

India

HOLD (no change)

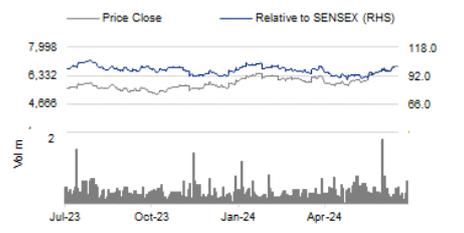
Consensus ratings*: Buy 13 Hold 11 Sell 15

Current price:	Rs6,879
Target price: ▲	Rs7,150
Previous target:	Rs6,339
Up/downside:	3.9%
InCred Research / Consensus:	14.5%
Reuters:	
Bloomberg:	DRRD IN
Market cap:	US\$15,803m
	Rs1,147,509m
Average daily turnover:	US\$39.2m
	Rs2849.8m
Current shares o/s:	166.4m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- Raise FY25F/26F EPS by 3%/1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.4	10.0	23.2
Relative (%)	4.4	1.0	0.2

Major shareholders	% held
Promoters	26.7
LIC	9.7
First State	2.7

Research Analyst(s)



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Dr Reddy's Laboratories Ltd

Strong gRevlimid boost drives 1Q beat

- Dr. Reddy's Labs' 1QFY25 earnings were boosted by a significantly higher contribution from gRevlimid, which drove a 7-8% revenue/EBITDA beat.
- SG&A costs rose significantly as the company scaled up investments across businesses. We expect them to moderate once gRevlimid's revenue recedes.
- We raise FY25F/26F EPS marginally by 3%/1%, respectively, and increase our target price to Rs7,150 from Rs6,339. We retain HOLD rating on the stock.

gRevlimid led 1Q beat

Dr. Reddy's Laboratories (DRL) posted an all-round better performance (8% on revenue and EBITDA fronts) in 1QFY25, with revenue/EBITDA growth at 14%/4% YoY, respectively, and margin at 27.7% (in line with our estimate) driven by the US and India markets (growing above mid-teen YoY). The US revenue stood at US\$461m (+17% QoQ, our estimate: US\$386m), largely driven by a higher-than-expected contribution from gRevlimid (we believe it's ~US\$190-200m). India business grew by 15% YoY, with the integration of Sanofi's portfolio. Ex-Sanofi, core India growth was weak at mid-single digits. Russia/CIS business declined by 3% YoY owing to adverse forex movement and volume decline in the base business, which was offset by price hike. Better product mix & cost savings led to gross margin improvement of 150bp QoQ/YoY. The gross margin (GM) in the generics business improved by 270bp QoQ while PSAI business saw a 550bp fall QoQ.

Limited visibility on near-to-medium-term drivers beyond gRevlimid

DRL's management has planned around 20 meaningful product launches in the US (only three launched in 1Q), which should help bridge the gRevlimid gap, once the settlement period ends, and sustain the momentum. While we don't have any better handle on this, we acknowledge the company's R&D efforts in biosimilars/peptides, etc. Further, DRL has stepped up investments, on the back of cash flows from gRevlimid, into other branded generic markets, which should hopefully increase the growth in these markets. The recent addition of brands in the Nicotine Replacement Therapy from Haleon will support revenue (portfolio registers sales amounting to US\$300m, not factored in yet pending closure). Based on rough estimates, we believe the transaction is marginally EPS-accretive.

Other highlights

- a) SG&A expenses in FY25F are expected to be 27-28% (includes amortization).
- b) R&D spending to be at 8.5-9% in FY25F.
- c) Effective tax rate at 24-25% in FY25F.
- d) India base business growth to be in double digits in FY25F.
- e) Denosumab biosimilar filing expected next year while Abatecept filing should take place by the end of CY25F.

Retain HOLD rating with a higher target price of Rs7,150

Dr Reddy's Labs runs a high earnings concentration risk but will have a strong near-term earnings trajectory till the strong contribution from gRevlimid prevails (till 3QFY26F). Faster-than-expected improvement in base business profitability is an upside risk & vice-versa.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	214,391	245,879	279,163	315,573	324,161
Operating EBITDA (Rsm)	46,054	63,873	78,384	88,873	86,091
Net Profit (Rsm)	23,568	45,067	55,683	60,380	59,293
Core EPS (Rs)	186.8	270.8	334.6	362.8	356.2
Core EPS Growth	19.9%	45.0%	23.6%	8.4%	(1.8%)
FD Core P/E (x)	36.83	25.40	20.56	18.96	19.31
DPS (Rs)	30.0	70.0	40.0	40.0	40.0
Dividend Yield	0.44%	1.02%	0.58%	0.58%	0.58%
EV/EBITDA (x)	24.51	17.06	13.75	11.79	11.51
P/FCFE (x)	25.19	14.39	16.36	14.56	9.48
Net Gearing	(6.5%)	(21.5%)	(22.0%)	(27.4%)	(38.1%)
P/BV (x)	6.01	4.96	4.08	3.42	2.95
ROE	17.0%	21.4%	21.8%	19.6%	16.4%
% Change In Core EPS Estimates				2.89%	0.77%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	76,727	14%	8%
Consumption of raw materials as % of sales	25,810 40.9%	27,607 40.8%	26,971 42.8%	27,831 41.3%	28,434 41.3%	29,945 41.5%	29,347 41.4%	30,383 39.6%	9%	4%
R&D expenditure as % of sales	4,869 7.7%	4,821 7.1%	5,366 8.5%	4,984 7.4%	5,447 7.9%	5,565 7.7%	6,877 9.7%	6,193 8.1%	24%	-10%
Other expenditure as % of sales	13,435 21.3%	14,844 21.9%	15,501 24.6%	14,130 21.0%	15,060 21.9%	16,568 23.0%	16,591 23.4%	18,886 24.6%	34%	14%
EBITDA	18,943	20,428	15,130	20,439	19,861	20,070	18,014	21,265	4%	18%
Margins (%)	30.0%	30.2%	24.0%	30.3%	28.9%	27.8%	25.4%	27.7%		
Depreciation	3,150	3,271	3,031	3,583	3,790	3,770	3,712	3,810		
Other income	487	-453	1,434	1,935	3,374	2,324	2,271	1,905		
Interest	309	418	354	371	353	394	593	598		
PBT	15,971	16,286	13,179	18,420	19,092	18,230	15,980	18,762	2%	17%
Total tax	4,983	3,875	3,663	4,438	4,334	4,468	2,946	4,901		
Tax rate (%)	31.2%	23.8%	27.8%	24.1%	22.7%	24.5%	18.4%	26.1%		
PAT before MI	10,988	12,411	9,516	13,982	14,758	13,762	13,034	13,861	-1%	6%
Minority interest (MI)	140	60	76	43	42	27	35	59		
Adj. PAT before extraordinary items	11,128	12,471	9,592	14,025	14,800	13,789	13,069	13,920	-1%	7%
Extraordinary expenses	0	0	0	0	0	0	0	0		
Reported PAT	11,128	12,471	9,592	14,025	14,800	13,789	13,069	13,920	-1%	7%
No. of shares	166.5	166.5	166.5	166.6	166.8	166.5	166.5	166.5		
EPS	66.5	74.5	57.3	83.8	88.3	82.4	78.1	83.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)										
Gross	59%	59%	57%	59%	59%	58%	59%	60%	170	183
EBITDA	30%	30%	24%	30%	29%	28%	25%	28%	-262	228
Adj. PAT	18%	18%	15%	21%	22%	19%	18%	18%	-267	-31
Effective tax rate	31%	24%	28%	24%	23%	25%	18%	26%	203	769

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	28,001	30,567	25,321	31,978	31,700	33,492	32,626	38,462	20%	18%
% total revenue	44.4%	45.2%	40.2%	47.5%	46.1%	46.4%	46.1%	50.1%		
Europe INR	4,199	4,303	4,960	5,071	5,286	4,970	5,208	5,265	4%	1%
% total revenue	6.7%	6.4%	7.9%	7.5%	7.7%	6.9%	7.4%	6.9%		
Russia CIS INR	8,100	9,100	7,500	7,600	8,000	8,200	7,200	7,400	-3%	3%
% total revenue	12.8%	13.4%	11.9%	11.3%	11.6%	11.4%	10.2%	9.6%		
India	11,500	11,274	12,834	11,482	11,860	11,800	11,265	13,252	15%	18%
% total revenue	18.2%	16.7%	20.4%	17.0%	17.2%	16.4%	15.9%	17.3%		
RoW	4,100	4,000	3,700	4,000	4,200	4,633	4,891	4,478	12%	-8%
% total revenue	6.5%	5.9%	5.9%	5.9%	6.1%	6.4%	6.9%	5.8%		
PSAI INR	6,434	7,758	7,787	6,709	7,034	7,839	8,219	7,657	14%	-7%
% total revenue	10.2%	11.5%	12.4%	10.0%	10.2%	10.9%	11.6%	10.0%		
Prop products/ other	723	698	866	544	722	1,214	1,420	212	-61%	-85%
% total revenue	1.1%	1.0%	1.4%	0.8%	1.0%	1.7%	2.0%	0.3%		
Total revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	76,726	14%	8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	76,727	70,988	8%	72,792	5%
EBITDA (Rsm)	21,265	19,638	8%	19,943	7%
Margin (%)	27.7	27.7		27.4	
PAT (Rsm)	13,920	13,420	4%	13,148	6%

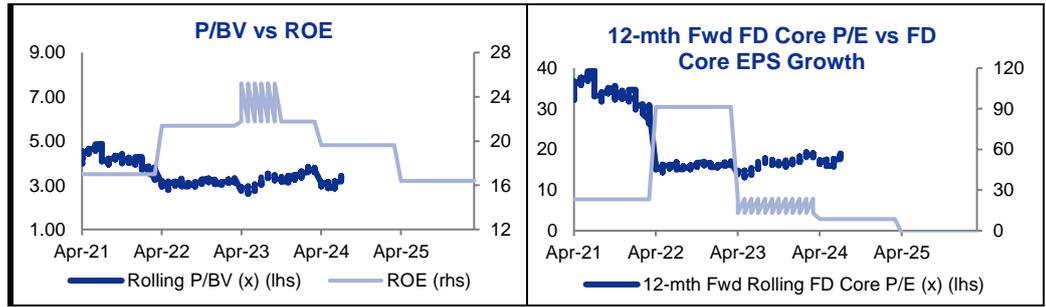
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Changes in our earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	2,99,184	3,15,573	5%	3,10,667	3,24,161	4%
EBITDA (Rsm)	83,714	88,873	6%	82,985	86,091	4%
Margin (%)	28.0	28.2		26.7	26.6	
PAT (Rsm)	58,685	60,380	3%	58,839	59,293	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	214,391	245,879	279,163	315,573	324,161
Gross Profit	113,840	139,343	163,606	190,515	190,708
Operating EBITDA	46,054	63,873	78,384	88,873	86,091
Depreciation And Amortisation	(11,824)	(12,636)	(14,855)	(15,500)	(16,000)
Operating EBIT	34,230	51,237	63,529	73,373	70,091
Financial Income/(Expense)	(958)	(1,428)	(1,711)	(2,400)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,838	10,188	9,904	9,000	10,000
Profit Before Tax (pre-EI)	39,110	59,997	71,722	79,973	78,091
Exceptional Items					
Pre-tax Profit	39,110	59,997	71,722	79,973	78,091
Taxation	(8,730)	(15,300)	(16,186)	(19,993)	(19,523)
Exceptional Income - post-tax	(7,515)				
Profit After Tax	22,865	44,697	55,536	59,980	58,568
Minority Interests	703	370	147	400	725
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,568	45,067	55,683	60,380	59,293
Recurring Net Profit	31,083	45,067	55,683	60,380	59,293
Fully Diluted Recurring Net Profit	31,083	45,067	55,683	60,380	59,293

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	46,054	63,873	78,384	88,873	86,091
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,894)	(7,845)	(20,182)	(27,586)	(1,069)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	22,456	66,704	68,394	70,287	95,023
Net Interest (Paid)/Received	(958)	(1,428)	(1,711)	(2,400)	(2,000)
Tax Paid	6,610	(6,401)	(21,250)	(26,193)	(26,798)
Cashflow From Operations	28,108	58,875	45,433	41,694	66,225
Capex	(14,290)	(11,241)	(15,339)	(11,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow		(7,543)	(11,032)		
Cash Flow From Investing	13,818	40,091	19,062	30,194	54,225
Debt Raised/(repaid)	3,520	(19,382)	5,493	6,722	342
Proceeds From Issue Of Shares	334	368	805		
Shares Repurchased					
Dividends Paid	(4,146)	(4,979)	(6,648)	(6,661)	(6,661)
Preferred Dividends					
Other Financing Cashflow	(1,828)	660	(102)	6,600	8,000
Cash Flow From Financing	(2,120)	(23,333)	(452)	6,661	1,681
Total Cash Generated	11,698	16,758	18,610	36,855	55,905
Free Cashflow To Equity	45,446	79,584	69,988	78,610	120,791
Free Cashflow To Firm	42,884	100,394	66,206	74,288	122,450

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	46,271	63,029	81,639	118,494	174,399
Total Debtors	66,764	72,485	80,298	91,516	94,007
Inventories	50,884	48,670	63,552	72,582	74,557
Total Other Current Assets	17,187	22,756	26,278	31,557	32,416
Total Current Assets	181,106	206,940	251,767	314,149	375,379
Fixed Assets	62,169	66,462	76,886	72,886	68,886
Total Investments	3,668	5,362	5,255	5,255	5,255
Intangible Assets	36,036	35,094	41,204	41,204	41,204
Total Other Non-Current Assets	13,675	7,996	12,406	12,406	12,406
Total Non-current Assets	115,548	114,914	135,751	131,751	127,751
Short-term Debt	28,099	12,194	14,030	14,030	14,030
Current Portion of Long-Term Debt					
Total Creditors	25,572	26,444	30,919	27,983	29,472
Other Current Liabilities	44,171	47,207	51,090	51,968	54,734
Total Current Liabilities	97,842	85,845	96,039	93,980	98,236
Total Long-term Debt	5,746	1,278	5,990	12,712	13,053
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,539	3,740	4,939	4,939	4,939
Total Non-current Liabilities	8,285	5,018	10,929	17,651	17,992
Total Provisions					
Total Liabilities	106,127	90,863	106,968	111,631	116,228
Shareholders Equity	190,527	230,991	280,550	334,669	388,026
Minority Interests				(400)	(1,125)
Total Equity	190,527	230,991	280,550	334,269	386,901

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	13.0%	14.7%	13.5%	13.0%	2.7%
Operating EBITDA Growth	2.9%	38.7%	22.7%	13.4%	(3.1%)
Operating EBITDA Margin	21.5%	26.0%	28.1%	28.2%	26.6%
Net Cash Per Share (Rs)	74.66	297.75	370.22	551.26	885.09
BVPS (Rs)	1,144.71	1,387.82	1,685.58	2,010.74	2,331.31
Gross Interest Cover	35.73	35.88	37.13	30.57	35.05
Effective Tax Rate	22.3%	25.5%	22.6%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	99.09	103.36	99.88	99.36	104.45
Inventory Days	174.78	170.54	177.23	198.66	201.22
Accounts Payables Days	86.19	89.11	90.59	85.96	78.57
ROIC (%)	14.5%	21.3%	21.7%	22.7%	21.9%
ROCE (%)	16.0%	21.9%	23.3%	22.2%	18.1%
Return On Average Assets	11.1%	14.8%	16.0%	14.8%	12.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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