

HOLD

TP: Rs 1,248 | ▲ 8%

DR REDDY'S LABS

Pharmaceuticals

12 May 2025

Competition intensifies in GLP products

- Revenue/EBITDA/PAT surpassed our estimates by 0.2%/-10.5%/19.2%, gross margin 340 bps lower than estimates on severance cost
- North America sales in cc terms were 4% above our estimates to USD 417mn, due to higher gRevlimid sales
- We remain wary of margins due to rising competition in GLP products. Maintain HOLD, ascribe 18x P/E on FY27E to arrive at TP of Rs 1,248

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Mix 4Q - DRRD reported a mixed set of numbers where sales grew by 20.1%, EBITDA by 14.9% and PAT by 10%. However, EBITDA margin was 110 bps lower YoY. Sales were driven across geographies and segments where Europe grew by 144.8% including Nicotine Replacement Therapy (NRT) sales, India by 15.8%, US by 9.1% and the PSAI segment grew by 16.4% but was offset by 90.7% decline in proprietary products. Ex. Of NRT, sales grew by 12% to Rs 79bn. Healthy sales offset by higher RM cost, which contributed 44% of sales (41% in 4QFY24) due to inclusion of severance cost on facility divestment in the US impacting gross margin by 300 bps and subsequently, EBITDA margin was 110 bps lower YoY. During the quarter, there was a foreign exchange gain of Rs 1.5bn and lower tax rate of 22% resulted in 10% PAT growth. Adjusting against foreign exchange gains, PAT has declined 2% YoY.

Domestic region continues to grow in double digits – Domestic grew by 16% to Rs 13 bn, largely driven by in-licensed Sanofi's vaccine portfolio and new product launches. DRRD expanded collaboration with Sanofi to introduce Beyfortus, which is nirsevimab, a novel drug for preventing RSV. Sanofi's portfolio, DRRD launched 23 brands in FY25. We expect this growth momentum to continue, driven by inorganic activities by either licensing or acquiring new products and focusing on innovation; so we expect domestic sales to grow by 13% CAGR from FY25-27E.

Europe region growing organically and inorganically - Overall Europe region grew by 145%, where organic growth was 32% and inorganic was 30%. Organically, growth was driven by the UK that grew by 39%. Germany grew by 24% while the rest of the Europe grew by 10%. Growth in these regions was driven by new product launches (10 launches in 4Q FY25 and 39 launches in FY25). Inorganically, growth was driven by NRT sales where DRRD has completed integration in the UK and is moving towards completing integration in the rest of Europe. Plans to launch biosimilars in Europe, both Rituximab and Bevacizumab leveraging the US pipeline; so we expect the Europe region to grow at a CAGR of 31% FY25-27E.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DRRD IN/Rs 1,156
Market cap	US\$ 11.3bn
Free float	73%
3M ADV	US\$ 32.1mn
52wk high/low	Rs 1,421/Rs 1,020
Promoter/FPI/DII	27%/27%/23%

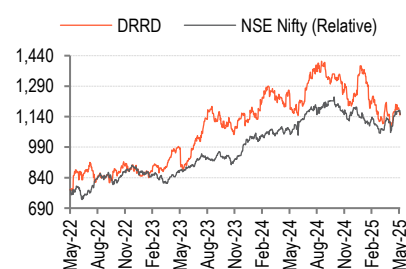
Source: NSE | Price as of 9 May 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	279,164	325,534	346,661
EBITDA (Rs mn)	78,377	86,235	91,865
Adj. net profit (Rs mn)	55,684	58,720	57,276
Adj. EPS (Rs)	66.9	70.6	68.8
Consensus EPS (Rs)	66.9	72.0	70.0
Adj. ROAE (%)	22.5	19.5	15.9
Adj. P/E (x)	17.3	16.4	16.8
EV/EBITDA (x)	11.9	10.5	10.1
Adj. EPS growth (%)	21.7	5.5	(2.5)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



North America growth driven by increased volume of g Revlimid

DRRD reported 9% YoY growth in the North America region to Rs 35.5bn and 6% YoY growth in cc terms to USD 417mn. The growth was driven by new product launches, increased volumes of select key products, partially offset by price erosion in base products. In Jan'26, gRevlimid is expected to go off patent, so management expects higher sales from gRevlimid in the earlier quarters of FY26 before the price erosion and competition intensifies. The company is also looking forward to the Semaglutide launch in the Canada market, where the patent will likely expire in Mar'26. Management expects this market to grow by 5x from the current market size of USD1.5 bn, regardless of the competition. DRRD is also expected to file its key biosimilar Abatacept (CY24 sales of USD3.7bn) in CY25 and launch in CY26 (likely delay due to patent litigation). With gRevlimid going off patent, there is increasing competition in Semaglutide and a potential delayed launch in bAbatacept; hence, we expect the North America region to grow at -10% CAGR from FY25-27e.

R&D costs to stay elevated - DRRD's aims to maintain R&D cost at 8-8.5% of sales as it intends to participate in 14-15 GLP products over a period and also intends to focus on biosimilar launches, where currently bAbatacept is in phase 3 trial. DRRD intends to have ~7 biosimilar launches by FY30-32.

Valuation - We remain wary of fluctuating core margins, slowdown in the North America business post gRevlimid going off patent in CY26, continuous decrease in the base portfolio, and lack of new product launches in the US region as Abatacept launch might get delayed due to patent litigation. Current scale of the NRT business and JV in Nestle are still at a nascent stage and would require huge investments in marketing for many years to scale up, thereby maintaining our EBITDA margin around ~26.5% till FY27E. Hence, we maintain HOLD. We are watchful of the evolving Semaglutide market in the Canada region; hence we ascribe a similar PE of 18x on FY27E EPS of Rs 69.3 to arrive at TP of Rs 1,248.

Concall Highlights

Biosimilars

Denosumab - The US FDA accepted the filing of partner Denosumab Biosimilar, making a key milestone in the company's investment within the regulated biosimilar markets.

Abatacept - Currently in phase 3 and planning to submit in CY25.

NRT - Phase integration of the newly acquired nicotine replacement therapy NRT business is moving forward as planned. The UK was successfully integrated at the start of the month and is on track to complete the integration of Nordics in the next phase.

Margin – NRT EBITDA margin is ~25%, though PBT margin was lower due to integration cost. Going forward, EBITDA margin to be ~23%.

Geographical Segment

India –

New product launches - Launched 23 new products in FY25.

JV with Sanofi - Expand collaboration with Sanofi to introduce Beyfortus, which is nirsevimab, a novel drug for preventing RSV.

Jan Aushadi - Commenced participation in the government's Jan Aushadi program with one of their products.

Outlook - Expects to see a similar 16% growth next year for India. Maximum growth in India will be inorganic through licensing products, acquiring products, and innovation in the same, and not merely by stretching the big brands.

North America –

Growth – This segment generated revenue of \$418 mn for the quarter, reflecting a YoY growth of 7% and QoQ growth of 4%. This performance was primarily driven by increased volume in key products and new launches offsetting the price erosion.

New Product Launches - Launched seven new products in 4QFY25 and 18 products in FY25. Expects the launch momentum to continue into FY26.

Price Erosion – Price erosion was in low single digit

Tariff - Watching carefully the information as it comes. At this stage, the main effort is to ensure sustainability of supply. So, the main activity is to work closely with customers and identify the needs in terms of inventories, future inventories as well as new product demands.

Semaglutide market size - Based on the marketing report, the product is growing nicely. According to IQVIA and financial reports, the market size is around \$1.8bn, which suggests that it's around 10mn pens and the market is expected to grow 5x.

The company will follow synthetic route for injectable and Pen and semi synthetic route for oral solid for the India and Canada markets.

Management believes that the companies that can make the product synthetically with huge capacity are the ones to get an advantage of getting approval sooner and will be able to launch on day one.

Revlimid - There is price erosion. There is also an increasing quantity. So, a combination of both will not be able to tell you exactly the amount, but there is a certain level of price erosion. In FY26, expect to sell a few months before January to avoid the price shelf adjustments.

Europe –

Growth - Strong performance driven by contribution from the NRT business, higher base business volumes and gains from new product launches.

New launches – In Q4, launched 10 new generic products in Europe, bringing the total for the fiscal year to 39.

Emerging market

New product launches – During the quarter, launched 26 new products across various emerging market countries, bringing the total for FY25 to 85 products within this segment.

Guidance

Sales growth to continue in double digits.

EBITDA margin to sustain at 25%.

SG&A to continue at 28% of sales.

R&D to continue at 8.5 -9% of sales.

Effective tax rate (ETR) for FY26 is expected to be in the same range as FY25.

Financial Highlights

Fig 1 – Financial Highlights

Quarter table (Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Net Sales	85060	70830	20.1	83586	1.8	279164	325534	346661	350421
Total Expenses	64555	52988	21.8	60590	6.5	200787	239299	254796	257559
(%) of net sales	75.9	74.8		72.5		71.9	73.5	73.5	73.5
Raw material consumed	37797	29347	28.8	34534	9.4	115557	135107	149064	152433
(%) of net sales	44.4	41.4		41.3		41.4	41.5	43.0	43.5
R&D cost	7258	6877	5.5	6658	9.0	22873	27380	27733	28034
(%) of net sales	8.5328	9.7		7.965449		8.2	8.4	8.0	8.0
SG&A	19500	16764	16.3	19398		62357	76812	77999	77093
(%) of net sales	22.9	23.7		23.2		22.3	23.6	22.5	22.0
EBITDA	20505	17842	14.9	22996	(10.8)	78377	86235	91865	92862
Depreciation	4555	3712	22.7	4719		14700	17058	18985	20805
EBIT	15950	14130	12.9	18277	(12.7)	63677	69177	72881	72057
Interest	(2344)	(1022)	129.4	20		1711	2829	3461	2942
Other Income	2465	656		439		9904	11911	6949	7769
PBT	20759	15808	31.3	18696	11.0	71870	78259	76369	76884
Less: Taxation	4181	2946		4704		16186	19539	19092	19221
Recurring PAT	16699	12897	29.5	14129	18.2	55684	58720	57276	57663
Exceptional items	(768)	173		4		0	(1,476)		
Reported PAT	15931	13070	21.9	14133	12.7	55684	57244	57276	57663
Key Ratios (%)									
Gross Margin	55.6	58.6	(300.3)	58.6	(312)	58.6	58.5	57.0	56.5
EBITDA Margin	24.1	25.2	(108.3)	27.5	(341)	28.1	26.5	26.5	26.5
Tax / PBT	20.1	18.6		25.1		22.5	25.0	25.0	25.0
NPM	19.6	18.2		16.9		19.9	18.0	16.5	16.5
Adj. EPS (Rs)	20.1	15.5	29.5	16.9	18	66.9	70.6	68.8	69.3

Source: Company, BOBCAPS Research

Fig 2 – Revenue Mix

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY24	FY25	FY26E	FY27E
Global generics	75,364	61,190	23.2	73,752	2.2	260,824	307,492	316,471	247,850
North America	35,586	32,626	9.1	33,834	5.2	129,895	145,164	135,355	117,363
Europe	12,750	5,208	144.8	12,096	5.4	20,511	35,882	53,823	61,896
India	13,047	11,265	15.8	13,464	(3.1)	46,407	53,734	62,331	68,565
ROW	13,981	12,091	15.6	14,358	(2.6)	48,640	54,771	56,888	61,922
PSAI	9,563	8,219	16.4	8,219	16.4	29,801	33,846	36,554	39,478
Proprietary Products	132	1,420	(90.7)	1,614	(91.8)	3,910	2,137	1,710	1,197
Net Sales	85,059	70,829	20.1	83,585	1.8	279,164	325,534	346,661	350,421

Source: Company, BOBCAPS Research

Valuation Methodology

DRRD reported a mix set of numbers for Q4FY25 amidst the inclusion of NRT sales, which was offset by lower sales in the proprietary products. Revenue growth across regions was healthy but was offset by higher RM cost, due to one-time severance cost driven by facility divestment in the US; hence gross margin lower by 300 bps.

Going forward, there are many opportunities for DRRD like (1) Launch of Semaglutide API and formulation for B2B and B2C in key markets like Canada, India, and Brazil. (2) Launch of Abatacept biosimilar in the North America region (market size of ~US\$ 3.7bn), where DRRD is the sole filer and likely to be a sole player for a longer period. (3) India business to clock ~16% growth, driven by Sanofi's vaccine portfolio, acquired assets and innovation. (4) Europe region growth to be driven by NRT sales as it gets integrated from Apr'25 in 30 countries within 12-15 months and organic growth through new product launches.

However, we remain wary of fluctuating core margins, slowdown in the North America business post gRevlimid going off patent in CY26, continuous decrease in the base portfolio, and lack of new product launches in the US region as Abatacept launch might get delayed due to patent litigation. Current scale of the NRT business and JV in Nestle are still at a nascent stage and would require huge investments in marketing for many years to scale up; thereby maintaining our EBITDA margin around ~26.5% till FY27E. Hence, we maintain HOLD. We are watchful of the evolving Semaglutide market in the Canada region, hence ascribe a similar PE of 18x on FY27E EPS of Rs 69.3 to arrive at TP of Rs 1,248.

Fig 3 – Change in Estimate

(Rs mn)	New		Old		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	346,661	350,421	338,275	368,974	2.5	(5.0)
EBITDA	91,865	92,862	89,643	95,933	2.5	(3.2)
EBITDA margin (%)	26.5	26.5	26.5	26.5	0bps	0bps
EPS (Rs)	68.8	69.3	63.6	68.8	8.2	0.7

Source: Company, BOBCAPS Research

Fig 4 – Key Assumption

	FY25	FY26E	FY27E
Sales	325534	346661	350421
EBITDA	86235	91865	92862
PAT	57244	57276	57663
EBITDA margin (%)	26.49	26.50	26.50
PAT margin (%)	17.58	16.52	16.46
EPS (Rs)	70.6	68.8	69.3

Source: Company, BOBCAPS Research

Key risks

Upside risks: (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)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	245,879	279,164	325,534	346,661	350,421
EBITDA	64,129	78,377	86,235	91,865	92,862
Depreciation	11,824	14,700	17,058	18,985	20,805
EBIT	52,305	63,677	69,177	72,881	72,057
Net interest inc./(exp.)	(1,428)	(1,711)	(2,829)	(3,461)	(2,942)
Other inc./(exp.)	10,188	9,904	11,911	6,949	7,769
Exceptional items	0	0	0	0	0
EBT	61,065	71,870	78,259	76,369	76,884
Income taxes	15,300	16,186	19,539	19,092	19,221
Extraordinary items	(699)	0	(1,476)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	45,066	55,684	57,244	57,276	57,663
Adjustments	(699)	0	(1,476)	0	0
Adjusted net profit	45,765	55,684	58,720	57,276	57,663

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	26,444	30,919	35,523	37,990	38,402
Other current liabilities	44,601	49,676	53,102	48,533	42,051
Provisions	5,513	5,444	6,324	6,734	6,807
Debt funds	13,472	20,020	46,766	39,751	33,788
Other liabilities	0	0	0	0	0
Equity capital	832	832	832	832	832
Reserves & surplus	223,795	269,851	331,932	385,048	438,552
Shareholders' fund	224,627	270,683	332,764	385,880	439,384
Total liab. and equities	314,657	376,742	474,479	518,889	560,432
Cash and cash eq.	5,778	7,105	14,652	27,372	53,152
Accounts receivables	72,485	80,298	90,420	94,976	96,006
Inventories	48,670	63,552	71,085	74,081	72,964
Other current assets	24,788	28,079	33,492	41,599	49,059
Investments	61,380	79,618	58,456	58,456	58,456
Net fixed assets	66,462	76,886	97,761	105,776	109,972
CWIP	0	0	0	0	0
Intangible assets	35,094	41,204	108,613	116,628	120,824
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	314,657	376,742	474,479	518,889	560,432

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	54,400	55,590	62,973	62,371	68,039
Capital expenditures	(22,618)	(15,200)	(27,504)	(27,000)	(25,000)
Change in investments	(23,881)	(18,238)	21,162	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(46,499)	(33,438)	(6,342)	(27,000)	(25,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(20,373)	6,548	26,746	(7,015)	(5,963)
Interest expenses	(1,428)	(1,711)	(2,829)	(3,461)	(2,942)
Dividends paid	(4,160)	(4,160)	(4,160)	(4,160)	(4,160)
Other financing cash flows	8,986	(21,502)	(68,841)	(8,015)	(4,195)
Cash flow from financing	(16,975)	(20,825)	(49,084)	(22,651)	(17,260)
Chg in cash & cash eq.	(9,074)	1,327	7,547	12,720	25,780
Closing cash & cash eq.	5,778	7,105	14,652	27,372	53,152

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	54.2	66.9	68.8	68.8	69.3
Adjusted EPS	55.0	66.9	70.6	68.8	69.3
Dividend per share	5.0	5.0	5.0	5.0	5.0
Book value per share	270.6	326.1	400.9	464.9	529.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.9	3.3	2.8	2.7	2.7
EV/EBITDA	14.9	11.9	10.5	10.1	10.1
Adjusted P/E	21.0	17.3	16.4	16.8	16.7
P/BV	4.3	3.5	2.9	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.9	77.5	75.0	75.0	75.0
Interest burden (PBT/EBIT)	116.7	112.9	113.1	104.8	106.7
EBIT margin (EBIT/Revenue)	21.3	22.8	21.3	21.0	20.6
Asset turnover (Rev./Avg TA)	27.3	26.4	24.3	21.5	19.5
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.1	1.1
Adjusted ROAE	22.7	22.5	19.5	15.9	14.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	14.7	13.5	16.6	6.5	1.1
EBITDA	37.5	22.2	10.0	6.5	1.1
Adjusted EPS	47.0	21.7	5.5	(2.5)	0.7

Profitability & Return ratios (%)

EBITDA margin	26.1	28.1	26.5	26.5	26.5
EBIT margin	21.3	22.8	21.3	21.0	20.6
Adjusted profit margin	18.6	19.9	18.0	16.5	16.5
Adjusted ROAE	22.7	22.5	19.5	15.9	14.0
ROCE	27.8	27.8	24.2	19.8	17.8

Working capital days (days)

Receivables	108	105	101	100	100
Inventory	72	83	80	78	76
Payables	39	40	40	40	40

Ratios (x)

Gross asset turnover	1.1	1.2	1.3	1.2	1.1
Current ratio	2.0	2.1	2.2	2.6	3.1
Net interest coverage ratio	36.6	37.2	24.5	21.1	24.5
Adjusted debt/equity	(0.2)	(0.2)	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%

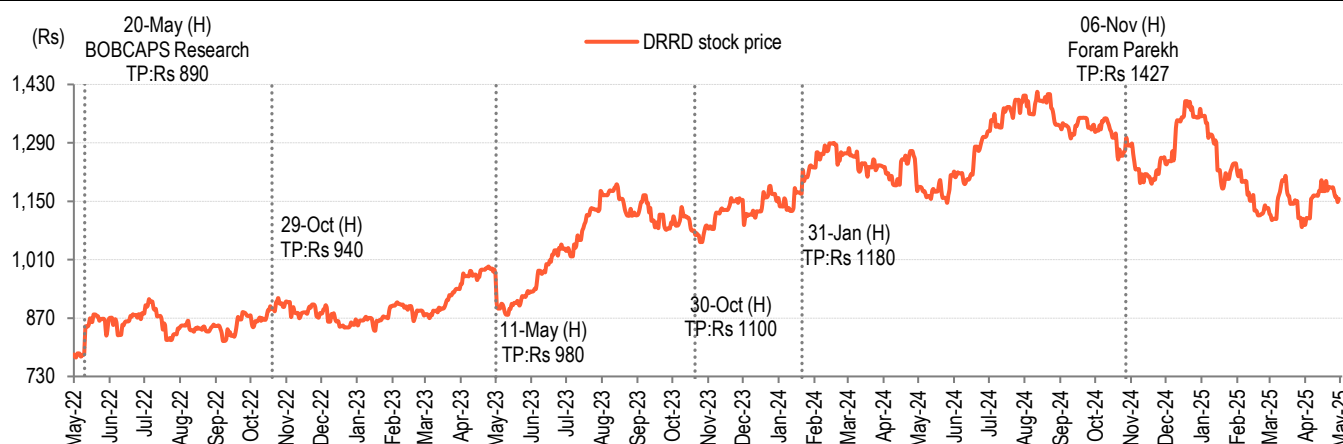
HOLD – Expected return from -6% to +15%

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)



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

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