

## Short-Term Margin Headwinds; Long-Term Pipeline Strength

**Est. vs. Actual for Q4FY25:** Revenue – **INLINE**; EBITDA Margin – **MISS**; PAT – **BEAT**

**Changes in Estimates post Q4FY25:**

**FY26E/FY27E:** Revenue: -1.2%/-1.1%; EBITDA Abs: -1.2%/3.8%; PAT: -3.7%/2.2%

### Recommendation Rationale:

- The company reported a **19.9% YoY revenue growth**, aided by the acquired NRT business, which contributed Rs 597 Cr. Excluding NRT, the underlying revenue growth stood at 11.5% YoY. North American operations witnessed muted growth due to pricing pressure and lower sales of select products, though partially offset by new product launches and volume gains. The India business grew 15.8% YoY, while the Europe business, excluding NRT, posted a robust 30% YoY increase. The Emerging Markets and API businesses also delivered healthy YoY growth of 15.6% and 22%, respectively.
- Gross margins for Q4FY25 were at approximately 66.6%**, down 400 bps YoY and 262 bps QoQ, primarily impacted by a one-off cost related to manufacturing overheads. For Q4, gross margins stood at 59.3% for the Global Generics segment and 26.3% for the PSAL segment. EBITDA came in at Rs 1,998 Cr, translating to a margin of 23.4%, down 232 bps YoY and 370 bps QoQ. Reported PAT stood at Rs 1,587 Cr, ahead of estimates, supported by higher other income.

### Sector Outlook: Positive

**Company Outlook & Guidance:** We expect multiple levers to support the company's revenue growth trajectory going forward. The biosimilar segment remains a key growth driver, with two biosimilars slated for launch in Europe, each having the potential to contribute \$40–50 Mn in sales in FY26E. Additionally, Denosumab, scheduled for launch in FY27E, is estimated to generate \$50 Mn in annual sales. Another structural growth catalyst is the GLP-1 segment, currently a \$10 Bn market, which is expected to grow 5x over the next 5–6 years, offering significant upside potential.

**Current Valuation:** PE of 17x for FY27E earnings.

**Current TP:** Rs 1,250/share (Earlier TP: Rs 1450/share)

**Recommendation:** We change our recommendation on the stock from **BUY** to **HOLD**

### Financial Performance:

Dr. Reddy's (DRRD) Q4FY25 performance was mixed relative to expectations. Revenue grew 19.9% YoY, aided by the acquired NRT business, which contributed Rs 597 Cr. Excluding NRT, revenue growth stood at a moderate 11.5% YoY. North America operations faced headwinds from price erosion and lower sales of select products, partially offset by new product launches and volume growth. The India business posted a 15.8% YoY increase, while the Europe business, excluding NRT, recorded a robust 30% YoY growth. Additionally, emerging markets and the API segment delivered healthy growth of 15.6% and 22% YoY, respectively.

### Key Financials (Consolidated)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	8,528	1.8	19.9	8,424	1.2
EBITDA	1,998	-12.1	9.1	2,289	-12.7
EBITDA Margin	23.4%	-369	-232	27.2%	
Net Profit	1,587	13.0	21.1	1,439	10.3
EPS (Rs)	19.0	13.0	21.1	17.3	10.3

Source: Company, Axis Securities Research

(CMP as of 09<sup>th</sup> May 2025)

CMP (Rs)	1156
Upside /Downside (%)	8%
High/Low (Rs)	1421/1020
Market cap (Cr)	96,500
Avg. daily vol. (6m)Shrs.	5,00,000
No. of shares (Cr)	83.20

### Shareholding (%)

	Sep-24	Dec-24	Mar-25
Promoter	26.6	26.6	26.6
FII's	27.5	26.9	25.8
MFs / UTI	10.9	11.1	12.9
Banks / FIs	0.2	0.2	0.2
Others	34.8	35.2	34.5

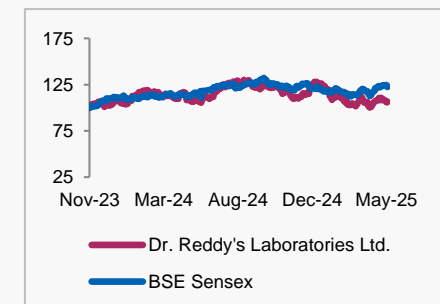
### Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	32,644	33,615	34,886
EBITDA	8,547	9,076	9,524
Net Profit	5,725	5,763	6,059
EPS (Rs)	69	69	73
PER (x)	16.8	16.7	17.2
P/BV (x)	11.5	10.7	10.6
EV/EBITDA (x)	2.8	2.5	2.3
ROE (%)	16.9	14.8	13.6

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1.2%	-1.1%
EBITDA	-1.2%	3.8%
PAT	-3.7%	2.2%

### Relative Performance



Source: Ace Equity

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## Financial Performance (Cont'd)

The company's gross margins for Q4FY25 stood at ~66.6%, down 400 bps YoY and 262 bps QoQ, primarily impacted by one-off costs related to manufacturing overheads. Segment-wise, gross margins for Global Generics and PSAl came in at 59.3% and 26.3%, respectively. EBITDA stood at Rs 1,998 Cr with a margin of 23.4%, declining by 232 bps YoY and 370 bps QoQ. Reported PAT was Rs 1,587 Cr, coming in higher than estimates due to gains from other income.

- **North America Business:** The U.S. business reported sales of \$417 Mn, reflecting a modest growth of 6% QoQ and 5% YoY. The performance was supported by volume growth and new product launches, with seven products introduced during the quarter. However, the growth was partially offset by price erosion, particularly in gRevlimid, in our view.
- **India Business:** India business sales grew by 16% YoY. Excluding licensed vaccines, growth stood at 6%. The domestic business faced headwinds in select brands within the Cardiac and Gastro segments, though management expects a recovery ahead. Despite these pressures, the company outperformed the IPM industry growth.
- **R&D investment for Q4FY25** stood at Rs 726 Cr, reflecting a 6% YoY increase, driven by continued focus on complex assets such as GLP-1 and biosimilars.

## Outlook

Multiple growth levers are expected to support Dr. Reddy's revenue trajectory over the coming years. The biosimilar segment remains a key driver, with plans to launch two biosimilars in Europe, each projected to contribute \$40–50 Mn in sales by FY26E. Additionally, Denosumab, a biosimilar expected to launch in FY27E, is estimated to generate \$50 Mn in sales. The GLP-1 segment, currently valued at \$10 Bn, is projected to grow 5x over the next 5–6 years. To capitalise on this opportunity, DRRD is investing Rs 2,500 Cr in the GLP-1 API segment, with a revenue potential of \$150–200 Mn in FY27E. While the anticipated decline in gRevlimid sales poses a near-term headwind, it is expected to be mitigated by strong growth in the GLP-1 and biosimilar segments. However, operational margin pressures and the gRevlimid cliff remain near-term challenges.

## Valuation & Recommendation:

We change our recommendation on the stock from **BUY** to **HOLD** with a target price of Rs 1,250/share, implying an upside potential of 8% from the CMP.

## Key Con-call Highlights

- Consolidated revenues stood at Rs 8,506 Cr (\$996 Mn) for the quarter, registering 20% YoY growth and a 2% QoQ increase. Excluding NRT sales, revenue growth was 12% YoY and 2% QoQ, reflecting solid performance across key markets.
- The North America generics business reported quarterly revenues of \$418 Mn, up 7% YoY and 4% QoQ. For the full year, segment revenues were \$1,727 Mn, marking a 10% YoY increase. Growth was led by volume expansion, strong contribution from key products, and new launches, although price erosion persisted. The company launched seven products during the quarter, taking the FY25 total to 18. Management expects the current momentum to continue into FY26.
- India business reported Rs 1,305 Cr in Q4 revenues, a 16% YoY increase, with a 3% sequential decline. Full-year revenues were Rs 5,373 Cr, also up 16% YoY. Excluding licensed vaccines, underlying growth stood at 6% for both Q4 and the full year, supported by new launches and favourable pricing. As per IQVIA, the company maintained its 10th rank in IPM and posted MAT growth of 8.4%, slightly above IPM growth of 8%. It launched 23 brands during the year, including contributions from Sanofi and Nestlé portfolios.
- The European generics business delivered strong results with Q4 revenues of EUR 140 Mn, up 142% YoY and 4% QoQ. FY25 revenues came in at EUR 395 Mn, rising 73% YoY. Growth was driven by NRT sales, higher base business volumes, and new product launches, offsetting pricing pressure.
- R&D spending for the quarter was Rs 726 Cr (\$85 Mn), up 6% YoY and 9% QoQ. R&D investments were 8.5% of revenues, underlining continued focus on innovation.
- The effective tax rate for Q4 was 20.8%, while FY25 ETR stood at 25.4%. The lower Q4 rate was due to the reversal of earlier tax

provisions and non-taxable FCTR transfer to the income statement. Management expects FY26 ETR to remain broadly stable.

- The company is progressing with its generic semaglutide program, targeting a CY26 launch in IP-cleared markets. The abatacept biosimilar program is in late Phase 3 trials, with submission expected by end-CY25 and ANADA filing planned in the U.S. The company expects exclusivity to end by early Jan 2026, potentially enabling launch. The current abatacept market is valued at \$1.8 Bn, representing approximately 10 Mn pens, offering meaningful upside.
- On Capex, investments are focused on peptide manufacturing (both API and formulation) and biosimilar facilities. These areas comprise the core of strategic Capex. The company is also making product-specific investments aligned with its push into complex molecules.

### Key Risks to Our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the company's revenue growth
- Entry of new players may increase pricing pressure in the injectables portfolio
- Delay in launching biosimilars in the market

### Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	33,615	34,886	34,021	35,291	-1.2%	-1.1%
EBITDA	9,076	9,524	9,186	9,176	-1.2%	3.8%
PAT	5,763	6,059	5,983	5,929	-3.7%	2.2%

Source: Company, Axis Securities Research

## Results Review

Particulars (Rs Cr)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>7,114</b>	<b>7,696</b>	<b>8,038</b>	<b>8,381</b>	<b>8,528</b>	<b>19.9</b>	<b>1.8</b>
<b>Growth (YoY%)</b>	<b>12.6%</b>	<b>13.9%</b>	<b>16.5%</b>	<b>15.8%</b>	<b>19.9%</b>		
Total Expenditure	5,283	5,566	5,962	6,108	6,531	23.6	6.9
Raw Material Consumed	2,092	2,182	2,367	2,582	2,850	36.2	10.4
<b>% of sales</b>	<b>29.4%</b>	<b>28.3%</b>	<b>29.4%</b>	<b>30.8%</b>	<b>33.4%</b>		
<b>Gross margins (%)</b>	<b>70.6%</b>	<b>71.7%</b>	<b>70.6%</b>	<b>69.2%</b>	<b>66.6%</b>	<b>-401</b>	<b>-262</b>
Employee Expenses	1,284	1,414	1,399	1,367	1,401	9.1	2.5
% of sales	18.0%	18.4%	17.4%	16.3%	16.4%		
Other Expenses	1,924	1,970	2,103	2,161	2,203	14.5	2.0
% of sales	27.0%	25.6%	26.2%	25.8%	25.8%		
Impertinent Costs	-17	1	92	-0	77		
% of sales	-0.2%	0.0%	1.1%	0.0%	0.9%		
R&D Expenses	557	557	727	666	730		
% of sales	7.8%	7.2%	9.0%	7.9%	8.6%		
<b>EBITDA</b>	<b>1,831</b>	<b>2,130</b>	<b>2,077</b>	<b>2,273</b>	<b>1,998</b>	<b>9.1</b>	<b>-12.1</b>
<b>EBITDAM (%)</b>	<b>25.7%</b>	<b>27.7%</b>	<b>25.8%</b>	<b>27.1%</b>	<b>23.4%</b>	<b>-232</b>	<b>-369</b>
Interest	59	60	76	82	66		
Depreciation	368	381	397	471	455		
Other Income	198	187	308	150	522		
<b>PBT</b>	<b>1,602</b>	<b>1,877</b>	<b>1,911</b>	<b>1,870</b>	<b>2,000</b>	<b>24.8</b>	<b>6.9</b>
Tax	295	490	576	470	419		
Tax (%)	18.4%	26.1%	30.1%	25.1%	20.9%		
Reported PAT	1,306	1,387	1,336	1,400	1,581	21.0	12.9
Associate Profit	4	6	6	4	6		
<b>PAT after EoI</b>	<b>1,310</b>	<b>1,392</b>	<b>1,342</b>	<b>1,404</b>	<b>1,587</b>	<b>21.1</b>	<b>13.0</b>

Source: Company, Axis Securities Research

## Geographical Breakup

(Rs Cr)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Global Generics	6,119	6,886	7,158	7,375	7,536	23.2	9.5
<b>North America</b>	<b>3,263</b>	<b>3,846</b>	<b>3,728</b>	<b>3,383</b>	<b>3,559</b>	<b>9.1</b>	<b>-7.5</b>
Europe	521	527	577	1,210	1,275	144.8	142.2
India	1,127	1,325	1,397	1,346	1,305	15.8	-1.5
Emerging Markets	1,209	1,188	1,455	1,436	1,398	15.6	17.7
PSAI	784	766	841	822	956	22.0	24.9
Proprietary Products & Oth.	142	21	18	161	13	-90.7	-37.7
<b>Total</b>	<b>7,045</b>	<b>7,673</b>	<b>8,016</b>	<b>8,359</b>	<b>8,506</b>	<b>20.7</b>	<b>10.9</b>

Source: Company, Axis Securities Research

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>Net sales</b>	<b>32,644</b>	<b>33,615</b>	<b>34,886</b>	<b>37,091</b>
Other operating income	0	0	0	0
<b>Net Revenue</b>	<b>32,644</b>	<b>33,615</b>	<b>34,886</b>	<b>37,091</b>
Cost of goods sold	9,980	10,084	10,361	10,868
Contribution (%)	30.57%	30.00%	29.70%	29.30%
Other operating costs	14,117	14,454	15,001	15,949
<b>EBITDA</b>	<b>8,547</b>	<b>9,076</b>	<b>9,524</b>	<b>10,274</b>
Other income	1,097	700	750	800
<b>PBIDT</b>	<b>9,644</b>	<b>9,776</b>	<b>10,274</b>	<b>11,074</b>
Depreciation	1,704	1,760	1,880	1,996
Interest & Fin Chg.	283	315	301	287
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>7,658</b>	<b>7,702</b>	<b>8,094</b>	<b>8,792</b>
Tax provision	1,954	1,967	2,068	2,247
(-) Minority Interests	0	0	0	0
Associates	22	28	34	39
<b>Adjusted PAT</b>	<b>5,725</b>	<b>5,763</b>	<b>6,059</b>	<b>6,583</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Share Capital	83	83	83	83
Reserves & Surplus	33,844	38,942	44,336	50,255
Net Worth	33,927	39,025	44,420	50,338
Total Loan funds	4,696	4,496	4,296	4,096
Deferred Tax Liability	1,404	84	84	84
Long Term Provisions	30	30	30	30
Other Long-Term Liability	226	276	287	305
<b>Capital Employed</b>	<b>49,427</b>	<b>54,530</b>	<b>60,137</b>	<b>66,570</b>
Gross Block	17,961	19,461	21,061	22,611
Less: Depreciation	10,662	12,122	13,702	15,397
Net Block	7,298	7,339	7,359	7,213
Investments	3,331	4,405	4,846	5,330
Sundry Debtors	9,042	9,854	10,036	10,670
Cash & Bank Bal	2,460	3,401	7,887	12,524
Loans & Advances	0	0	0	0
Inventory	7,109	7,368	7,646	8,129
Other Current Assets	3,077	5,042	5,233	5,564
Total Current Assets	13,034	14,409	14,710	15,307
CurrLiab&Prov	25,018	30,070	35,647	42,217
Net Current Assets	11,984	15,662	20,937	26,911
<b>Total Assets</b>	<b>49,427</b>	<b>54,539</b>	<b>60,155</b>	<b>66,597</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
PBT	7,680	7,730	8,128	8,831
Add: Depreciation	1,404	1,460	1,580	1,696
Add: Interest	283	315	301	287
Cash flow from operations	9,366	9,504	10,008	10,813
Change in working capital	212	1,511	239	734
Taxes	1,954	1,967	2,068	2,247
Miscellaneous expenses	0	0	0	0
Net cash from operations	7,200	6,026	7,701	7,832
Capital expenditure	(10,612)	(1,802)	(1,900)	(1,850)
Change in Investments	941	(1,074)	(441)	(485)
Net cash from investing	(9,671)	(2,876)	(2,341)	(2,335)
Increase/Decrease in debt	2,694	(200)	(200)	(200)
Dividends	(665)	(665)	(665)	(665)
Proceedings from equity	0	0	0	0
Interest	(283)	(315)	(301)	(287)
Others	1,457	(1,029)	291	291
Net cash from financing	3,204	(2,208)	(875)	(861)
Net Inc./(Dec.) in Cash	732	941	4,486	4,637
Opening cash balance	1,728	2,460	3,401	7,887
Closing cash balance	2,460	3,401	7,887	12,524

Source: Company, Axis Securities Research

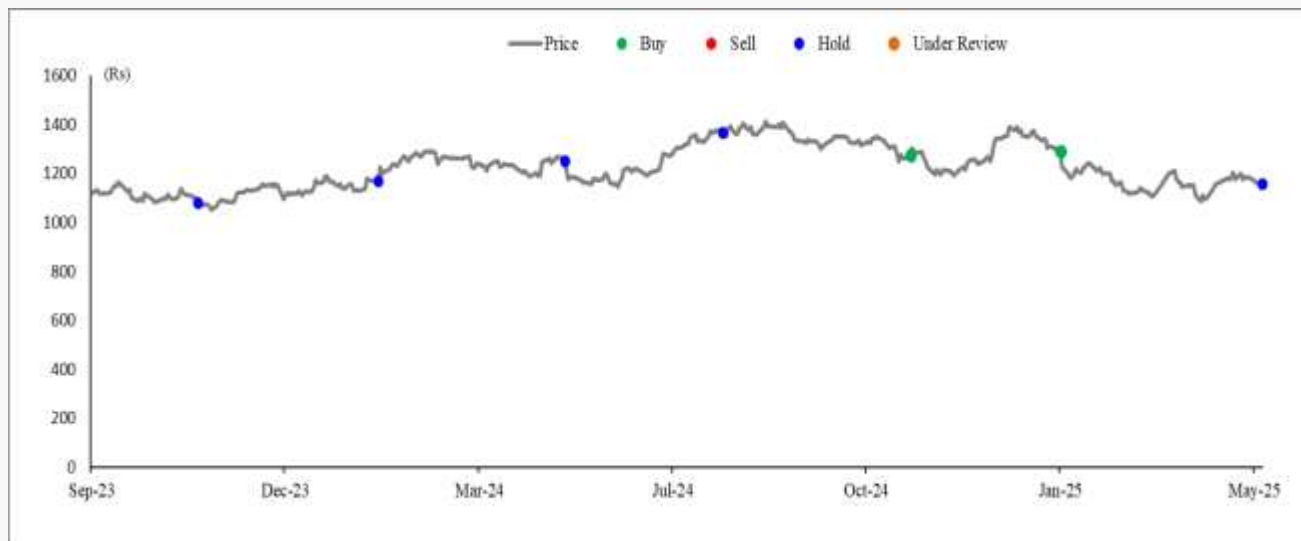
**Ratio Analysis**

(%)

Y/E March	FY24	FY25	FY26E	FY27E
<b>Sales growth</b>	<b>13.5</b>	<b>16.5</b>	<b>3.0</b>	<b>3.8</b>
<b>OPM</b>	<b>28.3</b>	<b>26.2</b>	<b>27.0</b>	<b>27.3</b>
Oper. profit growth	25.0	7.7	6.2	4.9
COGS / Net sales	29.3	30.6	30.0	29.7
Overheads/Net sales	42.4	43.2	43.0	43.0
Depreciation / G. block	7.5	7.8	7.5	7.5
Effective interest rate	22.5	25.4	25.4	25.4
Net wkg.cap / Net sales	0.4	0.3	0.4	0.4
Net sales / Gr block (x)	1.8	1.8	1.7	1.7
<b>RoCE</b>	<b>26.9</b>	<b>19.7</b>	<b>20.8</b>	<b>21.5</b>
Debt/equity (x)	0.1	0.1	0.1	0.1
Effective tax rate	22.5	25.4	25.4	25.4
<b>RoE</b>	<b>19.7</b>	<b>16.9</b>	<b>14.8</b>	<b>13.6</b>
Payout ratio (Div/NP)	797.1	797.1	797.1	797.1
<b>EPS (Rs.)</b>	<b>66.9</b>	<b>68.6</b>	<b>69.1</b>	<b>72.7</b>
EPS Growth	23.7	2.6	0.7	5.1
CEPS (Rs.)	84.5	89.1	90.2	95.2
DPS (Rs.)	8.0	8.0	8.0	8.0

Source: Company, Axis Securities Research

## Dr. Reddy's Price Chart and Recommendation History



Date	Reco	TP	Research
30-Oct-23	HOLD	1,200	Result Update
31-Jan-24	HOLD	1,200	Result Update
08-May-24	HOLD	1,200	Result Update
30-Jul-24	HOLD	1,420	Result Update
05-Nov-24	BUY	1,532	Result Update
24-Jan-25	BUY	1,450	Result Update
12-May-25	HOLD	1,250	Result Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.