

Dr Reddys Laboratories | BUY

Mixed Q4; Sema opportunity underappreciated

DRRD reported a mixed Q4 performance, with YoY growth across Revenue, EBITDA, and Adjusted PAT of 20%, 15%, and 28%, respectively. Growth was primarily driven by the NRT acquisition and contributions from the generics portfolio. Excluding the acquisition, revenue grew 12% YoY. The topline was broadly in line with expectations. Gross margins declined 300 bps YoY to 56% due to negative manufacturing overhead leverage, severance pay, and higher milestone income recognized in the comparative period. EBITDA stood at INR 20.5bn, which was 2%/10% below JMFc/consensus estimates, while PAT exceeded street expectations by 13%, driven by higher net finance income and lower taxes. All geographies, except North America, delivered healthy double-digit growth. North America grew 9% YoY. Management has guided for double-digit growth in FY26, with margins expected to remain similar to FY25 levels. Beyond FY26, Semaglutide and Biosimilars (including Abatacept) are expected to drive business performance. DRRD plans to be present in all Semaglutide markets losing exclusivity in CY26, while Abatacept is scheduled for launch in CY27. We believe the street is underestimating the Semaglutide opportunity for Dr. Reddy's. While it may not fully replace Revlimid sales, it could substantially mitigate the earnings decline in FY27. At a 21x PE on FY27 EPS, the stock remains attractive compared to peers. We maintain our BUY rating with a target price of INR 1,418.

- **North America delivered 9% growth on a high base:** The US business continue to face low single digit price erosion. Though increased volume from key products and successful new launches (eg. Beva) led to 9% YoY growth. On gRevlimid front, the company will finish their allocation a few months prior to January. There is some price erosion for the product; however, the volumes have increased. The company launched 7 new products this quarter, bringing the total to 18 for FY25. The management anticipates the new launch momentum to continue in FY26 as well. Notable highlights include - exclusive commercial rights for the Daratumumab and USFDA accepting partner's filing of Denosumab biosimilar.
- **Europe increases multi-fold post NRT acquisition:** The Europe business delivered 145% YoY growth. This was predominantly because of the NRT acquisition. Excluding NRT, Europe still managed to provide a healthy 29% YoY growth driven by higher base business volume and new product launches, partially offset by pricing pressure. The company launched 10 new generic products in Europe this quarter, taking the total to 29 for FY25. The company intends to leverage the US portfolio and will launch Rituximab and Beva in Europe as well. Notable highlights include DRRD securing exclusive commercialization rights for the Daratumumab in Europe.
- **Vaccine portfolio - engine behind India:** Domestic business grew a healthy 16% YoY. Growth primarily driven by in-licensing vaccine portfolio, new launches and favourable pricing. Growth excl. vaccine i.e. the base business grew 6% YoY. Underperformance in Cardiac and GI, correction strategy includes addition of more MRs as well as and better LCM for their bigger brands. In addition to the Sanofi and Nestle portfolio, the company



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,418
Upside/(Downside)	22.7%
Previous Price Target	1,723
Change	-17.7%

Key Data – DRRD IN

Current Market Price	INR1,156
Market cap (bn)	INR964.5/US\$11.3
Free Float	66%
Shares in issue (mn)	834.4
Diluted share (mn)	834.4
3-mon avg daily val (mn)	INR2,943.2/US\$34.5
52-week range	1,421/1,020
Sensex/Nifty	79,454/24,008
INR/US\$	85.4

Price Performance

%	1M	6M	12M
Absolute	4.2	-10.2	-2.4
Relative*	-1.5	-11.1	-10.7

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,79,164	3,25,534	4,01,461	3,83,159	4,17,315
Sales Growth (%)	13.5	16.6	23.3	-4.6	8.9
EBITDA	82,587	90,593	1,11,606	93,874	1,05,163
EBITDA Margin (%)	29.6	27.8	27.8	24.5	25.2
Adjusted Net Profit	33,371	27,445	38,546	40,340	42,033
Diluted EPS (INR)	40.0	32.9	46.2	48.3	50.4
Diluted EPS Growth (%)	-5.6	-17.8	40.4	4.7	4.2
ROIC (%)	20.0	16.4	18.0	13.7	15.4
ROE (%)	13.0	8.9	10.8	10.2	9.7
P/E (x)	28.9	35.1	25.0	23.9	22.9
P/B (x)	3.4	2.9	2.6	2.3	2.1
EV/EBITDA (x)	11.8	11.0	8.9	10.2	8.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 09/May/2025

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

launched 23 brands during the fiscal.

- **EMs remain strong:** EM business delivered a 16% YoY growth, Russia posted a 27% YoY growth in constant currency. Growth driven by higher volume and new launches, partially offset by unfavourable forex. The company launched 26 products across geographies during the quarter, bringing the total to 85 for FY25. Notable highlights include exclusive agreement with Bio-Thera to commercialize Ustekinumab (bStelara) and Golimumab (bSimponi) with a primary focus on Southeast Asian markets.
- **NRT integration on track:** Integration of newly acquired NRT is moving forward as planned. The United Kingdom was successfully integrated at the start of the month and the Nordics' integration in the next phase is on track. The business contributed INR 5.9bn in Q4 and INR 1.2bn in the full year.
- **Biosimilars:** Abatacept is deep in phase 3 with company on track for submission by CY25 end. The company intends to launch the product immediately post the patent expiry with revenue expected to flow in from CY27. The company has partnered with Shanghai Henlius to commercialise Daratumumab in USA and Europe. DRRD has also partnered with Bio-Thera for Ustekinumab and Golimumab for Southeast Asia. During the quarter, BLA acceptance has been received for Denosumab from USFDA and MA acceptance for Rituximab from UKMHRA.
- **GLP-1 opportunity:** The company intends to enter all the Semaglutide markets opening up in CY26. DRRD intends to be amongst the first to launch in Canada, India and Brazil with Canada approval expected before the end of CY25. Canada currently represents a 10mn pen market. This number can potentially become 5x or more. The demand surplus ensures that minimum marketing efforts would be required for the product.
- **PSAI business:** PSAI grew 16% YoY with the aid of increased volume contribution from new API launches and growth in CDMO business.
- **Key financials:**
 - Revenue /EBITDA/Adj. PAT for the quarter were INR 85.1bn/20.5bn/16.5bn growing 20%/15%/28+% YoY; were 4%/-2%/36% vs JMFe and 2%/-10%/13% vs street consensus;
 - The outperformance in topline is driven by significant jump in Europe because of NRT acquisition, supported by contribution from generics portfolio
 - India up 16%YoY, US 9% YoY, Europe 145% YoY, EM up 16% YoY and PSAI up 16% YoY;
 - Gross Margins come in at 56% (vs 59% JMFe);
 - EBITDA margins at 24.1% (vs 25.6% JMFe, 27.3% consensus), contraction in margins due to lower GM and elevated SG&A;
 - Adj. PAT of INR 16.5bn (vs INR 12.1bn/14.7bn JMFe/Street). Beat enabled by higher Net Finance income and lower taxation due to reversal of tax provisions and FCTR transfer being non-taxable
- **Our View and valuation:** We expect the FY26 topline to grow at 23% with EBITDA margins to remain at similar levels as FY25. We have revised our FY26E topline upwards by 8% on account of expected Revlimid sales being greater than those earlier anticipated. Beyond FY26, Semaglutide and Biosimilars (including Abatacept) are expected to drive business performance. DRRD plans to be present in all Semaglutide markets losing exclusivity in CY26, while Abatacept is scheduled for launch in CY27. We believe the street is underestimating the Semaglutide opportunity for Dr. Reddy's. While it may not fully replace Revlimid sales, it could substantially mitigate the earnings decline in FY27. Though Canada, Brazil, India and China are the key Sema markets losing protection in CY26, a number of Emerging Market countries too are going off patent and thus we have increased our FY27E sales by 5% leading to a 6% increase in FY27E EBITDA. Further, the Indian Pharma companies are entering lower earning growth phase post FY26, thus we have reduced the 1 year forward P/E multiple by 19% to 21x. At an 21x PE

on FY27 EPS, the stock remains attractive compared to peers. We maintain our BUY rating with a target price of INR 1,418.

Exhibit 1. Trades at -1 SD



Source: Bloomberg, JM Financial

Exhibit 2. 4QFY25 Review

Dr. (INR mn)	Reddy's	P&L	Q4 FY24	Q4 FY25A	% YoY	Q4 FY25E	% Delta vs JMFe	Q4FY25E (cons.)	% Delta vs cons	Q3 FY25	% QoQ
Net Sales			70,830	85,060	20%	81,549	4%	83,694	2%	83,586	2%
Cost of goods sold			29,347	37,797	29%	33,432	13%			34,534	9%
Gross Profit			41,483	47,263	14%	48,117				49,052	
% Margin			59%	56%	-300 bps	59%				59%	
SG&A (excl. amort)			16,764	19,500	16%	19,975	-2%			19,398	1%
R&D			6,877	7,258	6%	7,250	0%			6,658	9%
Impairment charges			173	-768		25				4	
EBITDA			17842	20505	15%	20892	-2%	22,816	-10%	22996	-11%
% Margin			25.2%	24.1%		25.6%		27.3%	-315 bps	27.5%	
D&A			3,712	4,555	23%	4,756	-4%			4,719	-3%
Other Income/(Expenses)			-656	-2,465	276%	-607				-439	462%
Net Finance Expense/(Income)			(1022)	(2352)		147				20	
Profit Before Tax			16,016	20,054	25%	16,620				18,742	7%
Tax			2946	4181		4448				4704	
% Tax rate											
Extraordinary (income)/ expense			-132	576		-19				-3	
Adj. Net Profit			12938	16,515	28%	12154	36%	14,657	13%	14036	18%
% Net Profit Margin			18.3%	19.4%		14.9%				16.8%	
% Cost Ratios			Q4 FY24	Q4 FY25A	% YoY	Q4 FY25E	% Delta vs JMFe	Q4FY25E (cons.)	% Delta vs cons	Q3 FY25	% QoQ
COGS			41.4	44.4	300 bps	41.0	344 bps			41.3	312 bps
SG&A			23.7	22.9	-74 bps	24.5	-157 bps			23.2	-28 bps
R&D			9.7	8.5	-118 bps	8.9	-36 bps			8.0	57 bps

Sales Break-up	Q4 FY24	Q4 FY25A	% YoY	Q4 FY25E	% Delta vs JMFe	Q4FY25E (cons.)	% Delta vs cons	Q3 FY25	% QoQ
Global Generics	61,190	75,364	23%	72,712	4%			73,752	2%
North America	32,626	35,586	9%	35,075	1%			33,834	5%
Europe	5,208	12,750	145%	11,404	12%			12,096	5%
India	11,265	13,047	16%	12,681	3%			13,464	-3%
EM	12,091	13,981	16%	13,552				14,358	
PSAI	8,219	9,563	16%	8,498	13%			8,219	16%
Prop products and Others	1,420	132	-91%	341	-61%			1,614	-92%

Source: Company, JM Financial

Exhibit 3. Change in Estimates

Particulars	Units	Old			New			% Change		Remarks
		FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	
Total revenue	INR Mn	373110	365399	-	401461	383159	417315	8%	5%	1. FY26 estimates has been increased on account of Revlimid sales expected to be higher compared to earlier expectations. 2. FY27 numbers have been increased on account of addition of Emerging Market countries whereby Semaglutide would be launched post CY26 expiry.
EBITDA	INR Mn	106709	88427	-	111606	93874	105163	5%	6%	
PAT	INR Mn	69879	57241	-	70816	59118	68243	1%	3%	
EPS	INR	84	69	-	85	71	82	1%	3%	

Source: Company, JM Financial

Key takeaways from Concall

Guidance:

- Revenue: Double digit topline growth in FY26
- EBITDA margins: Similar to FY26

USA:

- Growth driven by new product launches, increased volume in some key products
- Price erosion is low - low single digit

Revlimid:

- DRRD will finish their volume allocation a few months before January
- There is some price erosion, but volume has increased

Europe:

- 29% YoY growth, growth driven by product launches and momentum in base business volumes
- Launched 10 products 39 in FY25
- Increasing number of products and number of countries
- The company will leverage the US portfolio and will launch rituximab and beva as well.

UK:

- Launched beva which helped growth

India:

- Ex-vx portfolio the segment grew 6% YoY
- DRRD will grow similar to FY25 levels through in-organic mode, in-licensing etc.
- This time the company didn't do well in Cardiac and GI, going ahead they will add more MRs in these therapies as well as and better LCM for their bigger brands.

PSAI:

- Growth driven by increase API vol. and CDMO business

NRT:

- UK market has been integrated; DRRD is on track to integrate Nordic countries
- EBITDA margin is ~25%

Biosimilar:

- Partnered with Shanghai Henlius to commercialise daratumumab in USA and Europe.
- Partnered with Bio-Thera for Ustekinumab in SEA and Colombia and Golimumab for SEA (South East Asia)
- Recd. BLA acceptance for Denosumab
- Recd. MA for Rituximab from UK MHRA

Abatacept:

- At present DRRD is deep into phase 3
- Looks like the company is on track for submission in end of CY25
- The company aim to launch immediately after patent expiry

- Revenue to flow in from CY27

Tariff:

- Main effort is ensure sustainable supply
- Manufacturing in USA: If right assets comes across then open to acquiring it

Levers for driving growth post revlimid:

- Productivity measures to cap costs
- Semaglutide and biosimilars (incl. abatacept) to drive growth

GLP-1:

- Launch in CY26 in all markets where patent expiring
- Canada: According to IQVIA 1.8bn which suggests 10mn pens. This volume can become 5x or more. It is a fast growing market with a demand supply mismatch hence limited marketing efforts would be needed.
- Approval date will be before end of this CY for Canada
- DRRD aim to be one of the first to launch in Canada, India and Brazil
- The company will use the synthetic route for injection and semi synthetic for OSD.

Facilities:

- Recd. EIR for CTO-2 API facility with VAI status
- Completed divestment of manufacturing facility in Shreveport in USA

GM:

- Decline due to higher overheads and lower milestone income.
- One-off costs resulted in 300bps impact on GMs

Financials

- Ex-NRT 12% top line growth
- Net benefit of INR 1.2bn on account of FCT reversal and other one-time costs
- Finance income higher due to net forex gain
- ETR: FY26 to have similar tax rate to FY25
- Net cash: INR 24.5bn net cash

Capex:

- Mainly for GLP-1 capacity and biosim capacity
- FY26 similar capex to FY25

R&D

- Investments will go into abatacept, glp-1 and other complex products

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,79,164	3,25,534	4,01,461	3,83,159	4,17,315
Sales Growth	13.5%	16.6%	23.3%	-4.6%	8.9%
Other Operating Income	0	0	0	0	0
Total Revenue	2,79,164	3,25,534	4,01,461	3,83,159	4,17,315
Cost of Goods Sold/Op. Exp	1,15,557	1,35,107	1,60,584	1,68,590	1,75,272
Personnel Cost	0	0	0	0	0
Other Expenses	81,020	99,834	1,29,270	1,20,695	1,36,879
EBITDA	82,587	90,593	1,11,606	93,874	1,05,163
EBITDA Margin	29.6%	27.8%	27.8%	24.5%	25.2%
EBITDA Growth	17.2%	9.7%	23.2%	-15.9%	12.0%
Depn. & Amort.	14,858	18,751	20,274	21,074	22,118
EBIT	67,729	71,842	91,332	72,800	83,046
Other Income	5,705	7,553	5,500	7,000	8,700
Finance Cost	1,711	2,829	2,649	1,239	1,044
PBT before Excep. & Forex	71,723	76,566	94,183	78,561	90,702
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	71,723	76,566	94,183	78,561	90,702
Taxes	16,186	19,539	23,605	19,706	22,748
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	147	918	1,106	987	1,125
Reported Net Profit	55,684	56,543	69,949	58,394	67,407
Adjusted Net Profit	33,371	27,445	38,546	40,340	42,033
Net Margin	12.0%	8.4%	9.6%	10.5%	10.1%
Diluted Share Cap. (mn)	834.4	834.4	834.4	834.4	834.4
Diluted EPS (INR)	40.0	32.9	46.2	48.3	50.4
Diluted EPS Growth	-5.6%	-17.8%	40.4%	4.7%	4.2%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	71,870	76,783	94,422	78,824	90,991
Depn. & Amort.	14,841	17,058	20,274	21,074	22,118
Net Interest Exp. / Inc. (-)	-567	152	2,649	1,239	1,044
Inc (-) / Dec in WCap.	-20,182	-29,989	-21,511	1,236	-13,022
Others	-482	2,417	0	0	0
Taxes Paid	-20,047	-19,993	-23,520	-19,621	-22,663
Operating Cash Flow	45,433	46,428	72,313	82,752	78,468
Capex	-27,435	-34,398	-28,000	-21,001	-11,000
Free Cash Flow	17,998	12,030	44,313	61,751	67,468
Inc (-) / Dec in Investments	-15,704	25,118	-4,325	-4,758	-5,234
Others	2,856	-41,741	0	0	0
Investing Cash Flow	-40,283	-51,021	-32,325	-25,759	-16,234
Inc / Dec (-) in Capital	805	-1,196	0	0	0
Dividend + Tax thereon	-6,648	-6,662	-25,382	-25,382	-25,382
Inc / Dec (-) in Loans	4,346	23,196	-5,500	-5,500	-10,500
Others	-2,266	-3,483	-2,197	-733	-538
Financing Cash Flow	-3,763	11,855	-33,079	-31,615	-36,420
Inc / Dec (-) in Cash	1,387	7,262	6,908	25,377	25,814
Opening Cash Balance	5,779	7,107	14,654	21,501	46,879
Closing Cash Balance	7,107	14,593	21,562	46,879	72,693

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	2,80,550	3,33,388	3,77,955	4,10,967	4,52,992
Share Capital	833	833	833	833	833
Reserves & Surplus	2,79,717	3,32,555	3,77,122	4,10,134	4,52,159
Preference Share Capital	0	0	0	0	0
Minority Interest	0	3,778	4,645	5,369	6,205
Total Loans	20,020	46,766	41,266	35,766	25,266
Def. Tax Liab. / Assets (-)	-13,583	-6,221	-6,221	-6,221	-6,221
Total - Equity & Liab.	2,86,987	3,77,711	4,17,645	4,45,881	4,78,242
Net Fixed Assets	1,18,090	2,06,373	2,14,100	2,14,027	2,02,910
Gross Fixed Assets	1,76,093	2,10,093	2,37,093	2,57,093	2,67,093
Intangible Assets	41,204	1,08,613	1,09,613	1,10,613	1,11,613
Less: Depn. & Amort.	1,03,707	1,16,833	1,37,107	1,58,181	1,80,298
Capital WIP	4,500	4,500	4,501	4,502	4,502
Investments	4,196	4,811	4,811	4,811	4,811
Current Assets	2,50,740	2,61,476	3,10,123	3,42,125	3,91,052
Inventories	63,552	71,085	75,475	79,237	82,378
Sundry Debtors	80,298	90,420	1,18,944	1,13,522	1,23,641
Cash & Bank Balances	7,107	14,654	21,501	46,879	72,693
Loans & Advances	0	0	0	0	0
Other Current Assets	99,783	85,317	94,203	1,02,487	1,12,340
Current Liab. & Prov.	86,039	94,949	1,11,389	1,15,082	1,20,531
Current Liabilities	34,888	38,826	45,333	47,551	49,437
Provisions & Others	51,151	56,123	66,056	67,531	71,094
Net Current Assets	1,64,701	1,66,527	1,98,734	2,27,042	2,70,521
Total - Assets	2,86,987	3,77,711	4,17,645	4,45,881	4,78,242

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	12.0%	8.4%	9.6%	10.5%	10.1%
Asset Turnover (x)	1.0	0.9	1.0	0.8	0.9
Leverage Factor (x)	1.1	1.2	1.2	1.2	1.1
RoE	13.0%	8.9%	10.8%	10.2%	9.7%

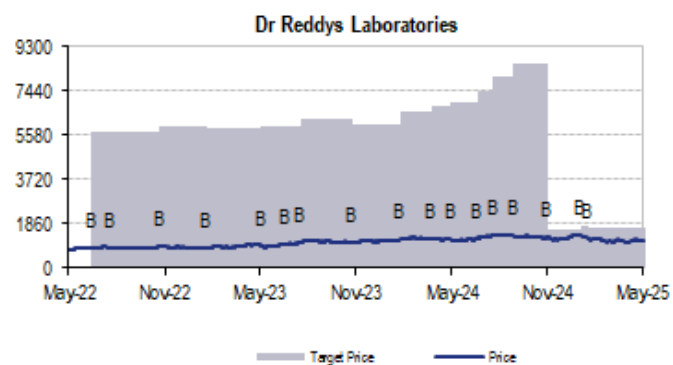
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	336.2	399.6	453.0	492.5	542.9
ROIC	20.0%	16.4%	18.0%	13.7%	15.4%
ROE	13.0%	8.9%	10.8%	10.2%	9.7%
Net Debt/Equity (x)	0.0	0.1	0.1	0.0	-0.1
P/E (x)	28.9	35.1	25.0	23.9	22.9
P/B (x)	3.4	2.9	2.6	2.3	2.1
EV/EBITDA (x)	11.8	11.0	8.9	10.2	8.8
EV/Sales (x)	3.5	3.1	2.5	2.5	2.2
Debtor days	105	101	108	108	108
Inventory days	83	80	69	75	72
Creditor days	57	55	53	56	53

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
22-Jun-22	Buy	5,685	
28-Jul-22	Buy	5,685	0.0
29-Oct-22	Buy	5,960	4.8
26-Jan-23	Buy	5,890	-1.2
11-May-23	Buy	5,980	1.5
25-Jun-23	Buy	5,980	0.0
26-Jul-23	Buy	6,260	4.7
29-Oct-23	Buy	6,055	-3.3
31-Jan-24	Buy	6,585	8.8
31-Mar-24	Buy	6,780	3.0
7-May-24	Buy	6,935	2.3
27-Jun-24	Buy	7,390	6.6
28-Jul-24	Buy	8,010	8.4
4-Sep-24	Buy	8,565	6.9
6-Nov-24	Buy	1,655	-80.7
10-Jan-25	Buy	1,737	5.0
24-Jan-25	Buy	1,723	-0.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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