

India

**HOLD** (no change)

Consensus ratings\*: Buy 15 Hold 11 Sell 12

Current price: Rs1,156  
 Target price: ▼ Rs1,250  
 Previous target: Rs1,300  
 Up/downside: 8.1%  
 InCred Research / Consensus: -7.2%

Reuters: REDY.NS  
 Bloomberg: DRRD IN  
 Market cap: US\$11,298m  
 Rs964,547m  
 Average daily turnover: US\$34.2m  
 Rs2916.6m  
 Current shares o/s: 833.5m  
 Free float: 73.3%

\*Source: Bloomberg

**Key changes in this note**

- Revise upward our FY26F EPS by 7%.
- Lower our target price to Rs1,250.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.7	(6.8)	(1.7)
Relative (%)	(0.1)	(10.7)	(10.1)

**Major shareholders**

	% held
Promoters	26.7
LIC	9.7
First State	2.7

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# Dr Reddy's Laboratories Ltd

## Concerns remain over medium-term outlook

- Dr Reddy's Labs posted in-line 4Q revenue growth of 12%, with a miss on the margin front due to higher R&D spending, one-off costs & gross margin hit.
- Aggregate incremental revenue from bDesonumab, bAbatacept bRituximab and Semaglutide may not be able to fill the gRevlimid void in FY27F.
- We raise FY26F EPS by 7%. Our target price stands revised to Rs1,250 (Rs1,300 earlier). We maintain HOLD rating on the stock.

**In-line growth in 4QFY25; miss on the margin front**

Dr. Reddy's Laboratories or DRL's 4QFY25 performance was mixed – while the topline growth was in line, the margin missed our estimate. In 4Q, the revenue growth was 20%/2% YoY/QoQ, and adjusting for the NRT business (Rs5.97bn) the overall business witnessed a 2% sequential growth. Though US revenue grew sequentially by 2.6% to US\$411m, it was below our estimate of US\$430m which, we believe, was due to price erosion and intense competition in certain products. India business growth in 4Q was 16% YoY, but organic growth (excl. in-licensed product) was weak at 6% YoY. DRL managed to marginally outperform the IPM with a growth of 8.4% vs. 8% IPM growth. Gross margin (GM) declined by 310bp QoQ due to lower milestone income and lower operating leverage. The EBITDA margin stood at 23.2% (below our estimate of 26.5%), a decline of 320bp QoQ (on adjusted basis) due to higher R&D spending (by 50bp), one-off manufacturing overhead costs (impact of 80bp) and lower gross margin impact. DRL has given guidance of double-digit growth in FY26F and maintaining 25% margin. However, we remain cautious of the guidance due to the base effect and bake in 9% growth in FY26F.

**The gRevlimid void – difficult for new launches to fill in**

In FY25, we believe that gRevlimid would have accounted for 35-40% of the US revenue (US\$550-650m) and estimate that it will contribute US\$450-500m in FY26F. DRL's major launches in FY26F-27F includes the launch of biosimilars (bDesonumab – late FY26F launch, bAbatacept – late FY27F/beginning of FY28F launch, bRituximab – FY26F launch) and the 2026F launch of Semaglutide in Canada and other RoW markets. We understand these launches, in aggregate, may not be able to generate incremental revenue of US\$450-500m in FY27F and bridge the gRevlimid gap once the settlement period ends in Jan 2026. Accordingly, we estimate the US revenue to decline by 20% in FY27F.

**Other highlights**

a) R&D spending to be 8.5% in FY26F. b) Effective tax rate will be 25% in FY26F. c) SG&A expenses in FY26F to be 28%. d) Capex in FY26F to be similar to the FY25 level.

**Retain HOLD rating with a lower target price of Rs1,250**

On one-year forward basis, DRL trades below SD-1 valuation however, on two-year forward basis, it trades near the mean valuation (due to 17% EPS dip estimated in FY27F). We believe DRL is fairly valued due to muted earnings outlook for FY27F & retain our HOLD rating on it with a new target price of Rs1,250 (Rs1,300 earlier). Faster-than expected improvement in base business profitability is an upside risk and vice-versa.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	245,879	279,163	325,535	354,680	331,089
Operating EBITDA (Rsm)	63,873	78,384	84,544	90,403	79,097
Net Profit (Rsm)	45,067	55,683	56,545	57,598	47,868
Core EPS (Rs)	54.1	66.8	67.8	69.1	57.4
Core EPS Growth	45.0%	23.6%	1.5%	1.9%	(16.9%)
FD Core P/E (x)	21.38	17.30	17.04	16.73	20.13
DPS (Rs)	70.0	40.0	8.0	8.0	8.0
Dividend Yield	6.06%	3.46%	0.69%	0.69%	0.69%
EV/EBITDA (x)	14.22	11.44	11.12	10.19	10.91
P/FCFE (x)	12.11	13.77	32.06	14.39	7.28
Net Gearing	(21.5%)	(22.0%)	(3.5%)	(7.7%)	(20.4%)
P/BV (x)	4.17	3.43	2.89	2.50	2.26
ROE	21.4%	21.8%	18.4%	16.0%	11.8%
% Change In Core EPS Estimates				7.38%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	62,968	67,384	68,802	72,148	70,829	76,727	80,162	83,586	85,060	20%	2%
Consumption of raw materials	26,971	27,831	28,434	29,945	29,347	30,383	32,393	34,534	37,797	29%	9%
as % of sales	42.8%	41.3%	41.3%	41.5%	41.4%	39.6%	40.4%	41.3%	44.4%		
R&D expenditure	5366	4984	5447	5565	6877	6193	7271	6658	7258	6%	9%
as % of sales	8.5%	7.4%	7.9%	7.7%	9.7%	8.1%	9.1%	8.0%	8.5%		
Other expenditure	15,501	14,130	15,060	16,568	16,591	18,886	19,956	19,394	20,268	22%	5%
as % of sales	24.6%	21.0%	21.9%	23.0%	23.4%	24.6%	24.9%	23.2%	23.8%		
EBITDA	15,130	20,439	19,861	20,070	18,014	21,265	20,542	23,000	19,737	10%	-14%
Margins (%)	24.0%	30.3%	28.9%	27.8%	25.4%	27.7%	25.6%	27.5%	23.2%		
Depreciation	3,031	3,583	3,790	3,770	3,712	3,810	3,975	4,719	4,555	23%	-3%
Other income	1,434	1,935	3,374	2,324	2,271	1,905	3,296	1,237	5,473	141%	342%
Interest	354	371	353	394	593	598	757	818	656	11%	-20%
PBT	13,179	18,420	19,092	18,230	15,980	18,762	19,106	18,700	19,999	25%	7%
Total tax	3,663	4,438	4,334	4,468	2,946	4,901	5,752	4,704	4,181		
Tax rate (%)	27.8%	24.1%	22.7%	24.5%	18.4%	26.1%	30.1%	25.2%	20.9%		
PAT before MI	9,516	13,982	14,758	13,762	13,034	13,861	13,354	13,996	15,818	21%	13%
Minority interest (MI)	76	43	42	27	35	59	-801	137	121		
Adj. PAT before extraordinary items	9,592	14,025	14,800	13,789	13,069	13,920	12,553	14,133	15,939	22%	13%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	9,592	14,025	14,800	13,789	13,069	13,920	12,553	14,133	15,939	22%	13%
No. of shares	832.6	832.8	833.9	832.6	832.6	832.6	832.6	832.6	832.6		
EPS	11.5	16.8	17.7	16.5	15.7	16.7	15.1	17.0	19.1		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

(%)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	57%	59%	59%	58%	59%	60%	60%	59%	56%	-300	-312
EBITDA	24%	30%	29%	28%	25%	28%	26%	28%	23%	-223	-431
Adj. PAT	15%	21%	22%	19%	18%	18%	16%	17%	19%	29	183
Effective tax rate	28%	24%	23%	25%	18%	26%	30%	25%	21%	247	-425

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
US formulations INR	25,321	31,978	31,700	33,492	32,626	38,462	37,281	33,834	35,586	9%	5%
% total revenue	40.2%	47.5%	46.1%	46.4%	46.1%	50.1%	46.5%	40.5%	41.8%		
Europe INR	4,960	5,071	5,286	4,970	5,208	5,265	5,770	12,096	12,750	145%	5%
% total revenue	7.9%	7.5%	7.7%	6.9%	7.4%	6.9%	7.2%	14.5%	15.0%		
Russia CIS INR	7,500	7,600	8,000	8,200	7,200	7,400	9,000	9,400	8,900	24%	-5%
% total revenue	11.9%	11.3%	11.6%	11.4%	10.2%	9.6%	11.2%	11.2%	10.5%		
India	12,834	11,482	11,860	11,800	11,265	13,252	13,971	13,464	13,047	16%	-3%
% total revenue	20.4%	17.0%	17.2%	16.4%	15.9%	17.3%	17.4%	16.1%	15.3%		
RoW	3,700	4,000	4,200	4,633	4,891	4,478	5,554	4,958	5,081	4%	2%
% total revenue	5.9%	5.9%	6.1%	6.4%	6.9%	5.8%	6.9%	5.9%	6.0%		
PSAI INR	7,787	6,709	7,034	7,839	8,219	7,657	8,407	8,219	9,563	16%	16%
% total revenue	12.4%	10.0%	10.2%	10.9%	11.6%	10.0%	10.5%	9.8%	11.2%		
Prop. products/ other	866	544	722	1,214	1,420	212	179	1,614	133	-91%	-92%
% total revenue	1.4%	0.8%	1.0%	1.7%	2.0%	0.3%	0.2%	1.9%	0.2%		
Total revenue	62,968	67,384	68,802	72,148	70,829	76,726	80,162	83,585	85,060	20%	2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

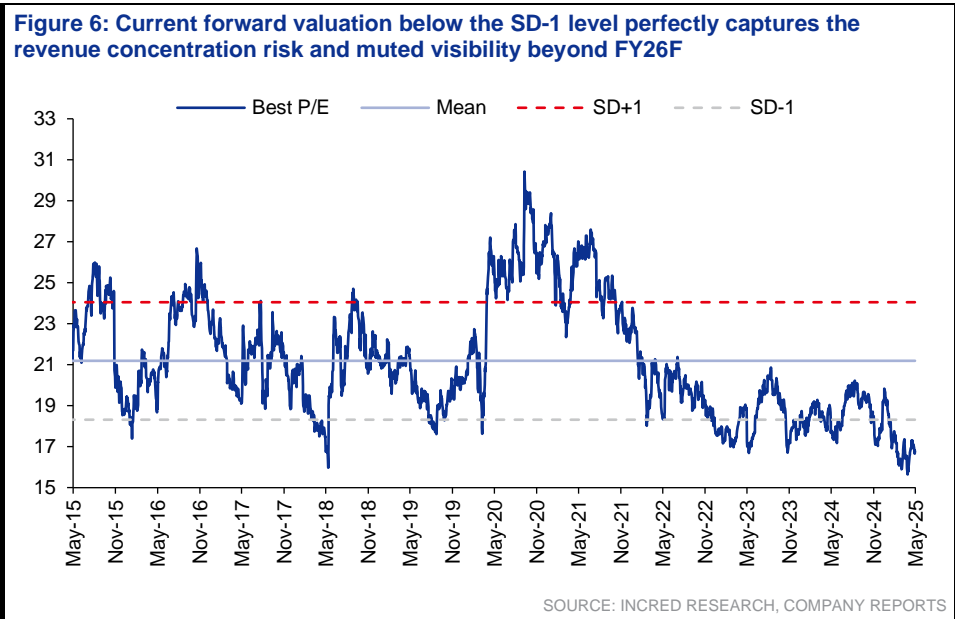
	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	85,060	85,555	-1%	83,694	2%
EBITDA (Rsm)	19,737	22,682	-13%	22,816	-13%
Margin (%)	23.2	26.5		27.3	
PAT (Rsm)	15,939	14,444	10%	14,657	9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

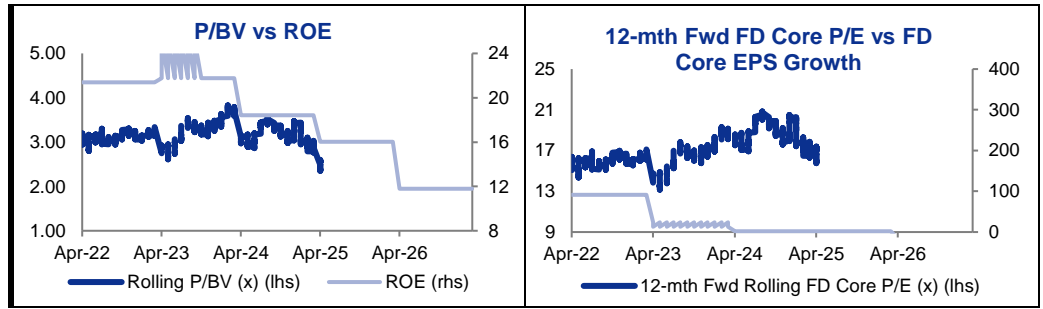
Figure 5: Our revised earnings estimates

	FY26F		
	Old	New	Variance (%)
Revenue (Rsm)	3,49,031	3,54,680	2%
EBITDA (Rsm)	85,624	90,403	6%
Margin (%)	24.5	25.5	
PAT (Rsm)	53,638	57,598	7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	<b>245,879</b>	<b>279,163</b>	<b>325,535</b>	<b>354,680</b>	<b>331,089</b>
<b>Gross Profit</b>	<b>139,343</b>	<b>163,606</b>	<b>190,428</b>	<b>204,550</b>	<b>180,853</b>
<b>Operating EBITDA</b>	<b>63,873</b>	<b>78,384</b>	<b>84,544</b>	<b>90,403</b>	<b>79,097</b>
Depreciation And Amortisation	(12,636)	(14,855)	(17,059)	(18,273)	(20,273)
<b>Operating EBIT</b>	<b>51,237</b>	<b>63,529</b>	<b>67,485</b>	<b>72,130</b>	<b>58,824</b>
Financial Income/(Expense)	(1,428)	(1,711)	(2,829)	(2,300)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	10,188	9,904	11,911	6,000	6,000
<b>Profit Before Tax (pre-EI)</b>	<b>59,997</b>	<b>71,722</b>	<b>76,567</b>	<b>75,830</b>	<b>62,824</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>59,997</b>	<b>71,722</b>	<b>76,567</b>	<b>75,830</b>	<b>62,824</b>
Taxation	(15,300)	(16,186)	(19,538)	(18,958)	(15,706)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>44,697</b>	<b>55,536</b>	<b>57,029</b>	<b>56,873</b>	<b>47,118</b>
Minority Interests	370	147	(484)	725	750
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>45,067</b>	<b>55,683</b>	<b>56,545</b>	<b>57,598</b>	<b>47,868</b>
Recurring Net Profit	45,067	55,683	56,545	57,598	47,868
<b>Fully Diluted Recurring Net Profit</b>	<b>45,067</b>	<b>55,683</b>	<b>56,545</b>	<b>57,598</b>	<b>47,868</b>

### Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>63,873</b>	<b>78,384</b>	<b>84,544</b>	<b>90,403</b>	<b>79,097</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(7,845)	(20,182)	(29,989)	(26,093)	11,309
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	66,704	68,394	66,683	70,310	96,406
Net Interest (Paid)/Received	(1,428)	(1,711)	(2,829)	(2,300)	(2,000)
Tax Paid	(6,401)	(21,250)	(17,426)	(21,933)	(18,956)
<b>Cashflow From Operations</b>	<b>58,875</b>	<b>45,433</b>	<b>46,428</b>	<b>46,078</b>	<b>75,450</b>
Capex	(11,241)	(15,339)	(26,992)	(25,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments			(53,413)		
Other Investing Cashflow	(7,543)	(11,032)	(8,894)		
<b>Cash Flow From Investing</b>	<b>40,091</b>	<b>19,062</b>	<b>(40,871)</b>	<b>21,078</b>	<b>60,450</b>
Debt Raised/(repaid)	(19,382)	5,493	24,490	(194)	(3,641)
Proceeds From Issue Of Shares	368	805	(1,196)		
Shares Repurchased					
Dividends Paid	(4,979)	(6,648)	(6,662)	(6,661)	(6,661)
Preferred Dividends					
Other Financing Cashflow	660	(102)	1,065	3,700	4,000
<b>Cash Flow From Financing</b>	<b>(23,333)</b>	<b>(452)</b>	<b>17,697</b>	<b>(3,155)</b>	<b>(6,302)</b>
Total Cash Generated	16,758	18,610	(23,174)	17,923	54,148
<b>Free Cashflow To Equity</b>	<b>79,584</b>	<b>69,988</b>	<b>30,047</b>	<b>66,961</b>	<b>132,259</b>
<b>Free Cashflow To Firm</b>	<b>100,394</b>	<b>66,206</b>	<b>8,386</b>	<b>69,455</b>	<b>137,900</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	63,029	81,639	58,465	76,388	130,536
Total Debtors	72,485	80,298	90,420	102,857	96,016
Inventories	48,670	63,552	71,085	81,576	76,150
Total Other Current Assets	22,756	26,278	30,142	35,468	33,109
<b>Total Current Assets</b>	<b>206,940</b>	<b>251,767</b>	<b>250,112</b>	<b>296,290</b>	<b>335,811</b>
Fixed Assets	66,462	76,886	97,761	104,488	99,216
Total Investments	5,362	5,255	15,202	15,202	15,202
Intangible Assets	35,094	41,204	108,613	108,613	108,613
Total Other Non-Current Assets	7,996	12,406	21,301	21,301	21,301
<b>Total Non-current Assets</b>	<b>114,914</b>	<b>135,751</b>	<b>242,877</b>	<b>249,604</b>	<b>244,332</b>
Short-term Debt	12,194	14,030	38,902	38,902	38,902
Current Portion of Long-Term Debt					
Total Creditors	26,444	30,919	35,523	32,778	31,617
Other Current Liabilities	47,207	51,090	55,967	60,874	58,717
<b>Total Current Liabilities</b>	<b>85,845</b>	<b>96,039</b>	<b>130,392</b>	<b>132,554</b>	<b>129,236</b>
Total Long-term Debt	1,278	5,990	7,864	7,670	4,029
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,740	4,939	17,567	17,567	17,567
<b>Total Non-current Liabilities</b>	<b>5,018</b>	<b>10,929</b>	<b>25,431</b>	<b>25,237</b>	<b>21,596</b>
Total Provisions					
<b>Total Liabilities</b>	<b>90,863</b>	<b>106,968</b>	<b>155,823</b>	<b>157,791</b>	<b>150,832</b>
Shareholders Equity	230,991	280,550	333,388	385,050	427,007
Minority Interests			3,778	3,053	2,303
<b>Total Equity</b>	<b>230,991</b>	<b>280,550</b>	<b>337,166</b>	<b>388,103</b>	<b>429,310</b>

### Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	14.7%	13.5%	16.6%	9.0%	(6.7%)
Operating EBITDA Growth	38.7%	22.7%	7.9%	6.9%	(12.5%)
Operating EBITDA Margin	26.0%	28.1%	26.0%	25.5%	23.9%
Net Cash Per Share (Rs)	59.46	73.93	14.04	35.77	105.10
BVPS (Rs)	277.13	336.59	399.99	461.97	512.31
Gross Interest Cover	35.88	37.13	23.85	31.36	29.41
Effective Tax Rate	25.5%	22.6%	25.5%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	103.36	99.88	95.71	99.45	109.62
Inventory Days	170.54	177.23	181.87	185.58	191.60
Accounts Payables Days	89.11	90.59	89.75	83.03	78.22
ROIC (%)	21.3%	21.7%	15.4%	15.0%	12.8%
ROCE (%)	21.9%	23.3%	19.7%	17.6%	13.0%
Return On Average Assets	14.8%	16.0%	13.4%	11.3%	8.6%

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.

*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.