

India

HOLD (no change)

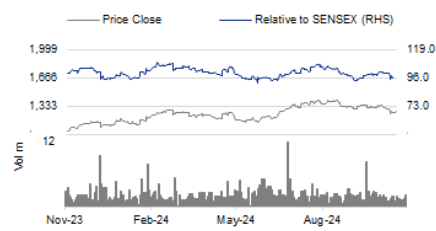
Consensus ratings*: Buy 12 Hold 9 Sell 19

Current price:	Rs1,272
Target price:	Rs1,365
Previous target:	Rs1,430
Up/downside:	7.3%
InCred Research / Consensus:	3.2%
Reuters:	REDY.NS
Bloomberg:	DRRD IN
Market cap:	US\$12,620m Rs1,061,455m
Average daily turnover:	US\$34.0m Rs2861.2m
Current shares o/s:	833.5m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- Cut FY26F EPS by 2%.
- Reduce the target price to Rs1,365 (Rs1,430 earlier).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.1)	(6.6)	19.2
Relative (%)	(1.4)	(7.6)	(2.6)

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

All eyes on launch pipeline post gRevlimid

- Dr. Reddy's Laboratories' 2Q earnings were in line, with no major surprises.
- Street is likely to remain fixated on the launch pipeline to fill the gRevlimid hole, post Jan 2026F.
- FY26F EPS cut by 2% as we integrate the NRT acquisition. We lower our target price to Rs1,365 (Rs1,430 earlier). We retain HOLD rating on the stock.

In-line 2QFY25 performance

Dr. Reddy's Laboratories (DRL) posted an in-line performance in 2QFY25, with revenue/EBITDA growth of 17%/3% YoY, respectively, and the margin at 25.6% (180bp below our estimate). The US revenue stood at US\$445m (-4% QoQ, our estimate: US\$450m) – gRevlimid contribution, we believe, has been broadly stable at around US\$180-190m. India business grew by 18% YoY, with the integration of Sanofi's portfolio. Ex-Sanofi, core India growth was around 9%. Russia/CIS business grew by 13% YoY led by market share gains in Russia and price hikes. Gross margin (GM) declined by 80bp QoQ on account of an adverse product mix. The GM in the generics business declined by 160bp QoQ while the PSAI (pharmaceutical services and active ingredients) business saw a 690bp rise QoQ.

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

DRL has planned around 15-20 product launches in the US (7 launched in 1H). The company expects to bridge the gRevlimid gap, once the settlement period ends in Jan 2026, via the launch of biosimilars (bDesonumab – late FY26F launch, bAbatacept – late FY27F launch, bRituximab – FY26F launch). While we acknowledge the R&D efforts, we believe these will still not be enough to fill the gRevlimid void. Further, DRL has stepped up investments, on the back of cash flow from gRevlimid, into other branded generic markets, which should hopefully step up growth in these markets. The recent addition of brands in the Nicotine Replacement Therapy from Haleon will support revenue (portfolio registers sales worth US\$300m). As per rough estimates, we believe the transaction is marginally EPS-accretive.

Other highlights

- SG&A expenses in FY25F to be 27.5-28% (includes amortization).
- R&D spending to be 8.5-9% in FY25F.
- Effective tax rate will be 25% in FY25F.
- Amortization of NRT acquisition to be done over 22-23 years.
- DRL has booked an impairment cost of Rs920m relating to gNuvaring.
- DRL is targeting around 14-15 GLP-1 drugs to treat obesity and diabetes in its portfolio having various timelines. DRL expects to be present in all markets for Semaglutide. DRL will be doing in-house manufacturing of the API as well as the FDF.
- R&D split - 36% towards biologics and Aurigene, 50% for generics and 14% for API.

Retain HOLD rating with a lower target price of Rs1,365

DRL runs 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 the base business profitability is an upside risk and vice-versa.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	214,391	245,879	279,163	328,023	349,808
Operating EBITDA (Rsm)	46,054	63,873	78,384	90,927	87,117
Net Profit (Rsm)	23,568	45,067	55,683	60,216	58,358
Core EPS (Rs)	37.3	54.1	66.8	72.2	70.0
Core EPS Growth	19.9%	45.0%	23.6%	8.1%	(3.1%)
FD Core P/E (x)	34.11	23.53	19.04	17.61	18.17
DPS (Rs)	30.0	70.0	40.0	40.0	40.0
Dividend Yield	2.36%	5.50%	3.14%	3.14%	3.14%
EV/EBITDA (x)	22.68	15.74	12.67	11.51	11.69
P/FCFE (x)	23.33	13.32	15.15	59.86	9.15
Net Gearing	(6.5%)	(21.5%)	(22.0%)	(2.7%)	(10.7%)
P/BV (x)	5.57	4.59	3.78	3.44	3.18
ROE	17.0%	21.4%	21.8%	20.5%	18.2%
% Change In Core EPS Estimates				(80.09%)	(80.35%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	76,727	80,162	17%	4%
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%	32,393 40.4%	14%	7%
R&D expenditure as % of sales	4869 7.7%	4821 7.1%	5366 8.5%	4984 7.4%	5447 7.9%	5565 7.7%	6877 9.7%	6193 8.1%	7271 9.1%	33%	17%
Other expenditure as % of sales	13435 21.3%	14844 21.9%	15501 24.6%	14130 21.0%	15060 21.9%	16568 23.0%	16591 23.4%	18886 24.6%	19956 24.9%	33%	6%
EBITDA	18,943	20,428	15,130	20,439	19,861	20,070	18,014	21,265	20,542	3%	-3%
Margins (%)	30.0%	30.2%	24.0%	30.3%	28.9%	27.8%	25.4%	27.7%	25.6%		
Depreciation	3,150	3,271	3,031	3,583	3,790	3,770	3,712	3,810	3,975		
Other income	487	-453	1,434	1,935	3,374	2,324	2,271	1,905	3,296		
Interest	309	418	354	371	353	394	593	598	757		
PBT	15,971	16,286	13,179	18,420	19,092	18,230	15,980	18,762	19,106	0%	2%
Total tax	4,983	3,875	3,663	4,438	4,334	4,468	2,946	4,901	5,752		
Tax rate (%)	31.2%	23.8%	27.8%	24.1%	22.7%	24.5%	18.4%	26.1%	30.1%		
PAT before MI	10,988	12,411	9,516	13,982	14,758	13,762	13,034	13,861	13,354	-10%	-4%
Minority interest (MI)	140	60	76	43	42	27	35	59	-801		
Adj. PAT before extraordinary items	11,128	12,471	9,592	14,025	14,800	13,789	13,069	13,920	12,553	-15%	-10%
Extraordinary expenses	0	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	12,553	-15%	-10%
No. of shares	832.3	832.6	832.6	832.8	833.9	832.6	832.6	832.6	832.6		
EPS	13.4	15.0	11.5	16.8	17.7	16.5	15.7	16.7	15.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margin (%)											
Gross	59%	59%	57%	59%	59%	58%	59%	60%	60%	92	-81
EBITDA	30%	30%	24%	30%	29%	28%	25%	28%	26%	-324	-209
Adj. PAT	18%	18%	15%	21%	22%	19%	18%	18%	16%	-585	-248
Effective tax rate	31%	24%	28%	24%	23%	25%	18%	26%	30%	741	398

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	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	37,281	18%	-3%
% total revenue	44.4%	45.2%	40.2%	47.5%	46.1%	46.4%	46.1%	50.1%	46.5%		
Europe INR	4,199	4,303	4,960	5,071	5,286	4,970	5,208	5,265	5,770	9%	10%
% total revenue	6.7%	6.4%	7.9%	7.5%	7.7%	6.9%	7.4%	6.9%	7.2%		
Russia CIS INR	8,100	9,100	7,500	7,600	8,000	8,200	7,200	7,400	9,000	13%	22%
% total revenue	12.8%	13.4%	11.9%	11.3%	11.6%	11.4%	10.2%	9.6%	11.2%		
India	11,500	11,274	12,834	11,482	11,860	11,800	11,265	13,252	13,971	18%	5%
% total revenue	18.2%	16.7%	20.4%	17.0%	17.2%	16.4%	15.9%	17.3%	17.4%		
RoW	4,100	4,000	3,700	4,000	4,200	4,633	4,891	4,478	5,554	32%	24%
% total revenue	6.5%	5.9%	5.9%	5.9%	6.1%	6.4%	6.9%	5.8%	6.9%		
PSAI INR	6,434	7,758	7,787	6,709	7,034	7,839	8,219	7,657	8,407	20%	10%
% total revenue	10.2%	11.5%	12.4%	10.0%	10.2%	10.9%	11.6%	10.0%	10.5%		
Prop products/ other	723	698	866	544	722	1,214	1,420	212	179	-75%	-16%
% total revenue	1.1%	1.0%	1.4%	0.8%	1.0%	1.7%	2.0%	0.3%	0.2%		
Total Revenue	63,057	67,700	62,968	67,384	68,802	72,148	70,829	76,726	80,162	17%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	80,162	78,535	2%	77,165	4%
EBITDA (Rsm)	20,542	21,529	-5%	21,587	-5%
Margin (%)	25.6	27.4		28.0	
PAT (Rsm)	12,553	14,837	-15%	14,266	-12%

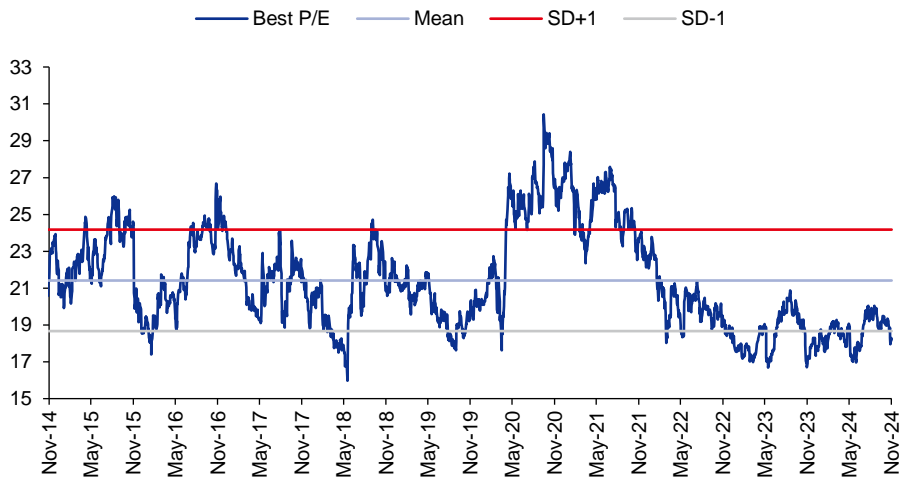
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY25F			FY26F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	3,15,573	3,28,023	4%	3,24,161	3,49,808	8%
EBITDA (Rsm)	88,873	90,927	2%	86,091	87,117	1%
Margin (%)	28.2	27.7		26.6	24.9	
PAT (Rsm)	60,380	60,216	0%	59,293	58,358	-2%

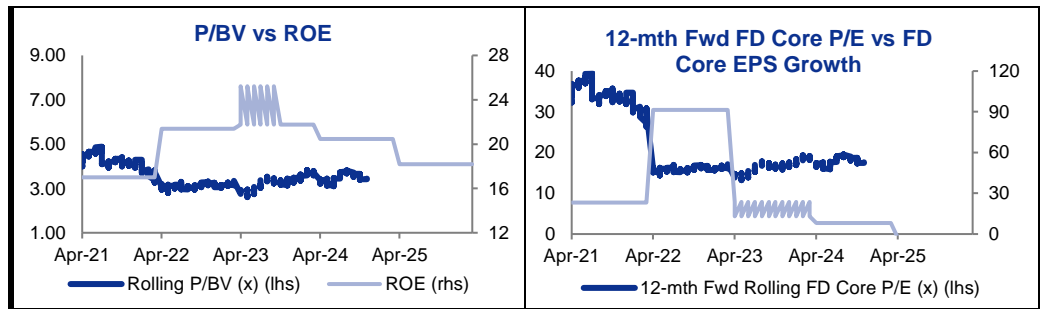
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Dr Reddy's Laboratories stock is currently trading near SD-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	328,023	349,808
Gross Profit	113,840	139,343	163,606	196,740	203,532
Operating EBITDA	46,054	63,873	78,384	90,927	87,117
Depreciation And Amortisation	(11,824)	(12,636)	(14,855)	(17,773)	(18,273)
Operating EBIT	34,230	51,237	63,529	73,155	68,844
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	79,755	76,844
Exceptional Items					
Pre-tax Profit	39,110	59,997	71,722	79,755	76,844
Taxation	(8,730)	(15,300)	(16,186)	(19,939)	(19,211)
Exceptional Income - post-tax	(7,515)				
Profit After Tax	22,865	44,697	55,536	59,816	57,633
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	60,216	58,358
Recurring Net Profit	31,083	45,067	55,683	60,216	58,358
Fully Diluted Recurring Net Profit	31,083	45,067	55,683	60,216	58,358

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	46,054	63,873	78,384	90,927	87,117
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,894)	(7,845)	(20,182)	(31,570)	(4,009)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	22,456	66,704	68,394	68,358	93,108
Net Interest (Paid)/Received	(958)	(1,428)	(1,711)	(2,400)	(2,000)
Tax Paid	6,610	(6,401)	(21,250)	(26,139)	(26,486)
Cashflow From Operations	28,108	58,875	45,433	39,819	64,622
Capex	(14,290)	(11,241)	(15,339)	(11,500)	(12,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments				(55,000)	
Other Investing Cashflow		(7,543)	(11,032)		
Cash Flow From Investing	13,818	40,091	19,062	(26,681)	52,622
Debt Raised/(repaid)	3,520	(19,382)	5,493	4,577	(1,321)
Proceeds From Issue Of Shares	334	368	805		
Shares Repurchased					
Dividends Paid	(4,146)	(4,979)	(6,648)	(33,305)	(33,305)
Preferred Dividends					
Other Financing Cashflow	(1,828)	660	(102)	6,600	8,000
Cash Flow From Financing	(2,120)	(23,333)	(452)	(22,128)	(26,626)
Total Cash Generated	11,698	16,758	18,610	(48,809)	25,996
Free Cashflow To Equity	45,446	79,584	69,988	17,715	115,922
Free Cashflow To Firm	42,884	100,394	66,206	15,538	119,243

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	32,830	58,826
Total Debtors	66,764	72,485	80,298	95,127	101,444
Inventories	50,884	48,670	63,552	75,445	80,456
Total Other Current Assets	17,187	22,756	26,278	32,802	34,981
Total Current Assets	181,106	206,940	251,767	236,204	275,707
Fixed Assets	62,169	66,462	76,886	70,613	64,341
Total Investments	3,668	5,362	5,255	5,255	5,255
Intangible Assets	36,036	35,094	41,204	96,204	96,204
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	184,478	178,206
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	29,290	32,614
Other Current Liabilities	44,171	47,207	51,090	54,396	60,569
Total Current Liabilities	97,842	85,845	96,039	97,715	107,213
Total Long-term Debt	5,746	1,278	5,990	10,567	9,246
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	15,506	14,185
Total Provisions					
Total Liabilities	106,127	90,863	106,968	113,221	121,398
Shareholders Equity	190,527	230,991	280,550	307,861	333,640
Minority Interests				(400)	(1,125)
Total Equity	190,527	230,991	280,550	307,461	332,515

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	13.0%	14.7%	13.5%	17.5%	6.6%
Operating EBITDA Growth	2.9%	38.7%	22.7%	16.0%	(4.2%)
Operating EBITDA Margin	21.5%	26.0%	28.1%	27.7%	24.9%
Net Cash Per Share (Rs)	14.91	59.46	73.93	9.88	42.65
BVPS (Rs)	228.59	277.13	336.59	369.36	400.29
Gross Interest Cover	35.73	35.88	37.13	30.48	34.42
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	97.60	102.55
Inventory Days	174.78	170.54	177.23	193.22	194.51
Accounts Payables Days	86.19	89.11	90.59	83.70	77.23
ROIC (%)	14.5%	21.3%	21.7%	18.3%	17.4%
ROCE (%)	16.0%	21.9%	23.3%	23.1%	20.0%
Return On Average Assets	11.1%	14.8%	16.0%	15.2%	13.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework	
Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
<i>The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.</i>	
Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.