BOBCAPS
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BUY
TP: Rs 1,471 | ⮝ 24%

DR REDDY'S LABS | Pharmaceuticals | 23 July 2026

Valuations are expected to re-rate with launch of biosimilars

- **Sales/AEBITDA/APBT were 0.9% -10.8%/ -8.7% below our estimates. AEBITDA Margin was 170 bps below our estimates at 13.3%**
- **EBITDA Margin guidance sustained at ~20% despite higher solvent prices till Dec'26 and no gSemaglutide sales till Nov'26**
- **We continue to ascribe a PE of 21x and roll forward to Jun'28 EPS to arrive at a PT of Rs 1471 (earlier Rs 1511), maintain BUY**

Foram Parekh
Research Analyst
research@bobcaps.in

Mix set of earnings - DRRD reported a mixed set of earnings, where sales declined by 5.6% YoY to Rs 80.7bn, mainly due to a 35% YoY decline in the North America region, which was offset by 17% YoY growth in the India region and 30% YoY growth in the ROW region, while the Europe region grew 13% YoY. Raw material cost grew 17.2% YoY to Rs 43.165bn, accounting for 53.5% of sales in 1QFY27 versus 43% in 1QFY26, leading to a 1039 bps YoY decrease in gross margin, but increasing 175 bps QoQ to 46.5%. Reported EBITDA M was at 10.3%. Adjusting for the API provision of Rs 2.396bn, Gross Margin stands at 49.5% and EBITDA Margin at 13.3%. Adjusted EBITDA declined by 50% to Rs 10.722bn. Subsequently, adjusted for Semaglutide API provisions and 4QFY26 provisions, PAT declined by 51.8% YoY but grew by 44% QoQ to Rs 6.83bn. Reported PAT declined by 69% YoY and by 101% QoQ to Rs 4.4bn.

North America sales reported in-line with expectations- In 1QFY27, North America sales declined by 35% YoY to Rs 22.048bn. The decline was due to the absence of gRevlimid sales and only 1–1.5 months of Semaglutide sales in Canada (0.18mn pens sold). However, DRRD launched new products such as Bosutinib Tablets 400mg (TAM USD 300mn) with 180 days of exclusivity, along with 5 other products, in 1QFY27. Management aims to launch 27 new products in FY27E and is positive about launching gSemaglutide from Nov'26. The company also retains its goal date of Dec'26 for bAbatacept and expects bRituximab to receive interchangeable designation. Thus, we believe DRRD's US sales will grow at a CAGR of 11% from FY27-29E, much higher than the US generics sales growth of ~3-5%.

EBITDA Margin guidance retained ~20% - EBITDA Margin guidance is to be ~20%, despite 1) gRevlimid being in the base with no gSemaglutide sales till Nov'26, 2) higher solvent prices due to the Middle East war, expected to sustain till Dec'26, 3) higher SG&A costs due to ~52% of sales coming from branded generics markets like India, EMs, and OTC, and 4) losses in the peptides and biologics units

Valuation - At CMP, on a roll-forward basis, the stock trades at an attractive valuation of 17.2x Jun'28 EPS of Rs 69. We continue to ascribe a multiple of 21x, to arrive at a PT of Rs 1471.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DRRD IN/Rs 1,183
Market cap	US$ 10.4bn
Free float	73%
3M ADV	US$ 35.8mn
52wk high/low	Rs 1,415/Rs 1,148
Promoter/FPI/DII	27%/27%/23%

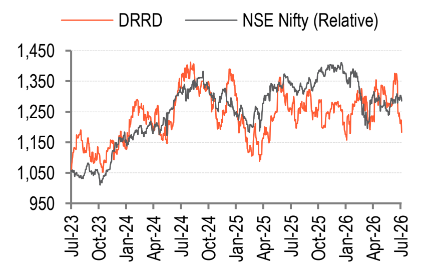
Source: NSE | Price as of 22 Jul 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	335,933	353,963	396,321
EBITDA (Rs mn)	67,049	67,253	83,227
Adj. net profit (Rs mn)	45,851	43,724	54,755
Adj. EPS (Rs)	55.6	52.6	65.8
Consensus EPS (Rs)	61.6	50.2	62.9
Adj. ROAE (%)	13.1	11.1	12.5
Adj. P/E (x)	21.3	22.5	18.0
EV/EBITDA (x)	14.8	14.9	12.3
Adj. EPS growth (%)	(20.3)	(5.4)	25.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly financial highlights

(Rs mn)	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Q1FY27E	Var (%)
Net Sales	80705	85452	(5.6)	75162	7.4	80157	0.7
Total Expenses	72379	63951	13.2	69120	4.7	69526	4.1
(%) of net sales	89.7	74.83851		91.96136		87	
Raw material consumed	43165	36825	17.2	41,471	4.1	41471	4.1
(%) of net sales	53.5	43.09437		55.17549		52	
R&D cost	5766	6244	(7.7)	5,463	5.5	6012	(4.1)
(%) of net sales	7.1	7.307026		7.2683		8	
SG&A	23448	20882	12.3	22186		22043	
(%) of net sales	29.1	24.43711		29.51758		28	
EBITDA	8326	21501	(61.3)	6042	37.8	12024	(30.8)
Depreciation	5372	4765	12.7	5576		5851	
EBIT	2954	16736	(82.3)	466	533.9	6172	(52.1)
Interest	(1734)	(1570)	NA	(620)		(700)	
Other Income	845	739		3,445		3206	
PBT	5533	19045	(70.9)	4531	22.1	9087	(39.1)
Less: Taxation	1178	4951		(214)		(2286)	
Recurring PAT	4434	14178	(68.7)	4741	(6.5)	11373	(61.0)
Exceptional items	0	0		(2,540)		0	
Reported PAT	4434	14178	(68.7)	2201	101.5	11373	(61.0)
Key Ratios (%)							
Gross Margin	46.5	56.9	(1039bps)	44.8	169bps	48.3	(175bps)
EBITDH Margin	10.3	25.2	(1485bps)	8.0	227bps	15.0	(295bps)
Tax / PBT	21.3	26.0		(4.7)		(25.2)	
NPM	5.5	16.6	(1109bps)	6.3	(81bps)	14.2	(819bps)
Adj. EPS (Rs)	5.3	17.0	(69.0)	5.7	(6.5)	13.7	(61.0)

Source: Company, BOBCAPS Research

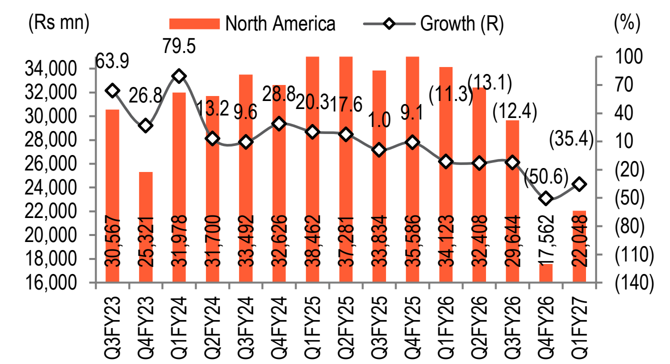
Fig 2 – Segmental revenue

(Rs mn)	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Q1FY27E	Var (%)
Global generics	71,993	75,620	(4.8)	65802	9.4	70822	1.7
North America	22,048	34123	(35.4)	17,562	25.5	22,094	(0.2)
Europe	14440	12744	13.3	14,520	(0.6)	14,000	3.1
India	17177	14711	16.8	15,663	9.7	17,653	(2.7)
ROW	18328	14042	30.5	18,057	1.5	17075	7.3
PSAI	8519	8181	4.1	9,124	(6.6)	8,999	(5.3)
Proprietary Products	193	1651	(88.3)	236	(18.2)	336	(42.6)
Net Sales	80705	85452	(5.6)	75162	7.4	80157	0.7

Source: Company, BOBCAPS Research

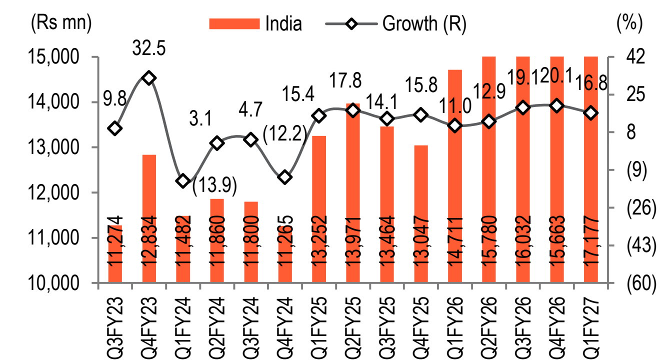
Financial Charts

Fig 3 – North America sales lower due gRevlimid in the base



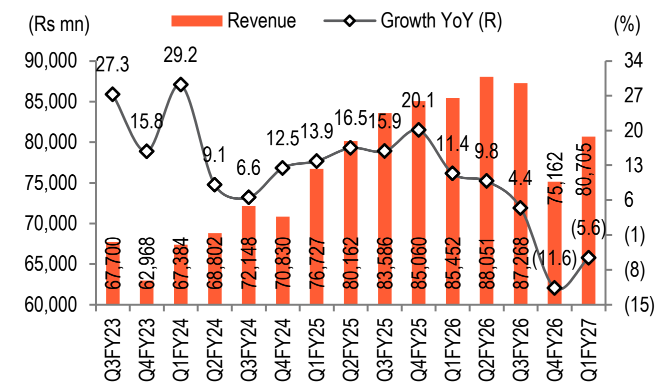
Source: Company, BOBCAPS Research

Fig 4 – India sales continues to outperform IPM growth



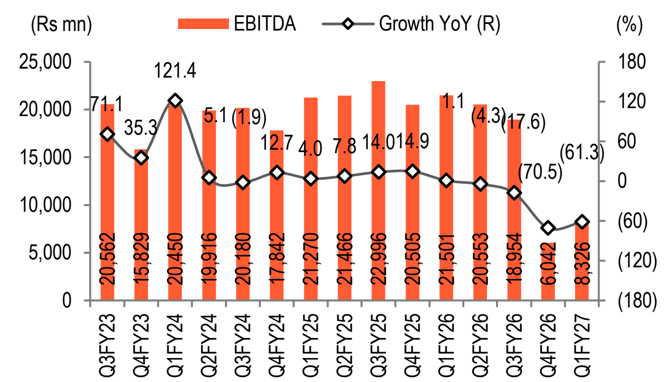
Source: Company, BOBCAPS Research

Fig 5 – Sales declined primarily du to lower North America sales



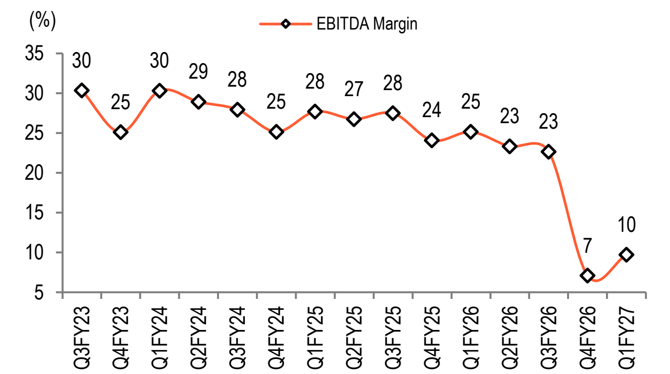
Source: Company, BOBCAPS Research

Fig 6 – EBITDA lowered due to lower sales and higher Other expenses



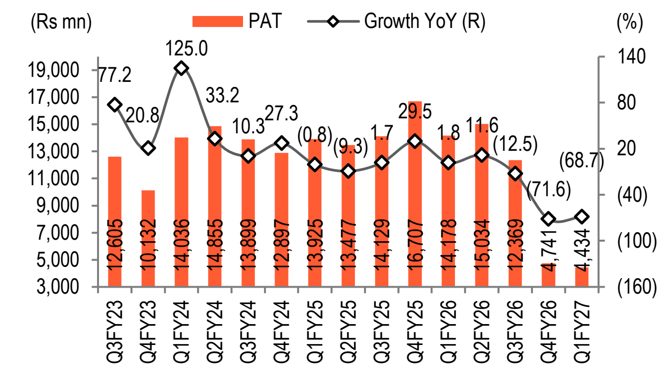
Source: Company, BOBCAPS Research

Fig 7 – EBITDA Margin lower due to lower product mix



Source: Company, BOBCAPS Research

Fig 8 – Lower operations led to lower PAT



Source: Company, BOBCAPS Research

Valuation methodology

DRRD's numbers were weak primarily due to negative surprise of Rs 2.396 bn towards provision of Semaglutide API. Barring that, the weakness was on expected lines. North America sales decline was in-line with our expectation of 35% YoY. Adjusted for Semaglutide API provisions and 4QFY26 provisions, PAT declined by 51.8% but grew by 44% QoQ to Rs 6.83bn.

Going forward, the company expects to receive ANVISA approval for Semaglutide soon and is confident about base business growth sustaining double digits, as India grew 17% (organically 15%), NRT is expected to continue its growth trend, Europe (ex-NRT) grew by 30% YoY, and EMs are expected to sustain double-digit growth. However, the company guided for 1) sustaining higher solvent and freight costs till Dec'26 due to the Middle East war (we believe other companies would face this issue from 2QFY27), and 2) a tax rate of 25% vs our estimate of 22%. Thus, we lower our FY27 EBITDA Margin by 100 bps to sustain the neighborhood of 20%, at 19%, and lower EPS marginally by 5.9% in FY27, factoring in the higher tax rate

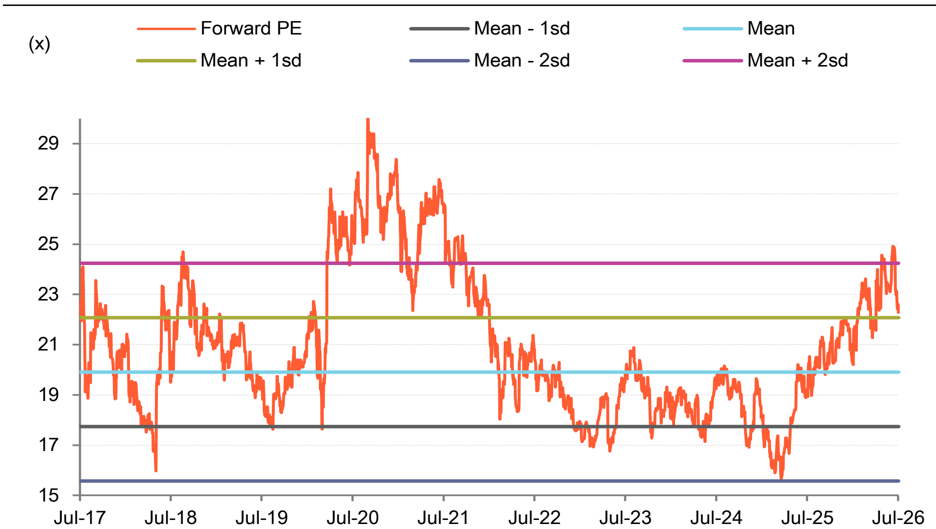
Thus, our sales/EBITDA/PAT CAGR is at 12%/20%/21% from FY27-29E. At CMP, on roll forward basis, the stock trades at an attractive valuation of 17.2x on Jun'28 EPS of Rs 69. We continue to ascribe 21x as the company has strong net cash of Rs 30bn which can be utilsed towards complex modalities like peptides and biosimilars to arrive at a PT of Rs 1471 (earlier PT of Rs 1511).

Fig 9 – Change in Estimates

(Rs mn)	New			Old			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Sales	353963	396321	441653	357103	397528	434123	(0.9)	(0.3)	1.7
EBITDA	67253	83227	97164	71421	83481	95507	(5.8)	(0.3)	1.7
EBITDA Margin (%)	19.0	21.0	22.0	20	21	22	(100bps)	0	0
EPS (Rs)	52.55	65.81	77.54	58.5	68.5	78.7	(5.9)	(2.7)	(1.2)

Source: Company, BOBCAPS Research

Fig 10 – 1Year forward PE band



Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	**325,534**	**335,933**	**353,963**	**396,321**	**441,653**
EBITDA	86,235	67,049	67,253	83,227	97,164
Depreciation	17,058	20,606	22,028	23,378	23,080
EBIT	69,177	46,443	45,225	59,849	74,084
Net interest inc./(exp.)	4,724	4,132	4,292	3,451	2,589
Other inc./(exp.)	4,358	7,627	8,781	9,706	9,344
Exceptional items	0	0	0	0	0
EBT	78,259	58,202	58,298	73,006	86,016
Income taxes	19,539	12,351	14,575	18,252	21,504
Extraordinary items	(1,476)	(3,385)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**57,244**	**42,466**	**43,724**	**54,755**	**64,512**
Adjustments	(1,476)	(3,385)	0	0	0
Adjusted net profit	**58,720**	**45,851**	**43,724**	**54,755**	**64,512**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	35,523	33,411	38,790	43,432	48,400
Other current liabilities	53,102	64,910	42,476	39,632	39,749
Provisions	6,324	7,659	8,070	9,036	10,069
Debt funds	46,766	77,341	65,740	49,305	36,979
Other liabilities	0	0	0	0	0
Equity capital	832	835	835	835	835
Reserves & surplus	331,932	372,754	412,303	462,883	523,220
Shareholders' fund	332,764	373,589	413,138	463,718	524,055
Total liab. and equities	**474,479**	**556,910**	**568,214**	**605,123**	**659,252**
Cash and cash eq.	14,652	15,368	24,614	20,992	37,495
Accounts receivables	90,420	101,219	96,976	130,297	157,301
Inventories	71,085	76,531	82,430	94,466	108,901
Other current assets	33,492	41,096	49,555	55,485	61,831
Investments	58,456	88,814	88,814	88,814	88,814
Net fixed assets	97,761	115,930	111,902	106,524	101,444
CWIP	0	0	0	0	0
Intangible assets	108,613	117,952	113,924	108,546	103,466
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**474,479**	**556,910**	**568,214**	**605,123**	**659,252**

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	**54,719**	**46,506**	**34,701**	**26,159**	**43,336**
Capital expenditures	(27,504)	(27,000)	(18,000)	(18,000)	(18,000)
Change in investments	21,162	(30,358)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(6,342)**	**(57,358)**	**(18,000)**	**(18,000)**	**(18,000)**
Equities issued/Others	0	3	0	0	0
Debt raised/repaid	26,746	30,575	(11,601)	(16,435)	(12,326)
Interest expenses	4,724	4,132	4,292	3,451	2,589
Dividends paid	(4,160)	(4,175)	(4,175)	(4,175)	(4,175)
Other financing cash flows	(68,140)	(18,967)	4,028	5,378	5,080
Cash flow from financing	**(40,830)**	**11,568**	**(7,455)**	**(11,780)**	**(8,833)**
Chg in cash & cash eq.	**7,547**	**716**	**9,246**	**(3,622)**	**16,503**
Closing cash & cash eq.	**14,652**	**15,368**	**24,614**	**20,992**	**37,495**

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	68.0	51.5	52.6	65.8	77.5
Adjusted EPS	69.7	55.6	52.6	65.8	77.5
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	400.9	450.1	497.8	558.7	631.4

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	3.1	3.0	2.8	2.6	2.4
EV/EBITDA	11.8	14.8	14.9	12.3	10.7
Adjusted P/E	17.0	21.3	22.5	18.0	15.3
P/BV	3.0	2.6	2.4	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	75.0	78.8	75.0	75.0	75.0
Interest burden (PBT/EBIT)	113.1	125.3	128.9	122.0	116.1
EBIT margin (EBIT/Revenue)	21.3	13.8	12.8	15.1	16.8
Asset turnover (Rev./Avg TA)	24.3	20.2	19.0	20.0	20.6
Leverage (Avg TA/Avg Equity)	1.1	1.2	1.2	1.1	1.1
Adjusted ROAE	19.2	13.1	11.1	12.5	13.1

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	16.6	3.2	5.4	12.0	11.4
EBITDA	10.0	(22.2)	0.3	23.8	16.7
Adjusted EPS	4.2	(20.3)	(5.4)	25.2	17.8
Profitability & Return ratios (%)					
EBITDA margin	26.5	20.0	19.0	21.0	22.0
EBIT margin	21.3	13.8	12.8	15.1	16.8
Adjusted profit margin	18.0	13.6	12.4	13.8	14.6
Adjusted ROAE	19.2	13.1	11.1	12.5	13.1
ROCE	21.9	13.0	11.6	14.0	15.5
Working capital days (days)					
Receivables	101	110	100	120	130
Inventory	80	83	85	87	90
Payables	40	36	40	40	40
Ratios (x)					
Gross asset turnover	1.3	1.2	1.2	1.2	1.3
Current ratio	2.2	2.2	2.8	3.3	3.7
Net interest coverage ratio	(14.6)	(11.2)	(10.5)	(17.3)	(28.6)
Adjusted debt/equity	0.0	0.0	0.0	0.0	(0.1)

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

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 (Perpetual)**
SEBI Stock Broker Registration No: **INZ000159332**
SEBI Depository Participant Registration No: **IN-DP-728-2022**
SEBI Merchant Banker Registration No: **INM000009926**
Phone: +91-22-61389300
Name of the Compliance Officer: Mr. Sameer Khobrekar
Email ID: Compliance@bobcaps.in; Phone no.: +91-22-61389358
For any queries or grievances, you may contact the Grievance Officer.
Name of the Grievance Officer: Mr. Nilesh Mehta
Email ID: head-customercare@bobcaps.in; Phone no: 92288 60945

Brand Name: **BOBCAPS**
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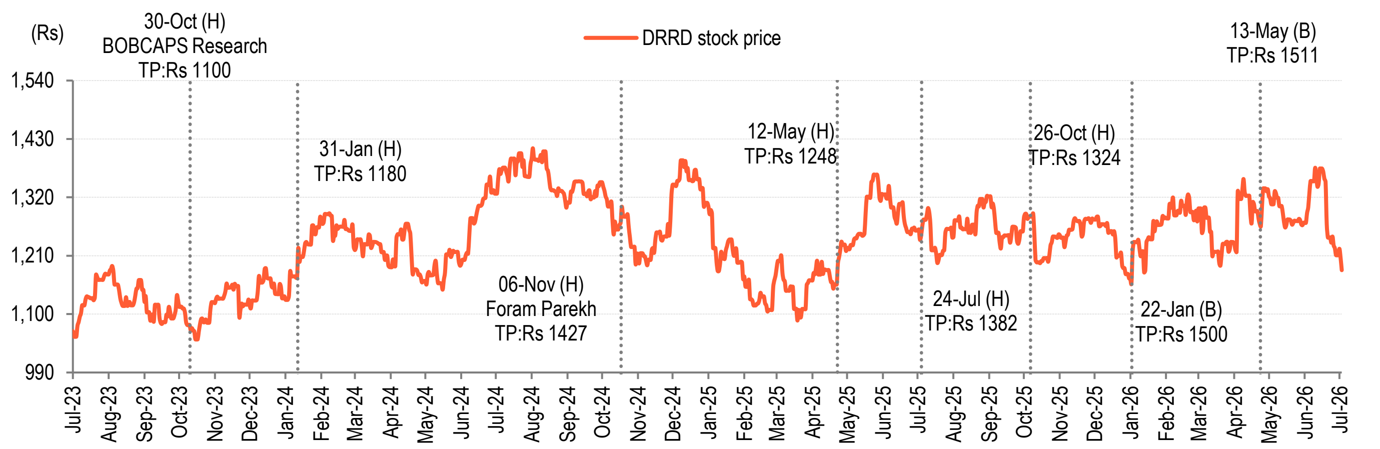
HOLD – Expected return from -6% to +15%

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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