REDUCE

Dr Reddy's

Much weaker than feared; downgrade cycle unlikely to ebb soon

Emkay — Your success is our success

Pharmaceuticals ▸ Result Update ▸ **July 23, 2026**

CMP (Rs): 1,183 | TP (Rs): 1,200

Adjusting for the Semaglutide API-related impact, 1QFY27 EBITDA margin for Dr Reddy's (13.3%) was ~350bps lower than our estimate (second consecutive quarter of EBITDA miss of ~25% vs street/our estimates). 1Q US performance clearly indicates that the ex-gRevlimid annualized US base has settled at a figure closer to our bear case estimate ($900mn; *refer to our earlier note on Dr Reddy's' Form 20-F disclosures*). India sales growth (17% yoy) was in-line and the only silver lining in a quarter marked by a topline miss across markets. We have argued in the past that SG&A spend—a key driver of the margin miss in 1Q—has limited froth and room to be cut significantly, given that we (and the street), as of now, are not building in a yoy decline in the overall top line in FY27. Sharp consensus earnings downgrades should follow, and we do not see the current downgrade cycle ebbing in the near term, in the absence of a meaningful positive catalyst (Semaglutide and Abatacept are fairly built into street expectations – uncertainty around these opportunities notwithstanding). We cut our FY27/28 earnings estimates by ~8%/6% and revise our TP downward by ~8% to Rs1,200 from Rs1,300; retain REDUCE.

Margin much weaker than expected; robust domestic performance continues

North America sales at ~$233mn were meaningfully below expectations. Domestic growth at 17% yoy was in line with organic growth remaining superlative at ~15.5%. The miss in Europe was owing to lower NRT sales which was an outcome of a change in the operating model post-integration. Adjusted EBITDA margin (13.3% vs 16.7% estimated) was materially below our/street estimates, with the miss primarily driven by higher SG&A (attributed to adverse forex + investments in the branded business). Per the management, higher freight and solvent costs impacted EBITDA margin by ~100bps.

KTAs from the earnings call

1) 25-30% of the company's US sales are manufactured by CMOs in the US. 2) The company sold ~180,000 Semaglutide pens in 1QFY27 before suspending supplies. The company has identified the root cause of the API issue and maintains its expectations of resuming supplies to OneSource after the 3rd week of Sep-26. Demand for 6-7mn pens is backed by orders. 3) Dr Reddy's does not anticipate any impact on Semaglutide filings pending approval, as the API specifications remain unchanged; the company expects an approval in Brazil in 2QFY27. 4) The company does not expect further price reductions in Semaglutide in Canada, as the current pricing already reflects a three-player market. 5) Dr Reddy's has filed Abatacept IV in Europe (small market), while the subcutaneous version will be launched in Sep/Oct-28. 6) The company has responded to the FDA on the observations issued to Bachupally; it has not received any queries related to its Abatacept filing (goal date in Dec-26) and does not expect a re-inspection of Bachupally prior to approval.

Target Price – 12M	Jun-27
Change in TP (%)	**(7.7)**
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	1.4

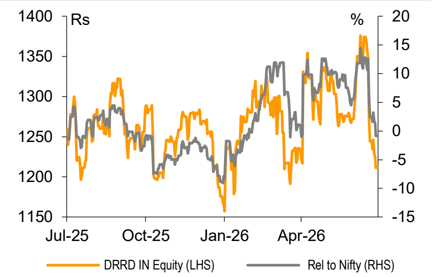
Stock Data	**DRRD IN**
52-week High (Rs)	1,415
52-week Low (Rs)	1,148
Shares outstanding (mn)	834.7
Market-cap (Rs bn)	987
Market-cap (USD mn)	10,223
Net-debt, FY27E (Rs mn)	(28,585.8)
ADTV-3M (mn shares)	2.3
ADTV-3M (Rs mn)	3,483.1
ADTV-3M (USD mn)	36.1
Free float (%)	73.1
Nifty-50	23,996.3
INR/USD	96.6

Shareholding,Jun-26	
Promoters (%)	26.6
FPIs/MFs (%)	20.7/43.2

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	(8.4)	(2.8)	(4.6)
Rel. to Nifty	(8.0)	(1.3)	(0.4)

1-Year share price trend (Rs)



Dr Reddy's: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	324,269	340,463	352,880	386,252	426,359
EBITDA	85,452	74,772	62,748	78,268	94,480
Adj. PAT	56,672	50,293	37,571	49,618	62,116
Adj. EPS (Rs)	67.9	60.3	45.0	59.4	74.4
EBITDA margin (%)	26.4	22.0	17.8	20.3	22.2
EBITDA growth (%)	9.0	(12.5)	(16.1)	24.7	20.7
Adj. EPS growth (%)	1.8	(11.3)	(25.3)	32.1	25.2
RoE (%)	18.5	14.2	9.6	11.5	13.0
RoIC (%)	21.0	13.5	8.5	10.8	12.9
P/E (x)	17.5	19.6	26.3	19.9	15.9
EV/EBITDA (x)	10.8	12.4	14.8	11.8	9.8
P/B (x)	3.0	2.6	2.4	2.2	1.9
FCFF yield (%)	(6.4)	0.9	2.4	2.6	3.3

Source: Company, Emkay Research

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Exhibit 1: Dr Reddy's - 1QFY27 earnings snapshot

Dr Reddy's - P&L *(Rs mn)*	**1QFY26A**	**1QFY27A**	**yoy change**	**1QFY27E**	**Delta vs Emkay**	**1QFY27E (consensus)**	**Delta vs consensus**	**4QFY26A**	**qoq change**
Net Sales	**85,452**	**80,870**	**-5%**	**88,508**	**-9%**	**82,206**	**-2%**	**79,692**	**1%**
Cost of goods sold	36,825	40,933	11%	45,935	-11%			41,698	-2%
Gross Profit	48,627	39,937	-18%	42,572	-6%			37,995	5%
- Margin	56.9%	49.4%	-752 bps	48.1%	128 bps			47.7%	171 bps
SG&A (ex-amortization)	23,776	26,828	13%	25,405	6%			24,445	10%
Amortization	*1,871*	*1,992*	6%	*2,198*	-9%			*2,117*	-6%
R&D	6,244	5,766	-8%	5,899	-2%			5,463	6%
Impairment charges		15						2586	
EBITDA	**21501**	**10,723**	**-50%**	**14819**	**-28%**	**13,977**	**-23%**	**11546**	**-7%**
- Margin	25.2%	13.3%	-1190 bps	16.7%	-348 bps	17.0%	-374 bps	14.5%	-123 bps
Depreciation	2,894	3,380	17%	3,551	-5%			3,459	-2%
Op Income	**16,736**	**5,351**	**-68%**	**9,070**	**-41%**			**5,970**	**-10%**
- Margin	19.6%	6.6%	-1297 bps	10.2%	-363 bps			7.5%	-87 bps
Equity in affiliates	2	8		35				46	
Other Income/(Expenses)	739	845	14%	1,009	-16%			2,207	-62%
Net Finance Expense/(Income)	(1570)	(1734)		(1050)				(620)	
Profit Before Tax	19,047	7,923	-58%	11,164	-29%			6,257	27%
Tax	4,951	1178	-76%	2,791	-58%			(214)	
Tax rate	26.0%	14.9%	-1113 bps	25.0%	-1013 bps			-3.4%	
Minority interest	(82)	(87)		(72)				4	
Adjusted Net Profit	**14,178**	**6,128**	**-57%**	**8,445**	**-27%**	**7,369**	**-17%**	**7,773**	**-21%**
Adjusted EPS (Rs)	**17.0**	**7.3**	**-57%**	**10.1**	**-27%**			**9.3**	**-21%**

Cost ratio (%)	**1QFY26A**	**1QFY27A**	**yoy change**	**1QFY27E**	**Delta vs Emkay**	**4QFY26A**	**qoq change**
COGS	43.1	50.6	752 bps	51.9	-128 bps	52.3	-171 bps
SG&A	27.8	33.2	535 bps	28.7	447 bps	30.7	250 bps
R&D	7.3	7.1	-18 bps	6.7	46 bps	6.9	27 bps

Sales break-up	**1QFY26A**	**1QFY27A**	**yoy change**	**1QFY27E**	**Delta vs Emkay**	**4QFY26A**	**qoq change**
Global Generics	**75,620**	**71,993**	**-5%**	**78,183**	-8%	**70,332**	2%
North America	34,123	22,048	-35%	25,673	-14%	22,092	0%
Europe	12,744	14,440	13%	15,318	-6%	14,520	-1%
India	14,711	17,177	17%	17,042	1%	15,663	10%
Russia and CIS	9,100	11,220	23%	12,414	-10%	10,700	5%
Other markets	4,942	7,108	44%	7,738	-8%	7,357	-3%
PSAI	**8,181**	**8,684**	**6%**	**9,952**	-13%	**9,124**	-5%
Others	**1,651**	**193**	**-88%**	**372**	-48%	**236**	-18%

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Changes in estimates

(Rs mn)	FY27E			FY28E			FY29E		
	Old	**New**	**Change**	**Old**	**New**	**Change**	**Old**	**New**	**Change**
North America	114,093	104,490	-8%	122,602	114,707	-6%	131,973	126,092	-4%
Europe	60,985	60,517	-1%	66,474	65,661	-1%	75,780	74,525	-2%
Total generics	**175,078**	**165,007**	**-6%**	**189,076**	**180,368**	**-5%**	**207,753**	**200,617**	**-3%**
Russia	39,290	37,793	-4%	42,041	40,439	-4%	44,983	43,270	-4%
CIS	10,364	9,541	-8%	10,986	10,208	-7%	11,645	10,923	-6%
Other markets	30,950	29,760	-4%	34,045	32,736	-4%	37,450	36,010	-4%
India	72,136	72,509	1%	81,153	81,572	1%	91,297	91,769	1%
Total branded formulations	**152,740**	**149,603**	**-2%**	**168,224**	**164,956**	**-2%**	**185,375**	**181,971**	**-2%**
PSAI	37,555	37,207	-1%	40,184	39,812	-1%	42,997	42,598	-1%
Total revenue	**366,862**	**352,880**	**-4%**	**399,048**	**386,252**	**-3%**	**437,766**	**426,359**	**-3%**
Gross profit	**181,046**	**175,734**	**-3%**	**206,707**	**199,692**	**-3%**	**232,892**	**226,397**	**-3%**
- margin	**49.4%**	**49.8%**		**51.8%**	**51.7%**		**53.2%**	**53.1%**	
EBITDA	**69,339**	**62,748**	**-10%**	**85,595**	**78,268**	**-9%**	**100,720**	**94,480**	**-6%**
- margin	**18.9%**	**17.8%**		**21.4%**	**20.3%**		**23.0%**	**22.2%**	
Adj PAT	**40,977**	**37,571**	**-8%**	**52,864**	**49,618**	**-6%**	**64,231**	**62,116**	**-3%**
Adj EPS (Rs)	**49.1**	**45.0**	**-8%**	**63.3**	**59.4**	**-6%**	**77.0**	**74.4**	**-3%**

Source: Emkay Research

Dr Reddy's: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	**324,269**	**340,463**	**352,880**	**386,252**	**426,359**
Revenue growth (%)	16.2	5.0	3.6	9.5	10.4
EBITDA	**85,452**	**74,772**	**62,748**	**78,268**	**94,480**
EBITDA growth (%)	9.0	(12.5)	(16.1)	24.7	20.7
Depreciation & Amortization	17,059	20,607	23,017	24,926	27,026
EBIT	**68,393**	**54,165**	**39,731**	**53,342**	**67,454**
EBIT growth (%)	7.6	(20.8)	(26.6)	34.3	26.5
Other operating income	-	-	-	-	-
Other income	3,312	3,964	4,022	4,397	4,845
Financial expense	(4,724)	(4,132)	(5,957)	(8,131)	(10,306)
PBT	**76,429**	**62,261**	**49,710**	**65,869**	**82,605**
Extraordinary items	(127)	(7,444)	0	0	0
Taxes	19,056	12,352	12,428	16,467	20,651
Minority interest	(701)	384	288	216	162
Income from JV/Associates	-	-	-	-	-
Reported PAT	**56,545**	**42,849**	**37,571**	**49,618**	**62,116**
PAT growth (%)	1.5	(24.2)	(12.3)	32.1	25.2
Adjusted PAT	**56,672**	**50,293**	**37,571**	**49,618**	**62,116**
Diluted EPS (Rs)	**67.9**	**60.3**	**45.0**	**59.4**	**74.4**
Diluted EPS growth (%)	1.8	(11.3)	(25.3)	32.1	25.2
DPS (Rs)	**8.0**	**8.0**	**7.0**	**8.0**	**9.0**
Dividend payout (%)	**11.8**	**13.2**	**15.6**	**13.5**	**12.1**
EBITDA margin (%)	26.4	22.0	17.8	20.3	22.2
EBIT margin (%)	21.1	15.9	11.3	13.8	15.8
Effective tax rate (%)	24.9	19.8	25.0	25.0	25.0
NOPLAT (pre-IndAS)	**51,340**	**43,419**	**29,798**	**40,007**	**50,591**
Shares outstanding (mn)	835	835	835	835	835

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	834	835	835	835	835
Reserves & Surplus	332,554	376,228	407,956	450,897	505,501
Net worth	**333,388**	**377,063**	**408,791**	**451,732**	**506,336**
Minority interests	3,778	3,394	3,106	2,890	2,728
Non-current liab. & prov.	(1,097)	(3,425)	(3,425)	(3,425)	(3,425)
Total debt	**46,766**	**77,341**	**75,341**	**69,341**	**63,341**
Total liabilities & equity	**382,835**	**454,373**	**483,813**	**520,538**	**568,980**
Net tangible fixed assets	72,924	100,664	107,434	114,720	122,779
Net intangible assets	96,803	105,059	107,385	110,321	114,034
Net ROU assets	-	-	-	-	-
Capital WIP	24,837	15,266	15,266	15,266	15,266
Goodwill	11,810	12,893	12,893	12,893	12,893
Investments [JV/Associates]	4,811	5,673	5,673	5,673	5,673
Cash & equivalents	**57,908**	**87,814**	**103,927**	**119,055**	**142,054**
Current assets (ex-cash)	205,388	229,541	237,352	258,343	283,572
Current Liab. & Prov.	91,646	102,537	106,116	115,733	127,291
NWC (ex-cash)	**113,742**	**127,004**	**131,236**	**142,611**	**156,281**
Total assets	**382,835**	**454,373**	**483,813**	**520,538**	**568,980**
Net debt	(11,142)	(10,473)	(28,586)	(49,714)	(78,713)
Capital employed	382,835	454,373	483,813	520,538	568,980
Invested capital	**295,279**	**345,620**	**358,947**	**380,544**	**405,987**
BVPS (Rs)	399.4	451.8	489.8	541.2	606.6
Net Debt/Equity (x)	-	-	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.1)	(0.1)	(0.5)	(0.6)	(0.8)
Interest coverage (x)	(15.2)	(14.1)	(7.3)	(7.1)	(7.0)
RoCE (%)	**21.0**	**13.8**	**9.3**	**11.4**	**13.2**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	73,117	58,297	45,688	61,473	77,760
Others (non-cash items)	(40,992)	(15,953)	(16,951)	(24,289)	(31,768)
Taxes paid	19,993	13,526	12,428	16,467	20,651
Change in NWC	(18,025)	(15,590)	(4,232)	(11,374)	(13,670)
Operating cash flow	**46,428**	**56,755**	**53,992**	**59,072**	**69,694**
Capital expenditure	(105,343)	(48,115)	(32,112)	(35,149)	(38,799)
Acquisition of business	(615)	(862)	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	**(51,021)**	**(65,513)**	**(26,155)**	**(27,018)**	**(28,493)**
Equity raised/(repaid)	368	232	0	0	0
Debt raised/(repaid)	26,746	30,575	(2,000)	(6,000)	(6,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	4,724	4,132	5,957	8,131	10,306
Dividend paid (incl tax)	(6,662)	(6,659)	(5,843)	(6,677)	(7,512)
Others	(13,321)	(19,990)	(9,839)	(12,380)	(14,996)
Financing cash flow	**11,855**	**8,290**	**(11,724)**	**(16,926)**	**(18,202)**
Net chg in Cash	7,262	(468)	16,113	15,128	22,999
OCF	46,428	56,755	53,992	59,072	69,694
Adj. OCF (w/o NWC chg.)	64,453	72,345	58,224	70,446	83,364
FCFF	(58,915)	8,640	21,880	23,923	30,895
FCFE	(61,744)	4,902	17,299	19,583	26,914
OCF/EBITDA (%)	54.3	75.9	86.0	75.5	73.8
FCFE/PAT (%)	(109.2)	11.4	46.0	39.5	43.3
FCFF/NOPLAT (%)	**(114.8)**	**19.9**	**73.4**	**59.8**	**61.1**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	17.5	19.6	26.3	19.9	15.9
P/CE(x)	13.4	13.9	16.3	13.2	11.1
P/B (x)	3.0	2.6	2.4	2.2	1.9
EV/Sales (x)	2.9	2.7	2.6	2.4	2.2
EV/EBITDA (x)	10.8	12.4	14.8	11.8	9.8
EV/EBIT(x)	13.5	17.1	23.3	17.4	13.7
EV/IC (x)	3.1	2.7	2.6	2.4	2.3
FCFF yield (%)	(6.4)	0.9	2.4	2.6	3.3
FCFE yield (%)	(6.3)	0.5	1.8	2.0	2.7
Dividend yield (%)	0.7	0.7	0.6	0.7	0.8
DuPont-RoE split					
Net profit margin (%)	17.5	14.8	10.6	12.8	14.6
Total asset turnover (x)	1.0	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.1	1.2	1.2	1.2	1.1
RoE (%)	**18.5**	**14.2**	**9.6**	**11.5**	**13.0**
DuPont-RoIC					
NOPLAT margin (%)	15.8	12.8	8.4	10.4	11.9
IC turnover (x)	1.3	1.1	1.0	1.0	1.1
RoIC (%)	**21.0**	**13.5**	**8.5**	**10.8**	**12.9**
Operating metrics					
Core NWC days	128.0	136.2	135.7	134.8	133.8
Total NWC days	**128.0**	**136.2**	**135.7**	**134.8**	**133.8**
Fixed asset turnover	1.0	0.8	0.8	0.8	0.8
Opex-to-revenue (%)	32.0	31.6	32.0	31.4	30.9

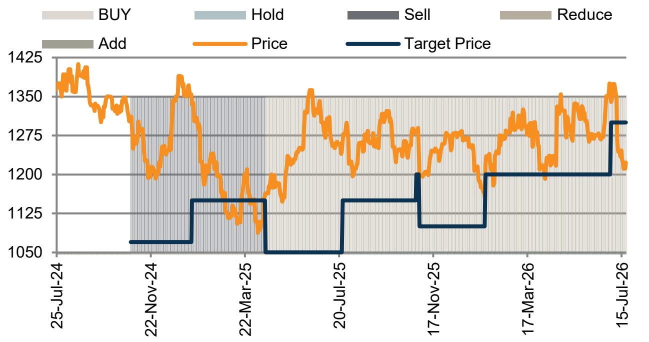
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
10-Jul-26	1,244	1,300	Reduce	Shashank Krishnakumar
01-Jul-26	1,340	1,300	Reduce	Shashank Krishnakumar
13-May-26	1,265	1,200	Reduce	Shashank Krishnakumar
22-Jan-26	1,218	1,200	Reduce	Shashank Krishnakumar
30-Oct-25	1,202	1,100	Reduce	Shashank Krishnakumar
26-Oct-25	1,284	1,200	Reduce	Shashank Krishnakumar
24-Jul-25	1,266	1,150	Reduce	Shashank Krishnakumar
05-Jun-25	1,291	1,050	Reduce	Shashank Krishnakumar
09-May-25	1,156	1,050	Reduce	Shashank Krishnakumar
17-Apr-25	1,164	1,050	Reduce	Shashank Krishnakumar
24-Jan-25	1,224	1,150	Sell	Shashank Krishnakumar
13-Jan-25	1,335	1,150	Sell	Shashank Krishnakumar
06-Nov-24	1,302	1,070	Sell	Shashank Krishnakumar
27-Oct-24	1,303	1,070	Sell	Shashank Krishnakumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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