Dr Reddys Laboratories | BUY

Ex-US strength drives 2Q; Sema to fuel future growth

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Dr. Reddy's (DRRD) reported healthy 2Q results with Revenue/EBITDA/PAT growth of +10%/-4%/+9% YoY, slightly below street expectations (+1%/-5%/+1%). The EBITDA miss was due to a 492 bps YoY rise in SG&A expenses from investments in the acquired NRT business, branded generics, a one-time INR 700 mn VAT provision, and charges for a discontinued product. US revenue declined 13% YoY from gRevlimed price erosion, while India grew 13% on better pricing, volumes, and Stugeron acquisition benefits. Europe surged 139% YoY, driven by the NRT portfolio and new launches, while emerging markets rose 14%, led by strong growth in Russia (+28% YoY). PSAI grew 12% YoY. Future growth will be driven by double-digit expansion in ex-US markets from the NRT business, biosimilar launches in the EU, and strong India growth. Additional upside is expected from gSemaglutide pen sales (12 mn in CY26, 15 mn in CY27) and pipeline products like Abatacept. While lower gRevlimid sales may weigh post-FY26, DRRD is well positioned to benefit from the upcoming generic GLP-1 wave. Overall the stock remains attractive, and we maintain our BUY rating with a target price of INR 1,522.

- **US – Price erosion and lower Lenalidomile sales underpin growth decline:** The generics segment in the US experienced tightness due to product-specific price erosion and lower Lenalidomide sales. Approximately five products faced heightened competition and subsequent price reductions, impacting overall performance in this market. The company however has continued to engage in strategic efforts, including new product launches like Sacubitril Valsartan and Fluorouracil Cream, to drive growth. Management has also expressed uncertainty regarding the future of biologics in the US market on account of US tariffs outcome when it comes, and signalled that a backup plan may be needed.

- **Europe - NRT business drives overall growth, momentum to continue with biosimilars launches:** The performance in this region has largely been driven by the contribution from the NRT portfolio and new product launches. This strategic focus on expanding product offerings and tapping into high-demand therapeutic areas is expected to continue driving growth in the coming periods. The growth in the European market is also expected to be supported by the integration of the acquired NRT business, along with the leveraging of the generics portfolio and the launch of biosimilars.

- **India - Price and volume driven growth; upgraded to 9th position in IPM:** Growth in 2Q has been driven by a combination of better pricing and increased volumes, along with inorganic growth from the acquisition of Stugeron. Price improvements contributed around 5% to the overall growth, with the remaining growth driven by volume increases and the successful launch of new products. As per IQVIA, the company has moved up to the 9th position in the Indian pharmaceutical market, reflected by a 9.4% YoY growth. Growth in India is expected to continue at the current pace, maintaining its momentum.

- **Rituximab – confident of approvals, to drive EU growth:** Management is confident that Rituximab will receive approval, although the USFDA has issued a Complete Response Letter (CRL) concerning unresolved observations related to the Biologics License Application (BLA). If issues with the first fill and finish line (FFM1) persist, the company may consider shifting the product manufacturing to FFM2. Rituximab is recognized as one of the key biosimilars that is expected to contribute significantly to future growth in the European market, alongside other biosimilars like Denosumab and Bibasubovam.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,522
Upside/(Downside)	18.6%
Previous Price Target	1,521
Change	0.1%

Key Data – DRRD IN	
Current Market Price	INR1,284
Market cap (bn)	INR1,071.3/US$12.2
Free Float	72%
Shares in issue (mn)	834.4
Diluted share (mn)	834.4
3-mon avg daily val (mn)	INR2,223.0/US$25.3
52-week range	1,406/1,020
Sensex/Nifty	84,212/25,795
INR/US$	87.9

Price Performance

%	1M	6M	12M
Absolute	-1.1	6.9	-2.5
Relative*	-4.0	1.3	-7.3

** To the BSE Sensex*

Financial Summary (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,79,164	3,25,534	3,42,183	3,66,000	4,09,293
Sales Growth (%)	13.5	16.6	5.1	7.0	11.8
EBITDA	82,587	90,593	82,124	90,768	1,03,551
EBITDA Margin (%)	29.6	27.8	24.0	24.8	25.3
Adjusted Net Profit	33,371	27,445	32,720	37,157	38,818
Diluted EPS (INR)	40.0	32.9	39.2	44.5	46.5
Diluted EPS Growth (%)	-5.6	-17.8	19.2	13.6	4.5
ROIC (%)	20.0	16.4	12.5	13.4	15.1
ROE (%)	13.0	8.9	9.5	10.0	9.6
P/E (x)	32.1	39.0	32.7	28.8	27.6
P/B (x)	3.8	3.2	3.0	2.8	2.5
EV/EBITDA (x)	13.1	12.2	13.4	12.0	10.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 24/Oct/2025

- **gSemaglutide – eyeing 12mn pen sales and global expansion in 87 countries:** The company is anticipating feedback from Health Canada in the coming weeks and is confident about selling the planned 12mn pens for Semaglutide. However, if approval or favorable pricing is not secured in Canada, the volume will be absorbed by launches in 87 other countries, including key markets like India, Brazil, and Turkey, along with B2B partnerships. In India, while the company can produce and export the product, the launch is currently constrained until March 2026. Looking ahead, sales volume for Semaglutide is projected to increase to at least 15 million units by CY27. The internal capacity expansion, with two cartridge lines at FTO-11, will not affect launches in the next 12 months but will become relevant for future launches, potentially supporting up to 50mn units. The peptide capacity, currently built up to 800 kg, is small but is expected to grow as it meets the demand for Semaglutide, Liraglutide, and 40 other identified peptides.

- **Abatacept (IV) – approvals by CY27, US CMO to aid manufacturing:** The BLA submission for the IV version of Abatacept is scheduled for the end of December 2025, with the Phase 3 trial expected to be completed soon. Approval for the IV version is anticipated to align with the patent expiry, projected for early CY27. To support production, the company plans to utilize a CMO located in the US, in addition to the capacity already built at the Bachupally facility. The CMO will eventually undergo a technology transfer from Bachupally. Meanwhile, approval for the Sub Q version of Abatacept is expected at the beginning of 2028.

- **Other financial details:**

  - SG&A spend increased by focused investments in the acquired NRT consumer healthcare business and in branded generics
  - SG&A included a one-time provision of INR700mn for a VAT liability in one subsidiary and charges related to a discontinued pipeline product
  - R&D spend declined 15% YoY due to reduced development spends on biosimilars as major investments for Abatacept have already been completed
  - Other operating income was significantly higher due to product-related IP settlement income in the United States and a one-time reversal of INR880mn in liabilities related to the discontinuation of a pipeline product
  - An impairment charge of INR660mn was recorded, including INR540 mn for PPE at the Middleburgh facility following the discontinuation of the pipeline product conjugated estrogen
  - ETR was lower primarily due to a favorable jurisdictional mix
  - The company has a net cash surplus of USD 310mn as of Sep-25
  - During 2Q it completed filing 43 global generics

- **Other Guidance:**

  - SG&A spend is expected to be in the zone of 28% to 30%
  - R&D spend will likely stay in the range of 7% of sales
  - The overall pipeline consists of about 100 products, of which approximately 20 are considered complex generics

Exhibit 1. 2QFY26 Review

Dr. Reddy's P&L *(INR mn)*	Q2 FY25	Q2 FY26A	% YoY	Q2 FY26E	% Delta vs JMFe	2QFY26E (cons.)	% Delta vs cons	Q1 FY26A	% QoQ
Net Sales	**80,162**	**88,051**	**10%**	**82,376**	**7%**	**87,062**	**1%**	**85,452**	**3%**
Cost of goods sold	32,393	**39,911**	23%	37,500	6%			36,825	8%
Gross Profit	47,769	48,140	1%	44,876	7%			48,627	
% Margin	60%	55%	-492 bps	54%	-20 bps			57%	
SG&A (excl. amort)	19,032	21,385	12%	20,750	3%			20,882	2%
R&D	7,271	6,202	-15%	6,050	3%			6,244	-1%
Impairment charges	-924	0		0				0	
EBITDA	**21466**	**20553**	-4%	**18076**	14%	**21,577**	**-5%**	**21,501**	-4%
% Margin	26.8%	23.3%	-344 bps	21.9%	-140 bps	24.8%	-144 bps	25.2%	
D&A	3,975	5,051	27%	4,700	7%			4,765	6%
Other Income/(Expenses)	-984	-2,673	172%	-700				-739	262%
Net Finance Expense/(Income)	(1555)	(774)		(2352)				(1570)	
Profit Before Tax	19,167	19,012	-1%	16,443				19,047	0%
Tax	5752	4082		6000				4951	
% Tax rate									
Extraordinary (income)/ expense	693	0		0				0	
Minority Interest	862	(104)		-66				-82	
Adj. Net Profit	**13246**	**14,372**	9%	**10509**	37%	**14,299**	**1%**	**14178**	1%
% Net Profit Margin	16.5%	16.3%		12.8%				16.6%	
% Cost Ratios	**Q2 FY25**	**Q2 FY26A**	**% YoY**	**Q2 FY26E**	**% Delta vs JMFe**	**2QFY26E (cons.)**	**% Delta vs cons**	**Q1 FY26E**	**% QoQ**
COGS	40.4	45.3	492 bps	45.5	-20 bps			43.1	223 bps
SG&A	23.7	24.3	55 bps	25.2	-90 bps			24.4	-15 bps
R&D	9.1	7.0	-203 bps	7.3	-30 bps			7.3	-26 bps
Sales Break-up	**Q2 FY25**	**Q2 FY26A**	**% YoY**	**Q2 FY26E**	**% Delta vs JMFe**	**2QFY26E (cons.)**	**% Delta vs cons**	**Q1 FY26E**	**% QoQ**
Global Generics	**71,576**	**78,498**	**10%**	**73,875**	6%			**75,620**	4%
North America	37,281	32,408	-13%	32,452	0%			34,123	-5%
Europe	5,770	13,762	139%	11,956	15%			12,744	8%
India	13,971	15,780	13%	14,949	6%			14,711	7%
EM	14,554	16,548	14%	14,518	14%			14,042	
PSAI	**8,407**	**9,450**	**12%**	**8,369**	13%			**8,181**	16%
Prop products and Others	**179**	**103**	**-42%**	**132**	-22%			**1,651**	-94%

Source: Company, JM Financial

Exhibit 2. The stock is available at attractive valuations

Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,79,164	3,25,534	3,42,183	3,66,000	4,09,293
Sales Growth	*13.5%*	*16.6%*	*5.1%*	*7.0%*	*11.8%*
Other Operating Income	0	0	0	0	0
Total Revenue	**2,79,164**	**3,25,534**	**3,42,183**	**3,66,000**	**4,09,293**
Cost of Goods Sold/Op. Exp	1,15,557	1,35,107	1,53,298	1,61,040	1,80,089
Personnel Cost	0	0	0	0	0
Other Expenses	81,020	99,834	1,06,761	1,14,192	1,25,653
EBITDA	**82,587**	**90,593**	**82,124**	**90,768**	**1,03,551**
EBITDA Margin	*29.6%*	*27.8%*	*24.0%*	*24.8%*	*25.3%*
EBITDA Growth	*17.2%*	*9.7%*	*-9.3%*	*10.5%*	*14.1%*
Depn. & Amort.	14,858	18,751	19,504	20,496	21,693
EBIT	67,729	71,842	62,620	70,272	81,859
Other Income	5,705	7,553	6,000	6,500	7,000
Finance Cost	1,711	2,829	2,649	1,239	1,044
PBT before Excep. & Forex	71,723	76,566	65,970	75,533	87,814
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	71,723	76,566	65,970	75,533	87,814
Taxes	16,186	19,539	17,165	19,653	22,847
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	147	918	648	740	857
Reported Net Profit	55,684	56,543	48,257	55,250	64,231
Adjusted Net Profit	**33,371**	**27,445**	**32,720**	**37,157**	**38,818**
Net Margin	*12.0%*	*8.4%*	*9.6%*	*10.2%*	*9.5%*
Diluted Share Cap. (mn)	834.4	834.4	834.4	834.4	834.4
Diluted EPS (INR)	**40.0**	**32.9**	**39.2**	**44.5**	**46.5**
Diluted EPS Growth	*-5.6%*	*-17.8%*	*19.2%*	*13.6%*	*4.5%*
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	66,020	75,588	87,875
Depn. & Amort.	14,841	17,058	19,504	20,496	21,693
Net Interest Exp. / Inc. (-)	-567	152	2,649	1,239	1,044
Inc (-) / Dec in WCap.	-20,182	-29,989	-1,077	-13,858	-14,689
Others	-482	2,417	0	0	0
Taxes Paid	-20,047	-19,993	-17,080	-19,568	-22,762
Operating Cash Flow	**45,433**	**46,428**	**70,017**	**63,898**	**73,160**
Capex	-27,435	-34,398	-28,000	-21,001	-11,000
Free Cash Flow	*17,998*	*12,030*	*42,017*	*42,897*	*62,160*
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**	**4,612**	**6,523**	**20,506**
Opening Cash Balance	5,779	7,107	14,654	19,205	25,728
Closing Cash Balance	7,107	14,593	19,266	25,728	46,234

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	2,80,550	3,33,388	3,56,263	3,86,131	4,24,980
Share Capital	833	833	833	833	833
Reserves & Surplus	2,79,717	3,32,555	3,55,430	3,85,298	4,24,147
Preference Share Capital	0	0	0	0	0
Minority Interest	0	3,778	4,376	5,061	5,858
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**	**3,95,684**	**4,20,737**	**4,49,882**
Net Fixed Assets	1,18,090	2,06,373	2,14,870	2,15,375	2,04,682
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	1,36,337	1,56,833	1,78,526
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	2,81,801	3,10,712	3,63,719
Inventories	63,552	71,085	72,050	75,689	84,642
Sundry Debtors	80,298	90,420	1,01,381	1,08,438	1,21,264
Cash & Bank Balances	7,107	14,654	19,205	25,728	46,234
Loans & Advances	0	0	0	0	0
Other Current Assets	99,783	85,317	89,164	1,00,857	1,11,578
Current Liab. & Prov.	86,039	94,949	1,05,798	1,10,160	1,23,329
Current Liabilities	34,888	38,826	43,431	45,581	50,694
Provisions & Others	51,151	56,123	62,366	64,580	72,635
Net Current Assets	1,64,701	1,66,527	1,76,003	2,00,551	2,40,389
Total – Assets	**2,86,987**	**3,77,711**	**3,95,684**	**4,20,737**	**4,49,882**

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	12.0%	8.4%	9.6%	10.2%	9.5%
Asset Turnover (x)	1.0	0.9	0.8	0.8	0.9
Leverage Factor (x)	1.1	1.2	1.2	1.2	1.1
RoE	13.0%	8.9%	9.5%	10.0%	9.6%

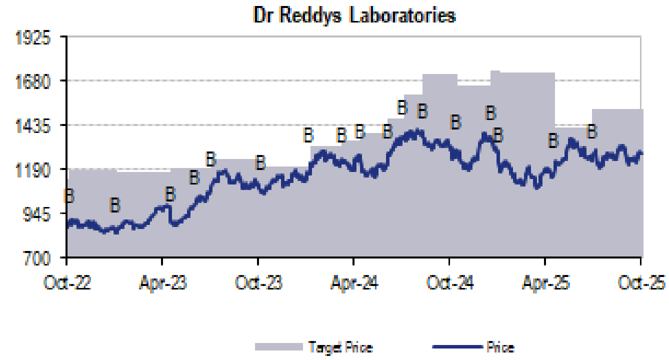
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	336.2	399.6	427.0	462.8	509.3
ROIC	20.0%	16.4%	12.5%	13.4%	15.1%
ROE	13.0%	8.9%	9.5%	10.0%	9.6%
Net Debt/Equity (x)	0.0	0.1	0.1	0.0	0.0
P/E (x)	32.1	39.0	32.7	28.8	27.6
P/B (x)	3.8	3.2	3.0	2.8	2.5
EV/EBITDA (x)	13.1	12.2	13.4	12.0	10.2
EV/Sales (x)	3.9	3.4	3.2	3.0	2.6
Debtor days	105	101	108	108	108
Inventory days	83	80	77	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
23-Jul-25	Buy	1,521	7.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
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.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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