

HOLD

TP: Rs 1,382 | ▲ 9%

DR REDDY'S LABS

| Pharmaceuticals

| 24 July 2025

Europe/India region to continue growth momentum

- **1QFY26 results above estimates. gRevlimid contribution in 2QFY26 to be like 1QFY26; H2FY26 will likely be negligible**
- **Likely to launch Semaglutide in Canada in Jan'26; expects to launch in 87 countries internationally. Canada, Brazil, India key regions**
- **Amidst gRevlimid patent expiry, 25% EBITDA margin sustainable. Maintain HOLD, rollover to June'27, allot 21x PE in line with 5Y average**

Result above expectation – Sales/EBITDA/PAT was 4%/7%/7% above our estimates. Geographically, North America sales declined 11% due to price erosion in gRevlimid, domestic sales grew 11% surpassing IPM growth and Europe grew by 142% driven by NRT sales. Despite price erosion in Revlimid, gross margin increased to 56.9% and EBITDA margin was reported to be 25.2%, driven by lower R&D cost contribution.

India region to continue surpassing IPM growth: Domestic sales grew by 11%, driven by new launches and pricing growth. DRRD has 10,000 MRs spread across 50 teams. During the quarter, DRRD launched 5 new brands including 2 innovative assets, Beyfortus (RSV Vaccine) & Sensimmune (Acarizex slit). Going forward, the focus is on continuing to surpass the IPM growth, with a higher focus on innovation and inorganic activity. Hence, we expect the domestic region to grow at 10% CAGR from FY26-28.

Double-digit growth to continue in Europe region: Ex-NRT sales, Europe sales grew by 15% YoY, driven by new product launches. During the quarter, 13 new products were launched, and the momentum is likely to continue in biosimilars, too, with the launch of Rituximab, Bevacizumab, followed by Denosumab and Abatacept. We expect the Europe region to grow at 15% CAGR from FY26-28E.

R&D cost rationalisation to sustain current EBITDA margin: R&D cost contribution lowered to 7.3% from the earlier 8-8.5%. Going forward, product mix is expected to be lower with intense price erosion in gRevlimid whose impact will be mitigated with a lower R&D cost contribution of 7-7.5%.

Maintain HOLD: We build in optimism on the Semaglutide and Abatacept launches in FY28, arriving at sales/EBITDA/PAT CAGR of 4%/7%/8% over FY26-28E; thereby maintaining HOLD. We roll forward our valuation to Jun'27, ascribing a PE of 21 in line with its 5Y historic PE (from the earlier 18x) to arrive at TP of Rs 1,382 (earlier Rs 1,248).

Foram Parekh

research@bobcaps.in

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DRRD IN/Rs 1,266
Market cap	US\$ 12.2bn
Free float	73%
3M ADV	US\$ 24.2mn
52wk high/low	Rs 1,421/Rs 1,020
Promoter/FPI/DII	27%/27%/23%

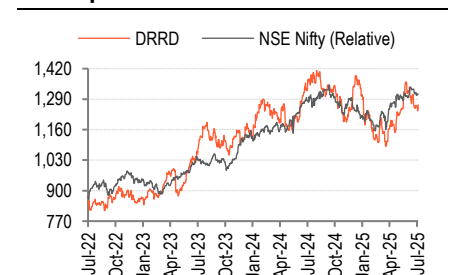
Source: NSE | Price as of 24 Jul 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	325,534	341,884	345,187
EBITDA (Rs mn)	86,235	85,471	86,297
Adj. net profit (Rs mn)	58,720	53,130	53,082
Adj. EPS (Rs)	70.6	63.9	63.8
Consensus EPS (Rs)	72.0	69.3	57.0
Adj. ROAE (%)	19.5	14.9	13.1
Adj. P/E (x)	17.9	19.8	19.8
EV/EBITDA (x)	11.6	11.9	12.0
Adj. EPS growth (%)	5.5	(9.5)	(0.1)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financial Highlights

Fig 1 – Quarterly snapshot

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25	FY26E	FY27E	FY28E
Net Sales	85,452	76,727	11	85,060	0	325,534	341,884	345,187	372,478
Total Expenses	63,951	55,457	15	64,555	(1)	239,299	254,704	255,438	284,946
(%) of net sales	74.8	72.3		75.9		73.5	74.5	74.0	76.5
Raw material consumed	36,825	30,383	21	37,797	(3)	135,107	147,010	150,156	162,028
(%) of net sales	43.1	39.6		44.4		41.5	43.0	43.5	43.5
R&D cost	6,244	6,193	1	7,258	(14)	27,380	27,351	27,615	29,798
(%) of net sales	7.3	8.1		8.5		8.4	8.0	8.0	8
SG&A	20,882	18,881	11	19,500		76,812	80,343	77,667	93,120
(%) of net sales	24.4	24.6		22.9		23.6	23.5	22.5	25
EBITDA	21,501	21,270	1	20,505	5	86,235	87,181	89,749	87,532
Depreciation	4,765	3,810	25	4,555		17,058	18,985	20,805	22,555
EBIT	16,736	17,460	(4)	15,950	5	69,177	68,196	68,944	64,978
Interest	(1,570)	(837)	88	(2,344)		2,829	2,596	2,206	2,365
Other Income	739	470		2,465		11,911	6,949	7,632	9,881
PBT	19,045	18,767	1	20,759	(8)	78,259	72,549	74,369	72,493
Less: Taxation	4,951	4,901		4,181		19,539	18,137	18,592	18,123
Recurring PAT	14,178	13,925	2	16,699	(15)	58,720	54,412	55,777	54,370
Exceptional items	0	(5)		(768)		(1,476)			
Reported PAT	14,178	13,920	2	15,931	(11)	57,244	54,412	55,777	54,370
Key Ratios (%)									
Gross Margin	56.9	60.4		55.5		58.5	57.0	56.5	56.5
EBITDA Margin	25.2	27.7		24.1		26.5	25.5	26.0	23.5
Tax / PBT	26.0	26.1		20.1		25.0	25.0	25.0	25.0
NPM	16.6	18.1		19.6		18.0	15.9	16.2	14.6
Adj. EPS (Rs)	17.0	16.7		20.0		70.6	65.4	67.0	65.3

Source: Company, BOBCAPS Research

Fig 2 – revenue mix

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25	FY26E	FY27E	FY28E
Global generics	75,620	68,857	9.8	75,364	0.3	289,551	304,637	305,609	330,188
North America	34,123	38,462	(11.3)	35,586	(4.1)	145,164	135,355	117,363	120,685
Europe	12,744	5,265	142.1	12,750	0.0	35,882	53,823	61,896	71,181
India	14,711	13,252	11.0	13,047	12.8	53,734	58,570	64,427	70,870
ROW	14,042	11,878	18.2	13,981	0.4	54,771	56,888	61,922	67,453
PSAI	8,181	7,657	6.8	9,563	(14.5)	33,846	35,538	38,381	41,452
Proprietary Products	1,651	212	678.8	132	1150.8	2,137	1,710	1,197	838
Net Sales	85,452	76,726	11.4	85,059	0.5	325,534	341,884	345,187	372,478

Source: Company, BOBCAPS Research

Earnings Call Highlights

Guidance

Expect R&D investments to be in the 7%-7.5% range of sales.

SG&A expenses guided to be in the 28-29% range of sales.

Normalised ETR to remain around 25% for FY25.

Base business guided to be in single digit for FY26, depending upon the success in product launches.

India and Europe business to grow in double digits.

North America

Sales-generated revenue for the quarter was \$400 mn — a 17%YoY decline and 4% decrease sequentially. The softness in the market was primarily due to price erosion in selected products, primarily gRevlimid, as well as the procurement timing of this product by certain customers.

Revlimid - sales in Q2FY26 will likely be similar to Q1FY26, with further decline in Q3FY26. Q4FY26 is expected to have remaining or no sales.

Abatacept – Biosimilar Abatacept Phase III readout is expected in Nov'25, with BLA submission planned thereafter. Management believes that post Nov'25, the company will not pay for the clinical trials for Abatacept, which will lead to discretionary cost saving between R&D & SG&A of 500-600bps.

Semaglutide –

The company is prioritising Semaglutide launches in Canada (pending exclusivity expiry in Jan'26, with no patent risk) and expects launches in 87 international countries post-Mar'26 like India, China and Brazil.

Expected capacity of 12mn pens in FY27 (10mn in CY26 for Canada); management is confident of this being adequate to capture meaningful share in the early-entry markets.

Europe

NRT business EBITDA margin at 25%.

Ex-NRT sales, base business sales expected to grow in double digits.

India

The company is focusing on innovative brands and differentiated products over commodity generics.

Field force stands at roughly 10,000 MR's, spread across 50 teams, supporting both brand-building and reach.

PSAI

Growth was driven by the launch of new API products and favourable forex, partially offset by lower pricing and softer demand. Performance was further supported by growth in the pharmaceutical services business.

Gross margin contracted to 13.2%, mainly due to reduced internal sales and associated accounting allocations rather than a structural weakness. Management expects margins to normalise in the coming quarters.

The CDMO business generated sales of USD 17-18mn in Q1FY26 and believed to achieve USD 100mn by FY26; expected to grow to USD 250-300mn by 2030.

Other Highlights

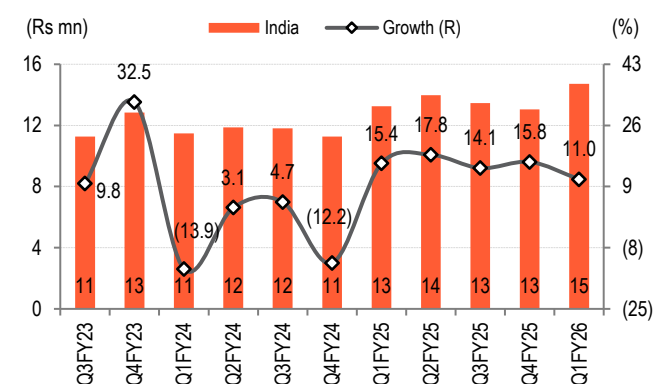
- Operating working capital as on 30th Jun'25 was Rs 133.3bn.
- Capex spent was Rs 6.8bn.
- Free cashflow in Q1FY26 was Rs 4.5bn.
- Net cash as on Jun'25 was Rs 29.22bn.

PLI income for FY26 will be almost zero. Expect PLI income in FY27 & FY28.

- Net debt to EBITDA is 0.5x.
- Out-licensing income was Rs 1.2bn included in others segment.

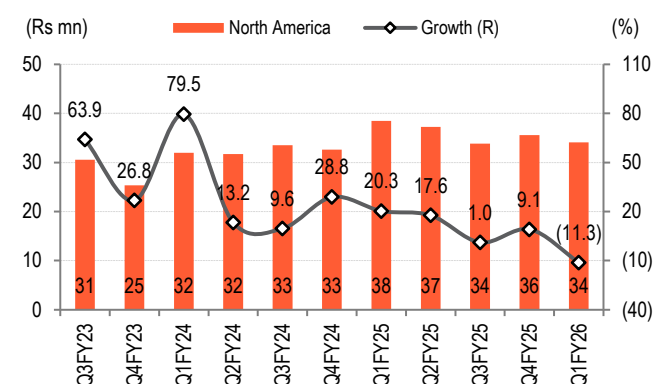
Financial Charts

Fig 3 – Domestic sales growth surpassed IPM growth



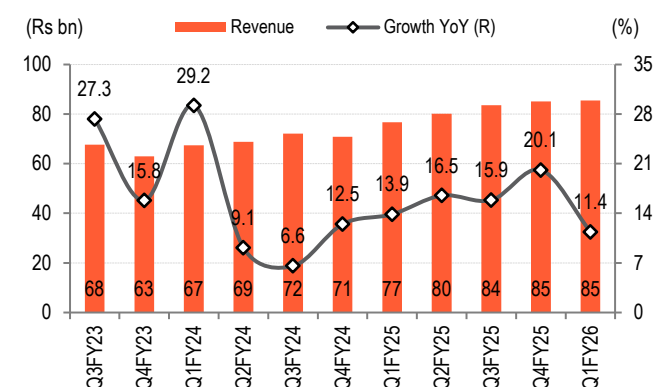
Source: Company, BOBCAPS Research

Fig 4 – Sales lower on intense competition in key product gRevlimid



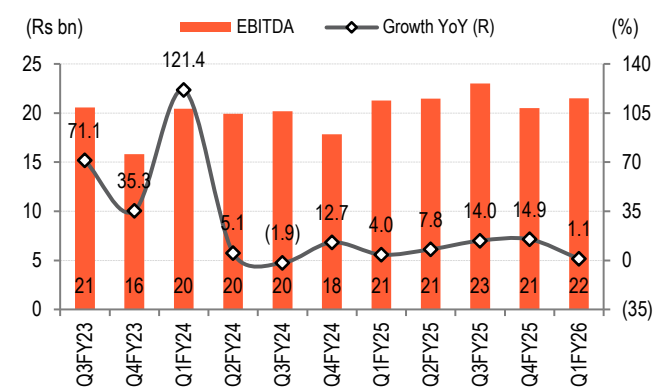
Source: Company, BOBCAPS Research

Fig 5 – Sales growth maintained in double-digits amidst the price erosion in gRevlimid



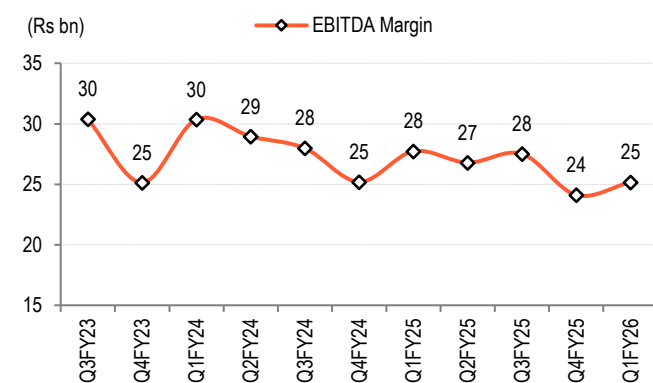
Source: Company, BOBCAPS Research

Fig 6 – EBITDA growth lower on lesser gRevlimid sales



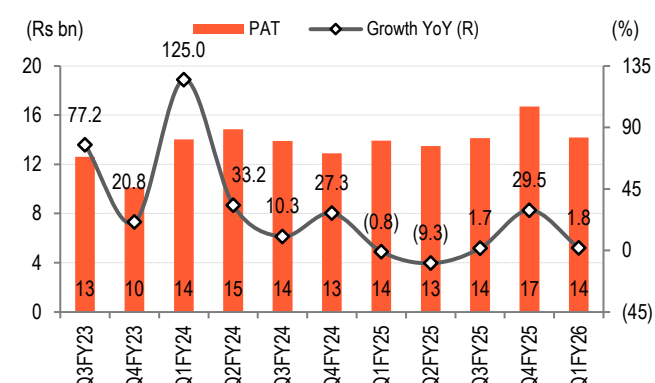
Source: Company, BOBCAPS Research

Fig 7 – EBITDA margin maintained at 25%



Source: Company, BOBCAPS Research

Fig 8 – PAT growth lowered due to lower operational growth



Source: Company, BOBCAPS Research

Valuation Methodology

DRRD reported earnings above our estimates on all fronts amidst price erosion in Revlimid, which was mitigated by the NRT-driven Europe growth. During the quarter, R&D expense was optimised, aiding in sustaining 25% EBITDA margin.

Going forward, R&D cost optimisation would continue as the larger R&D spend towards Abatacept is over, and expected with a positive read-out in Nov'25. The Europe region is expected to continue double-digit growth, driven by NRT sales. NRT EBITDA margin is likely to sustain at 25%.

Although there will be short-term margin headwinds in H2FY26 on no participation from gRevlimid and Semaglutide, with R&D cost optimisation, EBITDA margin will likely sustain 25%. We have introduced FY28 numbers building in optimism on the Semaglutide and Abatacept launches in FY28. Hence, we arrive at sales/EBITDA/PAT CAGR of 4%/7%/8% over FY26-28E, thereby maintaining HOLD. We roll forward our valuation to Jun'27, ascribing a PE of 21 in line with its 5Y historic PE (from the earlier 18x), building in optimism on the Semaglutide launch in Canada in the first wave, to arrive at TP of Rs 1,382 (earlier Rs 1,248).

Fig 9 – Change in estimates

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	341,884	345,187	346,661	350,421	(1.4)	(1.5)
EBITDA	85,471	86,297	91,865	92,862	(7.0)	(7.1)
EBITDA margin (%)	25.0	25.0	26.5	26.5	(150bps)	(150bps)
EPS (Rs)	63.9	63.8	68.8	69.3	(7.2)	(7.9)

Source: Company, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates:

- (a) Speedy resolution of regulatory issues in key manufacturing units.
- (b) Above-expected contribution from gRevlimid.
- (c) Faster new product launches in the North America region.

Downside risks:

- (a) Irregular flow of USFDA product approvals may lead to a bunching up of key launches for limited competition products.
- (b) Adverse USFDA observations on manufacturing plants.
- (c) Increasing pricing pressure.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	279,164	325,534	341,884	345,187	372,478
EBITDA	78,377	86,235	85,471	86,297	98,707
Depreciation	14,700	17,058	18,985	20,805	22,555
EBIT	63,677	69,177	66,486	65,492	76,152
Net interest inc./(exp.)	(1,711)	(2,829)	(2,596)	(2,206)	(2,365)
Other inc./(exp.)	9,904	11,911	6,949	7,491	9,443
Exceptional items	0	0	0	0	0
EBT	71,870	78,259	70,840	70,777	83,230
Income taxes	16,186	19,539	17,710	17,694	20,808
Extraordinary items	0	(1,476)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	55,684	57,244	53,130	53,082	62,423
Adjustments	0	(1,476)	0	0	0
Adjusted net profit	55,684	58,720	53,130	53,082	62,423

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	30,919	35,523	37,467	37,829	40,820
Other current liabilities	49,676	53,102	47,864	41,422	44,697
Provisions	5,444	6,324	6,642	6,706	7,236
Debt funds	20,020	46,766	39,751	33,788	25,341
Other liabilities	0	0	0	0	0
Equity capital	832	832	832	832	832
Reserves & surplus	269,851	331,932	380,902	429,824	488,087
Shareholders' fund	270,683	332,764	381,734	430,656	488,919
Total liab. and equities	376,742	474,479	513,457	550,401	607,013
Cash and cash eq.	7,105	14,652	24,843	42,595	79,077
Accounts receivables	80,298	90,420	93,667	94,572	97,967
Inventories	63,552	71,085	73,060	75,657	83,680
Other current assets	28,079	33,492	41,026	48,326	52,147
Investments	79,618	58,456	58,456	58,456	58,456
Net fixed assets	76,886	97,761	105,776	109,972	112,417
CWIP	0	0	0	0	0
Intangible assets	41,204	108,613	116,628	120,824	123,269
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	376,742	474,479	513,457	550,401	607,013

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	55,590	62,973	58,977	59,276	78,900
Capital expenditures	(15,200)	(27,504)	(27,000)	(25,000)	(25,000)
Change in investments	(18,238)	21,162	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(33,438)	(6,342)	(27,000)	(25,000)	(25,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,548	26,746	(7,015)	(5,963)	(8,447)
Interest expenses	(1,711)	(2,829)	(2,596)	(2,206)	(2,365)
Dividends paid	(4,160)	(4,160)	(4,160)	(4,160)	(4,160)
Other financing cash flows	(21,502)	(68,841)	(8,015)	(4,195)	(2,445)
Cash flow from financing	(20,825)	(49,084)	(21,786)	(16,524)	(17,418)
Chg in cash & cash eq.	1,327	7,547	10,191	17,752	36,482
Closing cash & cash eq.	7,105	14,652	24,843	42,595	79,077

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	66.9	68.8	63.9	63.8	75.0
Adjusted EPS	66.9	70.6	63.9	63.8	75.0
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	326.1	400.9	459.9	518.9	589.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	3.7	3.1	3.0	3.0	2.7
EV/EBITDA	13.1	11.6	11.9	12.0	10.3
Adjusted P/E	18.9	17.9	19.8	19.8	16.9
P/BV	3.9	3.2	2.8	2.4	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	77.5	75.0	75.0	75.0	75.0
Interest burden (PBT/EBIT)	112.9	113.1	106.5	108.1	109.3
EBIT margin (EBIT/Revenue)	22.8	21.3	19.4	19.0	20.4
Asset turnover (Rev./Avg TA)	26.4	24.3	21.3	19.5	19.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	22.5	19.5	14.9	13.1	13.6

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	13.5	16.6	5.0	1.0	7.9
EBITDA	22.2	10.0	(0.9)	1.0	14.4
Adjusted EPS	21.7	5.5	(9.5)	(0.1)	17.6

Profitability & Return ratios (%)

EBITDA margin	28.1	26.5	25.0	25.0	26.5
EBIT margin	22.8	21.3	19.4	19.0	20.4
Adjusted profit margin	19.9	18.0	15.5	15.4	16.8
Adjusted ROAE	22.5	19.5	14.9	13.1	13.6
ROCE	27.8	24.2	18.3	16.5	17.5

Working capital days (days)

Receivables	105	101	100	100	96
Inventory	83	80	78	80	82
Payables	40	40	40	40	40

Ratios (x)

Gross asset turnover	1.2	1.3	1.2	1.1	1.1
Current ratio	2.1	2.2	2.5	3.0	3.4
Net interest coverage ratio	37.2	24.5	25.6	29.7	32.2
Adjusted debt/equity	(0.2)	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Trade Name: **www.barodaetrade.com**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

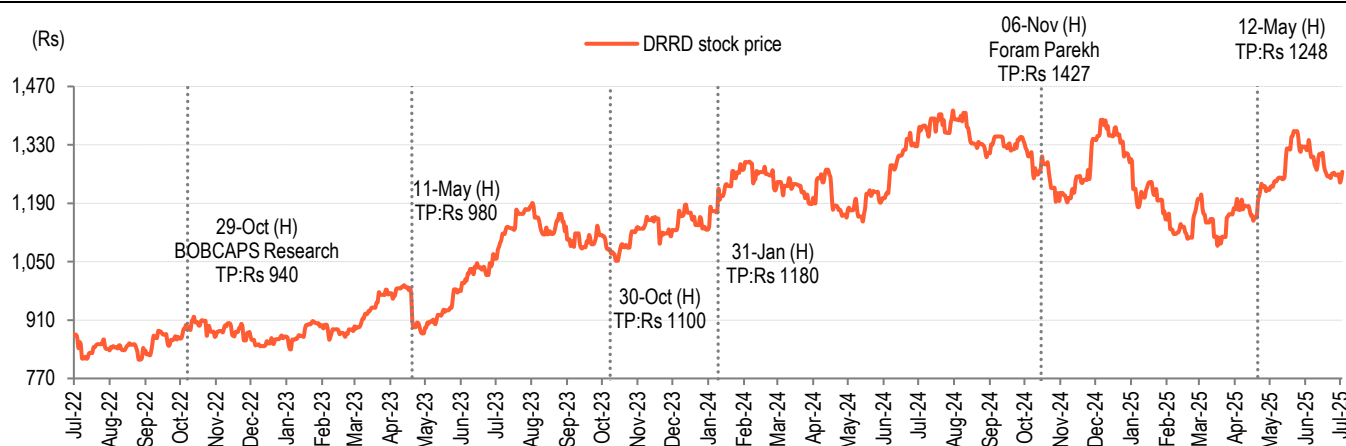
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): DR REDDY'S LABS (DRRD IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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