	784	1,235	-	
Cash paid for acquisition of business units, net of cash acquired	-	-276	-7,936	-17	
Dividend paid/received	-24	26	53	-	
Net cash used in investing activities	-16,941	-22,647	-19,421	-18,404	-14,883
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>					
Proceeds from issuance of share capital	2	5	1	-	
Proceeds from exercise of share options	-	-	-	1	1

Buyback of equity shares	-	-	-	-15,694	
Repayment of long term borrowings	10,100	-3,728	-11,714	-	-18,025
Repayment of other long term borrowings	-207	-	-	-5,221	18,907
Redemption of 9.25% redeemable non-convertible debentures of ` 5 each	-5,078	-	-	-	
Proceeds from / (repayment of) short term borrowings, net	-917	4,068	-273	54,418	
Repayment from short-term loans and borrowings, net	-	-	-	-32,883	
Interest paid	-1,162	-1,090	-917	-923	-1,331
Dividend paid (including dividend distribution tax)	-2,980	-3,587	-4,106	-3,390	-3,992
Net cash used in financing activities	-242	-4,332	-17,009	-3,692	-4,440
Net increase / (decrease) in cash and cash equivalents	2,514	-1,744	4,046	-651	-1,293
Cash and cash equivalents at the beginning of the year	5,204	8,624	5,829	4,921	
Effect of foreign exchange loss on cash and cash equivalents	906	-1,051	-4,288	-492	57
Cash and cash equivalents at the end of the year	8,624	5,829	5,587	3,778	3,778
Notes to the cash flow statement:					
Cash and cash equivalents at the end of the year	8,624	5,829	5,587	-	2,542
Other bank balances	14,382	12,895	12,771	-	-
Cash and bank balances at the end of the year	23,006	18,724	18,358	3,778	2,542