

Dr. Reddy's Labs

BSE SENSEX 85,268
S&P CNX 26,047

CMP: INR1,279 **TP: INR1,250 (-2%)** **Neutral**



Stock Info

Bloomberg	DRRD IN
Equity Shares (m)	835
M.Cap.(INRb)/(USDb)	1067.7 / 11.8
52-Week Range (INR)	1406 / 1020
1, 6, 12 Rel. Per (%)	3/-11/-3
12M Avg Val (INR M)	2593
Free float (%)	73.4

Financials Snapshot (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	348.5	371.5	388.7
EBITDA	84.4	83.6	88.6
Adj. PAT	57.4	52.2	56.1
EBITDA Margin (%)	24.2	22.5	22.8
Cons. Adj. EPS (INR)	68.9	62.6	67.3
EPS Gr. (%)	2.4	-9.2	7.5
BV/Sh. (INR)	467	525	587

Ratios

Net D:E	-0.3	-0.6	-0.7
RoE (%)	15.8	12.6	12.1
RoCE (%)	12.0	10.0	9.9
Payout (%)	7.4	8.0	7.5

Valuations

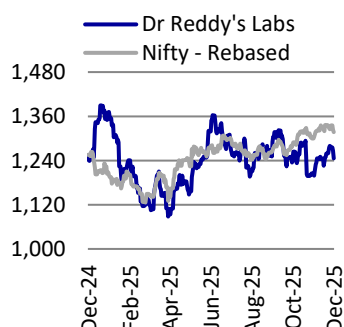
P/E (x)	18.6	20.5	19.0
EV/EBITDA (x)	11.9	11.2	10.0
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	3.7	6.8	5.0
EV/Sales (x)	2.9	2.5	2.3

Shareholding pattern (%)

As On	Sep-25	Jun-25	Sep-24
Promoter	26.6	26.6	26.6
DII	28.0	26.7	21.5
FII	35.8	36.6	41.9
Others	9.6	10.0	10.0

FII Includes depository receipts

Stock performance (one-year)



Growth levers in place, but near-term earnings drag limits upside

We recently met with the management of Dr. Reddy's Labs (DRRD) to understand the company's business prospects in detail:

- While increased competition in g-Revlimid would weigh on DRRD's near-term performance, the company is implementing efforts to improve growth prospects over the next 2-3 years.
- Product-wise, Semaglutide and Abatacept present promising opportunities from FY27 and FY28 onwards, respectively.
- In addition, execution is underway to drive growth, with the aim of achieving double-digit performance in the remaining businesses – India, EU, Emerging Markets, and the PSAl segment.
- The company is also implementing cost-rationalization measures to support better margins going forward.
- Further, there is scope to utilize cash reserves (INR28b at the end of 1HFY26) for inorganic opportunities in its focus markets.
- While the all-round efforts of DRRD are encouraging, we estimate earnings to remain under pressure in FY27 due to limited levers available to offset the impact of reduced business from g-Revlimid. However, FY28 may witness an earnings recovery, driven by: a) improved growth in the base business, b) scaling traction in Semaglutide across key markets, and c) the potential approval of Abatacept.
- Excluding the Semaglutide/g-Revlimid and yet-to-be-accounted-for Abatacept opportunities, EV/EBITDA of the base business is 16x 12M forward EBITDA. We believe the current valuations adequately factor in the upside. We reiterate a Neutral stance (TP of INR1,250 on 19x 12M forward earnings).

Reinventing India's growth: DRRD's multi-lever strategy to outperform a slowing market

- Compared to mid-single-digit YoY growth in FY23/FY24, DRRD has progressed well in the Indian segment (16% YoY/12% YoY in FY25/1HFY26). It has been focusing on new launches while driving traction in existing products. FY25 YoY growth was partly led by the promotion/distribution of Sanofi vaccine portfolio.
- Specifically, over the past 12M, DRRD witnessed 5%/5%/2% growth from new launches/price hike/volume expansion in the Prescription (Rx) business.
- The company had 23/12 launches in FY25/1HFY26, respectively, and the launch momentum is expected to sustain over the medium term.
- Considering the overall slowdown in the Rx India industry's growth (from 13-15% YoY a decade ago to 8-9% currently), DRRD has revised its business strategy over the past couple of years by adding new growth drivers, such as on-patent innovative drugs, the Sanofi vaccine portfolio, and a tie-up with Nestle for nutraceutical and nutritional health brands, with the aim of outpacing industry growth in the Indian segment.

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- DRRD continues to expand its innovative, on-patent portfolio in India through licensing and partnerships, having added several differentiated products in recent years, including Toripalimab, Tegoprazan, Coloazo, and Vonoprazan.
- Toripalimab was launched in India in the same year as in the U.S., making India the third country globally to access this new biological entity. DRRD's agreement with Shanghai Junshi Biosciences granted the company exclusive commercialization rights across 21 countries, with the option to expand into Australia, New Zealand, and nine other markets. Toripalimab replaces chemotherapy (gemcitabine/cisplatin) as the first-line treatment for metastatic or recurrent locally advanced NPC, in combination with these agents. GLOBOCAN 2022 reports over 120,000 new NPC cases globally and 6,519 in India. DRRD garnered INR800m revenue over the past year and aims to achieve annualized revenue of INR1b over the medium term from this product.
- The company launched Tegoprazan in India, following an exclusive partnership in CY22. Tegoprazan, a next-generation potassium-competitive acid blocker, is indicated for acid peptic disease (APD), which affects an estimated 38% of India's population.
- Although the Sanofi portfolio is lower-margin due to DRRD's limited role (promotion and distribution), it broadens the company's offerings. Under this partnership, DRRD recently introduced Beyfortus, a novel RSV preventive therapy for infants.
- For the Nestlé portfolio, consumer research and regulatory processes are underway to enable commercial rollout. While Nestlé has seen limited traction in its consumer division, DRRD's strong doctor reach is expected to improve portfolio performance.
- Further, DRRD has reorganized its MR structure and added ~1.5k MRs over the past two years, bringing the total to ~8k to enhance focus on the Rx segment of its Indian business.
- Profitability in the Indian business exceeds the company's corporate margins.
- DRRD expects to grow at a double-digit rate and outperform the industry over the next 3-4 years.

NRT scale-up, footprint expansion, and brand investments to accelerate EU growth prospects

- DRRD is on track to transfer the nicotine replacement therapy (NRT) business from Haleaon, with about 30% of the business still managed by Haleaon. The entire shift is expected to be completed by the end of FY26.
- Notably, the portfolio is growing at a better-than-expected rate post the acquisition.
- ~65% of the NRT business comes from the EU and has experienced no price erosion. This provides cushion for growth, given that the non-NRT portfolio is subject to price erosion.
- The NRT portfolio demonstrates stronger margins compared to corporate margins.
- DRRD plans to invest in advertising for the NRT portfolio, which was previously considered a tail product by sellers and received limited focus. DRRD believes that there is strong consumer loyalty for smoking cessation products, and NRT is

well-positioned for healthy growth through increased awareness and promotional activities.

- As far as the generics segment is concerned, DRRD continues to expand its EU portfolio by adding products sourced from its US lineup.
- In addition to increasing contracts for existing products, the company is strengthening its presence in the European region. With operations across 18 countries, DRRD is enhancing its offerings in these markets.
- DRRD expects double-digit growth in the EU segment over the next 3-5 years.

PSAI growth sustains on new API launches and CDMO recovery

- PSAI has been on a healthy growth path in FY25 and 1HFY26, supported by the launch of new products in the API sub-segment. Additionally, the CDMO segment is witnessing growth, partly on a low base of the past year.
- While certain one-offs impacted this segment's gross margin in 2QFY26, it is expected to improve going forward, led by new launches and better operating leverage.

Semaglutide: Multi-market launch pipeline on track; Canada approval by Mar-Apr'26

- Considering the additional information and clarifications sought by the Canadian regulatory authority, DRRD has submitted its response and is now awaiting approval. The regulator typically takes 5–6 months to provide feedback, though the timeline could be shorter if the review is expedited.
- The company is focusing on markets like India, along with emerging markets such as Brazil and Turkey, for the Semaglutide launch following patent expiry (Mar'26).
- In India, Novo Nordisk has launched an injectable weight-loss formulation, Wegovy, and an oral prescription formulation, Rybelsus, both based on Semaglutide. The company also introduced Ozempic this month, an injectable formulation for diabetes management, even though its patent is set to expire in three months.
- DRRD also plans to launch its Semaglutide injectable version for diabetes. Following regulatory approval, it plans to launch an injectable version for weight loss as well as an oral solid version.
- Overall, DRRD expects 12m pens to be sold in FY27.

Abatacept: High-complexity biosimilar with clear first-mover advantage for DRRD

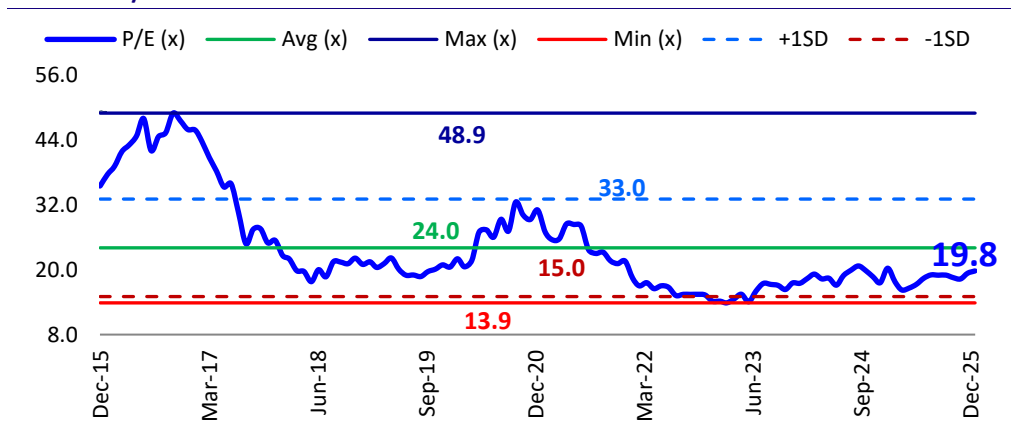
- Abatacept is a recombinant fusion protein. Developing biosimilars for Abatacept has proven to be challenging due to its molecular complexity and regulatory requirements.
- Interestingly, the smaller market size of USD2.8b/USD912m (US/Ex-US) compared to other potential drugs like Keytruda, coupled with higher development costs (USD100-120m), has made Abatacept a lower priority for developing the biosimilar version for many companies.
- As a matter of fact, only DRRD and Kashiv Lifescience (Subs of Amneal) have crossed phase I trials to date.

- DRRD is confident in submitting the BLA of Abatacept by Dec'25, giving it a lead of 12-18M compared to any peer in developing the biosimilar version of Abatacept.
- The US intravenous (IV) and EU subcutaneous (SC) patents will expire in Dec'26. The IV version patent in the EU has already expired, while the US SC version patent will expire in Feb'28.
- DRRD intends to sell the IV version in the US following patent expiry, reducing the likelihood of litigation with the innovator.
- Accordingly, DRRD believes this to be a potential opportunity from FY28 onwards.
- Notably, ex-potential molecules (like g-Revlamid/bAbatacept, g-Semaglutide), DRRD expects single-digit YoY growth in the base business of North America.

Valuation and view

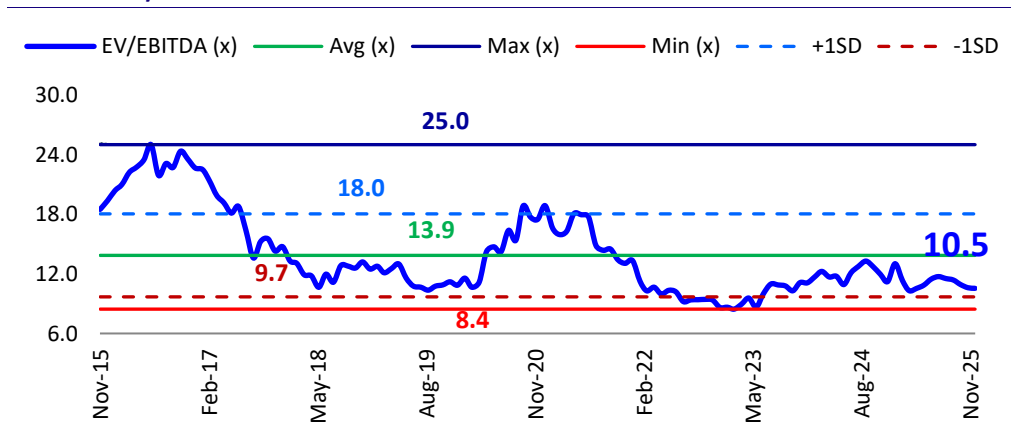
- We value DRRD at 19x 12M forward earnings to arrive at a TP of INR1,250.
- We expect earnings to remain stable over FY25-28, as a significant reduction in the g-Revlamid business (3QFY26 onward) is expected to be offset by new launches and a higher off-take of legacy products in key markets.

Exhibit 1: P/E chart



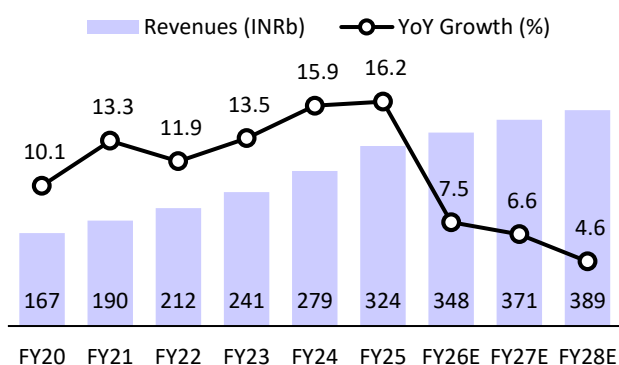
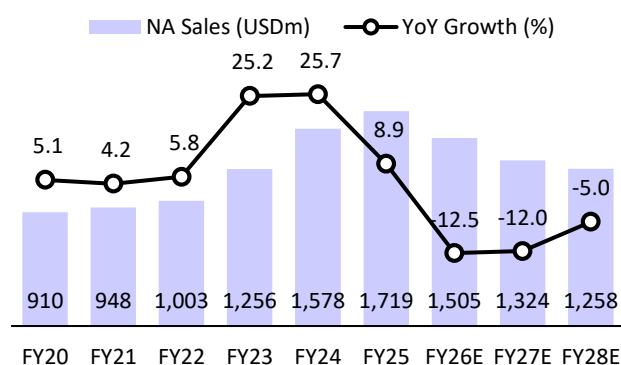
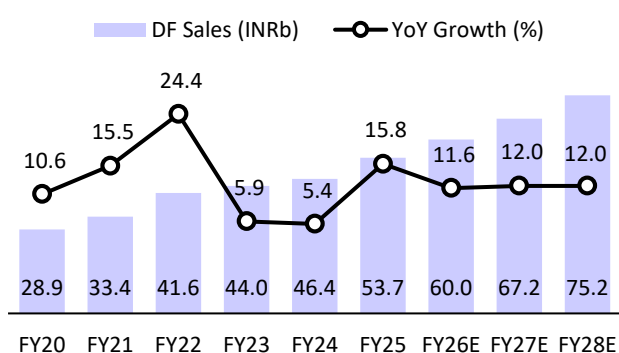
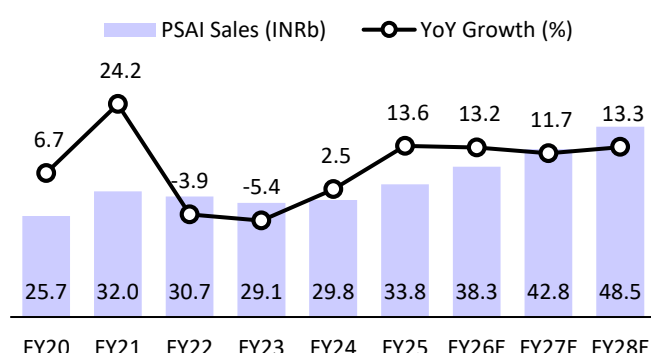
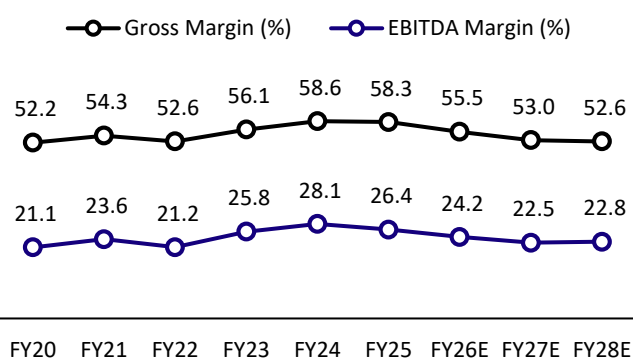
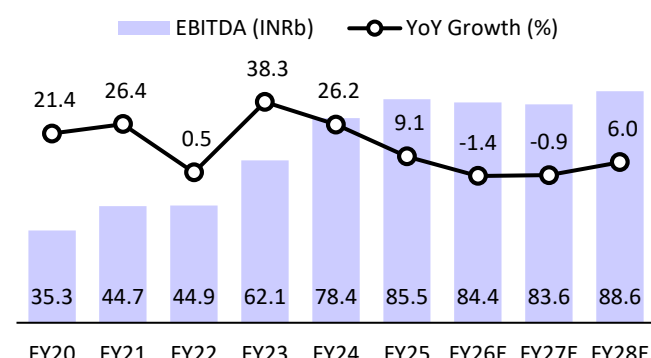
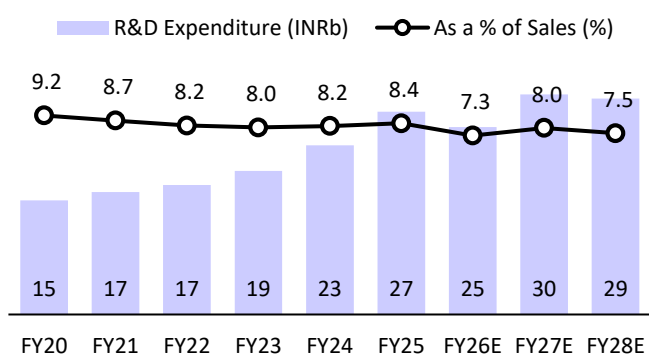
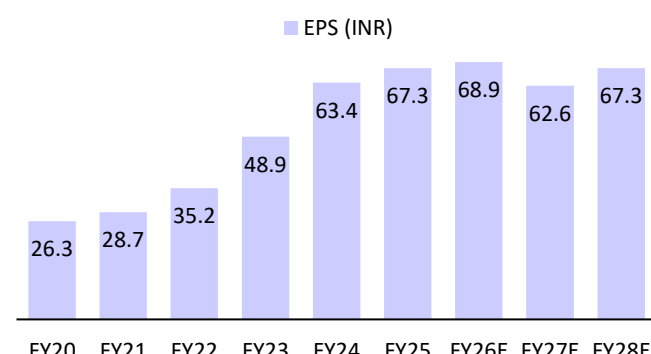
Source: MOFSL, Company, Bloomberg

Exhibit 2: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 3: Expect sales CAGR of 6.2% over FY25–28

Exhibit 4: NA sales to decline over FY25–28

Exhibit 5: DF sales to post 11.9% CAGR over FY25–28

Exhibit 6: PSAl to post 12.7% sales CAGR over FY25–28

Exhibit 7: Margins to slightly contract over FY25–28

Exhibit 8: Expect EBITDA CAGR of ~1.2% over FY25–28

Exhibit 9: R&D expenses to account for 7-8% of sales over FY25–28

Exhibit 10: Expect EPS to remain stable over FY25–28


Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	2,12,227	2,40,936	2,79,164	3,24,269	3,48,480	3,71,497	3,88,739
Change (%)	11.9	13.5	15.9	16.2	7.5	6.6	4.6
Total Expenditure	1,67,306	1,78,813	2,00,784	2,38,731	2,64,107	2,87,910	3,00,106
EBITDA	44,921	62,123	78,380	85,538	84,372	83,587	88,632
Change (%)	0.5	38.3	26.2	9.1	-1.4	-0.9	6.0
Margin (%)	21.2	25.8	28.1	26.4	24.2	22.5	22.8
Depreciation & Amort.	11,825	12,663	14,847	17,064	19,036	19,318	20,214
Net Interest Exp	-2,119	-2,853	-3,494	-4,724	-5,544	-4,648	-4,260
One-off (Gains)/Loss	6,381	-5,445	-1,981	-509	1,362	0	0
PBT before EO Expense	38,679	53,943	69,889	76,275	75,707	70,018	73,779
Change (%)	10.5	39.5	29.6	9.1	-0.7	-7.5	5.4
PBT after EO Expense	32,298	59,388	71,870	76,784	74,345	70,018	73,779
Tax	8,730	15,300	16,186	19,538	18,378	17,854	17,707
Tax Rate (%)	27.0	25.8	22.5	25.4	24.7	25.5	24.0
Reported PAT	23,568	44,088	55,684	56,545	56,358	52,163	56,072
Adjusted Net Profit	29,265	40,775	52,827	56,060	57,417	52,163	56,072
Change (%)	22.8	39.3	29.6	6.1	2.4	-9.2	7.5
Margin (%)	13.8	16.9	18.9	17.3	16.5	14.0	14.4

Balance Sheet							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	832	833	833	833	833	833	833
Reserves	1,89,695	2,30,158	279,717	336,333	388,512	436,497	488,392
Net Worth	1,90,527	2,30,991	2,80,550	3,37,166	3,89,345	4,37,330	4,89,225
Loans	33,845	13,472	20,020	46,766	45,766	44,766	43,766
Deferred Liabilities/Tax	-12,721	-6,363	-9,865	-4,400	-4,400	-4,400	-4,400
Capital Employed	2,11,651	2,38,100	2,90,705	3,79,532	4,30,711	4,77,696	5,28,591
Gross Block	1,60,797	1,77,753	2,03,024	2,40,963	2,55,551	2,64,413	2,73,276
Less: Accum. Deprn.	98,628	1,11,291	1,26,138	1,43,202	1,62,238	1,81,556	2,01,770
Net Fixed Assets	62,169	66,462	76,886	97,761	93,313	82,857	71,505
Investments	38,393	62,180	81,250	59,428	59,428	59,428	59,428
Goodwill	31,664	35,094	41,204	108,613	108,613	108,613	108,613
Curr. Assets	1,51,647	1,50,922	1,77,404	2,08,679	2,64,801	3,27,349	3,94,694
Inventory	50,884	48,670	63,552	71,085	74,509	75,080	79,233
Account Receivables	66,818	72,485	80,298	90,420	106,732	98,550	110,899
Cash and Bank Balance	14,852	5,779	7,107	14,654	51,640	119,728	169,019
Others	19,093	23,988	26,447	32,520	31,920	33,992	35,544
Curr. Liability & Prov.	72,222	76,558	86,039	94,949	95,442	1,00,550	1,05,649
Account Payables	25,572	26,444	30,919	35,523	35,857	34,572	36,484
Other Current Liabilities	46,650	50,114	55,120	59,426	59,585	65,978	69,165
Net Current Assets	79,425	74,364	91,365	1,13,730	1,69,358	2,26,799	2,89,045
Appl. of Funds	2,11,651	2,38,100	2,90,705	3,79,532	4,30,711	4,77,697	5,28,591

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)							
EPS	35.2	48.9	63.4	67.3	68.9	62.6	67.3
Cash EPS	49.4	64.2	81.2	87.8	91.8	85.8	91.6
BV/Share	229.0	277.3	336.8	404.8	467.4	525.0	587.3
DPS	4.1	4.1	4.3	4.3	4.3	4.3	4.3
Payout (%)	16.9	9.0	7.5	7.4	7.4	8.0	7.5
Valuation (x)							
P/E	36.2	26.0	20.1	18.9	18.5	20.3	18.9
Cash P/E	25.8	19.8	15.7	14.5	13.9	14.8	13.9
P/BV	5.6	4.6	3.8	3.1	2.7	2.4	2.2
EV/Sales	4.9	4.2	3.6	3.2	2.9	2.5	2.3
EV/EBITDA	23.3	16.3	12.8	12.2	11.9	11.2	10.0
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)							
ROIC	18.0	23.1	27.6	21.0	17.0	16.0	17.9
RoE	16.0	19.3	20.7	18.2	15.8	12.6	12.1
RoCE	12.3	15.9	18.4	14.9	12.0	10.0	9.9
Working Capital Ratios							
Fixed Asset Turnover (x)	1.4	1.4	1.5	1.5	1.4	1.4	1.4
Debtor (Days)	100	106	100	96	103	101	98
Inventory (Days)	83	75	73	76	76	73	72
Payable (Days)	38	39	38	37	37	35	33
Leverage Ratio							
Current Ratio (x)	2.1	2.0	2.1	2.2	2.8	3.3	3.7
Net Debt/Equity (x)	-0.2	-0.3	-0.3	-0.1	-0.3	-0.6	-0.7

Cash Flow Statement

(INR m)

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Op. Profit before Tax	30,614	60,485	72,010	76,795	75,707	70,018	73,779
Depreciation	11,652	12,502	14,700	17,037	19,036	19,318	20,214
Interest/Div. Recd.	-7	248	-567	152	-3,465	-1,101	-1,101
Direct Taxes Paid	-7,437	-10,714	-20,047	-19,993	-18,378	-17,854	-17,707
(Inc)/Dec in WC	-18,407	-7,855	-20,182	-29,989	-18,642	10,647	-12,954
Other Items	11,693	4,209	-481	2,426			
CF from Operations	28,108	58,875	45,433	46,428	54,258	81,027	62,231
EO Expense							
CF from Operations	28,108	58,875	45,433	46,428	54,258	81,027	62,231
(inc)/dec in FA	-15,733	-18,784	-26,350	-33,154	-14,588	-8,863	-8,863
Free Cash Flow	12,375	40,091	19,083	13,274	39,670	72,164	53,369
(Pur)/Sale of Inv	-11,201	-23,366	-15,716	25,118			
Others	1,280	1,063	1,724	-42,985			
CF from Inv.	-25,654	-41,087	-40,342	-51,021	-14,588	-8,863	-8,863
Change in net worth	334	368	805	193			
(Inc)/Dec in Debt	2,735	-20,397	4,346	23,196	-1,000	-1,000	-1,000
Other Items	-1,345	-1,853	-2,266	-4,872	1,355	938	938
Dividend Paid	-4,146	-4,979	-6,648	-6,662	-4,178	-4,076	-4,076
CF from Fin. Activity	-2,422	-26,861	-3,763	11,855	-3,823	-4,138	-4,138
Inc/Dec of Cash	32	-9,073	1,328	7,262	35,847	68,026	49,231
Add: Beg. Balance	14,829	14,852	5,779	7,107	14,654	51,640	1,19,728
Closing Balance	14,861	5,779	7,107	14,369	50,501	1,19,667	1,68,958
BB/OD	-9	0	0	61	61	61	61
Closing Balance	14,852	5,779	7,107	14,654	50,562	1,19,728	1,69,019

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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