

FIRST LIGHT

18 September 2020

RESEARCH

Dr Reddy's Labs | Target: Rs 4,640 | -4% | ADD

US Revlimid settlement – low competition can boost NPV

Greenply Industries | Target: Rs 135 | +47% | BUY

Demand conditions improving gradually

SUMMARY

Dr Reddy's Labs

Dr Reddy's (DRRD) has announced a key settlement of the patent litigation with Celgene for US Revlimid (lenalidomide capsules) used to treat multiple myeloma. We view this as one of the key product catalysts for the company, which forms part of our FY23 estimates. The settlement allows DRRD to manufacture and market limited volumes of gRevlimid after Mar'22, subject to USFDA approval, and unlimited volumes beginning 31 Jan 2026. Patent expiry on drug substance and product is slated for Apr'27.

[Click here for the full report.](#)

Greenply Industries

Key takeaways from our interaction with the management of Greenply Industries (GIL): (1) Plywood demand is inching up with progressive unlocking of the country. GIL's sales have retraced to 70-75% of year-ago levels in July/August as compared to ~65% in June, (2) Demand has come primarily from markets beyond tier-I cities which account for 45-50% of revenues, (3) Premium plywood sales have recovered over the past two months and contribution to revenue is now similar to FY20 levels (~72%).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.70	2bps	(1bps)	(110bps)
India 10Y yield (%)	5.99	(4bps)	4bps	(63bps)
USD/INR	73.53	0.2	1.8	(3.2)
Brent Crude (US\$/bbl)	42.22	4.2	(5.8)	(33.6)
Dow	28,032	0.1	0.4	3.3
Shanghai	3,284	(0.4)	(2.3)	10.0
Sensex	39,303	0.7	3.8	7.5
India FII (US\$ mn)	15 Sep	MTD	CYTD	FYTD
FII-D	119.5	318.4	(14,771.6)	(5,012.1)
FII-E	252.6	513.7	5,321.0	11,924.0

Source: Bank of Baroda Economics Research

BOBCAPS Research

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ADD

TP: Rs 4,640 | ▼ 4%

DR REDDY'S LABS

Pharmaceuticals

17 September 2020

US Revlimid settlement – low competition can boost NPV

Event: Dr Reddy's (DRRD) has announced a key settlement of the patent litigation with Celgene for US Revlimid (lenalidomide capsules) used to treat multiple myeloma. We view this as one of the key product catalysts for the company, which forms part of our FY23 estimates. The settlement allows DRRD to manufacture and market limited volumes of gRevlimid after Mar'22, subject to USFDA approval, and unlimited volumes beginning 31 Jan 2026. Patent expiry on drug substance and product is slated for Apr'27. The agreed percentage terms are confidential under restricted launch.

Competition visibility low: DRRD is the third company to settle on gRevlimid (US\$ 8bn brand sales in the US) after Natco/Teva and Alvogen. Per the company, its launch timeline is similar to Alvogen's (post-Mar'22) whereas Natco/Teva are at the start of Mar'22. In addition, eight other players (Sun, Cipla, Apotex, Hetero, Cadila, Mylan, Aurobindo, Lupin) are involved in litigation on the polymorphic forms, which are considered difficult to invalidate. Mylan's trial date is in Oct'21; the court is yet to set a trial dates for the others. Hence, this is expected to be a limited competition opportunity for DRRD.

Worst-case NPV of Rs 350-400/sh for gRevlimid: If we assume five players entering together in FY23 (worst case), DRRD could generate sales upside of US\$ 250mn in FY23 (70% price erosion/10% market share) and US\$ 100mn-150mn from FY24-FY25, depending on increased settlements by players. This will come at high margins and, given low competition visibility, can translate into higher NPV of Rs 350-400/sh for DRRD vs. market estimates of Rs 200-250/sh, in our view.

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Ticker/Price	DRRD IN/Rs 4,827
Market cap	US\$ 10.9bn
Shares o/s	166mn
3M ADV	US\$ 73.6mn
52wk high/low	Rs 4,846/Rs 2,495
Promoter/FPI/DII	27%/27%/18%

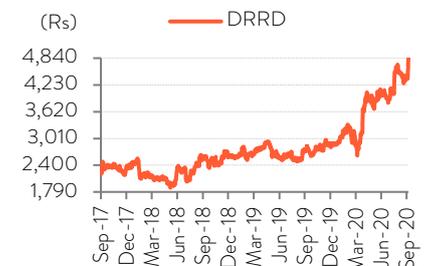
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	185,782	202,826	236,766
EBITDA (Rs mn)	42,473	47,502	59,572
Adj. net profit (Rs mn)	26,272	30,137	40,447
Adj. EPS (Rs)	158.3	181.5	243.7
Adj. EPS growth (%)	(18.5)	14.7	34.2
Adj. ROAE (%)	17.1	16.9	19.3
Adj. P/E (x)	30.5	26.6	19.8
EV/EBITDA (x)	19.0	16.4	12.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


BUY

TP: Rs 135 | ▲ 47%

GREENPLY INDUSTRIES

Construction Materials

17 September 2020

Demand conditions improving gradually

We recently interacted with the management of Greenply Industries (GIL). Following are the key takeaways:

- Plywood demand is inching up with progressive unlocking of the country. GIL's sales have retraced to 70-75% of year-ago levels in July/August as compared to ~65% in June.
- Demand has come primarily from markets beyond tier-I cities which account for 45-50% of revenues.
- Premium plywood sales have recovered over the past two months and contribution to revenue is now similar to FY20 levels (~72%).
- South India, which accounts for ~40% of GIL's revenue, has seen better traction post unlocking; the northern and western regions continue to languish.
- The company has launched a dealer addition programme in FY21, wherein it adds new dealers (with no credit) at district-and-below levels in which it currently has limited reach. So far, ~400 dealers (net) have been added under the scheme and these now account for ~15% of plywood revenues.
- If current sales are sustained, GIL believes it can maintain FY20 EBITDA margins (~10%) in FY21. Management has guided for 300-400bps of margin gains over three years aided by higher gross margins and cost control.
- Cost rationalisation measures taken during the pandemic should enable savings of Rs 200mn-250mn in FY21. The company believes ~30% of these savings can be retained in the future as well.
- Receivable collections have been robust since June and the trend continues. The company is focusing on working capital improvement in FY21 with tighter control on debtors and better inventory management.
- Management plans to cut consolidated debt by Rs 700mn-750mn to ~Rs 2bn in FY21 aided by better working capital management. The target is to be net debt-free by FY23.
- The Gabon subsidiary is now at 90-95% of YoY sales and aims to maintain stable YoY revenues and margins in FY21. Europe and Southeast Asia are major exports markets from Gabon.

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Ticker/Price	MTLM IN/Rs 92
Market cap	US\$ 153.4mn
Shares o/s	123mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 195/Rs 73
Promoter/FPI/DII	52%/11%/37%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	11,693	13,816	15,278
EBITDA (Rs mn)	1,156	1,524	1,727
Adj. net profit (Rs mn)	517	827	1,009
Adj. EPS (Rs)	4.2	6.7	8.2
Adj. EPS growth (%)	(39.3)	60.0	22.1
Adj. ROAE (%)	12.9	18.1	19.2
Adj. P/E (x)	21.8	13.7	11.2
EV/EBITDA (x)	11.9	8.9	7.6

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

[Click here for our last detailed report](#)


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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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