

Dr Reddy's Laboratories

India | Pharmaceuticals | Result Update



Mixed performance

24 January 2025

Dr. Reddy's Laboratories (DRRD IN) reported Q3FY25 revenue and EBITDA broadly in line with our estimates. Higher amortization and tax expense, and lower other income led to PAT missing our estimate by 15%. Growth in the US, India, RoW and PSAI businesses came in weaker, but Europe and Russia businesses compensated. We look at these as quarterly fluctuations and project all the businesses to grow for the full year. We cut our FY25E core EPS by 5% as we build in higher amortization expense and tax rate, but maintain FY26E and FY27E core EPS as we build in upsides from generic semaglutide and biosimilar opportunities (should kick in starting next year). We retain Buy with TP unchanged at INR 1,588.

US business weak in Q3; expect some pick-up: US revenues were flat YoY and down 10% QoQ. Management attributed the weak performance to lower sales of *gRevlimid*, and loss of market share in some of the base business products. The management guided for continued launch momentum and growth in the US – we expect the business to get back to growth path in the coming quarters. Biosimilars and peptide products could take over as growth drivers in the next 1-2 years. *gVenofer*, a large potential opportunity in the US, is however delayed as the approval did not come through in time.

Biosimilar pipeline ramping up: DRRD's *bRituxan* (rituximab) is close to being approved in Europe and we expect approval for the US sooner than later. *bProlia* (denosumab) could see an FY26 launch. The most valuable product could be *gOrencia*, wherein DRRD could be among the first biosimilars to enter the US. All these are high-value products and have the potential to generate USD 40-100mn in revenues, in our estimates.

India weak; pick-up indicated: India business grew 14% YoY, helped by the newly acquired Sanofi vaccine portfolio. Organic growth at 5.5% was disappointing for the quarter. Management blamed certain issues in the GI and Cardiac portfolios, which are being addressed. We expect growth to revert to high-single digit, sooner than later. Newly launched innovative products and ramp-up in the nutritional supplement JV with Nestle will be significant medium-term value drivers.

Russia and Europe compensate: Constant currency (CC) organic growth in Russia and CIS came in strong above 20%. Growth in INR was hit by depreciation of RUB. Europe business was up 22% YoY. The acquisition of *Nicotinelle* brand added inorganically to growth. Growth in PSAI and RoW business was muted in Q3, after exceptionally strong growth in H1FY25 – such volatility is to be expected.

Retain Buy with TP at INR 1,588: We lower core earnings by 5% for FY25E as we build in higher amortization and tax expense. We maintain FY26E and FY27E core EPS estimates. DRRD trades at 15.8x FY26E core earnings. Sunset of the *gRevlimid* opportunity will likely cause a dip in revenue and profit in FY27. We believe this is already priced into the stock's valuation. We retain Buy with TP at INR 1,588, which is 30x FY27E core earnings plus cash per share. Increased price erosion in the US generics market and delay in biosimilar product approvals are key risks.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	240,939	279,164	324,638	363,465	344,440
YoY (%)	12.4	15.9	16.3	12.0	(5.2)
EBITDA (INR mn)	59,632	78,389	86,733	105,090	77,139
EBITDA margin (%)	24.7	28.1	26.7	28.9	22.4
Adj PAT (INR mn)	31,348	48,015	49,563	64,444	43,015
YoY (%)	18.1	53.2	3.2	30.0	(33.3)
Fully DEPS (INR)	41.2	66.4	65.7	81.3	55.8
RoE (%)	18.1	24.1	19.7	22.7	14.0
RoCE (%)	20.6	26.0	23.1	27.4	16.5
P/E (x)	31.3	19.4	19.6	15.8	23.1
EV/EBITDA (x)	17.3	13.1	11.9	9.8	13.3

Note: Pricing as on 23 January 2025; Source: Company, Elara Securities Estimate

Rating: **BUY**

Target Price: **INR 1,588**

Upside: **23%**

CMP: **INR 1,289**

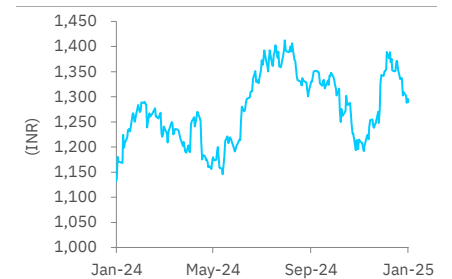
As on 23 January 2025

Key data

Bloomberg	DRRD IN
Reuters Code	REDY.NS
Shares outstanding (mn)	834
Market cap (INR bn/USD mn)	1,076/12,442
Enterprise Value (INR bn/USD mn)	1,065/12,320
Avg daily volume 3M (INR mn/USD mn)	2,723/31
52 week high/low	1,421/1,120
Free float (%)	73

Note: as on 23 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25
Promoter	26.7	26.7	26.6	26.6
% Pledged	0.0	0.0	0.0	0.0
FII	44.5	42.4	41.7	40.1
DII	18.5	20.9	21.7	22.9
Others	10.3	10.0	10.0	10.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.0)	(5.2)	9.3
Dr Reddy's Laboratories	(2.4)	(6.1)	13.6
NSE Mid-cap	(4.3)	(3.9)	16.2
NSE Small-cap	(5.0)	(5.6)	15.2

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	240,939	279,164	324,638	363,465	344,440
EBITDA	59,632	78,389	86,733	105,090	77,139
Add:- Non operating Income	4,550	9,904	7,438	5,000	5,000
OPBIDTA	64,182	88,293	94,171	110,090	82,139
Less :- Depreciation & Amortization	13,335	14,859	17,312	21,056	20,865
EBIT	50,847	73,434	76,859	89,034	61,274
Less:- Interest Expenses	1,428	1,711	2,773	601	671
PBT	49,419	71,723	74,086	88,433	60,604
Less :- Taxes	15,300	16,186	18,475	20,340	13,939
Add/Less: - Extra-ordinaries	10,578	-	(1,927)	-	-
Add/Less: - Minority Interest	370	147	(465)	200	200
Reported PAT	45,067	55,684	53,219	68,294	46,865
Adjusted PAT	31,348	48,015	49,563	64,444	43,015
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholder's Equity	230,991	280,550	299,940	335,051	348,712
Minority Interests	-	-	465	265	65
Borrowings	13,472	20,020	6,008	6,706	6,976
Other Non-current Liabilities	3,740	4,939	4,939	4,939	4,939
Total Liabilities	248,203	305,509	311,353	346,961	360,691
Net Fixed Assets	66,462	76,886	81,574	80,318	83,213
Intangibles and Goodwill	35,094	41,204	92,645	97,083	97,083
Investments	5,362	5,255	5,255	5,255	5,255
Cash and Cash Equivalents	63,029	81,639	17,323	34,744	60,609
Net Working Capital	70,260	84,401	98,431	113,437	98,407
Other Non-current Assets	7,996	16,124	16,124	16,124	16,124
Total Assets	248,203	305,509	311,353	346,961	360,691
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non cash items	66,730	65,615	67,793	84,950	63,400
Add/Less : Working Capital Changes	(7,855)	(20,182)	(14,030)	(15,006)	15,030
Operating Cash Flow	58,875	45,433	53,763	69,945	78,430
Less:- Capex	(11,241)	(15,339)	(22,000)	(19,800)	(23,760)
Free Cash Flow	47,634	30,094	31,763	50,145	54,670
Financing Cash Flow	(30,876)	(11,472)	(44,638)	(28,286)	(28,805)
Investing Cash Flow	-	(12)	(51,441)	(4,438)	-
Net change in Cash	16,758	18,610	(64,316)	17,421	25,865
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	12.4	15.9	16.3	12.0	(5.2)
EBITDA Growth	29.5	31.5	10.6	21.2	(26.6)
EBITDA Margin	24.7	28.1	26.7	28.9	22.4
Net Margin	13.0	17.2	15.3	17.7	12.5
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.2)	(0.2)	(0.0)	(0.1)	(0.2)
ROE (%)	18.1	24.1	19.7	22.7	14.0
ROCE (%)	20.6	26.0	23.1	27.4	16.5
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	41.2	66.4	65.7	81.3	55.8
EPS Growth (%)	10.9	61.2	(1.0)	23.8	(31.4)
DPS (INR/Share)	40.0	40.0	40.0	40.0	40.0
P/E Ratio (x)	31.3	19.4	19.6	15.8	23.1
EV/EBITDA (x)	17.3	13.1	11.9	9.8	13.3
EV/Sales (x)	4.3	3.7	3.2	2.8	3.0
Price/Book (x)	4.7	3.8	3.6	3.2	3.1
Dividend Yield (%)	3.1	3.1	3.1	3.1	3.1

Note: Pricing as on 23 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

YE March (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	FY24	FY23	YoY (%)
Net sales	83,586	72,148	15.9	80,162	4.3	279,164	240,939	15.9
Gross profit	49,052	42,203	16.2	47,769	2.7	210,984	181,974	15.9
Gross margins (%)	58.7	58.5	18.9	59.6	(90.6)	75.6	75.5	5.0
EBITDA	22,996	20,180	14.0	22,026	4.4	78,389	59,632	31.5
EBITDA margins (%)	27.5	28.0	(45.8)	27.5	3.5	28.1	24.7	333.0
Other income	1,237	2,324	(46.8)	3,296	(62.5)	9,904	4,550	117.7
Interest	818	394	107.6	757	8.1	1,711	1,428	19.8
Depreciation	4,715	3,880	21.5	3,992	18.1	14,859	13,335	11.4
PBT	18,700	18,230	2.6	20,573	(9.1)	71,723	49,419	45.1
Tax	4,704	4,468	5.3	5,752	(18.2)	16,186	15,300	5.8
Tax rate (%)	25.2	24.5	64.6	28.0	(280.4)	22.6	31.0	(839.2)
PAT	13,996	13,762	1.7	14,821	(5.6)	55,537	34,119	62.8
Minority interest	137	27	407.4	(801)	(117.1)	147	370	(60.3)
Exceptional items	-	-	-	(1,467)	(100.0)	-	10,578	(100.0)
PAT	14,133	13,789	2.5	12,553	12.6	55,684	45,067	23.6
Adjusted net income	13,207	12,035	9.7	11,646	13.4	55,684	34,489	61.5
NPM (%)	16.9	19.1	(220.4)	15.7	124.9	19.9	14.3	563.2

Source: Company, Elara Securities Estimate

Exhibit 1: Valuation on core earnings basis

	FY23	FY24	FY25E	FY26E	FY27E
Core EPS (INR)	37.4	57.3	59.1	76.8	51.2
Core EPS growth (%)	18.0	52.9	3.2	29.9	-33.3
Cash per share (INR)	75.3	97.4	20.6	41.4	72.1
Current core P/E (x)	31.8	20.8	20.2	15.5	23.3
Core ROIC (%)	26.0	35.0	31.7	29.1	18.3

Source: Company, Elara Securities Estimate

Q3FY25 conference call highlights

- ▶ Q3FY25 consolidated revenues stood at INR 83.6bn, reflecting a 16% YoY growth and a 4% sequential growth. Excluding Nicotine Replacement Therapy (NRT), underlying YoY growth was 7.5% (down 3% QoQ). This growth was primarily driven by the recently acquired NRT portfolio and strong performance in India and Emerging Markets.
- ▶ DRRD signed an agreement with Gilead Sciences to manufacture and commercialize the HIV treatment drug, Lenacapavir, in over 120 countries.
- ▶ The company's API facility (CTO-2) in Bollaram, Hyderabad, underwent a GMP inspection by the USFDA in November 2024, resulting in a Form 483 with seven observations.
- ▶ Gross margins for Q3FY25 stood at 58.7% (GG: 61.3%, PSAI: 28.6%), marking a YoY increase of 20 basis points (bps) but a sequential decline of 91bps. The YoY improvement was driven by a favorable product mix and manufacturing efficiencies, partially offset by price erosion. The QoQ decline was attributed to an unfavorable product mix.
- ▶ SG&A expense for Q3FY25 reached INR 24.1bn, with a YoY increase of 19% and a QoQ increase of 5%. This was primarily due to costs related to the NRT business, higher investments in sales and marketing to strengthen existing brands, new business initiatives (including consumer health businesses), and increased freight costs.
- ▶ R&D expenses for Q3FY25 totaled INR 6.7bn, representing 8.0% of revenue compared with 7.7% in Q3FY24 and 9.1% in Q2FY25. These investments support ongoing development in complex generics, peptides, biosimilars, and novel oncology assets.
- ▶ Other income declined due to higher foreign currency exchange losses and increased interest expenses compared with interest income in the same period last year.
- ▶ Operating working capital, as of 31 December 2024, stood at INR 127.8bn.

- ▶ Capital expenditure for the quarter amounted to INR 7.1bn.
- ▶ Net cash surplus, as of 31 December 2024, was INR 16.0bn.

The US

- ▶ Q3FY25 revenues stood at INR 33.8bn, reflecting a 1% YoY growth but a 9% QoQ decline. While volume growth, new product launches, and favourable forex supported YoY growth, price erosion offset these gains. The sequential decline was primarily driven by lower sales of certain products, including Lenalidomide.
- ▶ Product launches: The company introduced four new products in the US during the quarter, bringing the total to 11 launches for the nine months ending 31 December 2024.
- ▶ Business degrowth was attributed to a loss of market share in key products.
- ▶ Iron Sucrose launch will be delayed in the region.
- ▶ Lenalidomide sales will start dropping from September '25.

India

- ▶ Q3FY25 revenues stood at INR 3.5bn, reflecting a 14% YoY growth and a 4% QoQ decline. Growth was driven by revenues from the in-licensed vaccine portfolio, new product launches, and price increases. However, it was partially offset by lower volume uptake in certain Cardiac and Gastrointestinal therapy brands.
- ▶ All segments, except Cardiac and Gastrointestinal, outperformed the market.
- ▶ According to IQVIA, the company maintained its tenth rank in the IPM (Indian Pharmaceutical Market). Six new brands were launched in Q3, bringing the year-to-date total to 22.
- ▶ The company launched **Toripalimab**, the first and only immuno-oncology drug approved in India for the treatment of nasopharyngeal carcinoma, and **Elobixibat** (brand name: BixiBat), a first-in-class drug for chronic constipation.
- ▶ Promising Phase 1 results were observed in India's first trial of novel autologous CAR-T cell therapy for multiple myeloma, conducted by the company's subsidiary, Aurigene Oncology Limited.
- ▶ The joint venture with Nestlé is expected to take a couple of years to make a significant contribution to the company's growth.

Europe

- ▶ Q3FY25 revenues in the region totaled INR 12.1bn, reflecting a YoY growth of 143% and a QoQ growth of 110%. The results include contributions from the recently acquired Nicotine Replacement Therapy (NRT) portfolio. Excluding NRT, underlying growth was 22% YoY and 5% QoQ.
- ▶ NRT sales for the quarter amounted to INR 6.0bn. Sales in Germany reached INR 3.3bn, showing a YoY growth of 24% and a QoQ growth of 3%. In the UK, sales stood at INR 1.9bn, reflecting a YoY growth of 39% and a QoQ growth of 16%. Meanwhile, sales in the Rest of Europe were INR 0.8bn, recording a YoY decline of 10% and a QoQ decline of 8%.
- ▶ The revenue increase was driven by the NRT portfolio, new product launches, and growth in the base business, partially offset by price erosion.
- ▶ Management remains confident about the continued profitability of the NRT portfolio in the coming years.
- ▶ DRRD introduced nine new products in the region during the quarter, bringing the total launches for the year to date to 29.

Emerging market

- ▶ Q3FY25 revenues stood at INR 14.4bn, reflecting a 12% YoY growth and remaining flat QoQ. The YoY growth was driven by market share expansion and new product launches.
- ▶ Revenues in Russia stood at INR 7bn, reflecting a YoY growth of 19% and a QoQ growth of 2%. The YoY growth was driven by higher volumes, price increases, and new product launches, though partially offset by adverse forex movements.
- ▶ Revenues in other CIS countries and Romania totaled INR 2.4bn, with a YoY growth of 4% and a QoQ growth of 13%. The YoY growth was supported by higher prices and contributions from new product launches, while adverse forex movements had a negative impact. The QoQ growth was primarily due to increased base business volumes.
- ▶ Revenues in the Rest of World (RoW) region amounted to INR 4.9bn, posting a 7% YoY growth but an 11% QoQ decline. The YoY growth was largely driven by new product launches, offset by adverse forex movements, while the QoQ decline was mainly due to a reduction in base business volumes.
- ▶ The company introduced 20 new products across countries in Q3FY25, bringing the year-to-date total to 59.

Semaglutide opportunity

- ▶ The patent for Semaglutide is set to expire in January 2026.
- ▶ In Canada, product approval is expected to take 14-15 months, and management is confident it will be the first to obtain approval in the region.
- ▶ Management expects limited competition for Semaglutide in Canada and foresees substantial opportunities in other key markets, including India, Brazil, various regions in LATAM, and Asia, following the patent expiration.
- ▶ In certain markets, oral launches are planned for FY27, while others will follow in FY28.

Biosimilar

- ▶ The filing for the Denosumab biosimilar has been completed for the US and Europe by the company's partner, Alvotech.
- ▶ Denosumab is expected to facilitate the launch of Abatacept for the company.
- ▶ The Denosumab biosimilar is anticipated to launch in the US in Q3FY26 and in the UK in Q4FY26, following the launch of Rituximab.
- ▶ For Abatacept, the company successfully completed Phase 1 studies. If all proceeds as planned, the product filing for approval is expected in December 2025, with a target launch date in January 2027.
- ▶ Both the drug substance and drug product for Abatacept will be manufactured in-house by the company.

Guidance

- ▶ R&D expenses are expected to be ~8.5-9% of sales for FY25.
- ▶ SG&A expenses are projected to be ~28% of sales moving forward.
- ▶ DRRD is highly confident in maintaining EBITDA margins at ~25% in the future.
- ▶ Management anticipates launching 15-20 products, including iron sucrose, in the near future.
- ▶ Depreciation and Amortization were higher in the quarter due to the inclusion of the NRT business. This level of D&A is expected to continue in the future.

Exhibit 2: DRRD – One-year forward P/E trading at 19% discount to its 10 year average



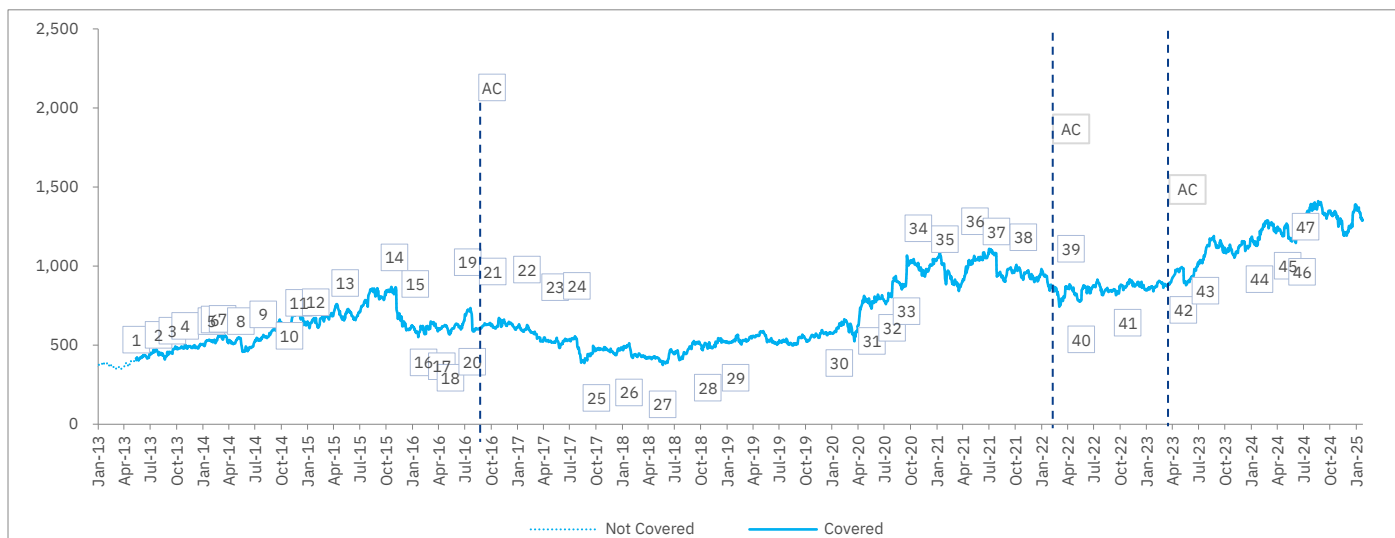
Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	328,648	366,210	346,259	324,638	363,465	344,440	(1.2)	(0.7)	(0.5)
EBITDA	87,390	104,187	75,333	86,733	105,090	77,139	(0.8)	0.9	2.4
PAT	52,261	65,358	43,294	49,563	64,444	43,015	(5.2)	(1.4)	(0.6)
EPS (INR)	70.6	86.0	59.6	65.7	81.3	55.8	(6.8)	(5.4)	(6.5)

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price	
42	10-May-2023	Reduce	INR 4,946	INR 4,867
43	26-Jul-2023	Reduce	INR 5,579	INR 5,476
44	30-Jan-2024	Reduce	INR 6,018	INR 5,841
45	7-May-2024	Accumulate	INR 6,981	INR 6,258
46	26-Jun-2024	Buy	INR 7,328	INR 6,070
47	8-Jul-2024	Buy	INR 7,941	INR 6,534
	30-Oct-2024*	Buy	INR 1,588	INR 1,250

*Stock split 1:5; AC= Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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