

BUY**TP: Rs 1,500 | ▲ 23%****DR REDDY'S LABS**

| Pharmaceuticals

| 22 January 2026

ex of North America, guidance above expectations

- Sales/EBITDA/PAT reported 1.4%/0.1%-7.1%. EBITDA margin in-line, marginally 28bps below our estimates
- All regions, barring the US, to sustain double-digit growth rate in FY27E. Domestic sales growth buoyance likely to sustain
- Outlook exceeded expectations; upgrade EPS estimates by 4%, 9% and 3% for FY26E/27E/28E resp., Upgrade to BUY with 21x PE on Dec'27 EPS

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In-line estimates – Dr Reddy's sales were in line with our estimates, where sales grew 4.4% YoY to Rs 87bn. Growth in sales was due to 7% YoY growth in Global generics (91% contribution) to Rs 79bn offset by 2% decline in PSAI (9% contribution) to Rs 8bn and 92% decline in Proprietary products to Rs 137 mn. Global Generics' sales growth came on the back of 32% YoY growth in Emerging Markets, 20% YoY growth in Europe region and 19% YoY growth in the domestic region, offset by 12% YoY decline in the US region. During the quarter, there was very little sales from Revlimid that resulted in Global generics gross margin of 57% (59% in 2QFY26) and 17% margins (18% in 2QFY26) for PSAI segment as well as an inclusion of Rs 1,170 mn towards the New Labour Codes resulted in consolidated gross margin declining 504 bps YoY but declined only 37 bps QoQ to 53.6%. Subsequently, EBITDA Margin declined 579 bps YoY and 28 bps QoQ to 21.7% and resulted in 17.6% YoY and flattish growth in EBITDA to Rs 18.9bn. Subsequently, PAT declined by 12.5% YoY and 5% QoQ to Rs 12.3 bn in 3QFY26.

North America sales decline lower vs estimates – During the quarter, the Revlimid contribution was lower than the previous quarter, but the region saw a 12% decline in 3QFY26 (15% decline, as per our estimates) vs 13% in 2QFY26, with higher Lenalidomide sales than 3QFY26. Going forward, Lenalidomide sales is expected to be negligible and until the Semaglutide approval in Canada, we believe the company's North America base should settle around 3QFY26 base, between Rs 25 - Rs 28bn. The company also expects Semaglutide approval from Health Canada between Feb-May'26, thus being able to clock Semaglutide sales from 1QFY26. Thus, we expect North America sales to report -5% CAGR from FY26-28E.

Domestic sales to retain at-least 15% growth – During the quarter, domestic region reported growth of 19% YoY, driven primarily by the acquisition of Stugeron and in-licensed portfolio (max contribution 15% of domestic sales). The company will likely launch its first GLP product Semaglutide (Ozempic) in the domestic market on 21st March 2025, initially through partner and subsequently through backward integration. Thus, we expect domestic region to grow at 16% CAGR from FY26-28E as the newly acquired brand scales up.

Key changes

	Target	Rating
	▲	▲

Ticker/Price	DRRD IN/Rs 1,218
Market cap	US\$ 11.1bn
Free float	73%
3M ADV	US\$ 24.0mn
52wk high/low	Rs 1,380/Rs 1,020
Promoter/FPI/DII	27%/27%/23%

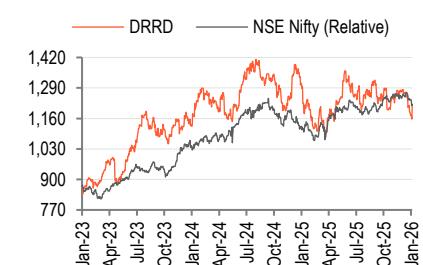
Source: NSE | Price as of 22 Jan 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	325,534	344,315	352,926
EBITDA (Rs mn)	86,235	80,914	84,702
Adj. net profit (Rs mn)	58,720	51,950	54,719
Adj. EPS (Rs)	70.6	62.4	65.8
Consensus EPS (Rs)	72.0	61.6	56.6
Adj. ROAE (%)	19.5	14.6	13.5
Adj. P/E (x)	17.3	19.5	18.5
EV/EBITDA (x)	12.2	12.8	12.5
Adj. EPS growth (%)	5.5	(11.5)	5.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



European region to sustain double-digit growth rate with NRT sales- During the quarter, Europe region reported 20% YoY growth, driven by 26% YoY growth in NRT sales and 15% YoY growth in the sales excluding. NRT sales reported cc growth of 8% as it has completed 85% integration. We expect the cc growth rate to increase, as the company achieves 100% integration in 4QFY26. Ex of NRT, we expect sales to go up on the back of biosimilar sales and with the launch of Abatacept in the European region in ~FY28E, we believe sales excluding NRT, can report higher growth rate from the current 15%. Thus, we expect the entire Europe to grow at a CAGR of 16% YoY from FY26-28E.

Abatacept launch likely in multiple countries - The company has filed Abatacept IV version in Dec'25, as quoted and expects to receive approval by the end of CY26 without any requirement of plant inspection. The company also expects to file the Subcutaneous version by July'27 and receive approval in FY28. The company expects to launch the product in multiple markets like Europe, US and Japan, where in all the markets, Dr. Reddy's is likely to be the only generic player in the near term with European TAM of USD 2bn.

EBITDA Margin to recover in FY28E- During 3QFY26, the contribution of Lenalidomide was minimal, factoring in EBITDA margin as per expectations at 22%; while 9MFY26 EBITDA margin at 23.3%. Going forward, with Lenalidomide's contribution in the US market being zero, Global generics margins is expected to be 52-55%. However, the decline is expected to offset by lower R&D cost due to exhaustion of higher spends on Abatacept's development. Thus, with R&D cost rationalisation (not expected to increase contribution with development of Subcutaneous version) followed by GLP launch in ~87 countries from Mar'26, EBITDA margin can be content at 25% by FY28E.

Valuation - We continue to ascribe 21x on Dec'27 roll-forward EPS to arrive at TP of Rs 1,500 (earlier PT of Rs 1324), implying an upside of 23%, thereby upgrading the stock to BUY (earlier HOLD), ahead of the Semaglutide approval and CRL in biosimilars like Denosumab and Rituximab. While exclusivity period for the Semaglutide launch in Canada would be short lived, Q3 marks a base for North America region with minimal Lenalidomide and no Semaglutide at Rs 29.6mn. However, we are assuming a base of Rs 27mn on a quarterly run rate — a 7% decline on 3QFY26 quarterly run rate factoring in moderate positivity. Although the company has received CRL for biosimilars, leading to a 6-month delay for Denosumab and 1 year for Rituximab, FY28e is likely to witness steep recovery on account of 1) lower base 2) launch of Abatacept, Rituximab and Denosumab in the North America region and 3) GLP scale up with backward integration.

Financial Highlights

Fig 1 – Quarterly highlights

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Var (%)
Net Sales	87,268	83,586	4.4	88,051	(0.9)	86,074	1.4
Total Expenses	68,314	60,590	12.7	67,498	1.2	67,138	1.8
(%) of net sales	78.3	72.5		76.7		78	
Raw material consumed	40,462	34,534	17.2	39,911	1.4	39,594	2.2
(%) of net sales	46.4	41.3		45.3		46	
R&D cost	6,149	6,658	(7.6)	6,202	(0.9)	6,025	2.1
(%) of net sales	7.0	8.0		7.0		7	
SG&A	21,703	19,398	11.9	21,385		21,518	
(%) of net sales	24.9	23.2		24.3		25	
EBITDA	18,954	22,996	(17.6)	20,553	(7.8)	18,936	0.1
Depreciation	5,215	4,719	10.5	5,051		5,164	
EBIT	13,739	18,277	(24.8)	15,502	(11.4)	13,772	(0.2)
Interest	(1,168)	20	(5940.0)	(774)		(900)	
Other Income	770	439		2,673		2,500	
PBT	15,677	18,696	(16.1)	18,949	(17.3)	17,172	(8.7)
Less: Taxation	3,533	4,704		4,082		4,322	
Recurring PAT	12,369	14,129	(12.5)	15,034	(17.7)	13,017	(5.0)
Exceptional items	(271)	4		(662)		0	
Reported PAT	12,098	14,133	(14.4)	14,372	(15.8)	13,017	(7.1)
Key Ratios (%)							
Gross Margin	53.6	58.7	(505)	54.7	(104)	54.0	(37)
EBITDH Margin	21.7	27.5	(579)	23.3	(162)	22.0	(28)
Tax / PBT	22.5	25.2	(262)	21.5	99	25.2	(263)
NPM	14.2	16.9	(273)	17.1	(290)	15.1	(95)
Adj. EPS (Rs)	14.9	17.0	(12)	18.1	(18)	15.6	(78)

Source: Company, BOBCAPS Research

Revenue Mix

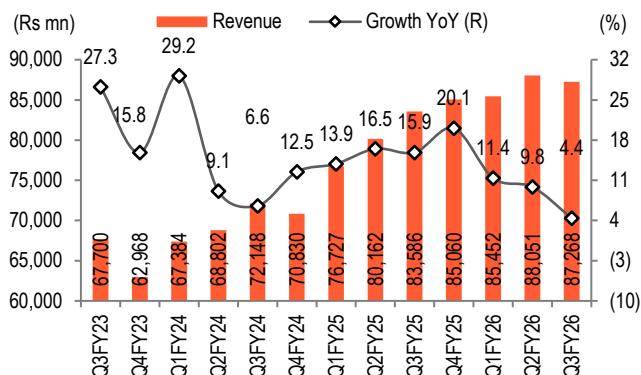
Fig 2 – Segmental Revenue

(Rs mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Var (%)
Global generics	79,113	73,752	7.3	78,498	0.8	75,084	5.4
North America	29,644	33,834	(12.4)	32,408	(8.5)	28,759	3.1
Europe	14,476	12,096	19.7	13,762	5.2	15,030	(3.7)
India	16,032	13,464	19.1	15,780	1.6	15,214	5.4
ROW	18,961	14,358	32.1	16,548	14.6	16,081	17.9
PSAI	8,018	8,219	(2.4)	9,450	(15.2)	9,698	(17.3)
Proprietary Products	137	1,614	(91.5)	103	33.0	1,291	(89.4)
Net Sales	87,268	83,585	4.4	88,051	(0.9)	86,074	1.4

Source: Company, BOBCAPS Research

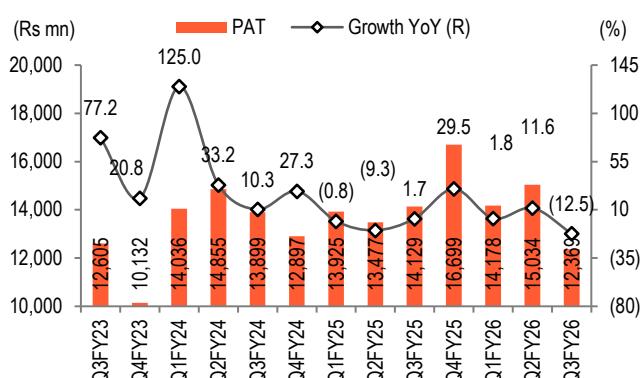
Financial Charts

Fig 3 – Total sales lowered due to the lack of Lenalidomide sales



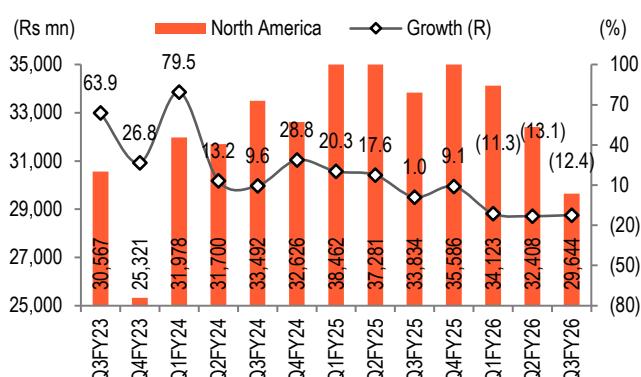
Source: Company, BOBCAPS Research

Fig 5 – PAT growth decreased with lower operations



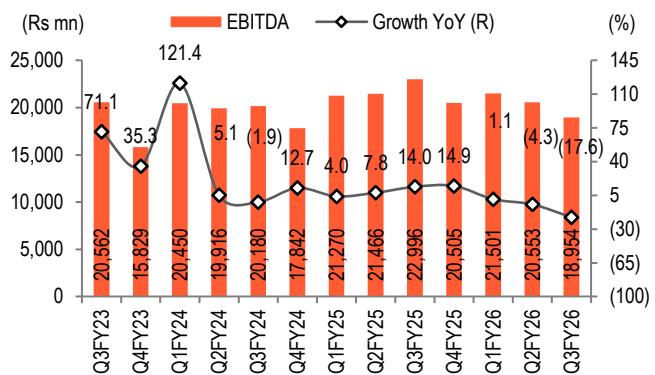
Source: Company, BOBCAPS Research

Fig 7 – North America sales lowered given the absence of Lenalidomide and price erosion



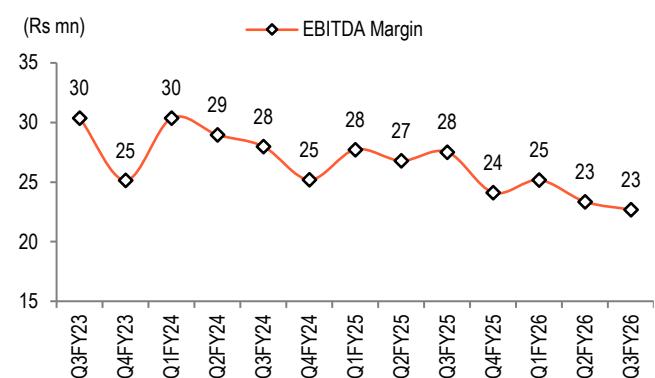
Source: Company, BOBCAPS Research

Fig 4 – EBITDA decline on lower Global generics margins and one-time expense of New labour Cost



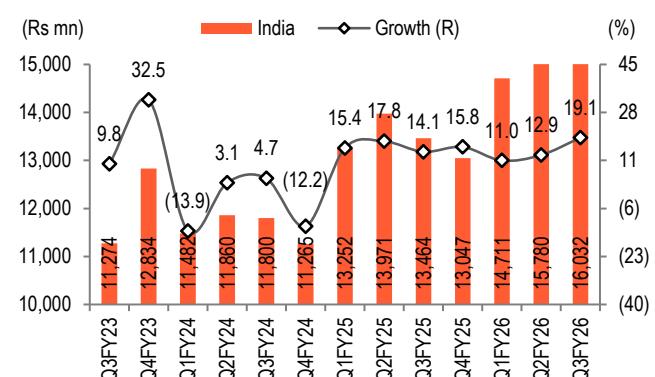
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin maintained at 23% without Lenalidomide contribution



Source: Company, BOBCAPS Research

Fig 8 – Domestic sales growth rate increasing with the Stugeron-acquisition



Source: Company, BOBCAPS Research

Valuation Methodology

We raise our EPS estimates by 4%/9%/3% for FY26E, FY27E and FY28E respectively, as 1) US decline was lesser at 12% vs our estimates of 15%

2) domestic growth expected to sustain at 15% 2) Europe and Emerging Markets likely to grow in double digits 3) Rising Other income.

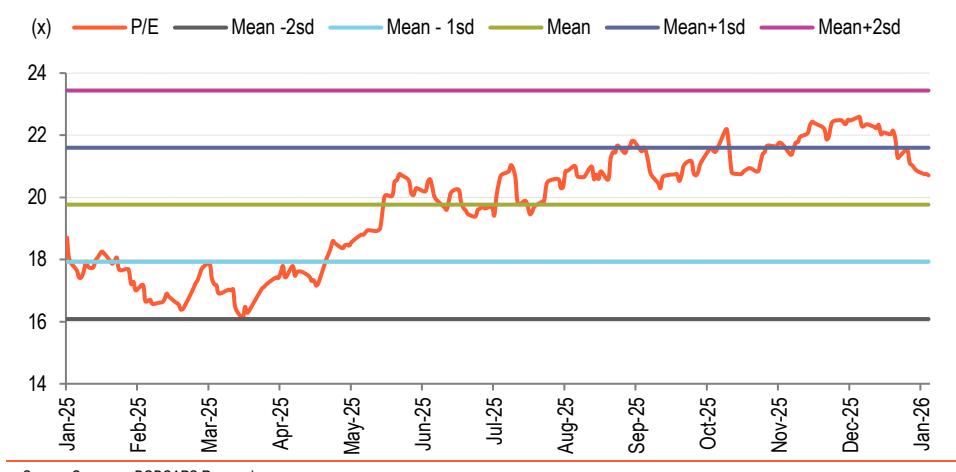
We continue to ascribe 21x on Dec'27 roll-forward EPS to arrive at TP of Rs 1,500 (earlier PT of Rs 1324), implying an upside of 23%, thereby upgrading the stock to BUY (earlier HOLD), ahead of the Semaglutide approval and CRL in biosimilars like Denosumab and Rituximab. While exclusivity period for the Semaglutide launch in Canada would be short lived, Q3 marks a base for North America region with minimal Lenalidomide and no Semaglutide at Rs 29.6mn. However, we are assuming a base of Rs 27mn on a quarterly run rate — a 7% decline on 3QFY26 quarterly run rate factoring in moderate positivity. Although the company has received CRL for biosimilars, leading to a 6-month delay for Denosumab and 1 year for Rituximab, FY28e is likely to witness steep recovery on account of 1) lower base 2) launch of Abatacept, Rituximab and Denosumab in the North America region and 3) GLP scale up with backward integration.

Fig 9 – Change in Estimates

(Rs mn)	New			New			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	344,315	352,926	390,990	346,661	345,187	372,478	(1)	2	5
EBITDA	80,914	84,702	97,748	82,052	82,845	94,982	(1)	2	3
EBITDA margin (%)	23.5	24	25	23.7	24.0	25.5	(17bps)	(0bps)	(50bps)
EPS (Rs)	62.4	65.8	73.3	60	60.4	71.1	4	9	3

Source: Company, BOBCAPS Research

Fig 10 – PE Band



Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	279,164	325,534	344,315	352,926	390,990
EBITDA	78,377	86,235	80,914	84,702	97,748
Depreciation	14,700	17,058	20,341	22,291	24,166
EBIT	63,677	69,177	60,573	62,411	73,582
Net interest inc./exp.)	(1,711)	(2,829)	(1,730)	(1,838)	(2,070)
Other inc./exp.)	9,904	11,911	10,423	12,385	9,792
Exceptional items	0	0	0	0	0
EBT	71,870	78,259	69,266	72,958	81,304
Income taxes	16,186	19,539	17,317	18,240	20,326
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	51,950	54,719	60,978
Adjustments	0	(1,476)	0	0	0
Adjusted net profit	55,684	58,720	51,950	54,719	60,978

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	30,919	35,523	37,733	38,677	42,848
Other current liabilities	49,676	53,102	48,204	42,351	46,919
Provisions	5,444	6,324	6,689	6,856	7,596
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	379,722	430,280	487,098
Shareholders' fund	270,683	332,764	380,554	431,112	487,930
Total liab. and equities	376,742	474,479	512,931	552,785	610,634
Cash and cash eq.	7,105	14,652	25,552	45,762	79,985
Accounts receivables	80,298	90,420	94,333	96,692	102,836
Inventories	63,552	71,085	73,580	77,354	87,839
Other current assets	28,079	33,492	41,318	49,410	54,739
Investments	79,618	58,456	58,456	58,456	58,456
Net fixed assets	76,886	97,761	104,420	107,130	107,964
CWIP	0	0	0	0	0
Intangible assets	41,204	108,613	115,272	117,982	118,816
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	376,742	474,479	512,931	552,785	610,634

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	55,590	62,973	57,464	59,881	74,734
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)	(1,730)	(1,838)	(2,070)
Dividends paid	(4,160)	(4,160)	(4,160)	(4,160)	(4,160)
Other financing cash flows	(21,502)	(68,841)	(6,659)	(2,709)	(834)
Cash flow from financing	(20,825)	(49,084)	(19,564)	(14,670)	(15,511)
Chg in cash & cash eq.	1,327	7,547	10,900	20,210	34,223
Closing cash & cash eq.	7,105	14,652	25,552	45,762	79,985

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	66.9	68.8	62.4	65.8	73.3
Adjusted EPS	66.9	70.6	62.4	65.8	73.3
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	326.1	400.9	458.5	519.4	587.9

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	3.8	3.2	3.0	3.0	2.8
EV/EBITDA	13.6	12.2	12.8	12.5	11.1
Adjusted P/E	18.2	17.3	19.5	18.5	16.6
P/BV	3.7	3.0	2.7	2.3	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	114.4	116.9	110.5
EBIT margin (EBIT/Revenue)	22.8	21.3	17.6	17.7	18.8
Asset turnover (Rev./Avg TA)	26.4	24.3	21.5	19.9	20.0
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	22.5	19.5	14.6	13.5	13.3

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	13.5	16.6	5.8	2.5	10.8
EBITDA	22.2	10.0	(6.2)	4.7	15.4
Adjusted EPS	21.7	5.5	(11.5)	5.3	11.4
Profitability & Return ratios (%)					
EBITDA margin	28.1	26.5	23.5	24.0	25.0
EBIT margin	22.8	21.3	17.6	17.7	18.8
Adjusted profit margin	19.9	18.0	15.1	15.5	15.6
Adjusted ROAE	22.5	19.5	14.6	13.5	13.3
ROCE	27.8	24.2	17.8	16.9	17.0
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	1.2
Current ratio	2.1	2.2	2.5	3.1	3.3
Net interest coverage ratio	37.2	24.5	35.0	33.9	35.6
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

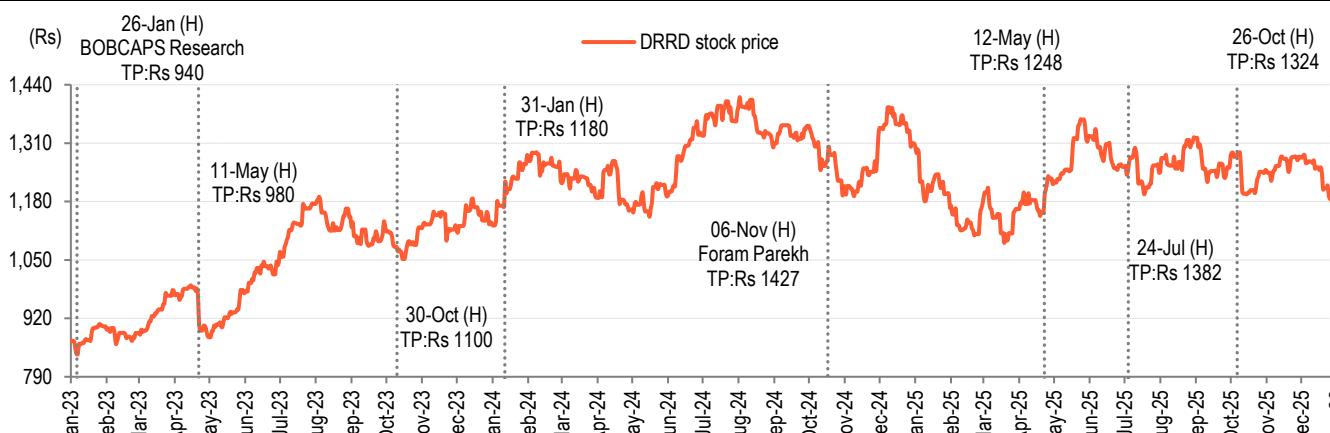
HOLD – Expected return from -6% to +15%

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)



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