

Looking past the headline numbers and adjusting for multiple one-offs, 4QFY26 EBITDA margin for Dr Reddy's (14.5%) was ~400bps lower vs street estimates (EBITDA miss of ~25% vs street/our estimates). We have been of the view that the debate around the magnitude of the Semaglutide opportunity for Dr Reddy's is only meaningful if the ex-gRevlimid quarterly US base settles at USD230-240mn. While the US base business figure, adjusted for one-offs, was in that range in 4Q, we believe that 1QFY27 sales alone can help conclude if this is a reasonable quarterly run rate to work with. Besides, this quarter's gross margin performance clearly points to sharp pricing pressures in the core US base business which we have been highlighting in the past, and which are now well-acknowledged. The management's confident commentary—double-digit growth in North America in FY27 (ex-Semaglutide, ex-gRevlimid), 6-7mn Semaglutide pen sales in CY26, and gross margin recovery to >50% in FY27—could prevent meaningful consensus earnings downgrades for now. However, in the absence of concrete positives, our cautious stance on the name remains unchanged. We roll-forward to Mar-28E earnings, which we cut by ~5%, and introduce FY29 estimates. We retain REDUCE on Dr Reddy's with a Mar-27 TP of Rs1,200.

#### US much weaker-than-expected; superlative domestic performance continues

US sales, excl the shelf stock adjustment for gRevlimid, at USD235mn, were still meaningfully below expectations. Domestic growth at 20% YoY was ahead of expectations, with the contribution of acquired brands not being meaningful in 4Q. The miss in EBITDA was primarily driven by lower gross margin (~48% adj; ~400bps below our estimate). Adjusted gross margin for global generics was 51.7% (vs 57.4% in 3Q).

#### KTAs from the earnings call

1) The company does not expect additional competition in Canada in Semaglutide for the next several months. The Canada market is equally split between the public, private, and cash channels (price regulation is applicable in the public channel). Semaglutide will be priced at half of Novo's list price in Canada (the floor price will be USD25 per pen in most markets). 2) Global biosimilar sales stand at ~USD100mn, with the segment expected to see breakeven post launch of Abatacept; expect approval for IV Abatacept by early CY27. The filing for the subcutaneous version in the US is expected in CY26 (delayed in Europe). US Abatacept sales are equally split between the IV and the subcutaneous versions (IV share is much lower in Europe). 3) The company expects to launch Semaglutide in >50 markets in CY26 and in >80 markets in the next 12 months; ~50% of the pens will be sold via partners. The company also has a partnered Semaglutide filing in Brazil and expects to receive approval for the clone product in parallel with its own initial submission. 4) SG&A spend is expected to be flattish YoY in absolute terms, in FY27; expect R&D at 7-8% of sales. 5) See 27 new product launches in the US in FY27.

Target Price – 12M	Mar-27
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(5.5)

Stock Data	DRRD IN
52-week High (Rs)	1,380
52-week Low (Rs)	1,143
Shares outstanding (mn)	834.7
Market-cap (Rs bn)	1,060
Market-cap (USD mn)	11,085
Net-debt, FY27E (Rs mn)	(29,050.4)
ADTV-3M (mn shares)	2.0
ADTV-3M (Rs mn)	2,912.0
ADTV-3M (USD mn)	30.5
Free float (%)	73.1
Nifty-50	23,379.6
INR/USD	95.6

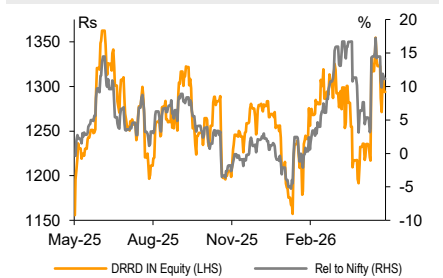
#### Shareholding, Mar-26

Promoters (%)	26.6
FPIs/MFs (%)	21.1/42.7

#### Price Performance

(%)	1M	3M	12M
Absolute	3.1	(0.4)	6.2
Rel. to Nifty	6.0	10.0	13.2

#### 1-Year share price trend (Rs)



#### Dr Reddy's: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	324,269	340,463	365,935	397,082	434,130
EBITDA	85,452	74,772	75,062	85,499	100,776
Adj. PAT	56,672	50,293	45,978	53,832	65,352
Adj. EPS (Rs)	68.3	60.6	55.4	64.9	78.7
EBITDA margin (%)	26.4	22.0	20.5	21.5	23.2
EBITDA growth (%)	9.0	(12.5)	0.4	13.9	17.9
Adj. EPS growth (%)	1.8	(11.3)	(8.6)	17.1	21.4
RoE (%)	18.5	14.2	11.6	12.2	13.2
RoIC (%)	21.0	13.8	11.4	12.4	14.0
P/E (x)	18.6	21.0	22.9	19.6	16.1
EV/EBITDA (x)	11.6	13.3	13.2	11.6	9.9
P/B (x)	3.2	2.8	2.5	2.3	2.0
FCFF yield (%)	(5.9)	0.9	2.4	2.8	3.5

Source: Company, Emkay Research

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## Exhibit 1: Dr Reddy's - 4QFY26 earnings snapshot

Dr Reddy's P&L (Rs mn)	4QFY25A	4QFY26A	YoY chg	4QFY26E	Delta vs Emkay	4QFY26E (consensus)	Delta vs consensus	3QFY26A	QoQ chg
<b>Net Sales</b>	<b>85,060</b>	<b>79,692</b>	<b>-6%</b>	<b>80,969</b>	<b>-2%</b>	<b>82,485</b>	<b>-3%</b>	<b>87,268</b>	<b>-9%</b>
Cost of goods sold	37,797	41,698	10%	38,819	7%			40,026	4%
Gross Profit	47,263	37,995	-20%	42,150	-10%			47,242	-20%
- Margin	55.6%	47.7%	-789 bps	52.1%	-438 bps			54.1%	-646 bps
SG&A (excl. amortization)	22,136	24,445	10%	23,666	3%			24,183	1%
Amortization	1,919	2,117	10%	2,135	-1%			2,037	4%
R&D	7,258	5,463	-25%	6,181	-12%			6,149	-11%
Impairment charges	768	2586						271	
<b>EBITDA</b>	<b>20,505</b>	<b>11,546</b>	<b>-44%</b>	<b>15,535</b>	<b>-26%</b>	<b>15,074</b>	<b>-23%</b>	<b>20,088</b>	<b>-43%</b>
- Margin	24.1%	14.5%	-962 bps	19.2%	-470 bps	18.3%	-379 bps	23.0%	-853 bps
Depreciation	2,636	3,459	31%	3,233	7%			3,178	9%
<b>Op. Income</b>	<b>15,950</b>	<b>5,970</b>	<b>-63%</b>	<b>10,167</b>	<b>-41%</b>			<b>14,873</b>	<b>-60%</b>
- Margin	18.8%	7.5%	-1126 bps	12.6%	-507 bps			17.0%	-955 bps
Equity in affiliates	55	46		86				23	
Other Income/(Expenses)	966	2,207	128%	967	128%			770	187%
Net Finance Expense/(Income)	(2352)	(620)		(1094)				(1168)	
Profit Before Tax	18,555	6,257	-66%	12,314	-49%			16,563	-62%
Tax	4,181	(214)		3,389				3,533	
Minority interest	(66)	4		(138)				(202)	
Extraordinary (income)/ expense	-	4266		0				(1499)	
<b>Adjusted Net Profit</b>	<b>15,208</b>	<b>7,773</b>	<b>-49%</b>	<b>9,062</b>	<b>-14%</b>	<b>8,712</b>	<b>-11%</b>	<b>13,163</b>	<b>-41%</b>
<b>Adjusted EPS (Rs)</b>	<b>18.3</b>	<b>9.4</b>	<b>-49%</b>	<b>10.9</b>	<b>-14%</b>			<b>15.9</b>	<b>-41%</b>
<b>Cost ratio (%)</b>	<b>4QFY25A</b>	<b>4QFY26A</b>	<b>YoY chg</b>	<b>4QFY26E</b>	<b>Delta vs Emkay</b>			<b>3QFY26A</b>	<b>QoQ chg</b>
COGS	44.4	52.3	789 bps	47.9	438 bps			45.9	646 bps
SG&A	26.0	30.7	465 bps	29.2	145 bps			27.7	296 bps
R&D	8.5	6.9	-168 bps	7.6	-78 bps			7.0	-19 bps
<b>Sales Break-up</b>	<b>4QFY25A</b>	<b>4QFY26A</b>	<b>YoY chg</b>	<b>4QFY26E</b>	<b>Delta vs Emkay</b>			<b>3QFY26A</b>	<b>QoQ chg</b>
<b>Global Generics</b>	<b>75,364</b>	<b>70,332</b>	<b>-7%</b>	<b>72,447</b>	<b>-3%</b>			<b>79,113</b>	<b>-11%</b>
North America	35,586	22,092	-38%	24,620	-10%			29,644	-25%
Europe	12,750	14,520	14%	14,553	0%			14,476	0%
India	13,047	15,663	20%	15,164	3%			16,032	-2%
Russia & CIS	8,900	10,700	20%	12,081	-11%			13,000	-18%
Other markets	5,081	7,357	45%	6,029	22%			5,961	23%
<b>PSAI</b>	<b>9,563</b>	<b>9,124</b>	<b>-5%</b>	<b>8,366</b>	<b>9%</b>			<b>8,018</b>	<b>14%</b>
Others	132	236	79%	156	51%			137	72%

Source: Company, Bloomberg, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

## Exhibit 2: Change in estimates

(Rs mn)	FY27E			FY28E		
	Old	New	Change	Old	New	Change
North America	112,665	112,718	0%	119,169	119,355	0%
Europe	61,020	60,985	0%	68,953	67,694	-2%
<b>Total generics</b>	<b>173,686</b>	<b>173,703</b>	<b>0%</b>	<b>188,122</b>	<b>187,049</b>	<b>-1%</b>
Russia	41,218	39,664	-4%	44,516	42,441	-5%
CIS	10,818	10,364	-4%	11,576	10,986	-5%
Other markets	24,727	30,950	25%	27,200	34,045	25%
India	70,940	71,514	1%	79,807	80,453	1%
<b>Total branded formulations</b>	<b>147,704</b>	<b>152,493</b>	<b>3%</b>	<b>163,099</b>	<b>167,925</b>	<b>3%</b>
PSAI	36,056	38,250	6%	38,220	40,545	6%
<b>Total revenue</b>	<b>359,595</b>	<b>365,935</b>	<b>2%</b>	<b>391,696</b>	<b>397,082</b>	<b>1%</b>
<b>Gross profit</b>	<b>186,989</b>	<b>186,627</b>	<b>0%</b>	<b>207,599</b>	<b>206,483</b>	<b>-1%</b>
- margin	<b>52.0%</b>	<b>51.0%</b>		<b>53.0%</b>	<b>52.0%</b>	
<b>EBITDA</b>	<b>75,262</b>	<b>75,062</b>	<b>0%</b>	<b>87,691</b>	<b>85,499</b>	<b>-2%</b>
- margin	<b>20.9%</b>	<b>20.5%</b>		<b>22.4%</b>	<b>21.5%</b>	
<b>PAT</b>	<b>46,713</b>	<b>45,978</b>	<b>-2%</b>	<b>56,634</b>	<b>53,832</b>	<b>-5%</b>
<b>EPS (Rs)</b>	<b>56.3</b>	<b>55.4</b>	<b>-2%</b>	<b>68.2</b>	<b>64.9</b>	<b>-5%</b>

Source: Emkay Research

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## Dr Reddy's: Consolidated Financials and Valuations

### Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
<b>Revenue</b>	<b>324,269</b>	<b>340,463</b>	<b>365,935</b>	<b>397,082</b>	<b>434,130</b>
Revenue growth (%)	16.2	5.0	7.5	8.5	9.3
<b>EBITDA</b>	<b>85,452</b>	<b>74,772</b>	<b>75,062</b>	<b>85,499</b>	<b>100,776</b>
EBITDA growth (%)	9.0	(12.5)	0.4	13.9	17.9
Depreciation & Amortization	17,059	20,607	22,509	24,625	26,931
<b>EBIT</b>	<b>68,393</b>	<b>54,165</b>	<b>52,554</b>	<b>60,874</b>	<b>73,844</b>
EBIT growth (%)	7.6	(20.8)	(3.0)	15.8	21.3
Other operating income	-	-	-	-	-
Other income	3,312	3,964	4,166	4,516	4,931
Financial expense	(4,724)	(4,132)	(4,201)	(6,099)	(8,145)
<b>PBT</b>	<b>76,429</b>	<b>62,261</b>	<b>60,921</b>	<b>71,488</b>	<b>86,920</b>
Extraordinary items	(127)	(7,444)	0	0	0
Taxes	19,056	12,352	15,230	17,872	21,730
Minority interest	(701)	384	288	216	162
Income from JV/Associates	-	-	-	-	-
<b>Reported PAT</b>	<b>56,545</b>	<b>42,849</b>	<b>45,978</b>	<b>53,832</b>	<b>65,352</b>
PAT growth (%)	1.5	(24.2)	7.3	17.1	21.4
<b>Adjusted PAT</b>	<b>56,672</b>	<b>50,293</b>	<b>45,978</b>	<b>53,832</b>	<b>65,352</b>
<b>Diluted EPS (Rs)</b>	<b>68.3</b>	<b>60.6</b>	<b>55.4</b>	<b>64.9</b>	<b>78.7</b>
Diluted EPS growth (%)	1.8	(11.3)	(8.6)	17.1	21.4
<b>DPS (Rs)</b>	<b>8.0</b>	<b>8.0</b>	<b>7.0</b>	<b>8.0</b>	<b>9.0</b>
<b>Dividend payout (%)</b>	<b>11.8</b>	<b>13.2</b>	<b>12.6</b>	<b>12.3</b>	<b>11.4</b>
EBITDA margin (%)	26.4	22.0	20.5	21.5	23.2
EBIT margin (%)	21.1	15.9	14.4	15.3	17.0
Effective tax rate (%)	24.9	19.8	25.0	25.0	25.0
<b>NOPLAT (pre-IndAS)</b>	<b>51,340</b>	<b>43,419</b>	<b>39,415</b>	<b>45,655</b>	<b>55,383</b>
Shares outstanding (mn)	830	830	830	830	830

Source: Company, Emkay Research

### Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	73,117	58,297	56,755	66,972	81,989
Others (non-cash items)	(40,992)	(15,953)	(22,269)	(26,860)	(33,754)
Taxes paid	19,993	13,526	15,230	17,872	21,730
Change in NWC	(18,025)	(15,590)	(8,682)	(10,616)	(12,627)
<b>Operating cash flow</b>	<b>46,428</b>	<b>56,755</b>	<b>59,342</b>	<b>65,894</b>	<b>76,124</b>
Capital expenditure	(105,344)	(48,114)	(35,130)	(38,120)	(41,677)
Acquisition of business	(615)	(862)	0	0	0
Interest & dividend income	-	-	-	-	-
<b>Investing cash flow</b>	<b>(51,021)</b>	<b>(65,513)</b>	<b>(30,929)</b>	<b>(32,021)</b>	<b>(33,531)</b>
Equity raised/(repaid)	368	232	0	0	0
Debt raised/(repaid)	26,746	30,575	(2,000)	(6,000)	(6,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	4,724	4,132	4,201	6,099	8,145
Dividend paid (incl tax)	(6,662)	(6,659)	(5,810)	(6,640)	(7,470)
Others	(13,321)	(19,990)	(8,226)	(10,467)	(12,921)
<b>Financing cash flow</b>	<b>11,855</b>	<b>8,290</b>	<b>(11,835)</b>	<b>(17,008)</b>	<b>(18,245)</b>
Net chg in Cash	7,262	(468)	16,577	16,865	24,347
OCF	46,428	56,755	59,342	65,894	76,124
Adj. OCF (w/o NWC chg.)	64,453	72,345	68,023	76,511	88,752
FCFF	(58,916)	8,641	24,212	27,774	34,448
FCFE	(61,745)	4,903	19,631	23,434	30,467
OCF/EBITDA (%)	54.3	75.9	79.1	77.1	75.5
FCFE/PAT (%)	(109.2)	11.4	42.7	43.5	46.6
<b>FCFF/NOPLAT (%)</b>	<b>(114.8)</b>	<b>19.9</b>	<b>61.4</b>	<b>60.8</b>	<b>62.2</b>

Source: Company, Emkay Research

### Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	834	835	835	835	835
Reserves & Surplus	332,554	376,228	416,396	463,588	521,470
<b>Net worth</b>	<b>333,388</b>	<b>377,063</b>	<b>417,231</b>	<b>464,423</b>	<b>522,305</b>
Minority interests	3,778	3,394	3,106	2,890	2,728
Non-current liab. & prov.	(1,097)	(3,425)	(3,425)	(3,425)	(3,425)
<b>Total debt</b>	<b>46,766</b>	<b>77,341</b>	<b>75,341</b>	<b>69,341</b>	<b>63,341</b>
<b>Total liabilities &amp; equity</b>	<b>382,835</b>	<b>454,373</b>	<b>492,253</b>	<b>533,229</b>	<b>584,949</b>
Net tangible fixed assets	72,924	91,092	100,927	111,125	121,920
Net intangible assets	96,803	105,059	107,846	111,142	115,091
Net ROU assets	-	-	-	-	-
Capital WIP	24,838	24,838	24,838	24,838	24,838
Goodwill	11,810	12,893	12,893	12,893	12,893
Investments [JV/Associates]	4,811	5,673	5,673	5,673	5,673
<b>Cash &amp; equivalents</b>	<b>57,908</b>	<b>87,814</b>	<b>104,391</b>	<b>121,257</b>	<b>145,603</b>
Current assets (ex-cash)	205,388	229,541	245,564	265,156	288,461
Current Liab. & Prov.	91,646	102,537	109,878	118,854	129,531
<b>NWC (ex-cash)</b>	<b>113,742</b>	<b>127,004</b>	<b>135,686</b>	<b>146,302</b>	<b>158,930</b>
<b>Total assets</b>	<b>382,836</b>	<b>454,373</b>	<b>492,253</b>	<b>533,229</b>	<b>584,949</b>
Net debt	(11,142)	(10,473)	(29,050)	(51,916)	(82,263)
Capital employed	382,835	454,373	492,253	533,229	584,949
<b>Invested capital</b>	<b>295,279</b>	<b>336,048</b>	<b>357,351</b>	<b>381,462</b>	<b>408,834</b>
BVPS (Rs)	401.7	454.3	502.7	559.5	629.3
Net Debt/Equity (x)	-	-	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.1)	(0.1)	(0.4)	(0.6)	(0.8)
Interest coverage (x)	(15.2)	(14.1)	(13.5)	(10.7)	(9.7)
<b>RoCE (%)</b>	<b>21.0</b>	<b>13.8</b>	<b>11.9</b>	<b>12.7</b>	<b>14.0</b>

Source: Company, Emkay Research

### Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	18.6	21.0	22.9	19.6	16.1
P/CE(x)	14.3	14.9	15.4	13.4	11.4
P/B (x)	3.2	2.8	2.5	2.3	2.0
EV/Sales (x)	3.1	2.9	2.7	2.5	2.3
EV/EBITDA (x)	11.6	13.3	13.2	11.6	9.9
EV/EBIT(x)	14.5	18.3	18.9	16.3	13.4
EV/IC (x)	3.4	3.0	2.8	2.6	2.4
FCFF yield (%)	(5.9)	0.9	2.4	2.8	3.5
FCFE yield (%)	(5.8)	0.5	1.9	2.2	2.9
Dividend yield (%)	0.6	0.6	0.6	0.6	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	17.5	14.8	12.6	13.6	15.1
Total asset turnover (x)	1.0	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.1	1.2	1.2	1.2	1.1
<b>RoE (%)</b>	<b>18.5</b>	<b>14.2</b>	<b>11.6</b>	<b>12.2</b>	<b>13.2</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	15.8	12.8	10.8	11.5	12.8
IC turnover (x)	1.3	1.1	1.1	1.1	1.1
<b>RoIC (%)</b>	<b>21.0</b>	<b>13.8</b>	<b>11.4</b>	<b>12.4</b>	<b>14.0</b>
<b>Operating metrics</b>					
Core NWC days	128.0	136.2	135.3	134.5	133.6
<b>Total NWC days</b>	<b>128.0</b>	<b>136.2</b>	<b>135.3</b>	<b>134.5</b>	<b>133.6</b>
Fixed asset turnover	1.0	0.8	0.8	0.8	0.8
Opex-to-revenue (%)	32.0	31.6	30.5	30.5	30.3

Source: Company, Emkay Research

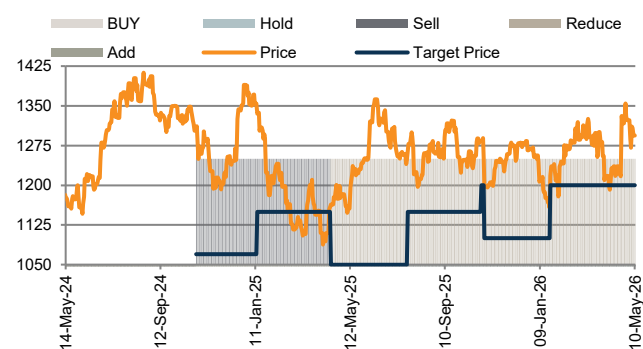
This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
22-Jan-26	1,218	1,200	Reduce	Shashank Krishnakumar
30-Oct-25	1,202	1,100	Reduce	Shashank Krishnakumar
26-Oct-25	1,284	1,200	Reduce	Shashank Krishnakumar
24-Jul-25	1,266	1,150	Reduce	Shashank Krishnakumar
05-Jun-25	1,291	1,050	Reduce	Shashank Krishnakumar
09-May-25	1,156	1,050	Reduce	Shashank Krishnakumar
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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	>15% downside

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