Dr Reddy's Laboratories

India | Pharmaceuticals | Result Update

23 July 2026

Margins get reset lower

Dr. Reddy's Laboratories (DRRD IN) reported Q1FY27 significantly below our expectations, with revenue and EBITDA (adjusted for Semaglutide inventory write-off) missing our estimates by 9% and 31% respectively. The revenue miss was driven by North America, Europe and Russia businesses, while India and RoW businesses compensated partly with superior growth. EBITDA margin was at 13.3%, adjusted for one-off Semaglutide inventory write-off, significantly below our and Street expectation in high-teens. Management guided for some pick-up in H2FY27, but this will still likely fall below current expectations. We reduce our FY27E-29E core earnings estimates by 7-29%. We lower our TP from INR 1,283 to INR 1,222 and retain Reduce.

Steep dip in margin outlook: DRRD's Q1 EBITDA margin, adjusted for one-off Semaglutide inventory write off, came in at 13.3%. This is significantly below the original expectations of high-teens to 20% EBITDA margin post-*gRevlimid* opportunity. While lower-than-expected Semaglutide sales (due to the issue in API scale up) could have contributed to the margin miss, it does not explain the miss completely. We believe that Street expectations need to reset to a structurally lower margin profile.

***Semaglutide* issues add to woes:** Certain batches of Semaglutide API were found to be out of specification and commercial supplies of the product has been delayed in India and Canada. The issue has arisen from an impurity that came in during a scale-up process in API manufacturing. DRRD management expects it to be back in the market by November 2026; this could help some growth and margin pick up in H2.

Domestic market – Strong show: DRRD's domestic business growth at 17% in Q1 was commendable. Even adjusted for the benefit from acquisition of *Progynova* brand, growth was strong at 15%, in our estimate. Management attributed this to focus on the business, including the launch of multiple in-licenced innovative products. We raise our growth estimate for this business to mid-teen from low double digits.

Mixed performance in other markets: Growth in other markets – Europe, Russia / CIS and other EMs – was helped by major depreciation of INR against other currencies. Adjusted for the currency benefit, these businesses posted muted performance, in our analysis – Europe business was flat YoY and Russia/CIS grew in only low single-digit YoY. PSAI business was down 6% YoY in USD terms. However, the RoW business was up 42% YoY, partly helped by INR depreciation and acquisition of the *Stugeron* brand.

Retain REDUCE with lower TP of INR 1,222: We reduce our FY27E-29E core earnings estimates by 7-29%. DRRD trades at 39.1x FY27E and 25.9x FY28E core earnings. We lower our TP from INR 1,283 to INR 1,222, which is 28x FY28E core earnings plus cash per share. Retain REDUCE. Positive news around gAbatacept and quick resolution of the Semaglutide API issues are key upside risks.

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Key Financials

YE March (INR mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue (INR mn)	325,535	335,933	353,708	391,096	433,733
YoY (%)	16.6	3.2	5.3	10.6	10.9
EBITDA (INR mn)	86,236	65,841	55,956	67,956	81,697
EBITDA margin (%)	26.5	19.6	15.8	17.4	18.8
Adj PAT (INR mn)	57,451	45,161	30,478	42,143	52,370
YoY (%)	1.5	(24.2)	(34.5)	50.1	24.3
Fully DEPS (INR)	68.5	54.0	36.4	50.3	62.5
RoE (%)	18.6	12.6	7.8	10.0	11.4
RoCE (%)	20.0	10.7	7.9	10.9	12.9
P/E (x)	17.2	21.9	32.4	23.5	18.9
EV/EBITDA (x)	11.6	15.1	17.8	14.7	12.2

Note: Pricing as on 22 July 2026; Source: Company, Elara Securities Estimate

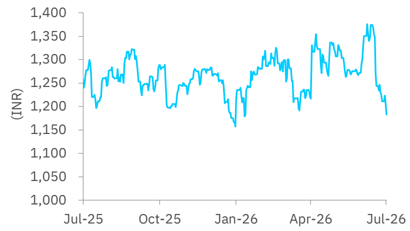
Rating: Reduce
Target Price: INR 1,222
Upside/Downside: 3%
CMP: INR 1,183
As on 22 July 2026

Key data

Bloomberg	DRRD IN
Reuters Code	REDY.NS
Shares outstanding (mn)	835
Market cap (INR bn/USD mn)	987/10,223
EV (INR bn/USD mn)	996/10,316
ADTV 3M (INR mn/USD mn)	3,483/36
52 week high/low	1,415/1,148
Free float (%)	73

Note: as on 22 July 2026; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
Promoter	26.6	26.6	26.6	26.6
% Pledge	0.0	0.0	0.0	0.0
FII	24.7	22.4	21.2	32.1
DII	28.0	30.4	30.7	31.7
Others	20.7	20.6	21.5	9.6

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(0.7)	(4.2)	(4.9)
Dr Reddy's Laboratories	(2.8)	(2.9)	(4.6)
NSE Mid-cap	1.8	3.5	0.7
NSE Small-cap	7.7	16.6	0.1

Source: Bloomberg

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Global Markets Research

Financials (YE March)

Expect FY27E EBITDA margin to be ~20%

Income Statement (INR mn)	FY25	FY26	FY27E	FY28E	FY29E
Total Revenue	325,535	335,933	353,708	391,096	433,733
Gross Profit	190,428	177,264	174,171	194,446	218,306
EBITDA	86,236	65,841	55,956	67,956	81,697
EBIT	68,392	45,235	33,984	46,005	59,630
Interest expense	2,829	3,738	4,355	201	219
Other income	11,911	15,497	9,834	9,834	9,834
Exceptional/ Extra-ordinary items	(907)	(2,311)	(2,397)	-	-
PBT	76,567	54,683	37,066	55,638	69,246
Tax	19,539	12,351	9,381	13,909	17,311
Minority interest/Associates income	(484)	518	395	415	435
Reported PAT	56,544	42,850	28,081	42,143	52,370
Adjusted PAT	57,451	45,161	30,478	42,143	52,370

Balance Sheet (INR mn)	FY25	FY26	FY27E	FY28E	FY29E
Shareholders' Equity	333,388	377,063	398,862	434,738	480,858
Minority Interest	3,778	3,394	2,999	2,584	2,149
Trade Payables	35,523	33,411	43,174	46,855	51,045
Provisions & Other Current Liabilities	55,967	69,017	74,438	80,785	88,009
Total Borrowings	46,766	77,341	2,009	2,187	2,415
Other long term liabilities	17,567	19,120	19,120	19,120	19,120
Total liabilities & equity	**492,989**	**579,346**	**540,602**	**586,269**	**643,596**
Net Fixed Assets	97,761	115,930	113,522	112,505	112,838
Goodwill	11,810	12,893	12,893	12,893	12,893
Intangible assets	96,803	105,059	105,059	105,059	105,059
Business Investments / other NC assets	36,503	43,489	43,489	43,489	43,489
Cash, Bank Balances & treasury investments	58,465	87,969	49,876	73,754	104,740
Inventories	71,085	76,531	81,353	89,952	99,759
Sundry Debtors	90,420	101,219	102,575	113,418	125,783
Other Current Assets	30,142	36,256	31,834	35,199	39,036
Total Assets	**492,989**	**579,346**	**540,602**	**586,269**	**643,596**

Cash Flow Statement (INR mn)	FY25	FY26	FY27E	FY28E	FY29E
Cashflow from Operations	**46,428**	**56,755**	**60,399**	**41,683**	**50,227**
Capital expenditure	(26,992)	(23,017)	(19,564)	(20,934)	(22,399)
Acquisitions / divestitures	(53,096)	(3,203)	-	-	-
Other Business cashflow	(317)	-	-	-	-
Free Cash Flow	**(33,977)**	**30,535**	**40,834**	**20,749**	**27,827**
Cashflow from Financing	10,803	(1,031)	(78,927)	3,129	3,159
Net Change in Cash / treasury investments	(23,174)	29,504	(38,093)	23,878	30,986

Key assumptions & Ratios	FY25	FY26	FY27E	FY28E	FY29E
Dividend per share (INR)	8.0	8.0	8.0	8.0	8.0
Book value per share (INR)	397.4	451.3	476.7	519.3	574.1
RoCE (Pre-tax) (%)	20.0	10.7	7.9	10.9	12.9
ROIC (Pre-tax) (%)	25.1	13.0	9.4	12.8	16.0
ROE (%)	18.6	12.6	7.8	10.0	11.4
Asset Turnover (x)	3.7	3.1	3.1	3.5	3.8
Net Debt to Equity (x)	0.0	0.0	(0.1)	(0.2)	(0.2)
Net Debt to EBITDA (x)	(0.1)	(0.2)	(0.9)	(1.1)	(1.3)
Interest cover (x) (EBITDA/ int exp)	30.5	17.6	12.8	338.2	373.6
Total Working capital days (WC/rev)	191.5	220.2	156.7	181.0	203.8

Valuation	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	17.2	21.9	32.4	23.5	18.9
P/Sales (x)	3.0	2.9	2.8	2.5	2.3
EV/ EBITDA (x)	11.6	15.1	17.8	14.7	12.2
EV/ OCF (x)	21.5	17.6	16.5	23.9	19.8
FCF Yield	(3.4)	3.1	4.1	2.1	2.8
Price to BV (x)	3.0	2.6	2.5	2.3	2.1
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7

Note: Pricing as on 22 July 2026; Source: Company, Elara Securities Estimate

Exhibit 1: Quarterly results

Y/E Mar (INR mn)	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)
Net Sales	80,705	85,452	(5.6)	75,162	7.4
Gross Profit	39,937	48,627	(17.9)	33,691	18.5
Gross Margins (%)	49.5	56.9	(742.0)	44.8	466.1
EBITDA	10,708	21,501	(50.2)	4,597	132.9
EBITDA Margins (%)	13.3	25.2	(1,189.3)	6.1	715.2
Other Income	3,834	3,139	22.1	5,122	(25.1)
Interest	1,255	830	51.2	1,057	18.7
Depreciation	5,372	4,765	12.7	5,576	(3.7)
PBT	7,915	19,045	(58.4)	3,086	156.5
Tax	1,178	4,951	(76.2)	(214)	(650.5)
Tax Rate (%)	14.9	26.0	(1,111.3)	(6.9)	2,181.8
PAT	6,737	14,094	(52.2)	3,300	104.2
Minority Interest	95	84	13.1	42	126.2
Exceptional Items	(2,397)	-	#DIV/0!	(1,141)	110.1
PAT	4,435	14,178	(68.7)	2,201	101.5
Adjusted Net Income	6,832	14,178	(51.8)	3,342	104.4
NPM (%)	5.5	16.6	(1,109.6)	2.9	256.7

Source: Company, Elara Securities Research

Exhibit 2: Valuation based on core earnings

	FY24	FY25	FY26	FY27E	FY28E
Core EPS (INR)	57.3	57.9	39.5	27.5	41.5
Core EPS growth (%)	52.9%	1.1%	-31.7%	-30.5%	51.2%
Cash per share (INR)	97.4	69.7	105.3	59.6	88.1
Current core P/E (x)	19.4	19.2	28.1	40.4	26.7
Core ROIC (%)	35.0%	31.2%	13.9%	9.2%	13.0%

Source: Company, Elara Securities Estimate

Q1FY27 conference call highlights

Q1 summary

- Consolidated revenue for Q1FY27 stood at INR 80.7bn, declining 5.6% YoY while growing 7.4% QoQ. Performance was impacted primarily by lower Lenalidomide sales, while the underlying base business (excluding Lenalidomide) continued to deliver healthy double-digit growth across geographies, including North America, supported by favorable currency movements.
- Global Generics revenue stood at INR 72.0bn, declining 5% YoY but growing 9% QoQ, contributing 89% to consolidated revenue.
- Branded businesses, comprising India, Emerging Markets, and the acquired Nicotine Replacement Therapy (NRT) consumer health portfolio, accounted for 52% of Q1FY27 revenue.
- Pharmaceutical Services and Active Ingredients (PSAI) revenue stood at INR 8.5bn, growing 4% YoY while declining 7% QoQ, driven by continued momentum in the services business and favorable currency movements.
- Gross margin stood at 46.5% (Global Generics: 51.6%, PSAI: 4.5%), declining 1,039bps YoY but improving 169bps QoQ. The YoY decline was driven by an unfavorable product mix following lower Lenalidomide sales, pricing pressure in North America and Europe Generics, the previously indicated Semaglutide API-related impact, and elevated solvent costs due to the Middle East crisis. Excluding the Semaglutide API impact, gross margin would have been 49.4%.

- SG&A expense stood at INR 28.8bn, increasing 12% YoY and 4% QoQ, driven by annual salary increments, adverse forex movements, targeted investments in branded businesses, and higher freight costs due to the Middle East crisis.
- R&D expenditure stood at INR 5.8bn, declining 8% YoY but increasing 6% QoQ. Lower spending reflected reduced investment in biosimilars, while R&D remained focused on complex generics, peptides, and biosimilars.
- Operating working capital stood at INR 143.5bn as of 30 Jun-26.
- Capital expenditure during Q1FY27 amounted to INR 3.1bn.
- Net cash surplus stood at INR 30.6bn as of 30-Jun-26.
- Net debt-to-equity ratio remained low at 0.08x as of 30-Jun-26.
- Annualized RoCE stood at 5.3%; excluding the Semaglutide API-related impact, annualized RoCE would have been 8.0%.
- During the quarter, Dr. Reddy's received a USFDA Form 483 with seven observations following a Pre-License Inspection (PLI) at its biologics manufacturing facility in Bachupally, Hyderabad, conducted in Jun '26.
- Before the recent regulatory issue, Dr. Reddy's sold ~180,000 Semaglutide pens.
- Biologics sales as of Q1FY27 formed 2% of the company's sale and biologics may break even once Abatacept is launched.
- Q1FY27 financials did not include any PLI-related income.
- Semaglutide API is supplied from the company's Vizag FTO-7 facility.

The US

- North America revenue for Q1FY27 stood at INR 22.0bn, declining 35% YoY while growing 26% QoQ, contributing 27% to consolidated revenue. The YoY decline was primarily due to lower Lenalidomide sales.
- During the quarter, Dr. Reddy's launched six new products in the US market.
- The company achieved a first-to-market launch in the US for Bosutinib Tablets 400mg, securing 180 days of generic exclusivity.
- Bosutinib generated company-level margins in the US, with the product contributing to sales for only ~15 days during Q1FY27.
- The USFDA granted Fast Track Designation to partnered product COVA302 for the treatment of Amyotrophic Lateral Sclerosis (ALS).
- The company also launched Nintedanib, a complex generic used in the treatment of interstitial lung diseases (ILDs), further strengthening its complex generics portfolio.

India business

- India revenue for Q1FY27 stood at INR 17.2bn, growing 17% YoY and 10% QoQ, contributing 21% to consolidated revenue. Growth was driven by new brand launches, innovative assets, recently acquired portfolios, price increases, and higher sales volumes.
- According to IQVIA (Jun '26), Dr. Reddy's ranked ninth in the Indian Pharmaceutical Market (IPM) on a Moving Quarterly Total (MQT) basis and 10th on a Moving Annual Total (MAT) basis. The company continued to outperform the market, with secondary sales growth of 14.6% vs. IPM growth of 13.5% on MQT basis, and 13.5% vs. IPM growth of 11.1% on MAT basis.
- Dr. Reddy's, in collaboration with Nestlé Health Science, launched Celevida GLP+ in India, a specialized nutritional product designed to support the dietary needs of GLP-1 therapy users.

- Toripalimab, the company's in-licensed novel therapy for nasopharyngeal carcinoma, crossed INR 1bn in cumulative revenue within less than two years of its launch in India.
- Ex Progynova, organic growth for the company stood at ~15% in India.

Europe

- Europe revenue for Q1FY27 stood at INR 14.4bn, growing 13% YoY and remaining broadly flat sequentially, contributing 18% to consolidated revenue.
- Growth was supported by new generic product launches and favorable forex movements, partly offset by pricing pressure in the generics business. Nicotine Replacement Therapy (NRT) revenue stood at INR 6.6bn and declined primarily due to a change in the operating model following integration, under which rebates and discounts are now offered directly to distributors, compared with the earlier transition period when sales were managed by Haleon.
- During the quarter, Dr. Reddy's launched 24 new generic products across the European market.
- The company filed a Marketing Authorization Application (MAA) with the European Medicines Agency (EMA) for the intravenous (IV) formulation of Abatacept, further strengthening its biosimilar pipeline.

Emerging market

- Emerging Markets revenue for Q1FY27 stood at INR 18.3bn, growing 31% YoY and 2% QoQ, contributing 23% to consolidated revenue. The strong YoY growth was driven by new product launches across key markets and supported by favorable forex movements.
- Russia revenue stood at INR 9.0bn, increasing 28% YoY and 8% QoQ, driven by price increases in select brands, new product launches, and favorable currency movements.
- Revenue from other Commonwealth of Independent States (CIS) countries and Romania stood at ~INR 2.2bn, growing 12% YoY while declining 6% QoQ. The YoY growth was supported by higher sales volumes and favorable exchange rate movements.
- Rest of World (RoW) revenue stood at INR 7.1bn, increasing 42% YoY while declining 3% QoQ, driven by higher volumes from existing products, new product launches across markets, and favorable currency movements.
- The company entered into an agreement with Innoviva Specialty Therapeutics to exclusively develop and commercialize XACDURO® (sulbactam for injection; durlobactam for injection) for the treatment of hospital-acquired bacterial pneumonia across select markets in South and Central America, the Caribbean, Russia, and CIS countries.
- Dr. Reddy's also secured South African approval for Toripalimab, following its successful launches in India and Australia, further expanding the product's global footprint.

Guidance

- Management expects commercial supplies of Semaglutide to resume by Nov '26.
- The company expects H2FY27 to be significantly stronger, supported by the resumption of Semaglutide supplies, continued strength in the underlying base business, and ongoing productivity initiatives, which are expected to drive double-digit base business growth with steady margin improvement.
- Management guided for EBITDA margins of ~18–19% over the coming quarters and reiterated its FY27 EBITDA margin target of 20%.
- Management reiterated its expectation of double-digit growth ex Lenalidomide in the US business during FY27, with the core generics portfolio expected to deliver low double-digit growth over the coming quarters.
- Management continues to target Dec '26 for the US approval of Abatacept and remains confident of receiving regulatory approval within the planned timeline.

- Consolidated revenue may grow at a double-digit rate, while associated operating costs may increase at a low double-digit rate.
- Management indicated that it does not expect any material impact from the recent trade-related announcements by the Trump administration.
- Approximately 25-30% of US revenue is generated from products manufactured through contract manufacturing organizations (CMOs) based in the US, providing diversification to the supply chain.
- Management expects to sell ~6–7mn Semaglutide pens in FY27 and indicated that the root cause of the Semaglutide API issue has been identified, with commercial supplies expected to resume as planned.
- The effective tax rate (ETR) is expected to be in the range of 24–25% in FY27.
- R&D expenditure is expected to remain at ~7% of revenue in FY27, with a significant portion of the spend directed towards products expected to be launched post-2034.
- Capital expenditure is expected to be ~INR 18bn in FY27, with a similar level of investment likely to be maintained in FY28.
- Management indicated that the combined increase in solvent prices and freight costs reduced EBITDA margin by ~100bps. These elevated cost levels are expected to persist until Dec '26.
- Management does not anticipate any meaningful price erosion for Semaglutide in the Canadian market until Nov '26, with the product currently priced at ~USD 78 per pen.
- Management expects Brazilian regulatory approval for Semaglutide to be received over the next few weeks, paving the way for commercialization in the market.
- The company plans to launch 27 products in the US during FY27, including a product with peak sales potential of ~USD 10-20mn, which is expected to be launched over the coming weeks.

Exhibit 3: One-year forward P/E trading is trading at 28% premium to its 10 year average

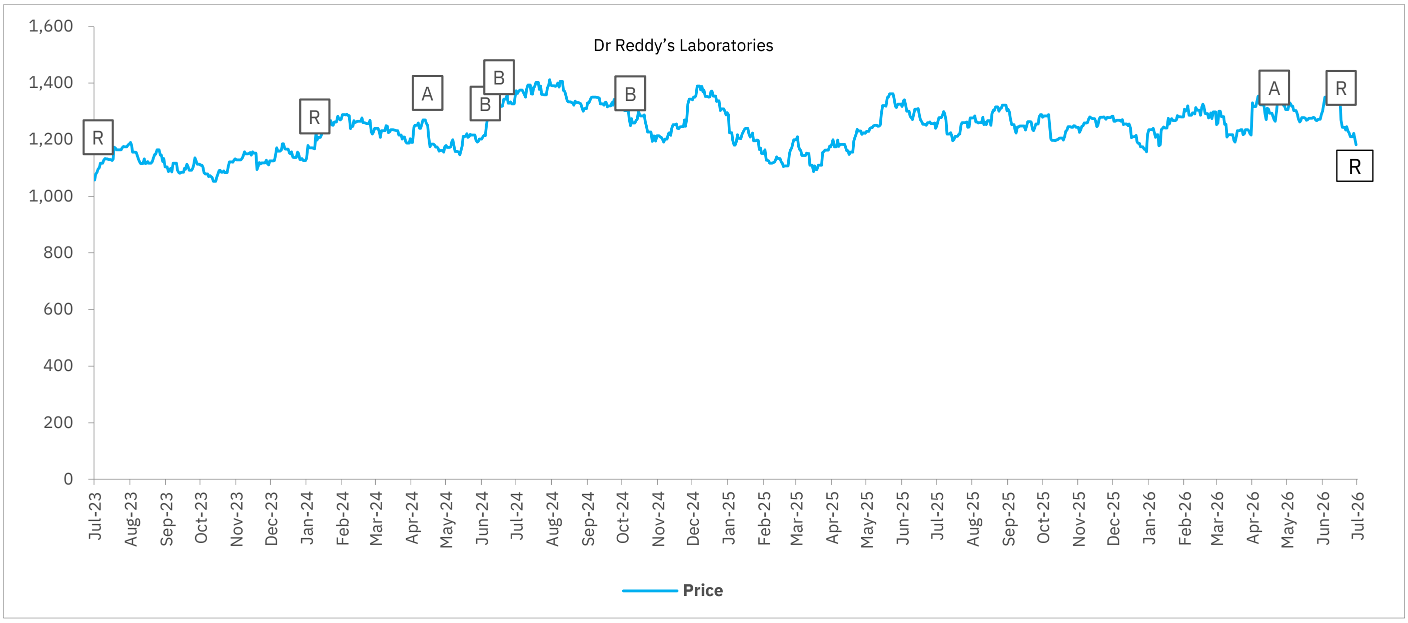
Source: Bloomberg, Company, Elara Securities Estimate

Exhibit 4: Change in estimates

	Old			Revised			% change		
(INR mn)	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**
Sales	3,68,947	4,06,263	4,49,763	3,53,708	3,91,096	4,33,733	(4.1)	(3.7)	(3.6)
EBITDA	67,873	76,258	86,903	55,956	67,956	81,697	(17.6)	(10.9)	(6.0)
PAT	32,527	41,124	48,327	22,981	34,768	44,994	(29.3)	(15.5)	(6.9)
EPS (INR)	46.1	56.3	64.9	36.4	50.3	62.5	(21.1)	(10.6)	(3.6)
TP (INR)		**1,283**			**1,222**			**(5)**	

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
28-Oct-2022	Accumulate	4,910	4,460
10-May-2023	Reduce	4,946	4,867
26-Jul-2023	Reduce	5,579	5,476
30-Jan-2024	Reduce	6,018	5,841
07-May-2024	Accumulate	6,981	6,258
26-Jun-2024	Buy	7,328	6,070
08-Jul-2024	Buy	7,941	6,534
30-Oct-2024	Buy	1,588	1,250
12-May-2026	Accumulate	1,444	1,270
09-Jul-2026	Reduce	1,283	1,270
22-Jul-2026	Reduce	1,222	1,183

Guide to Research Rating

BUY (B)	Absolute Return >+20%
ACCUMULATE (A)	Absolute Return +5% to +20%
REDUCE (R)	Absolute Return -5% to +5%
SELL (S)	Absolute Return < -5%

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