

India

HOLD (no change)

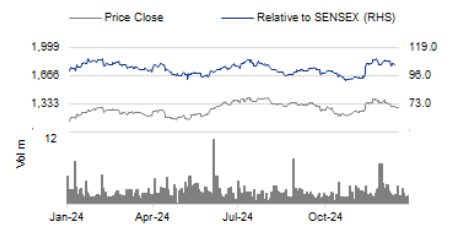
Consensus ratings*: Buy 15 Hold 11 Sell 14

Current price:	Rs1,289
Target price:	Rs1,300
Previous target:	Rs1,365
Up/downside:	0.9%
InCred Research / Consensus:	-5.5%
Reuters:	
Bloomberg:	DRRD IN
Market cap:	US\$14,817m
	Rs1,075,906m
Average daily turnover:	US\$37.1m
	Rs2692.1m
Current shares o/s:	833.5m
Free float:	73.3%

*Source: Bloomberg

Key changes in this note

- Cut FY25F/26F EPS estimates by 7%/8% respectively.
- Reduce the target price to Rs1,300 from Rs1,365 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.9)	(2.4)	13.6
Relative (%)	(1.4)	2.1	5.5

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

Weak internals

- Weak 3QFY25 performance across key markets like India and the US.
- Semaglutide launch in Canada/ROW markets to provide some respite but it may not be enough.
- FY25F/26F EPS estimates cut by 7%/8%, respectively. Our target price stands revised to Rs1,300 (Rs1,365 earlier). We retain HOLD rating on the stock.

Weak 3QFY25 performance

Dr. Reddy's Laboratories or DRL's 3QFY25 performance was weak on the base business and adjusting for one-offs. Although the revenue growth was 16%/4% YoY/QoQ, adjusting for NRT business (Rs6bn) the overall business witnessed a 3% decline sequentially. The US revenue stood at US\$401m (-10% QoQ, our estimate: US\$450m) – impacted by lower gRevlimid sales, competition in a few products, loss of market share and price erosion. India business organic growth (excl. in-licensed product) was also weak at 5% YoY. Cardiac and gastro-intestinal therapies were heavily impacted, delivering growth below IPM. Gross margin (GM) fell by 90bp QoQ on account of an adverse product mix. Adjusting for Rs1.3bn milestone income, the EBITDA growth was 6%+ QoQ/YoY and the margin at 26.4% (140bp decline YoY, improvement of 80bp QoQ, in line with our estimate). Interestingly, SG&A expenses were flat QoQ, despite NRT portfolio integration.

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

DRL has planned around 15-20 product launches in the US (11 launched in 9MFY25). 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/start of FY28F launch, bRituximab – FY26F launch). The 2026 launch of Semaglutide in Canada and other ROW markets can add US\$60-80m, we believe, but won't be able to completely 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.

Other highlights

a) R&D spending to be 8.5-9% in FY25F. b) Effective tax rate will be 25% in FY25F. c) SG&A expenses in FY25F to be 28%.

Retain HOLD rating with a lower target price of Rs1,300

DRL runs high earnings concentration risk but will have a strong near-term earnings trajectory till the strong contribution from gRevlimid prevails (till 3QFY26F). The Semaglutide opportunity in Canada/ROW markets may help bridge some void in earnings, with the gRevlimid marketing exclusivity period ending in Jan 2026, but it won't be enough, in our view. We retain our HOLD rating on the stock with a lower target price of Rs1,300 (Rs1.365 earlier). 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	325,559	349,031
Operating EBITDA (Rsm)	46,054	63,873	78,384	88,178	85,624
Net Profit (Rsm)	23,568	45,067	55,683	56,154	53,638
Core EPS (Rs)	37.3	54.1	66.8	67.4	64.4
Core EPS Growth	19.9%	45.0%	23.6%	0.8%	(4.5%)
FD Core P/E (x)	34.58	23.85	19.30	19.14	20.04
DPS (Rs)	30.0	70.0	40.0	40.0	40.0
Dividend Yield	2.33%	5.43%	3.10%	3.10%	3.10%
EV/EBITDA (x)	22.99	15.97	12.86	12.07	12.17
P/FCFE (x)	23.65	13.50	15.36	67.52	9.43
Net Gearing	(6.5%)	(21.5%)	(22.0%)	(1.8%)	(8.4%)
P/BV (x)	5.64	4.65	3.83	3.55	3.32
ROE	17.0%	21.4%	21.8%	19.2%	17.1%
% Change In Core EPS Estimates				(6.75%)	(8.09%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	67,700	62,968	67,384	68,802	72,148	70,829	76,727	80,162	83,586	16%	4%
Consumption of raw materials	27,607	26,971	27,831	28,434	29,945	29,347	30,383	32,393	34,534	15%	7%
<i>as % of sales</i>	<i>40.8%</i>	<i>42.8%</i>	<i>41.3%</i>	<i>41.3%</i>	<i>41.5%</i>	<i>41.4%</i>	<i>39.6%</i>	<i>40.4%</i>	<i>41.3%</i>		
R&D expenditure	4821	5366	4984	5447	5565	6877	6193	7271	6658	20%	-8%
<i>as % of sales</i>	<i>7.1%</i>	<i>8.5%</i>	<i>7.4%</i>	<i>7.9%</i>	<i>7.7%</i>	<i>9.7%</i>	<i>8.1%</i>	<i>9.1%</i>	<i>8.0%</i>		
Other expenditure	14844	15501	14130	15060	16568	16591	18886	19956	19394	17%	-3%
<i>as % of sales</i>	<i>21.9%</i>	<i>24.6%</i>	<i>21.0%</i>	<i>21.9%</i>	<i>23.0%</i>	<i>23.4%</i>	<i>24.6%</i>	<i>24.9%</i>	<i>23.2%</i>		
EBITDA	20,428	15,130	20,439	19,861	20,070	18,014	21,265	20,542	23,000	15%	12%
<i>Margins (%)</i>	<i>30.2%</i>	<i>24.0%</i>	<i>30.3%</i>	<i>28.9%</i>	<i>27.8%</i>	<i>25.4%</i>	<i>27.7%</i>	<i>25.6%</i>	<i>27.5%</i>		
Depreciation	3,271	3,031	3,583	3,790	3,770	3,712	3,810	3,975	4,719	25%	19%
Other income	-453	1,434	1,935	3,374	2,324	2,271	1,905	3,296	1,237	-47%	-62%
Interest	418	354	371	353	394	593	598	757	818	108%	8%
PBT	16,286	13,179	18,420	19,092	18,230	15,980	18,762	19,106	18,700	3%	-2%
Total tax	3,875	3,663	4,438	4,334	4,468	2,946	4,901	5,752	4,704		
<i>Tax rate (%)</i>	<i>23.8%</i>	<i>27.8%</i>	<i>24.1%</i>	<i>22.7%</i>	<i>24.5%</i>	<i>18.4%</i>	<i>26.1%</i>	<i>30.1%</i>	<i>25.2%</i>		
PAT before MI	12,411	9,516	13,982	14,758	13,762	13,034	13,861	13,354	13,996	2%	5%
Minority interest (MI)	60	76	43	42	27	35	59	-801	137		
Adj. PAT before extraordinary items	12,471	9,592	14,025	14,800	13,789	13,069	13,920	12,553	14,133	2%	13%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	12,471	9,592	14,025	14,800	13,789	13,069	13,920	12,553	14,133	2%	13%
No. of shares	832.6	832.6	832.8	833.9	832.6	832.6	832.6	832.6	832.6		
EPS	15.0	11.5	16.8	17.7	16.5	15.7	16.7	15.1	17.0		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margin (%)											
Gross	59%	57%	59%	59%	58%	59%	60%	60%	59%	19	-91
EBITDA	30%	24%	30%	29%	28%	25%	28%	26%	28%	-30	189
Adj. PAT	18%	15%	21%	22%	19%	18%	18%	16%	17%	-220	125
Effective tax rate	24%	28%	24%	23%	25%	18%	26%	30%	25%	65	-495

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	30,567	25,321	31,978	31,700	33,492	32,626	38,462	37,281	33,834	1%	-9%
<i>% total revenue</i>	<i>45.2%</i>	<i>40.2%</i>	<i>47.5%</i>	<i>46.1%</i>	<i>46.4%</i>	<i>46.1%</i>	<i>50.1%</i>	<i>46.5%</i>	<i>40.5%</i>		
Europe INR	4,303	4,960	5,071	5,286	4,970	5,208	5,265	5,770	12,096	143%	110%
<i>% total revenue</i>	<i>6.4%</i>	<i>7.9%</i>	<i>7.5%</i>	<i>7.7%</i>	<i>6.9%</i>	<i>7.4%</i>	<i>6.9%</i>	<i>7.2%</i>	<i>14.5%</i>		
Russia CIS INR	9,100	7,500	7,600	8,000	8,200	7,200	7,400	9,000	9,400	15%	4%
<i>% total revenue</i>	<i>13.4%</i>	<i>11.9%</i>	<i>11.3%</i>	<i>11.6%</i>	<i>11.4%</i>	<i>10.2%</i>	<i>9.6%</i>	<i>11.2%</i>	<i>11.2%</i>		
India	11,274	12,834	11,482	11,860	11,800	11,265	13,252	13,971	13,464	14%	-4%
<i>% total revenue</i>	<i>16.7%</i>	<i>20.4%</i>	<i>17.0%</i>	<i>17.2%</i>	<i>16.4%</i>	<i>15.9%</i>	<i>17.3%</i>	<i>17.4%</i>	<i>16.1%</i>		
RoW	4,000	3,700	4,000	4,200	4,633	4,891	4,478	5,554	4,958	7%	-11%
<i>% total revenue</i>	<i>5.9%</i>	<i>5.9%</i>	<i>5.9%</i>	<i>6.1%</i>	<i>6.4%</i>	<i>6.9%</i>	<i>5.8%</i>	<i>6.9%</i>	<i>5.9%</i>		
PSAI INR	7,758	7,787	6,709	7,034	7,839	8,219	7,657	8,407	8,219	5%	-2%
<i>% total revenue</i>	<i>11.5%</i>	<i>12.4%</i>	<i>10.0%</i>	<i>10.2%</i>	<i>10.9%</i>	<i>11.6%</i>	<i>10.0%</i>	<i>10.5%</i>	<i>9.8%</i>		
Prop. products/ other	698	866	544	722	1,214	1,420	212	179	1,614	33%	802%
<i>% total revenue</i>	<i>1.0%</i>	<i>1.4%</i>	<i>0.8%</i>	<i>1.0%</i>	<i>1.7%</i>	<i>2.0%</i>	<i>0.3%</i>	<i>0.2%</i>	<i>1.9%</i>		
Total revenue	67,700	62,968	67,384	68,802	72,148	70,829	76,726	80,162	83,585	16%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rs m)	83,586	86,182	-3%	81,864	2%
EBITDA (Rs m)	23,000	22,647	2%	22,800	1%
Margin (%)	27.5	26.3		27.9	
PAT (Rs m)	14,133	15,721	-10%	15,073	-6%

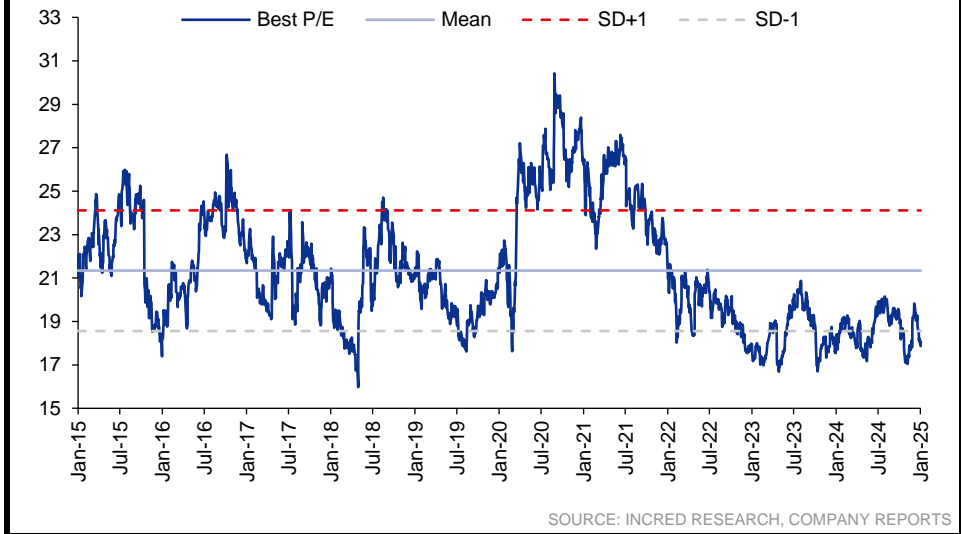
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

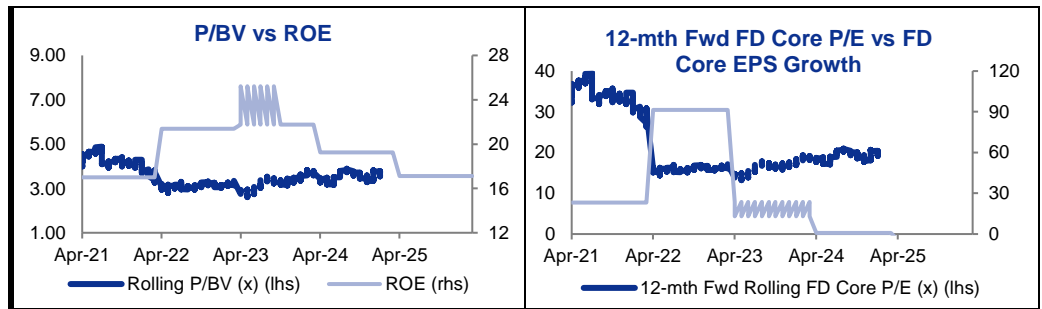
	FY25			FY26		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rs m)	3,28,023	3,25,559	-1%	3,49,808	3,49,031	0%
EBITDA (Rs m)	90,927	88,178	-3%	87,117	85,624	-2%
Margin (%)	27.7	27.1		24.9	24.5	
PAT (Rs m)	60,216	56,154	-7%	58,358	53,638	-8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Current forward valuation near SD-1 perfectly captures the revenue concentration risk and muted visibility beyond FY26F



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	325,559	349,031
Gross Profit	113,840	139,343	163,606	193,735	202,001
Operating EBITDA	46,054	63,873	78,384	88,178	85,624
Depreciation And Amortisation	(11,824)	(12,636)	(14,855)	(17,273)	(18,273)
Operating EBIT	34,230	51,237	63,529	70,905	67,351
Financial Income/(Expense)	(958)	(1,428)	(1,711)	(3,000)	(2,800)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,838	10,188	9,904	7,500	6,000
Profit Before Tax (pre-EI)	39,110	59,997	71,722	75,405	70,551
Exceptional Items					
Pre-tax Profit	39,110	59,997	71,722	75,405	70,551
Taxation	(8,730)	(15,300)	(16,186)	(18,851)	(17,638)
Exceptional Income - post-tax	(7,515)				
Profit After Tax	22,865	44,697	55,536	56,554	52,913
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	56,154	53,638
Recurring Net Profit	31,083	45,067	55,683	56,154	53,638
Fully Diluted Recurring Net Profit	31,083	45,067	55,683	56,154	53,638

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	46,054	63,873	78,384	88,178	85,624
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,894)	(7,845)	(20,182)	(29,844)	(4,940)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	22,456	66,704	68,394	65,834	86,683
Net Interest (Paid)/Received	(958)	(1,428)	(1,711)	(3,000)	(2,800)
Tax Paid	6,610	(6,401)	(21,250)	(23,751)	(20,113)
Cashflow From Operations	28,108	58,875	45,433	39,083	63,771
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	(27,417)	51,771
Debt Raised/(repaid)	3,520	(19,382)	5,493	4,252	(1,611)
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)	4,500	3,200
Cash Flow From Financing	(2,120)	(23,333)	(452)	(24,553)	(31,715)
Total Cash Generated	11,698	16,758	18,610	(51,970)	20,055
Free Cashflow To Equity	45,446	79,584	69,988	15,917	113,931
Free Cashflow To Firm	42,884	100,394	66,206	14,665	118,342

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	29,669	49,724
Total Debtors	66,764	72,485	80,298	94,412	101,219
Inventories	50,884	48,670	63,552	74,879	80,277
Total Other Current Assets	17,187	22,756	26,278	32,556	34,903
Total Current Assets	181,106	206,940	251,767	231,515	266,123
Fixed Assets	62,169	66,462	76,886	71,113	64,841
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	184,978	178,706
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	29,359	32,724
Other Current Liabilities	44,171	47,207	51,090	54,524	60,772
Total Current Liabilities	97,842	85,845	96,039	97,913	107,526
Total Long-term Debt	5,746	1,278	5,990	10,242	8,631
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	15,181	13,570
Total Provisions					
Total Liabilities	106,127	90,863	106,968	113,094	121,096
Shareholders Equity	190,527	230,991	280,550	302,999	324,058
Minority Interests				400	(325)
Total Equity	190,527	230,991	280,550	303,399	323,733

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	13.0%	14.7%	13.5%	16.6%	7.2%
Operating EBITDA Growth	2.9%	38.7%	22.7%	12.5%	(2.9%)
Operating EBITDA Margin	21.5%	26.0%	28.1%	27.1%	24.5%
Net Cash Per Share (Rs)	14.91	59.46	73.93	6.47	32.47
BVPS (Rs)	228.59	277.13	336.59	363.53	388.79
Gross Interest Cover	35.73	35.88	37.13	23.64	24.05
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	97.94	102.29
Inventory Days	174.78	170.54	177.23	191.65	192.59
Accounts Payables Days	86.19	89.11	90.59	83.45	77.06
ROIC (%)	14.5%	21.3%	21.7%	17.8%	17.0%
ROCE (%)	16.0%	21.9%	23.3%	22.6%	20.0%
Return On Average Assets	11.1%	14.8%	16.0%	14.6%	12.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.

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.

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.