

# Dr Reddys Laboratories | BUY

## New initiatives to help avoid Revlimid cliff

DRRD delivered a strong performance with Revenue/EBITDA/PAT growing 17%/11%/-8% YoY ahead of JMFe and street expectations. US business (8% beat) was led by gRevlimid ramp-up, albeit softer QoQ, was the primary driver. Complex launches and biosimilars will sustain momentum in this business over the medium term. NRT acquisition will reflect from 3Q further improving core margins. India business (in line) improvement was visible with around 9-10% ex-vaccines growth, with management confident of sustaining above market growth. Emerging markets (16% beat) was a star performer this quarter with Russia delivering 27% CC growth (sustainable per mgmt. commentary). The company remains upbeat on the GLP-1 opportunity and believes backward integration is DRRD's strength. R&D spends were higher at 9.1% (full year guidance at 8.5-9%) with 36% spends concentrated on biologics/Aurigene and balance on generics/API. Higher S,G&A spends mirror growth in ex-US markets scale-up and excl. one-offs, is largely sustainable going ahead. Robust double digit growth across key markets, healthy but unappreciated US (and global) pipeline, NRT consolidation and attractive valuations lead to our positive stance. Maintain BUY with a revised Sep '25 TP of INR 1,655.

- US delivers robust performance:** US business reported robust sales of INR 37.3bn (8% beat) growing 20% YoY. The improvement was driven by an increase in volumes, and was partly offset by price erosion. During the quarter, the company launched 4 new products and filed two new ANDAs with the U.S. FDA. As of Sep 30, 2024, 80 generic filings were approvals pending from the U.S. FDA.
- Nicotinell acquisition complete:** DRRD closed the acquisition of Haleon's global Nicotine Replacement Therapy ('NRT') OTC brands for GBP 458mn (an additional GBP 42mn is contingent consideration payable in CY25/26). This acquisition will help leverage customer relationships and give an opportunity to cross-sell. The management believe that 1. Focus on brand building 2. Increasing geographic reach and 3. Innovation on product development and lifecycle management will be key drivers of growth in this business. The acquisition alleviates concerns around managing gRevlimid cliff. Recent initiatives like Nestle JV, biosimilars, innovation, licensing deals, etc. pinpoint towards DRRD's focus on growing its new businesses. With domestic growth catching up with market growth and Haleon brand acquisitions enhancing ex-Revlimid EPS, we believe there is an opportunity to unlock value here.
- Vaccine portfolio helps drive India beat:** Domestic sales grew 18%YoY (in line) to INR 14bn. Growth was supported by the Sanofi vaccine portfolio, adjusted for the acquisition, it grew in 9-10%. This is in line with management's guidance of IPM outperformance. We believe India business will continue to deliver IPM-beating growth over the next few years (~12% CAGR). The company launched 3 new during the quarter (16 launches YTD).
- EMs strong; driven by Russia & RoW:** EM grew of 20% YoY/ +23% QoQ to INR 14.6bn with Russia growing 18% YoY (27% in CC terms) despite unfavourable forex rate movements, growth was driven by price increases, higher volumes and product launches.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,655
Upside/(Downside)	30.1%
Previous Price Target	1,709
Change	-3.2%

### Key Data – DRRD IN

Current Market Price	INR1,272
Market cap (bn)	INR1,061.5/US\$12.6
Free Float	62%
Shares in issue (mn)	834.4
Diluted share (mn)	834.4
3-mon avg daily val (mn)	INR2,478.1/US\$29.5
52-week range	1,421/1,057
Sensex/Nifty	79,477/24,213
INR/US\$	84.1

### Price Performance

%	1M	6M	12M
Absolute	-4.1	0.2	20.9
Relative*	-1.4	-6.9	-2.1

\* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	245,879	279,164	318,957	360,139	331,869
Sales Growth (%)	14.7	13.5	14.3	12.9	-7.8
EBITDA	70,479	82,587	87,713	103,360	80,478
EBITDA Margin (%)	28.7	29.6	27.5	28.7	24.3
Adjusted Net Profit	35,348	33,371	26,193	42,452	53,458
Diluted EPS (INR)	42.4	40.0	31.4	50.9	64.1
Diluted EPS Growth (%)	18.7	-5.6	-21.5	62.1	25.9
ROIC (%)	20.0	23.6	22.6	27.7	20.2
ROE (%)	17.6	14.7	10.2	14.4	16.1
P/E (x)	30.0	31.8	40.5	25.0	19.9
P/B (x)	5.0	4.4	3.9	3.3	3.1
EV/EBITDA (x)	15.2	12.7	11.6	9.6	11.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 05/Nov/2024

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.

The management believes Russia can grow as fast as India, although this will be largely pricing-led. Revenue from RoW territories grew 32% YoY to INR 5.6bn driven by momentum in base business and contribution from new products. Europe grew 9% YoY (7% beat) to INR 5.8bn. PSAL grew +20%YoY /+10%QoQ (7% beat) to INR 8.4bn with YoY driven by momentum in base business, growth in service business and contribution from new products.

- **Biosimilars:** The biosimilars opportunity is going to be meaningful from 2027, with the launch of Abatacept (early CY27 opportunity) which is currently undergoing Phase 3 trials. The management indicated that a sizeable portion of its biosimilar R&D is dedicated to Abatacept. The company will likely see Rituximab and Denosumab USA launch in FY26, Europe launch for Rituximab in early CY25.
- **Nestle deal – chasing the horizon:** The management re-iterated that the deal (JV with Nestle) is one for the long-term and will see meaningful topline realisation only after a few years. This is primarily due to the time needed for the company to build scale and brand recognition for the new brands to be introduced through the JV but they believe the stickiness of this business is a key strength of the segment. The company aim to scale this business and aim to become one of the largest Nutraceutical players. The deal was completed on Aug 1<sup>st</sup>, 2024 with DRRD holding a 51% stake in the JV as of 2Q25. The PAT attributable to minority interest was primarily recognition of deferred tax asset on account of transfer of business from the parent to the Nutraceutical subsidiary.
- **GLP-1 opportunity:** The management was confident; they can leverage the company's superior R&D and manufacturing ability to seize the GLP-1 opportunity. They plan on being a Day-1 launch across all markets in Semaglutide and are preparing on capitalising on 14-15 GLP-1 products – most of which will fructify in the next decade. DRRD's backward integration will enable the company to manufacture Semaglutide end-to-end, while the device will be procured through a CMO.
- **Key financials:**
  - Revenue/Adj. EBITDA/APAT of INR 80.2bn/22.1bn/13.7bn grew +17%/+11%/-8% YoY respectively and were +8%/+13%/+19% vs. our expectations and +4%/+2%/-4% vs. Street expectations.
  - Gross margin was 60% (vs. 59% YoY; vs. 60% QoQ) due to better product mix.
  - Adj. EBITDA margin declined to 27.5% vs. 28.9% YoY/28.2% QoQ (JMFe: 26.4%).
  - During the quarter there were one-off expenses related to acquisition cost (~INR 600mn) and impairment of non-current assets related to gNuvaring (~INR 900mn)
  - Capex for the quarter was INR 7.4bn while FCF was INR 2bn.
  - The R&D expenses were at 9.1% of sales
  - Net cash surplus as of 30<sup>th</sup> Sep'24 was INR 18.9bn.
  - ETR guidance for FY25 remains ~25%.

**Exhibit 1. Recent initiatives**

Date	Notable events in Specialty/Specialty generics
Jan-24	Launched in-house PRIMCYV (Breast Cancer Drug taken from Pfizer) in India
Feb-24	Acquired Mayne Pharma US generic portfolio
Jun-24	Completed Phase 1 studies of Tocilizumab Biosimilar
Jul-24	Submitted Trastuzumab dossier in US, UK and Europe
Nov-24	Launched Nerivio (US FDA approved Path breaking Migraine treatment) in India
Dec-24	Enters into exclusive agreement for Coya 302 (ALS product)
Jan-24	Announces the acquisition of MenoLabs in US (women healthcare & Nutra)
Jan-24	Forayed into the consumer health market of UK with the launch of allergy medication, Histallay
Mar-24	Launches Versavo (Bevacizumab biosimilar) in UK
Mar-24	In licensed first in class Cethaquine for Hypovolemic shock in India
Mar-24	Exclusive distribution partnership for Sanofi's Vaccines brands in India
Apr-24	Partnered with Bayer to distribute Vericiguat, a heart failure management drug, in India
Apr-24	Launched migraine management wearable device, Nerivio®, in Germany and South Africa
Apr-24	Launched 'DailyBloom IBS' digital integrated care plan to manage Irritable Bowel Syndrome
Apr-24	Announced JV with Nestle for health science nutraceutical portfolio
May-24	Acquired Haleon's global consumer OTC brands for NRT
Jun-24	Licensingin agreement with Zydus for co-marketing of Pertuzumab biosimilar
Jul-24	Non-exclusive patent licensing agreement with Takeda to commercialise Vonoprazan, a novel gastrointestinal drug in India
Oct-24	Voluntary licensing agreement with Gilead Sciences to manufacture and commercialise Lenacapavir in India and other countries
Oct-24	Launches Elobixibat (BixiBat®) a first-in-class drug to treat chronic constipation in India

Source: Company

**Exhibit 2. Valuations attractive**



Source: Bloomberg, JM Financial

## Exhibit 3. 2QFY25 review

Dr. (INR mn)	Reddy's	P&L	Q2 FY24	Q2 FY25	% YoY	Q2 FY25E	% Delta vs JMFe	Q2 FY25E (cons.)	% Delta vs cons	Q1 FY25	% QoQ
<b>Net Sales</b>			<b>68,802</b>	<b>80,162</b>	<b>17%</b>	<b>74,275</b>	<b>8%</b>	<b>77,170</b>	<b>4%</b>	<b>76,727</b>	<b>4%</b>
Cost of goods sold			28,434	<b>32,393</b>	14%	30,500	6%			30,383	7%
Gross Profit			40,368	47,769	18%	43,775				46,344	
% Margin			59%	60%	92 bps	59%				60%	
SG&A (excl. amort)			15,005	19,032	27%	18,200	5%			21,389	-11%
R&D			5,447	7,271	33%	6,000	21%			6,193	17%
Impairment charges			-55	-924		-5				5	
<b>EBITDA</b>			<b>19916</b>	<b>21466</b>	<b>8%</b>	<b>19575</b>	<b>10%</b>	<b>21,590</b>	<b>-1%</b>	<b>21212</b>	
% Margin			28.9%	26.8%		26.4%		28%	-120 bps	27.6%	
<b>Adjusted EBITDA</b>			<b>19916</b>	<b>22066</b>	<b>11%</b>	<b>19575</b>	<b>13%</b>	<b>21,590</b>	<b>2%</b>	<b>21629</b>	<b>2%</b>
% Margin			28.9%	27.5%	-142 bps	26.4%	117 bps	28.0%	-45 bps	28.2%	-66 bps
D&A			3,790	3,975	5%	3,850	3%			2,450	62%
Equity in affiliates			42	61	45%	140				59	3%
Other Income/(Expenses)			-1,796	-984	-45%	-800				470	-309%
Net Finance Expense/(Income)			(1225)	(1555)		156				(837)	
Profit Before Tax			19134	19167	0%	16504				18821	2%
Tax			4334	5752		5000				4901	
Extraordinary (income)/ expense			41	693		4				0	
<b>Adj. Net Profit</b>			<b>14841</b>	<b>13,666</b>	<b>-8%</b>	<b>11507</b>	<b>19%</b>	<b>14,240</b>	<b>-4%</b>	<b>14242</b>	<b>-4%</b>
% Net Profit Margin			21.6%	17.0%		15.5%				18.6%	
<b>Adj. EPS</b>			<b>17.8</b>	<b>15.9</b>		<b>13.8</b>				<b>17.1</b>	
<b>% Cost Ratios</b>			<b>Q2 FY24</b>	<b>Q2 FY25</b>	<b>% YoY</b>	<b>Q2 FY25E</b>	<b>% Delta vs JMFe</b>	<b>Q2 FY25E (cons.)</b>	<b>% Delta vs cons</b>	<b>Q1 FY25</b>	<b>% QoQ</b>
COGS			41.3	40.4	-92 bps	41.1	-65 bps			39.6	81 bps
SG&A			21.8	23.7	193 bps	24.5	-76 bps			27.9	-413 bps
R&D			7.9	9.1	115 bps	8.1	99 bps			8.1	100 bps
<b>Sales Break-up</b>			<b>Q2 FY24</b>	<b>Q2 FY25</b>	<b>% YoY</b>	<b>Q2 FY25E</b>	<b>% Delta vs JMFe</b>	<b>Q2 FY25E (cons.)</b>	<b>% Delta vs cons</b>	<b>1QFY25A</b>	<b>% QoQ</b>
<b>Global Generics</b>			<b>61,009</b>	<b>71,576</b>	<b>17%</b>	<b>66,175</b>	<b>8%</b>			<b>68,857</b>	<b>4%</b>
North America			31,700	37,281	18%	34,475	8%			38,462	-3%
Europe			5,286	5,770	9%	5,400	7%			5,265	10%
India			11,860	13,971	18%	13,800	1%			13,252	5%
Russia & CIS			8,063	9,000	12%	8,000	13%			7,400	22%
Others			4,100	5,554	35%	4,500	23%			4,478	24%
<b>PSAI</b>			<b>7,034</b>	<b>8,407</b>	<b>20%</b>	<b>7,800</b>	<b>8%</b>			<b>7,657</b>	<b>10%</b>
<b>Prop products and Others</b>			<b>684</b>	<b>179</b>	<b>-74%</b>	<b>300</b>	<b>-40%</b>			<b>212</b>	<b>-16%</b>

Source: Company, Bloomberg, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	245,879	279,164	318,957	360,139	331,869	
Sales Growth	14.7%	13.5%	14.3%	12.9%	-7.8%	
Other Operating Income	0	0	0	0	0	
<b>Total Revenue</b>	<b>245,879</b>	<b>279,164</b>	<b>318,957</b>	<b>360,139</b>	<b>331,869</b>	
Cost of Goods Sold/Op. Exp	106,536	115,557	128,540	144,055	142,704	
Personnel Cost	0	0	0	0	0	
Other Expenses	68,864	81,020	102,704	112,723	108,687	
<b>EBITDA</b>	<b>70,479</b>	<b>82,587</b>	<b>87,713</b>	<b>103,360</b>	<b>80,478</b>	
EBITDA Margin	28.7%	29.6%	27.5%	28.7%	24.3%	
EBITDA Growth	44.2%	17.2%	6.2%	17.8%	-22.1%	
Depn. & Amort.	13,335	14,858	15,659	16,206	16,096	
EBIT	57,144	67,729	72,054	87,154	64,383	
Other Income	2,853	3,994	3,000	5,500	7,000	
Finance Cost	0	0	-2,225	373	301	
PBT before Excep. & Forex	59,997	71,723	77,279	92,281	71,082	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	59,997	71,723	77,279	92,281	71,082	
Taxes	15,300	16,186	22,458	23,115	17,819	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	370	147	162	178	196	
Reported Net Profit	45,067	55,684	54,983	69,344	53,458	
<b>Adjusted Net Profit</b>	<b>35,348</b>	<b>33,371</b>	<b>26,193</b>	<b>42,452</b>	<b>53,458</b>	
Net Margin	14.4%	12.0%	8.2%	11.8%	16.1%	
Diluted Share Cap. (mn)	834.4	834.4	834.4	834.4	834.4	
<b>Diluted EPS (INR)</b>	<b>42.4</b>	<b>40.0</b>	<b>31.4</b>	<b>50.9</b>	<b>64.1</b>	
Diluted EPS Growth	18.7%	-5.6%	-21.5%	62.1%	25.9%	
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	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	60,367	71,870	77,441	92,459	71,278	
Depn. & Amort.	12,636	14,855	15,629	16,206	16,096	
Net Interest Exp. / Inc. (-)	3,846	0	-2,225	373	301	
Inc (-) / Dec in WCap.	-28,742	-7,416	-8,270	-15,753	4,697	
Others	0	3	30	0	0	
Taxes Paid	-15,619	-16,545	-22,861	-23,567	-18,325	
<b>Operating Cash Flow</b>	<b>32,489</b>	<b>62,767</b>	<b>59,744</b>	<b>69,718</b>	<b>74,045</b>	
Capex	-7,204	-9,000	-11,000	-11,001	-11,001	
Free Cash Flow	25,285	53,767	48,744	58,717	63,044	
Inc (-) / Dec in Investments	8,529	-2,098	-2,308	-2,539	-2,793	
Others	0	0	0	0	0	
<b>Investing Cash Flow</b>	<b>1,325</b>	<b>-11,098</b>	<b>-13,308</b>	<b>-13,540</b>	<b>-13,794</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-24,406	-24,406	-24,406	-25,382	-25,382	
Inc / Dec (-) in Loans	-19,000	-1,804	-1,804	-1,804	-1,804	
Others	-3,527	358	2,596	79	205	
<b>Financing Cash Flow</b>	<b>-46,933</b>	<b>-25,852</b>	<b>-23,614</b>	<b>-27,107</b>	<b>-26,981</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-13,119</b>	<b>25,817</b>	<b>22,822</b>	<b>29,071</b>	<b>33,271</b>	
Opening Cash Balance	14,852	1,733	27,550	50,372	79,443	
Closing Cash Balance	1,733	27,550	50,372	79,443	112,714	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	211,188	242,466	273,044	317,006	345,082	
Share Capital	832	832	832	832	832	
Reserves & Surplus	210,356	241,634	272,212	316,174	344,250	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	14,845	13,041	11,237	9,433	7,629	
Def. Tax Liab. / Assets (-)	-8,144	-8,144	-8,144	-8,144	-8,144	
<b>Total - Equity &amp; Liab.</b>	<b>217,889</b>	<b>247,363</b>	<b>276,137</b>	<b>318,295</b>	<b>344,567</b>	
Net Fixed Assets	96,392	90,537	85,908	80,703	75,608	
Gross Fixed Assets	149,593	157,593	167,593	177,593	187,593	
Intangible Assets	34,664	35,664	36,664	37,664	38,664	
Less: Depn. & Amort.	92,365	107,220	122,849	139,055	155,151	
Capital WIP	4,500	4,500	4,500	4,501	4,502	
Investments	4,318	4,318	4,318	4,318	4,318	
Current Assets	176,216	216,509	256,919	315,440	344,237	
Inventories	49,539	53,734	59,771	67,706	67,071	
Sundry Debtors	80,225	85,502	91,310	103,100	95,007	
Cash & Bank Balances	1,733	27,550	50,372	79,443	112,714	
Loans & Advances	0	0	0	0	0	
Other Current Assets	44,719	49,723	55,466	65,191	69,446	
Current Liab. & Prov.	59,037	63,998	71,009	82,166	79,596	
Current Liabilities	25,906	27,900	30,769	34,198	33,899	
Provisions & Others	33,130	36,098	40,239	47,968	45,697	
Net Current Assets	117,180	152,511	185,911	233,274	264,641	
<b>Total - Assets</b>	<b>217,890</b>	<b>247,366</b>	<b>276,137</b>	<b>318,295</b>	<b>344,567</b>	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	14.4%	12.0%	8.2%	11.8%	16.1%	
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.0	
Leverage Factor (x)	1.1	1.1	1.1	1.0	1.0	
RoE	17.6%	14.7%	10.2%	14.4%	16.1%	

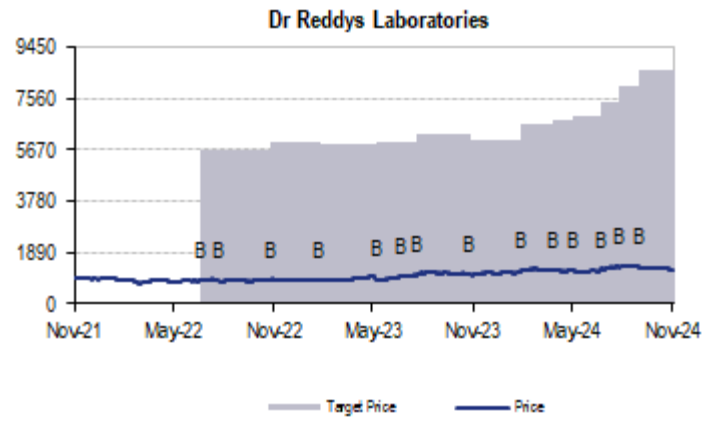
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	253.1	290.6	327.2	379.9	413.6	
ROIC	20.0%	23.6%	22.6%	27.7%	20.2%	
ROE	17.6%	14.7%	10.2%	14.4%	16.1%	
Net Debt/Equity (x)	0.1	-0.1	-0.1	-0.2	-0.3	
P/E (x)	30.0	31.8	40.5	25.0	19.9	
P/B (x)	5.0	4.4	3.9	3.3	3.1	
EV/EBITDA (x)	15.2	12.7	11.6	9.6	11.9	
EV/Sales (x)	4.4	3.7	3.2	2.8	2.9	
Debtor days	119	112	104	104	104	
Inventory days	74	70	68	69	74	
Creditor days	49	47	45	45	46	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
22-Jun-22	Buy	5,685	
28-Jul-22	Buy	5,685	0.0
29-Oct-22	Buy	5,960	4.8
26-Jan-23	Buy	5,890	-1.2
11-May-23	Buy	5,980	1.5
25-Jun-23	Buy	5,980	0.0
26-Jul-23	Buy	6,260	4.7
29-Oct-23	Buy	6,055	-3.3
31-Jan-24	Buy	6,585	8.8
31-Mar-24	Buy	6,780	3.0
7-May-24	Buy	6,935	2.3
27-Jun-24	Buy	7,390	6.6
28-Jul-24	Buy	8,010	8.4
4-Sep-24	Buy	8,565	6.9

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

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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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