


India

HOLD (no change)

Consensus ratings*: Buy 17 Hold 11 Sell 13

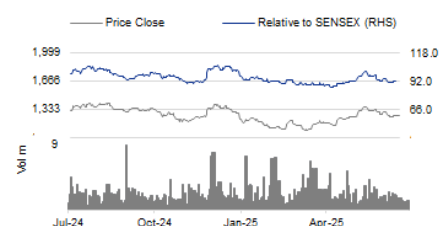
Current price: Rs1,247
 Target price:  Rs1,250
 Previous target: Rs1,250
 Up/downside: 0.2%
 InCred Research / Consensus: -1.2%

Reuters: REDY.NS
 Bloomberg: DRRD IN
 Market cap: US\$12,047m
 Rs1,041,057m
 Average daily turnover: US\$30.3m
 Rs2619.9m
 Current shares o/s: 833.5m
 Free float: 73.3%

*Source: Bloomberg

Key changes in this note

- Our FY26F/27F EPS revised upwards by 2% each.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.3)	5.2	(9.1)
Relative (%)	(6.3)	1.9	(11.7)

Major shareholders	% held
Promoters	26.7
LIC	9.7
First State	2.7

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Dr Reddy's Laboratories Ltd

Weak 1Q performance

- Dr Reddy's Laboratories posted a weak 1QFY26 performance, with a miss on all fronts because of price erosion and lower gRevlimid sales.
- We expect Semaglutide to post US\$250-300m in sales in FY27F & incremental revenue from new launches may not be able to fill the void during the year.
- We increase FY26F/27F EPS by 2% each. Our target price for the stock remains unchanged at Rs1,250, with a HOLD rating on it.

Weak 1QFY26 performance; miss on all fronts

Dr. Reddy's Laboratories or DRL's 1QFY26 performance was weak, with its overall earnings missing our/Bloomberg consensus estimates. The revenue growth was 11%/flat YoY/QoQ, respectively, and adjusting for NRT business (Rs6.7bn), the overall business witnessed just a 3% YoY growth. The US revenue declined sequentially by 3% to US\$399m, below our estimate of US\$410m, due to price erosion in gRevlimid. India business growth was 11% YoY, slightly missing our estimate of 12%. Gross margin (GM) declined by 350bp YoY due to price erosion in gRevlimid. The EBITDA margin stood at 25.2% (below our estimate of 25.9%), a decline of 260bp YoY, due to higher SG&A spending on NRT and Nestle joint venture business, and the lower gross margin impact partially offset by lower R&D expenses (by 80bp).

The gRevlimid void – difficult for new launches to fill in

In FY25, we estimate gRevlimid may 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 include the launch of biosimilars (bDesonumab – late FY26F launch, bAbatacept – late FY27F/beginning of FY28F, bRituximab – FY26F launch) and the 2026F launch of Semaglutide in Canada and other RoW markets. We believe that Semaglutide (estimated revenue of US\$250-300m) along with other 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 expect the US revenue / overall revenue to decline by 20%/6%, respectively, in FY27F.

Other highlights

a) R&D spending to be 7-7.5% in FY26F. b) SG&A expenses in FY26F to be 28-29%. c) Capex in FY26F to be Rs25-27bn. d) PSAI is expected to register double-digit growth in FY26F. e) The US base business is expected to grow in single digit in FY26F.

Retain HOLD rating with an unchanged target price of Rs1,250

With the approaching gRevlimid settlement expiry, DRL has near-term earnings and margin contraction risks due to price erosion and lower sales momentum, respectively. On a one-year forward basis, DRL trades close to SD-1 valuation, but on a two-year forward basis it trades near the mean valuation (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. Upside/downside risks: Faster-than expected improvement in base business profitability and vice-versa.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	245,879	279,163	325,535	355,454	332,602
Operating EBITDA (Rsm)	63,873	78,384	84,544	92,086	80,432
Net Profit (Rsm)	45,067	55,683	56,545	58,860	48,870
Core EPS (Rs)	54.1	66.8	67.8	70.6	58.6
Core EPS Growth	45.0%	23.6%	1.5%	4.1%	(17.0%)
FD Core P/E (x)	23.07	18.67	18.39	17.66	21.28
DPS (Rs)	70.0	40.0	8.0	8.0	8.0
Dividend Yield	5.61%	3.21%	0.64%	0.64%	0.64%
EV/EBITDA (x)	15.42	12.41	12.02	10.82	11.65
P/FCFE (x)	13.06	14.86	34.60	14.70	7.85
Net Gearing	(21.5%)	(22.0%)	(3.5%)	(8.1%)	(20.7%)
P/BV (x)	4.50	3.71	3.12	2.69	2.42
ROE	21.4%	21.8%	18.4%	16.4%	12.0%
% Change In Core EPS Estimates				2.19%	2.09%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	67,384	68,802	72,148	70,829	76,727	80,162	83,586	85,060	85,452	11%	0%
Consumption of raw materials	27,831	28,434	29,945	29,347	30,383	32,393	34,534	37,797	36,825	21%	-3%
as % of sales	41.3%	41.3%	41.5%	41.4%	39.6%	40.4%	41.3%	44.4%	43.1%		
R&D expenditure	4984	5447	5565	6877	6193	7271	6658	7258	6244	1%	-14%
as % of sales	7.4%	7.9%	7.7%	9.7%	8.1%	9.1%	8.0%	8.5%	7.3%		
Other expenditure	14130	15060	16568	16591	18886	19956	19394	20268	20882	11%	3%
as % of sales	21.0%	21.9%	23.0%	23.4%	24.6%	24.9%	23.2%	23.8%	24.4%		
EBITDA	20,439	19,861	20,070	18,014	21,265	20,542	23,000	19,737	21,501	1%	9%
Margins (%)	30.3%	28.9%	27.8%	25.4%	27.7%	25.6%	27.5%	23.2%	25.2%		
Depreciation	3,583	3,790	3,770	3,712	3,810	3,975	4,719	4,555	4,765	25%	5%
Other income	1,935	3,374	2,324	2,271	1,905	3,296	1,237	5,473	3,139	65%	-43%
Interest	371	353	394	593	598	757	818	656	830	39%	27%
PBT	18,420	19,092	18,230	15,980	18,762	19,106	18,700	19,999	19,045	2%	-5%
Total tax	4,438	4,334	4,468	2,946	4,901	5,752	4,704	4,181	4,951		
Tax Rate (%)	24.1%	22.7%	24.5%	18.4%	26.1%	30.1%	25.2%	20.9%	26.0%		
PAT before MI	13,982	14,758	13,762	13,034	13,861	13,354	13,996	15,818	14,094	2%	-11%
Minority interest (MI)	43	42	27	35	59	-801	137	121	84		
Adj. PAT before extraordinary items	14,025	14,800	13,789	13,069	13,920	12,553	14,133	15,939	14,178	2%	-11%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	14,025	14,800	13,789	13,069	13,920	12,553	14,133	15,939	14,178	2%	-11%
No. of shares	832.8	833.9	832.6	832.6	832.6	832.6	832.6	832.6	832.6		
EPS	16.8	17.7	16.5	15.7	16.7	15.1	17.0	19.1	17.0		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile (%)

Margins (%)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Gross	59%	59%	58%	59%	60%	60%	59%	56%	57%	-350	134
EBITDA	30%	29%	28%	25%	28%	26%	28%	23%	25%	-255	196
Adj. PAT	21%	22%	19%	18%	18%	16%	17%	19%	17%	-155	-215
Effective tax rate	24%	23%	25%	18%	26%	30%	25%	21%	26%	-13	509

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
US formulations - INR	31,978	31,700	33,492	32,626	38,462	37,281	33,834	35,586	34,123	-11%	-4%
% total revenue	47.5%	46.1%	46.4%	46.1%	50.1%	46.5%	40.5%	41.8%	39.9%		
Europe INR	5,071	5,286	4,970	5,208	5,265	5,770	12,096	12,750	12,744	142%	0%
% total revenue	7.5%	7.7%	6.9%	7.4%	6.9%	7.2%	14.5%	15.0%	14.9%		
Russia CIS INR	7,600	8,000	8,200	7,200	7,400	9,000	9,400	8,900	9,100	23%	2%
% total revenue	11.3%	11.6%	11.4%	10.2%	9.6%	11.2%	11.2%	10.5%	10.6%		
India	11,482	11,860	11,800	11,265	13,252	13,971	13,464	13,047	14,711	11%	13%
% total revenue	17.0%	17.2%	16.4%	15.9%	17.3%	17.4%	16.1%	15.3%	17.2%		
RoW	4,000	4,200	4,633	4,891	4,478	5,554	4,958	5,081	5,000	12%	-2%
% total revenue	5.9%	6.1%	6.4%	6.9%	5.8%	6.9%	5.9%	6.0%	5.9%		
PSAI - INR	6,709	7,034	7,839	8,219	7,657	8,407	8,219	9,563	8,181	7%	-14%
% total revenue	10.0%	10.2%	10.9%	11.6%	10.0%	10.5%	9.8%	11.2%	9.6%		
Prop products/ other	544	722	1,214	1,420	212	179	1,614	133	1,593	651%	1098%
% total revenue	0.8%	1.0%	1.7%	2.0%	0.3%	0.2%	1.9%	0.2%	1.9%		
Total revenue	67,384	68,802	72,148	70,829	76,726	80,162	83,585	85,060	85,452	11%	0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incred Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rsm)	85,452	87,229	-2%	86,945	-2%
EBITDA (Rsm)	21,501	22,582	-5%	23,289	-8%
Margin (%)	25.2	25.9		26.8	
PAT (Rsm)	14,178	14,774	-4%	15,126	-6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY26F			FY27F		
	Old	New	Variance (%)	Old	New	Variance (%)
Revenue (Rsm)	3,54,680	3,55,454	0%	3,31,089	3,32,602	0%
EBITDA (Rsm)	90,403	92,086	2%	79,097	80,432	2%
Margin (%)	25.5	25.9		23.9	24.2	
PAT (Rsm)	57,598	58,860	2%	47,868	48,870	2%

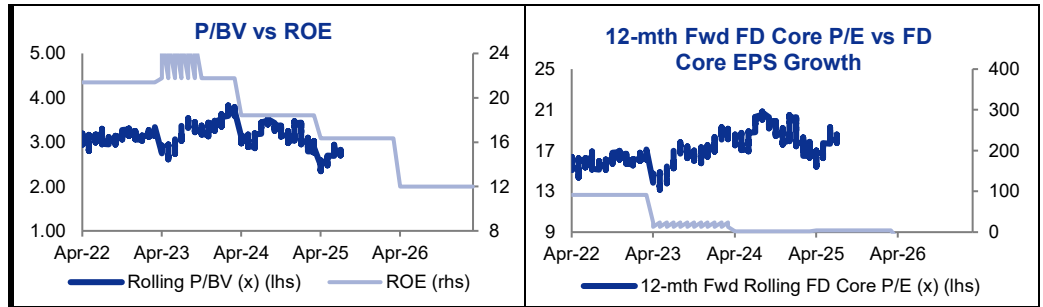
SOURCE: INCRED RESEARCH, COMPANY REPORTS

The chart displays the Best P/E ratio for the S&P 500 over a ten-year period. The y-axis represents the P/E ratio, ranging from 15 to 33. The x-axis shows time in quarters from July 2015 to July 2025. The Best P/E ratio (solid blue line) shows high volatility, with a major peak of approximately 30 in early 2020 and a low of about 16 in early 2025. The Mean (solid light blue line) is constant at 21. The SD+1 (dashed red line) is constant at 24, and the SD-1 (dashed grey line) is constant at 18.

Date	Best P/E	Mean	SD+1	SD-1
Jul-15	26.0	21.0	24.0	18.0
Jan-16	20.0	21.0	24.0	18.0
Jul-16	24.0	21.0	24.0	18.0
Jan-17	22.0	21.0	24.0	18.0
Jul-17	20.0	21.0	24.0	18.0
Jan-18	18.0	21.0	24.0	18.0
Jul-18	24.0	21.0	24.0	18.0
Jan-19	20.0	21.0	24.0	18.0
Jul-19	18.0	21.0	24.0	18.0
Jan-20	26.0	21.0	24.0	18.0
Jul-20	30.0	21.0	24.0	18.0
Jan-21	24.0	21.0	24.0	18.0
Jul-21	26.0	21.0	24.0	18.0
Jan-22	22.0	21.0	24.0	18.0
Jul-22	20.0	21.0	24.0	18.0
Jan-23	18.0	21.0	24.0	18.0
Jul-23	20.0	21.0	24.0	18.0
Jan-24	18.0	21.0	24.0	18.0
Jul-24	20.0	21.0	24.0	18.0
Jan-25	16.0	21.0	24.0	18.0
Jul-25	18.0	21.0	24.0	18.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	245,879	279,163	325,535	355,454	332,602
Gross Profit	139,343	163,606	190,428	202,744	180,977
Operating EBITDA	63,873	78,384	84,544	92,086	80,432
Depreciation And Amortisation	(12,636)	(14,855)	(17,059)	(18,273)	(20,273)
Operating EBIT	51,237	63,529	67,485	73,813	60,160
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
Profit Before Tax (pre-EI)	59,997	71,722	76,567	77,513	64,160
Exceptional Items					
Pre-tax Profit	59,997	71,722	76,567	77,513	64,160
Taxation	(15,300)	(16,186)	(19,538)	(19,378)	(16,040)
Exceptional Income - post-tax					
Profit After Tax	44,697	55,536	57,029	58,135	48,120
Minority Interests	370	147	(484)	725	750
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	45,067	55,683	56,545	58,860	48,870
Recurring Net Profit	45,067	55,683	56,545	58,860	48,870
Fully Diluted Recurring Net Profit	45,067	55,683	56,545	58,860	48,870

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	63,873	78,384	84,544	92,086	80,432
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(7,845)	(20,182)	(29,989)	(25,541)	10,374
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	66,704	68,394	66,683	72,545	96,807
Net Interest (Paid)/Received	(1,428)	(1,711)	(2,829)	(2,300)	(2,000)
Tax Paid	(6,401)	(21,250)	(17,426)	(22,353)	(19,290)
Cashflow From Operations	58,875	45,433	46,428	47,892	75,517
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)	(6,894)		
Cash Flow From Investing	40,091	19,062	(40,871)	22,892	60,517
Debt Raised/(repaid)	(19,382)	5,493	24,490	(42)	(3,566)
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
Cash Flow From Financing	(23,333)	(452)	17,697	(3,003)	(6,227)
Total Cash Generated	16,758	18,610	(23,174)	19,889	54,289
Free Cashflow To Equity	79,584	69,988	30,047	70,741	132,467
Free Cashflow To Firm	100,394	66,206	8,386	73,083	138,034

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	78,354	132,643
Total Debtors	72,485	80,298	90,420	103,082	96,455
Inventories	48,670	63,552	71,085	81,754	76,498
Total Other Current Assets	22,756	26,278	30,142	35,545	33,260
Total Current Assets	206,940	251,767	250,112	298,735	338,856
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
Total Non-current Assets	114,914	135,751	242,877	249,604	244,332
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	33,139	31,811
Other Current Liabilities	47,207	51,090	55,967	61,544	59,078
Total Current Liabilities	85,845	96,039	130,392	133,586	129,792
Total Long-term Debt	1,278	5,990	7,864	7,822	4,255
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,740	4,939	17,567	17,567	17,567
Total Non-current Liabilities	5,018	10,929	25,431	25,389	21,822
Total Provisions					
Total Liabilities	90,863	106,968	155,823	158,974	151,614
Shareholders Equity	230,991	280,550	333,388	386,312	429,271
Minority Interests			3,778	3,053	2,303
Total Equity	230,991	280,550	337,166	389,365	431,574

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	14.7%	13.5%	16.6%	9.2%	(6.4%)
Operating EBITDA Growth	38.7%	22.7%	7.9%	8.9%	(12.7%)
Operating EBITDA Margin	26.0%	28.1%	26.0%	25.9%	24.2%
Net Cash Per Share (Rs)	59.46	73.93	14.04	37.95	107.36
BVPS (Rs)	277.13	336.59	399.99	463.48	515.02
Gross Interest Cover	35.88	37.13	23.85	32.09	30.08
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	99.35	109.49
Inventory Days	170.54	177.23	181.87	182.65	190.48
Accounts Payables Days	89.11	90.59	89.75	82.06	78.18
ROIC (%)	21.3%	21.7%	15.4%	15.3%	13.1%
ROCE (%)	21.9%	23.3%	19.7%	18.0%	13.2%
Return On Average Assets	14.8%	16.0%	13.4%	11.5%	8.8%

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.