

The 2QFY26 margin performance of Dr Reddy's was marginally weaker than our expectations (in line with street estimates; adjusted for one-offs), with the gross margin (GM) decline being sharper than our expectations (at 55%, GM logged at its lowest since the launch of gRevlimid) and largely a consequence of lower-than-expected gRevlimid sales. While the tight control on opex and R&D spends was the key positive (in addition to a strong domestic print), we note the street's and our post-gRevlimid earnings estimates hinge on topline defense, with the benefit of cost control largely built in. We now see heightened uncertainty around the launch timelines/competitive landscape for both the key assets in the pipeline – Semaglutide in Canada (likely to be competitive even by the management's own admission + 3 new filers since Jun-25 alone) as well as Abatacept (where risk mitigation around Bachupally might still fall short of ensuring an early FY28 launch of the IV version, in our view). Our lower-than-street earnings estimates are largely unchanged. We roll forward to Sep-27E EPS and raise our TP by ~4% to Rs1,200 (from Rs1,150); retain REDUCE.

Sharp miss in US sales offset by a strong domestic print

US sales at USD365mn were a meaningful miss, with gRevlimid sales (~USD100mn vs ~USD125mn estimated) being lower than estimates, owing to incremental pricing pressure. Domestic growth at 13% YoY was ahead of expectations, with the company witnessing no impact of GST-related disruptions. 2Q domestic revenue also saw a negligible contribution from the acquired Stugeron portfolio. EBITDA margin (24.6% vs 25.8% estimated), adjusted for one-offs, was marginally below our expectations (in line with the street's estimate). PAT, adjusted for a product-related settlement income, was broadly in line and was partly aided by a lower tax rate.

KTAs from the earnings call

1) Expect the quantum of gRevlimid sales in 3Q to be lower than that in 2Q. 2) Dr Reddy's has received a CRL to its Rituximab filing following the Sep-25 pre-approval inspection of its Bachupally biologics facility. 3) The company expects to receive feedback on its Semaglutide filing from Health Canada within the next few weeks. The company is awaiting the court's decision on the Semaglutide litigation in India and will file an appeal if the verdict is unfavorable. 4) The company has rationalized a few pipeline products owing to heightened regulatory uncertainty/the market opportunity being eroded due to an increase in competitive intensity. 5) The company has >100 products in its US pipeline (including 20 complex generics; biosimilars and long-acting peptides among the key focus areas). 6) Remain on track to file Abatacept by the end of CY25 and launch the intravenous version in early CY27. The product will be filed from the Bachupally biologics facility, though the company will also pursue a tech transfer to a US CMO. The subcutaneous version will not require an additional clinical study.

Target Price – 12M	Sep-26
Change in TP (%)	4.3
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(6.5)

Stock Data	DRRD IN
52-week High (Rs)	1,406
52-week Low (Rs)	1,020
Shares outstanding (mn)	834.6
Market-cap (Rs bn)	1,071
Market-cap (USD mn)	12,186
Net-debt, FY26E (Rs mn)	(29,444.9)
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	2,223.0
ADTV-3M (USD mn)	25.3
Free float (%)	73.4
Nifty-50	25,795.2
INR/USD	87.9

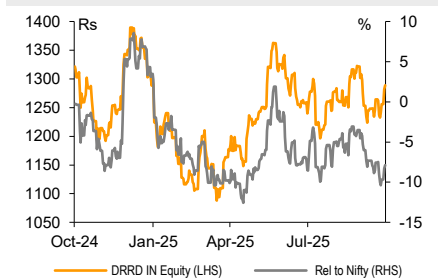
Shareholding, Sep-25

Promoters (%)	26.6
FPIs/MFs (%)	24.7/38.8

Price Performance

(%)	1M	3M	12M
Absolute	(1.2)	1.4	(2.6)
Rel. to Nifty	(4.0)	(1.5)	(7.8)

1-Year share price trend (Rs)



Dr Reddy's: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	279,164	324,269	342,345	344,631	372,717
EBITDA	78,389	85,452	80,284	73,183	83,704
Adj. PAT	55,687	56,672	51,682	44,915	53,834
Adj. EPS (Rs)	67.1	68.3	62.3	54.1	64.9
EBITDA margin (%)	28.1	26.4	23.5	21.2	22.5
EBITDA growth (%)	21.4	9.0	(6.0)	(8.8)	14.4
Adj. EPS growth (%)	55.2	1.8	(8.8)	(13.1)	19.9
RoE (%)	21.8	18.5	14.5	11.3	12.2
RoIC (%)	27.4	21.0	14.6	11.8	13.1
P/E (x)	19.1	18.8	20.6	23.7	19.8
EV/EBITDA (x)	12.8	11.7	12.5	13.7	12.0
P/B (x)	3.8	3.2	2.8	2.5	2.3
FCFF yield (%)	1.4	(5.9)	2.4	3.1	2.9

Source: Company, Emkay Research

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Exhibit 1: Dr Reddy's – 2QFY26 earnings snapshot

Dr Reddy's - P&L (Rs mn)	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay	2QFY26E (Consensus)	Delta vs Consensus	1QFY26A	QoQ chg
Net sales	80,162	88,051	10%	87,782	0%	87,062	1%	85,452	3%
Cost of goods sold	32,393	39,651	22%	38,185	4%			36,825	8%
Gross profit	47,769	48,400	1%	49,597	-2%			48,627	0%
- Margin	59.6%	55.0%	-462 bps	56.5%	-153 bps			56.9%	-194 bps
SG&A (excl amortization)	21,180	23,652	12%	23,707	0%			23,776	-1%
Amortization	1,346	1,960	46%	1,918	2%			1,871	5%
R&D	7,271	6,202	-15%	6,219	0%			6,244	-1%
Impairment charges	924	662		0				0	
EBITDA	21947	21637	-1%	22623	-4%	21,577	0%	21501	1%
- Margin	27.4%	24.6%	-281 bps	25.8%	-120 bps	24.8%	-21 bps	25.2%	-59 bps
D&A	2,629	3,091	18%	2,952	5%			2,894	7%
Operating income	17,972	16,586	-8%	17,753	-7%			16,736	-1%
- Margin	22.4%	18.8%	-358 bps	20.2%	-139 bps			19.6%	-75 bps
Equity in affiliates	61	63		36				2	
Other Income/(Expenses)	984	1,796	83%	763	135%			739	143%
Net Finance expense/(Income)	(1555)	(774)		(772)				(1570)	
Profit Before Tax	19,648	18,557	-6%	19,324	-4%			19,047	-3%
Tax	5,270	4,082	-23%	4,755	-14%			4,951	-18%
Tax rate	26.8%	22.0%	-482 bps	24.6%	-261 bps			26.0%	-400 bps
Minority interest	862	(104)		86				(82)	
Net profit	14,296	15,179	6%	14,483	5%	13,975	9%	14,178	7%
EPS (Rs)	17.2	18.3	6%	17.4	5%			17.1	7%
Cost ratio (%)	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay			1QFY26A	QoQ chg
COGS	40.4	45.0	462 bps	43.5	153 bps			43.1	194 bps
SG&A expenses	26.4	26.9	44 bps	27.0	-14 bps			27.8	-96 bps
R&D spends	9.1	7.0	-203 bps	7.1	-4 bps			7.3	-26 bps
Sales break-down	2QFY25A	2QFY26A	YoY chg	2QFY26E	Delta vs Emkay			1QFY26A	QoQ chg
Global Generics	71,576	78,498	10%	78,509	0%			75,620	4%
North America	37,281	32,408	-13%	34,320	-6%			34,123	-5%
Europe	5,770	13,762	139%	13,615	1%			12,744	8%
India	13,971	15,780	13%	14,949	6%			14,711	7%
Russia and CIS	9,000	11,000	22%	10,114	9%			9,100	21%
Other markets	5,554	5,548	0%	5,511	1%			4,942	12%
PSAI	8,407	9,450	12%	9,025	5%			8,181	16%
Others	179	103	-42%	248	-58%			1,651	-94%

Source: Company, Bloomberg, Emkay Research

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

Exhibit 2: Changes to estimates

(Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
North America	126,983	125,356	-1%	112,504	110,767	-2%	121,986	119,144	-2%
Europe	51,900	54,170	4%	56,052	57,661	3%	60,536	61,986	2%
Total generics	178,883	179,525	0%	168,556	168,428	0%	182,522	181,130	-1%
Russia	28,919	32,427	12%	30,943	33,423	8%	33,109	35,763	8%
CIS	9,614	9,865	3%	10,383	10,264	-1%	11,110	10,982	-1%
Other markets	21,476	21,576	0%	23,194	23,302	0%	24,818	24,934	0%
India	58,839	60,182	2%	65,311	67,404	3%	71,842	74,818	4%
Total branded formulations	118,847	124,050	4%	129,831	134,393	4%	140,879	146,497	4%
PSAI	36,384	36,723	1%	39,295	39,661	1%	42,439	42,834	1%
Total revenue	336,510	342,345	2%	340,197	344,631	1%	368,481	372,717	1%
Gross profit	187,941	187,366	0%	176,902	179,208	1%	195,295	197,540	1%
- margin	55.9%	54.7%		52.0%	52.0%		53.0%	53.0%	
EBITDA	79,724	80,284	1%	71,293	73,183	3%	82,048	83,704	2%
- margin	23.7%	23.5%		21.0%	21.2%		22.3%	22.5%	
Adj PAT	50,360	51,475	2%	44,062	44,915	2%	53,403	53,834	1%
Adj EPS (Rs)	60.7	62.0	2%	53.1	54.1	2%	64.3	64.9	1%

Source: Emkay Research

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

Dr Reddy's: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	279,164	324,269	342,345	344,631	372,717
Revenue growth (%)	13.5	16.2	5.6	0.7	8.1
EBITDA	78,389	85,452	80,284	73,183	83,704
EBITDA growth (%)	21.4	9.0	(6.0)	(8.8)	14.4
Depreciation & Amortization	14,856	17,059	20,297	21,840	23,819
EBIT	63,533	68,393	59,988	51,343	59,885
EBIT growth (%)	22.3	7.6	(12.3)	(14.4)	16.6
Other operating income	-	-	-	-	-
Other income	4,346	3,312	4,448	3,651	3,942
Financial expense	(3,994)	(4,724)	(3,737)	(4,542)	(7,689)
PBT	71,873	76,429	68,173	59,537	71,516
Extraordinary items	(3)	(127)	(807)	0	0
Taxes	16,186	19,056	16,842	14,884	17,879
Minority interest	-	(701)	351	263	197
Income from JV/Associates	-	-	-	-	-
Reported PAT	55,684	56,545	50,875	44,915	53,834
PAT growth (%)	23.6	1.5	(10.0)	(11.7)	19.9
Adjusted PAT	55,687	56,672	51,682	44,915	53,834
Diluted EPS (Rs)	67.1	68.3	62.3	54.1	64.9
Diluted EPS growth (%)	55.2	1.8	(8.8)	(13.1)	19.9
DPS (Rs)	8.0	8.0	7.0	6.0	7.0
Dividend payout (%)	11.9	11.8	11.2	11.1	10.8
EBITDA margin (%)	28.1	26.4	23.5	21.2	22.5
EBIT margin (%)	22.8	21.1	17.5	14.9	16.1
Effective tax rate (%)	22.5	24.9	24.7	25.0	25.0
NOPLAT (pre-IndAS)	49,225	51,340	45,168	38,508	44,914
Shares outstanding (mn)	830	830	830	830	830

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	67,527	73,117	63,725	55,885	67,574
Others (non-cash items)	(32,597)	(40,992)	(26,141)	(22,671)	(28,088)
Taxes paid	20,047	19,993	16,842	14,884	17,879
Change in NWC	(20,406)	(18,025)	(5,783)	(731)	(8,985)
Operating cash flow	45,433	46,428	65,202	64,665	64,509
Capital expenditure	(31,390)	(105,344)	(40,719)	(33,085)	(35,781)
Acquisition of business	506	(615)	0	0	0
Interest & dividend income	-	-	-	-	-
Investing cash flow	(40,283)	(51,021)	(36,981)	(28,543)	(28,092)
Equity raised/(repaid)	1,078	368	0	0	0
Debt raised/(repaid)	6,548	26,746	(6,000)	(2,000)	(6,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	3,994	4,724	3,737	4,542	7,689
Dividend paid (incl tax)	(6,648)	(6,662)	(5,810)	(4,980)	(5,810)
Others	(8,735)	(13,321)	(7,845)	(7,988)	(11,416)
Financing cash flow	(3,763)	11,855	(15,918)	(10,426)	(15,537)
Net chg in Cash	1,387	7,262	12,303	25,696	20,880
OCF	45,433	46,428	65,202	64,665	64,509
Adj. OCF (w/o NWC chg.)	65,839	64,453	70,985	65,397	73,495
FCFF	14,043	(58,916)	24,484	31,581	28,728
FCFE	12,332	(61,745)	20,983	28,400	25,867
OCF/EBITDA (%)	58.0	54.3	81.2	88.4	77.1
FCFE/PAT (%)	22.1	(109.2)	41.2	63.2	48.0
FCFF/NOPLAT (%)	28.5	(114.8)	54.2	82.0	64.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	834	834	834	834	834
Reserves & Surplus	279,716	332,554	377,412	417,348	465,372
Net worth	280,550	333,388	378,246	418,182	466,206
Minority interests	-	3,778	3,428	3,165	2,967
Non-current liab. & prov.	(5,896)	(1,097)	(1,097)	(1,097)	(1,097)
Total debt	20,020	46,766	40,766	38,766	32,766
Total liabilities & equity	294,674	382,835	421,343	459,015	500,842
Net tangible fixed assets	62,424	72,924	86,202	95,041	104,144
Net intangible assets	36,951	96,803	103,946	106,352	109,211
Net ROU assets	-	-	-	-	-
Capital WIP	14,462	24,838	24,838	24,838	24,838
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	70,211	95,907	116,787
Current assets (ex-cash)	172,988	205,388	216,102	217,457	234,105
Current Liab. & Prov.	82,070	91,646	96,577	97,201	104,863
NWC (ex-cash)	90,918	113,742	119,525	120,256	129,242
Total assets	294,674	382,836	421,344	459,016	500,843
Net debt	(61,450)	(11,142)	(29,445)	(57,141)	(84,021)
Capital employed	294,674	382,835	421,343	459,015	500,842
Invested capital	194,546	295,279	321,484	333,460	354,407
BVPS (Rs)	338.0	401.7	455.7	503.8	561.7
Net Debt/Equity (x)	(0.2)	-	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.8)	(0.1)	(0.4)	(0.8)	(1.0)
Interest coverage (x)	(17.0)	(15.2)	(17.2)	(12.1)	(8.3)
RoCE (%)	24.9	21.0	16.0	12.5	13.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	19.1	18.8	20.6	23.7	19.8
P/CE(x)	15.1	14.4	14.8	15.9	13.7
P/B (x)	3.8	3.2	2.8	2.5	2.3
EV/Sales (x)	3.6	3.1	2.9	2.9	2.7
EV/EBITDA (x)	12.8	11.7	12.5	13.7	12.0
EV/EBIT(x)	15.8	14.7	16.7	19.5	16.8
EV/IC (x)	5.2	3.4	3.1	3.0	2.8
FCFF yield (%)	1.4	(5.9)	2.4	3.1	2.9
FCFE yield (%)	1.2	(5.8)	2.0	2.7	2.4
Dividend yield (%)	0.6	0.6	0.5	0.5	0.5
DuPont-RoE split					
Net profit margin (%)	19.9	17.5	15.1	13.0	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	11.3	12.2
DuPont-RoIC					
NOPLAT margin (%)	17.6	15.8	13.2	11.2	12.1
IC turnover (x)	1.6	1.3	1.1	1.1	1.1
RoIC (%)	27.4	21.0	14.6	11.8	13.1
Operating metrics					
Core NWC days	118.9	128.0	127.4	127.4	126.6
Total NWC days	118.9	128.0	127.4	127.4	126.6
Fixed asset turnover	1.0	1.0	0.9	0.8	0.8
Opex-to-revenue (%)	30.5	32.0	31.3	30.8	30.5

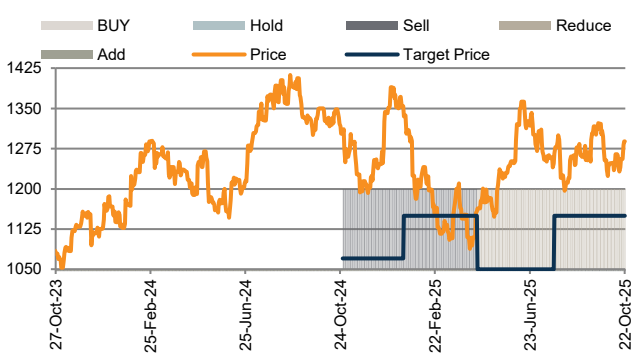
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
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

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

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

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