

4QFY25 margin performance for Dr Reddy's surprised negatively, with EBITDA missing street/our estimates by 10%/12%, respectively. The EBITDA miss was offset by higher other income and a lower tax rate. The sharp 250bps QoQ decline in gross margin (GM; sequential decline for the 3rd consecutive quarter) validates the concern we have been raising since 2QFY25 that gross margin might be on a secular downward trajectory. While the GM decline in 4Q was partly attributed to one-offs, we believe that the weakness is also a function of incremental pricing pressures in the core US portfolio (particularly gSuboxone – the largest contributor ex-gRevlimid). The management's double-digit topline growth and flattish margin guidance for FY26 notwithstanding, the street's near-term margin expectations might need a reset, in our view. We broadly maintain our lower-than-street FY26/27 earnings estimates and introduce FY28 estimates. We retain REDUCE with an unchanged Mar-26E TP of Rs1,050.

US as well as domestic sales broadly in line with expectations

US sales at USD417mn (vs USD395mn in 3QFY25) were broadly in line with our expectations, with gRevlimid sales (~USD145mn estimated) likely to have witnessed a sequential uptick. Domestic growth at 16% YoY was in-line, even as certain therapies including cardiac, gastro, and pain witnessed a QoQ decline. Organic domestic growth, adjusted for the Sanofi vaccine deal, stood at ~6%.

Gross margin weakness persists

While the 250bps QoQ decline in overall gross margin in 4Q was partly attributed to one-offs, this follows an 80bps/160bps QoQ decline in 2Q/3Q, respectively. Gross margin in the global generics segment declined by 200bps QoQ to 59.3% (following a 160bps/180bps QoQ decline in 2Q/3Q, respectively). We believe that the GM weakness is also a function of incremental pricing pressures in the core US portfolio (particularly gSuboxone, where the innovator has pointed to intensified pricing pressures from generics; Teva is likely to enter in CY25 and will be the fifth generic entrant).

KTAs from the earnings call

1) The company expects high double-digit growth in India in FY26, on the back of in-licensing, new launches, sustained momentum in top brands, and dedication of marketing resources to therapies (cardiac and gastro) where growth was relatively muted in FY25. 2) Dr Reddy's remains on track to file Abatacept for the US market and expects to receive an approval for Semaglutide in Canada by the end of CY25. The company will adopt a synthetic production route for injectable Semaglutide and a semi-synthetic route for oral Semaglutide. 3) Dr Reddy's may stop selling gRevlimid a few months before Jan-26, to avoid shelf price adjustments. 4) The company's biosimilar portfolio (Rituximab, Bevacizumab, Denosumab and Abatacept), the acquired Nicotine Replacement Therapy business, and expansion into more markets will be the key growth drivers in Europe.

Target Price – 12M	Mar-26
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(9.2)

Stock Data	DRRD IN
52-week High (Rs)	1,421
52-week Low (Rs)	1,020
Shares outstanding (mn)	834.5
Market-cap (Rs bn)	965
Market-cap (USD mn)	11,298
Net-debt, FY25 (Rs mn)	(11,142.0)
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	2,967.4
ADTV-3M (USD mn)	34.8
Free float (%)	74.4
Nifty-50	24,008.0
INR/USD	85.4

Shareholding, Mar-25

Promoters (%)	26.6
FPIs/MFs (%)	25.8/37.2

Price Performance

(%)	1M	3M	12M
Absolute	5.7	(6.8)	(1.7)
Rel. to Nifty	(1.4)	(8.6)	(10.1)

1-Year share price trend (Rs)



Dr Reddy's: Financial Snapshot (Consolidated)

Y/E 2026 (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	279,164	324,269	348,362	341,518	370,617
EBITDA	78,389	85,452	84,072	72,297	83,485
Adj. PAT	55,687	56,672	51,696	43,270	53,240
Adj. EPS (Rs)	67.1	68.3	62.3	52.1	64.1
EBITDA margin (%)	28.1	26.4	24.1	21.2	22.5
EBITDA growth (%)	21.4	9.0	(1.6)	(14.0)	15.5
Adj. EPS growth (%)	55.2	1.8	(8.8)	(16.3)	23.0
RoE (%)	21.8	18.5	14.5	10.9	12.1
RoIC (%)	27.4	20.9	15.6	11.9	13.8
P/E (x)	17.2	16.9	18.6	22.2	18.0
EV/EBITDA (x)	11.5	10.5	10.7	12.4	10.8
P/B (x)	3.4	2.9	2.5	2.3	2.1
FCFF yield (%)	1.6	(5.8)	3.8	3.8	3.9

Source: Company, Emkay Research

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Exhibit 1: 4QFY25 Earnings Snapshot

Dr Reddy's P&L (Rs mn)	4QFY24A	4QFY25A	YoY chg	4QFY25E	Delta vs Emkay	4QFY25E (cons.)	Delta vs consensus	3QFY25A	QoQ chg
Net Sales	70,830	85,060	20%	85,642	-1%	83,694	2%	82,320	3%
Cost of goods sold	29,347	37,797	29%	35,745	6%			34,534	9%
Gross Profit	41,483	47,263	14%	49,897	-5%			47,786	-1%
- Margin	58.6%	55.6%	-300 bps	58.3%	-270 bps			58.0%	-248 bps
SG&A (excl amortization)	19,185	22,136	15%	22,210	0%			22,131	0%
Amortization	1,291	1,919	49%	2,012	-5%			1,986	-3%
R&D	6,877	7,258	6%	7,109	2%			6,658	9%
Impairment charges	(173)	768		-				(4)	
Adjusted EBITDA	17842	20505	15%	23,358	-12%	22,816	-10%	21730	-6%
- Margin	25.2%	24.1%	-108 bps	27.3%	-317 bps	27.3%	-316 bps	26.4%	-229 bps
D&A	2,421	2,636	9%	2,779	-5%			2,733	-4%
Oper Income	14,130	15,950	13%	18,567	-14%			17,011	-6%
- Margin	19.9%	18.8%	-120 bps	21.7%	-293 bps			20.7%	-191 bps
Equity in affiliates	35	55		59				42	
Other Income/(Expenses)	656	966	47%	716	35%			439	120%
Net Finance Expense/(Income)	(1,022)	(2,352)		(266)				20	
Profit Before Tax	16,016	18,555	16%	19,607	-5%			17,476	6%
Tax	2,946	4,181	42%	4,713	-11%			4,704	-11%
Tax rate	18.4%	22.5%	414 bps	24.0%	-150 bps			26.9%	-438 bps
Minority interest	-	(66)		-				(95)	
Extraordinary (income)/ expense	-	(1499)		-				(1266)	
Reported Net Profit	13,070	15,939	22%	14,894				14,133	13%
Adj Net Profit	12,897	15,208	18%	14,894	2%	14,657	4%	13,243	15%
Adj EPS (Rs)	15.5	18.3	18%	17.9	2%			16.0	15%

% Cost Ratios	4QFY24A	4QFY25A	YoY chg	4QFY25E	Delta vs Emkay	3QFY25A	QoQ chg
COGS	41.4	44.4	300 bps	41.7	270 bps	42.0	248 bps
SG&A	27.1	26.0	-106 bps	25.9	9 bps	26.9	-86 bps
R&D	9.7	8.5	-118 bps	8.3	23 bps	8.1	44 bps

Sales Break-up (Rs mn)	4QFY24A	4QFY25A	YoY chg	4QFY25E	Delta vs Emkay	3QFY25A	QoQ chg
Global Generics	61,190	75,364	23%	76,514	-2%	73,752	2%
North America	32,626	35,586	9%	36,384	-2%	33,834	5%
Europe	5,208	12,750	145%	12,216	4%	12,096	5%
India	11,265	13,047	16%	12,959	1%	13,464	-3%
Russia & CIS	7,200	8,900	24%	9,898	-10%	9,400	-5%
Other markets	4,891	5,081	4%	5,056	0%	4,958	2%
PSAI	8,219	9,563	16%	8,498	13%	8,219	16%
Others	1,420	132	-91%	630	-79%	1,614	-92%

Source: Company, Bloomberg, Emkay Research

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Exhibit 2: Estimate Changes

(Rs mn)	FY26E			FY27E		
	Old	New	Chg	Old	New	Chg
North America	140,182	139,734	0%	115,181	114,720	0%
Europe	51,349	51,879	1%	55,457	56,029	1%
Total generics	191,531	191,613	0%	170,637	170,750	0%
Russia	28,788	27,867	-3%	30,803	29,818	-3%
CIS	9,633	9,623	0%	10,404	10,393	0%
Other markets	21,650	21,677	0%	23,382	23,411	0%
India	59,548	59,645	0%	66,098	66,206	0%
Total branded formulations	119,619	118,812	-1%	130,687	129,827	-1%
PSAI	35,404	36,892	4%	38,236	39,844	4%
Total revenue	348,674	348,362	0%	341,787	341,518	0%
Gross profit	193,863	193,689	0%	177,729	177,589	0%
- margin	55.6%	55.6%		52.0%	52.0%	
EBITDA	84,096	84,072	0%	72,339	72,297	0%
- margin	24.1%	24.1%		21.2%	21.2%	
Adj PAT	51,881	51,696	0%	43,308	43,270	0%
Adj EPS (Rs)	62.5	62.3	0%	52.2	52.1	0%

Source: Emkay Research

Dr Reddy's: Consolidated Financials and Valuations

Profit & Loss

Y/E 2026 (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	279,164	324,269	348,362	341,518	370,617
Revenue growth (%)	13.5	16.2	7.4	(2.0)	8.5
EBITDA	78,389	85,452	84,072	72,297	83,485
EBITDA growth (%)	21.4	9.0	(1.6)	(14.0)	15.5
Depreciation & Amortization	9,576	10,506	11,786	12,873	13,995
EBIT	63,533	68,393	63,925	50,562	60,201
EBIT growth (%)	22.3	7.6	(6.5)	(20.9)	19.1
Other operating income	-	-	-	-	-
Other income	4,346	3,312	3,722	3,678	4,008
Financial expense	(3,994)	(4,724)	(2,215)	(4,389)	(7,759)
PBT	71,873	76,429	69,863	58,629	71,969
Extraordinary items	(3)	(127)	0	0	0
Taxes	16,186	19,056	17,466	14,657	17,992
Minority interest	-	(701)	(701)	(701)	(736)
Income from JV/Associates	-	-	-	-	-
Reported PAT	55,684	56,545	51,696	43,270	53,240
PAT growth (%)	23.6	1.5	(8.6)	(16.3)	23.0
Adjusted PAT	55,687	56,672	51,696	43,270	53,240
Diluted EPS (Rs)	67.1	68.3	62.3	52.1	64.1
Diluted EPS growth (%)	55.2	1.8	(8.8)	(16.3)	23.0
DPS (Rs)	8.0	8.0	7.0	6.0	7.0
Dividend payout (%)	11.9	11.8	11.2	11.5	10.9
EBITDA margin (%)	28.1	26.4	24.1	21.2	22.5
EBIT margin (%)	22.8	21.1	18.4	14.8	16.2
Effective tax rate (%)	22.5	24.9	25.0	25.0	25.0
NOPLAT (pre-IndAS)	49,225	51,340	47,944	37,921	45,151
Shares outstanding (mn)	830	830	830	830	830

Source: Company, Emkay Research

Cash flows

Y/E 2026 (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	67,527	73,117	66,141	54,951	67,960
Others (non-cash items)	(32,597)	(34,316)	(27,355)	(27,355)	(27,355)
Taxes paid	20,047	19,993	17,466	14,657	17,992
Change in NWC	(20,406)	(18,025)	(7,708)	2,190	(9,309)
Operating cash flow	45,433	53,104	66,474	61,789	64,813
Capital expenditure	(31,390)	(105,343)	(32,299)	(27,321)	(29,649)
Acquisition of business	506	(615)	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	(40,283)	(71,961)	(30,009)	(25,077)	(27,074)
Equity raised/(repaid)	1,078	368	0	0	0
Debt raised/(repaid)	6,548	26,746	(9,000)	(5,000)	(9,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	3,994	4,724	2,215	4,389	7,759
Dividend paid (incl tax)	(6,648)	(6,662)	(5,810)	(4,980)	(5,810)
Others	(8,735)	(5,244)	(5,683)	(5,683)	(5,683)
Financing cash flow	(3,763)	19,932	(18,277)	(11,274)	(12,733)
Net chg in Cash	1,387	1,075	18,188	25,439	25,006
OCF	45,433	53,104	66,474	61,789	64,813
Adj. OCF (w/o NWC chg.)	65,839	71,129	74,182	59,599	74,122
FCFF	14,043	(52,239)	34,175	34,467	35,164
FCFE	12,332	(55,068)	31,005	31,822	33,044
OCF/EBITDA (%)	58.0	62.1	79.1	85.5	77.6
FCFE/PAT (%)	22.1	(97.4)	60.0	73.5	62.1
FCFF/NOPLAT (%)	28.5	(101.7)	71.3	90.9	77.9

Source: Company, Emkay Research

Balance Sheet

Y/E 2026 (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	834	834	834	834	834
Reserves & Surplus	279,716	332,554	378,440	416,731	464,161
Net worth	280,550	333,388	379,274	417,565	464,995
Minority interests	-	3,778	4,479	5,180	5,916
Non-current liab. & prov.	(5,896)	(1,097)	(1,097)	(1,097)	(1,097)
Total debt	20,020	46,766	37,766	32,766	23,766
Total liabilities & equity	294,674	382,835	420,422	454,414	493,580
Net tangible fixed assets	(31,411)	(25,771)	(28,499)	(33,159)	(37,912)
Net intangible assets	135,039	209,001	223,882	234,127	245,246
Net ROU assets	-	-	-	-	-
Capital WIP	14,462	23,144	23,144	23,144	23,144
Goodwill	4,253	11,810	11,810	11,810	11,810
Investments [JV/Associates]	4,196	4,811	4,811	4,811	4,811
Cash & equivalents	81,470	57,908	75,635	106,230	129,722
Current assets (ex-cash)	172,988	205,388	219,669	215,612	232,860
Current Liab. & Prov.	82,070	91,646	98,219	96,352	104,290
NWC (ex-cash)	90,918	113,742	121,450	119,260	128,570
Total assets	294,674	382,835	420,422	454,414	493,580
Net debt	(61,450)	(11,142)	(37,869)	(73,464)	(105,956)
Capital employed	294,674	382,835	420,422	454,414	493,580
Invested capital	194,546	296,972	316,833	320,229	335,903
BVPS (Rs)	338.0	401.7	457.0	503.1	560.2
Net Debt/Equity (x)	(0.2)	-	(0.1)	(0.2)	(0.2)
Net Debt/EBITDA (x)	(0.8)	(0.1)	(0.5)	(1.0)	(1.3)
Interest coverage (x)	(17.0)	(15.2)	(30.5)	(12.4)	(8.3)
RoCE (%)	24.9	21.0	16.8	12.4	13.5

Source: Company, Emkay Research

Valuations and key Ratios

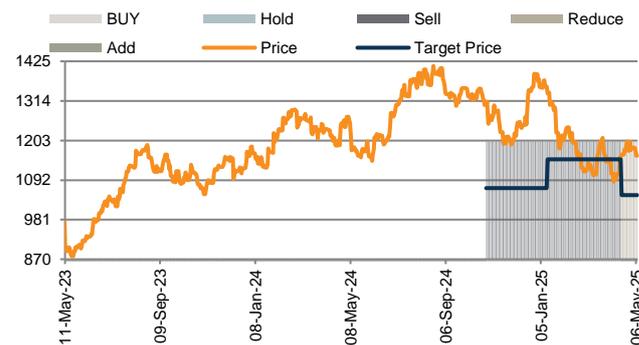
Y/E 2026	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	17.2	16.9	18.6	22.2	18.0
P/CE(x)	13.6	13.0	13.4	14.8	12.5
P/B (x)	3.4	2.9	2.5	2.3	2.1
EV/Sales (x)	3.2	2.8	2.6	2.6	2.4
EV/EBITDA (x)	11.5	10.5	10.7	12.4	10.8
EV/EBIT(x)	14.1	13.1	14.0	17.8	14.9
EV/IC (x)	4.6	3.0	2.8	2.8	2.7
FCFF yield (%)	1.6	(5.8)	3.8	3.8	3.9
FCFE yield (%)	1.3	(5.7)	3.2	3.3	3.4
Dividend yield (%)	0.7	0.7	0.6	0.5	0.6
DuPont-RoE split					
Net profit margin (%)	19.9	17.5	14.8	12.7	14.4
Total asset turnover (x)	1.0	1.0	0.9	0.8	0.8
Assets/Equity (x)	1.0	1.1	1.1	1.1	1.1
RoE (%)	21.8	18.5	14.5	10.9	12.1
DuPont-RoIC					
NOPLAT margin (%)	17.6	15.8	13.8	11.1	12.2
IC turnover (x)	1.6	1.3	1.1	1.1	1.1
RoIC (%)	27.4	20.9	15.6	11.9	13.8
Operating metrics					
Core NWC days	118.9	128.0	127.3	127.5	126.6
Total NWC days	118.9	128.0	127.3	127.5	126.6
Fixed asset turnover	1.0	1.0	0.9	0.8	0.8
Opex-to-revenue (%)	30.5	32.0	31.5	30.8	30.5

Source: Company, Emkay Research

RECOMMENDATION HISTORY – DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
17-Apr-25	1,164	1,050	Reduce	Shashank Krishnakumar
24-Jan-25	1,224	1,150	Sell	Shashank Krishnakumar
13-Jan-25	1,335	1,150	Sell	Shashank Krishnakumar
06-Nov-24	1,302	1,070	Sell	Shashank Krishnakumar
27-Oct-24	1,303	1,070	Sell	Shashank Krishnakumar

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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