

# Dr Reddys Laboratories | BUY

## 1QFY26 miss; Sema and Abata to lead future

DRRD's 1Q was a miss, though overall it reported 11%/4%/2% YoY growth for Revenue/EBITDA/PAT during the quarter, the same were -2%/-8%/-6% vs street and -8%/-14%/-14% vs JMFe. The miss vs JMFe was on account of higher than expected price erosion in gRevlimid during the quarter. Within segments, the US de-grew (-11% ) due to price erosion. India grew 11% YoY, enabled by new launches and price increase. The overall topline growth was supported by strong performance in both Europe (+16% YoY in base business) and EM (+18% YoY due to higher volume, new launches and favourable fx rate). PSAl grew 7% YoY. Future growth will be driven by a healthy pipeline across markets, including Semaglutide and Abatacept. Margins are likely to be maintained at ~25% with flexibility on SG&A as well as R&D spend. With Semaglutide and Liraglutide launches in near-term, DRRD remains best placed among generic players to benefit from the upcoming generic GLP-1 wave. Overall the stock remains attractive, vs large cap peers, however given the lowered guidance for gRevlimid FY26, we revise our FY26 estimates downwards. The larger story remains intact as the gRevlimid has limited contribution in FY27/FY28 estimates, thus we maintain our BUY rating with a TP of INR 1,521.

- **North America de-grew 11% YoY:** Growth during the quarter impacted by price erosion in select products (including Lenalidomide), though the broader mature portfolio remained stable in terms of pricing. However, DRRD still outgrew market with MAT May'25 growth being 10.8% for DRRD vs 2.3% for US generic market (source: IQVIA). gRevlimid sales during the quarter was impacted by higher than expected price erosion (despite higher volume); the company expects similar numbers in 2Q, relatively much less sales in 3Q and left over numbers in 4Q. The US base business witnessed QoQ decline and is expected to remain flat/ experience single-digit growth depending upon product launches. The company has 20 product launches planned for remainder of year, none of them sophisticated, but could result in potential upside. This quarter saw 5 new launches, which will support recovery of the business. 1 new ANDA filed was during the quarter, taking total pending approvals to 70 ANDAs and 3 NDAs (including 43 para IVs and 22 FTFs). FY27/28 pipeline includes - Abatacept, Pembrolizumab, daratumumab, rituximab.
- **India market up 11% YoY:** DRRD outperformed IPM in MAT Jun'25 (DRRD +12.2% vs IPM +8.6%), ranking DRRD 10<sup>th</sup> in IPM. Growth enabled by new product launches (5 new launches during the quarter) and price increases. The new launches included 2 innovative assets during the quarter- Beyfortus (RSV Vaccine) & Sensimmune (Acarizex Slit). Company guides for consistent double digit growth in coming quarters. Future trajectory to be driven by innovative products, branded generic will support the growth but outperformance will be driven by innovative portfolio. Current MR strength stands at 10k people across 50 teams.
- **gSemaglutide:** The company is currently prioritising capacity towards Canada (approval is expected by October/November 2025, with launch planned in January 2026). The company will initially launch generic Ozempic in Canada as of now, generic Wegovy will



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We acknowledge **Gourav Bhamra's** contribution to this note

### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,521
Upside/(Downside)	21.9%
Previous Price Target	1,418
Change	7.3%

### Key Data – DRRD IN

Current Market Price	INR1,247
Market cap (bn)	INR1,041.1/US\$12.0
Free Float	65%
Shares in issue (mn)	834.4
Diluted share (mn)	834.4
3-mon avg daily val (mn)	INR2,203.7/US\$25.5
52-week range	1,421/1,020
Sensex/Nifty	82,727/25,220
INR/US\$	86.4

### Price Performance

%	1M	6M	12M
Absolute	-5.3	-3.3	-9.1
Relative*	-6.1	-10.9	-12.0

\* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	279,164	325,534	348,147	385,093	427,688
Sales Growth (%)	13.5	16.6	6.9	10.6	11.1
EBITDA	82,587	90,593	86,340	95,503	108,205
EBITDA Margin (%)	29.6	27.8	24.8	24.8	25.3
Adjusted Net Profit	33,371	27,445	28,763	39,244	41,380
Diluted EPS (INR)	40.0	32.9	34.5	47.0	49.6
Diluted EPS Growth (%)	-5.6	-17.8	4.8	36.4	5.4
ROIC (%)	20.0	16.4	13.4	14.2	15.8
ROE (%)	13.0	8.9	8.3	10.5	10.1
P/E (x)	31.2	37.9	36.2	26.5	25.1
P/B (x)	3.7	3.1	2.9	2.7	2.4
EV/EBITDA (x)	12.7	11.9	12.4	11.1	9.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 23/Jul/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.

be filed at a later point. Dr Reddy's is targetting 87 markets for Semaglutide in CY26, with the majority of them being small. Key markets other than Canada are India, China and Turkey. These key markets will be targetted by March 2026. Dr Reddy's plans to have a capacity of 12mn pens in FY27 (API to be provided by Dr Reddy's and pen by partner), the same number will be 10mn pens in CY26. These pens will be in 1 pen/week dosage format. Dr Reddy's continues to intend to be amongst the first entrants in most of the markets it is targetting.

- **Biosimilar abatacept:** The read out of phase 3 trials is expected in November 2025, with the product being expected to be ready for launch by December 2026/January 2027. Initially the product will be launched in IV format, with the subcutaneous formulation to follow a year later owing to IP considerations.
- **gLiraglutide:** The company is planning to launch the product in next couple of quarters. DRRD will be potentially amongst the first to market in majority of the markets for gSaxenda. However, the opportunity is not expected to be as big as gSemaglutide.
- **Emerging markets up 18% YoY:** The growth is driven by higher volumes, new launches (26 new launches across markets during the quarter) and favourable forex. Russia led the growth train (+28% YoY), enabled by volume growth and favourable forex (+17% CC YoY growth). Whereas, RoW grew 13% YoY, driven by volume gains and new launches, though the same was moderated due to price erosion. Meanwhile, CISR remained flat (+2% YoY).
- **Europe up 142% YoY (base business +16% YoY):** The overall YoY growth is inflated because of NRT acquisition (contributing INR 6.7bn, +12% QoQ). Base business growth (+16% YoY) was on account of new product launches (13 new launches excluding NRT). However, growth was partially moderated on account of price erosion. Excluding NRT, Germany/UK/France/Italy/Others grew 13%/10%/30% YoY. The Company expects future growth to be in double digit, enabled by biosimilars.
- **PSAI up 7% YoY:** The Growth was led by new API product launches and growth in CDMO business. However, there was a QoQ decline of 14% due to seasonality in volumes. The gross margins declined to 13% (vs 23% in Q1FY25) due to lower operating leverage. This quarter also saw 12 new DMF filings. The company has guided for double digit growth this year, with CDMO business guidance for FY26 being USD 100mn (plan to take it USD 250-300mn by FY30).
- **Key financials:**
  - Revenue at INR 85.5bn (-2% street, -8% JMFe, +11% YoY); Miss on JMFe due to higher than expected price erosion in gRevlimid
  - Gross Profit of INR 48.6bn (+5% YoY); YoY margin reduction of 360bps on account of price erosion in generics and lower operating leverage partially offset by better product mix; Guidance – gross margin to stay at similar level for FY26
  - EBITDA at INR 21.5bn (-8% street, -14% JMFe, +1% YoY)
  - EBITDA Margin at 25.2% (vs 26.8% street, 27.1% JMFe and 27.4% 1QFY25)
  - PAT at INR 14.2bn (-6% street, -14% JMFe, +2% YoY)
  - North America at INR 34.1bn (-11% YoY, -18% JMFe); miss due to price erosion
  - Others up to INR 1.6bn vs INR 0.2bn in Q1FY25
  - PSA at INR 9.4bn (-13% JMFe)
  - India (INR 14.7bn), Emerging Markets (INR 14bn) and Europe (INR 12.7bn) business largely in line with JMFe
  - Major FY26 key financial guidance – SG&A at 28-29% of sales, R&D at 7-7.5% of sales, ETR at 25%, CAPEX cash outflow at INR 25-27bn
- **Change in estimates:** We have reduced our FY26 estimates (refer Exhibit 3) to adjust for the updated company guidance concerning gRevlimid. Owing to higher than anticipated price erosion, the company has guided for lower gRevlimid sales in FY26. The FY26 estimates are reduced on account of the same. The FY27 and FY28 estimates are largely maintained, as they don't include meaningful gRevlimid sales.

## Exhibit 1. 1QFY26 Review

Dr. Reddy's P&L (INR mn)	Q1 FY25	Q1 FY26E	% YoY	Q1 FY26E	% Delta vs JMFe	Q1FY26E (cons.)	% Delta vs cons	Q4 FY25A	% QoQ
<b>Net Sales</b>	<b>76,727</b>	<b>85,452</b>	<b>11%</b>	<b>92,646</b>	<b>-8%</b>	<b>86,945</b>	<b>-2%</b>	<b>85,060</b>	<b>0%</b>
Cost of goods sold	30,383	<b>36,825</b>	21%	40,000	-8%			37,797	-3%
Gross Profit	46,344	48,627	5%	52,646	-8%			47,263	
% Margin	60%	57%	-350 bps	57%	-8 bps			56%	
SG&A (excl. amort)	18,881	20,882	11%	20,000	4%			19,500	7%
R&D	6,193	6,244	1%	7,500	-17%			7,258	-14%
Impairment charges	-5	0		-100				-768	
<b>EBITDA</b>	<b>21270</b>	<b>21501</b>	<b>1%</b>	<b>25146</b>	<b>-14%</b>	<b>23,289</b>	<b>-8%</b>	<b>20,505</b>	<b>5%</b>
% Margin	27.7%	25.2%		27.1%		26.8%	-162 bps	24.1%	
D&A	3,810	4,765	25%	4,700	1%			4,555	5%
Other Income/(Expenses)	-470	-739	57%	-500				-2,465	-70%
Net Finance Expense/(Income)	(837)	(1570)		(1000)				(2352)	
Profit Before Tax	18,821	19,047	1%	21,896				20,054	-5%
Tax	4,901	4,951		5,500				4,181	
% Tax rate									
Extraordinary (income)/ expense	4	0		0				576	
Minority Interest	0	(82)		-66					
<b>Adj. Net Profit</b>	<b>13924</b>	<b>14,178</b>	<b>2%</b>	<b>16462</b>	<b>-14%</b>	<b>15,126</b>	<b>-6%</b>	<b>16515</b>	<b>-14%</b>
% Net Profit Margin	18.1%	16.6%		17.8%				19.4%	
<b>% Cost Ratios</b>	<b>Q1 FY25</b>	<b>Q1 FY26E</b>	<b>% YoY</b>	<b>Q1 FY26E</b>	<b>% Delta vs JMFe</b>	<b>Q1FY26E (cons.)</b>	<b>% Delta vs cons</b>	<b>Q4 FY25A</b>	<b>% QoQ</b>
COGS	39.6	43.1	350 bps	43.2	-8 bps			44.4	-134 bps
SG&A	24.6	24.4	-17 bps	21.6	285 bps			22.9	151 bps
R&D	8.1	7.3	-76 bps	8.1	-79 bps			8.5	-123 bps
<b>Sales Break-up</b>	<b>Q1 FY25</b>	<b>Q1 FY26E</b>	<b>% YoY</b>	<b>Q1 FY26E</b>	<b>% Delta vs JMFe</b>	<b>Q1FY26E (cons.)</b>	<b>% Delta vs cons</b>	<b>Q4 FY25A</b>	<b>% QoQ</b>
<b>Global Generics</b>	<b>68,857</b>	<b>75,620</b>	<b>10%</b>	<b>83,120</b>	<b>-9%</b>			<b>75,364</b>	<b>0%</b>
North America	38,462	34,123	-11%	41,846	-18%			35,586	-4%
Europe	5,265	12,744	142%	12,383	3%			12,750	0%
India	13,252	14,711	11%	14,800	-1%			13,047	13%
EM	11,878	14,042	18%	14,091	+18%			13,981	
<b>PSAI</b>	<b>7,657</b>	<b>8,181</b>	<b>7%</b>	<b>9,394</b>	<b>-13%</b>			<b>9,563</b>	<b>-14%</b>
<b>Prop products and Others</b>	<b>212</b>	<b>1,651</b>	<b>679%</b>	<b>132</b>	<b>1151%</b>			<b>132</b>	<b>1151%</b>

Source: Company, JM Financial

## Exhibit 2. DRRD Available at attractive valuation



Source: Bloomberg

## Exhibit 3. Change in estimates

(Figures in INR mn)	FY26E				FY27E				FY28E			
	Old	New	growth	chg %	Old	New	growth	chg %	Old	New	growth	chg %
Revenue	401461	348147	7%	-13%	383159	385093	11%	0.5%	417315	427688	11%	2.5%
EBITDA	111606	86340	-5%	-22.6%	93874	95503	11%	1.7%	105163	108205	13%	2.9%
Margin	27.8%	24.8%			24.5%	24.8%			25.2%	25.3%		
PAT	70816	50276	-9%	-29.0%	59118	58023	15%	-1.9%	68243	67589	16%	-1.0%
EPS	85	60	-9%	-29.0%	71	70	15%	-1.9%	82	81	16%	-1.0%

Source: JM Financial

## Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	279,164	325,534	348,147	385,093	427,688
Sales Growth	13.5%	16.6%	6.9%	10.6%	11.1%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>279,164</b>	<b>325,534</b>	<b>348,147</b>	<b>385,093</b>	<b>427,688</b>
Cost of Goods Sold/Op. Exp	115,557	135,107	153,185	169,441	188,183
Personnel Cost	0	0	0	0	0
Other Expenses	81,020	99,834	108,622	120,149	131,300
<b>EBITDA</b>	<b>82,587</b>	<b>90,593</b>	<b>86,340</b>	<b>95,503</b>	<b>108,205</b>
EBITDA Margin	29.6%	27.8%	24.8%	24.8%	25.3%
EBITDA Growth	17.2%	9.7%	-4.7%	10.6%	13.3%
Depn. & Amort.	14,858	18,751	18,800	20,410	21,384
EBIT	67,729	71,842	67,541	75,093	86,821
Other Income	5,705	7,553	3,000	4,500	5,500
Finance Cost	1,711	2,829	2,649	1,239	1,044
PBT before Excep. & Forex	71,723	76,566	67,891	78,354	91,277
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	71,723	76,566	67,891	78,354	91,277
Taxes	16,186	19,539	17,665	20,386	23,748
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	147	918	666	766	888
Reported Net Profit	55,684	56,543	49,661	57,312	66,762
<b>Adjusted Net Profit</b>	<b>33,371</b>	<b>27,445</b>	<b>28,763</b>	<b>39,244</b>	<b>41,380</b>
Net Margin	12.0%	8.4%	8.3%	10.2%	9.7%
Diluted Share Cap. (mn)	834.4	834.4	834.4	834.4	834.4
<b>Diluted EPS (INR)</b>	<b>40.0</b>	<b>32.9</b>	<b>34.5</b>	<b>47.0</b>	<b>49.6</b>
Diluted EPS Growth	-5.6%	-17.8%	4.8%	36.4%	5.4%
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	67,941	78,409	91,337
Depn. & Amort.	14,841	17,058	18,800	20,410	21,384
Net Interest Exp. / Inc. (-)	-567	152	2,649	1,239	1,044
Inc (-) / Dec in WCap.	-20,182	-29,989	-3,260	-17,617	-14,472
Others	-482	2,417	0	0	0
Taxes Paid	-20,047	-19,993	-17,580	-20,301	-23,663
<b>Operating Cash Flow</b>	<b>45,433</b>	<b>46,428</b>	<b>68,550</b>	<b>62,140</b>	<b>75,631</b>
Capex	-27,435	-34,398	-28,000	-21,001	-11,000
Free Cash Flow	17,998	12,030	40,550	41,139	64,631
Inc (-) / Dec in Investments	-15,704	25,118	-4,325	-4,758	-5,234
Others	2,856	-41,741	0	0	0
<b>Investing Cash Flow</b>	<b>-40,283</b>	<b>-51,021</b>	<b>-32,325</b>	<b>-25,759</b>	<b>-16,234</b>
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
<b>Financing Cash Flow</b>	<b>-3,763</b>	<b>11,855</b>	<b>-33,079</b>	<b>-31,615</b>	<b>-36,420</b>
<b>Inc / Dec (-) in Cash</b>	<b>1,387</b>	<b>7,262</b>	<b>3,146</b>	<b>4,766</b>	<b>22,977</b>
Opening Cash Balance	5,779	7,107	14,654	17,738	22,504
Closing Cash Balance	7,107	14,593	17,800	22,504	45,481

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	280,550	333,388	357,667	389,597	430,977
Share Capital	833	833	833	833	833
Reserves & Surplus	279,717	332,555	356,834	388,764	430,144
Preference Share Capital	0	0	0	0	0
Minority Interest	0	3,778	4,394	5,104	5,932
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
<b>Total - Equity &amp; Liab.</b>	<b>286,987</b>	<b>377,711</b>	<b>397,105</b>	<b>424,246</b>	<b>455,954</b>
Net Fixed Assets	118,090	206,373	215,574	216,165	205,781
Gross Fixed Assets	176,093	210,093	237,093	257,093	267,093
Intangible Assets	41,204	108,613	109,613	110,613	111,613
Less: Depn. & Amort.	103,707	116,833	135,633	156,043	177,427
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	250,740	261,476	282,555	318,907	373,967
Inventories	63,552	71,085	71,997	79,637	88,446
Sundry Debtors	80,298	90,420	103,148	114,095	126,715
Cash & Bank Balances	7,107	14,654	17,738	22,504	45,481
Loans & Advances	0	0	0	0	0
Other Current Assets	99,783	85,317	89,671	102,670	113,326
Current Liab. & Prov.	86,039	94,949	105,834	115,637	128,606
Current Liabilities	34,888	38,826	43,401	47,773	52,807
Provisions & Others	51,151	56,123	62,433	67,863	75,799
Net Current Assets	164,701	166,527	176,720	203,270	245,362
<b>Total - Assets</b>	<b>286,987</b>	<b>377,711</b>	<b>397,105</b>	<b>424,246</b>	<b>455,953</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	12.0%	8.4%	8.3%	10.2%	9.7%
Asset Turnover (x)	1.0	0.9	0.8	0.9	0.9
Leverage Factor (x)	1.1	1.2	1.2	1.2	1.1
RoE	13.0%	8.9%	8.3%	10.5%	10.1%

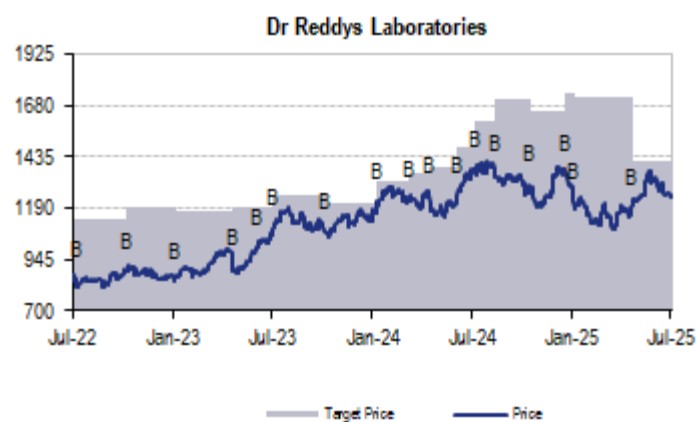
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	336.2	399.6	428.7	466.9	516.5
ROIC	20.0%	16.4%	13.4%	14.2%	15.8%
ROE	13.0%	8.9%	8.3%	10.5%	10.1%
Net Debt/Equity (x)	0.0	0.1	0.1	0.0	0.0
P/E (x)	31.2	37.9	36.2	26.5	25.1
P/B (x)	3.7	3.1	2.9	2.7	2.4
EV/EBITDA (x)	12.7	11.9	12.4	11.1	9.5
EV/Sales (x)	3.8	3.3	3.1	2.7	2.4
Debtor days	105	101	108	108	108
Inventory days	83	80	75	75	75
Creditor days	57	55	56	56	56

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
22-Jun-22	Buy	1,137	
28-Jul-22	Buy	1,137	0.0
29-Oct-22	Buy	1,192	4.8
26-Jan-23	Buy	1,178	-1.2
11-May-23	Buy	1,196	1.5
25-Jun-23	Buy	1,196	0.0
26-Jul-23	Buy	1,252	4.7
29-Oct-23	Buy	1,211	-3.3
31-Jan-24	Buy	1,317	8.8
31-Mar-24	Buy	1,356	3.0
7-May-24	Buy	1,387	2.3
27-Jun-24	Buy	1,478	6.6
28-Jul-24	Buy	1,602	8.4
4-Sep-24	Buy	1,713	6.9
6-Nov-24	Buy	1,655	-3.4
10-Jan-25	Buy	1,737	5.0
24-Jan-25	Buy	1,723	-0.8
12-May-25	Buy	1,418	-17.7

## Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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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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