FIRST LIGHT

12 September 2025

RESEARCH

BOB ECONOMICS RESEARCH | GST IMPACT ANALYSIS

Festival comes early for Consumption

DR REDDY'S LABS | TARGET: Rs 1,382 | +6% | HOLD

Acquisition spree continues

SUMMARY

INDIA ECONOMICS: GST IMPACT ANALYSIS

In a major reform of the indirect tax structure, second generation GST reforms have been announced. The rationalization and correction of anomalies such as inverted duty structure will play crucial role in stimulating domestic economy. Lower rates are expected to have long term positive impact, with a multiplier effect across sectors. The pass-through of these cuts will have a disinflationary effect. The rejig in rates is likely to boost both rural and urban demand, especially given the onset of festival season.

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DR REDDY'S LABS

- Acquired Janssen's Stugeron brand for USD 50.5 mn for the APAC and EMEA markets, with India and Vietnam being the key regions
- We expect USD 600 mn sales from Semaglutide launch in the Canadian market in first year of launch
- Near-term growth drivers to be domestic and Europe regions; continue to ascribe a PE of 21x on Jun'27 to arrive at TP of Rs 1,382

Click here for the full report.

BOBCAPS Research
research@bobcaps.in

GST IMPACT ANALYSIS

10 September 2025

Festival comes early for Consumption

Dipanwita Mazumdar | Jahnavi
Aditi Gupta | Sonal Badhan
Economic Research Department
Economist

In a major reform of the indirect tax structure, second generation GST reforms have been announced. The rationalization and correction of anomalies such as inverted duty structure will play crucial role in stimulating domestic economy. Lower rates are expected to have long term positive impact, with a multiplier effect across sectors. The pass-through of these cuts will have a disinflationary effect. The rejig in rates is likely to boost both rural and urban demand, especially given the onset of festival season.

This is indeed a big push moment for domestic growth. Easier compliance and access to cheaper raw material will enhance export competitiveness and catalyze growth in the MSME sector. The spillover effect will be felt in improved credit demand for banks, coinciding with festival splurge.

In this note, we tried to look at the boost to consumption from 1) inflation aspect 2) boost to production from disaggregated IIP data 3) Sectoral impact and 4) movement of major market variables post GST rate announcement.

Simplified two tier structure

Government has come up with a detailed list of tax structure under GST, 99% of the goods have been kept in the 0, 5% or 18% rate. Majority of the items of daily households, both FMCG and durables, are kept in the 5% bracket. Thus, bringing down the overall effective GST rate. Considering the entire consumption profile the rate translates to 10-11%, currently. We expect the taxable consumption group will translate to ~Rs 150-160 lakh crore. This amount may even be higher once we get the new proportion of GST collected under each head.

We estimate the net gain to consumption of ~ Rs 0.7-1 lakh crore which amounts to ~ 0.2-0.3% of GDP, (anticipated from Sep onwards). The impact might even be higher since the savings to consumers in terms of cess might also be translated into consumption demand.

As per Government estimate, the revenue impact due to GST is pegged at Rs 48,000 crore, which will be a direct benefit to private consumption. However, based on the assumption that lower indirect tax rates would translate to lower inflation, we expect a gain of around Rs 20,000-50,000 crore. For the same, we have assumed 100% transmission. This might not translate to the full extent.

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HOLD
TP: Rs 1,382 | ⮝ 6%

DR REDDY'S LABS | Pharmaceuticals | 11 September 2025

Acquisition spree continues

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Foram Parekh
research@bobcaps.in

Acquired Janssen's Stugeron brand: Dr. Reddy's acquired Janssen Pharmaceutical NV's anti-vertigo drug 'Stugeron' for USD 50.5 mn or Rs 4.4bn. This drug would be commercialize across 18 markets of APAC and EMEA where India and Vietnam would be the key markets. The acquisition strengthens DRDD's Central Nervous System portfolio in India and emerging markets through its foray into the anti-vertigo segment. The recently acquired Stugeron contains Cinnarizine, an antihistamine indicated for the treatment of vestibular disturbances and vertigo. Stugeron already holds the 1st position in the Cinnarizine-represented pharmaceutical market (RPM) and ranks 2nd in the anti-vertigo extended represented pharmaceutical market (eRPM) in India.

Continues to deploy the cash generated from gRevlimid: Dr. Reddy's clocked the 7th deal from 2023 from the beginning of gRevlimid opportunity. Dr. Reddy's has diversified cashflows from gRevlimid into OTC, biosimilars and complex therapies like CNS. This is apart from the end-to-end facility developed for GLP-1 products and a guided capex of Rs 25-27bn for FY26. The company has been diversifying into high-margin segments to maintain EBITDA margin of 25% post LoE of Revlimid.

On track to sustain double-digit growth in domestic region: During the earnings call, the management had mentioned sustaining double-digit growth rate in the domestic region through in-license deal and by introducing innovative products. Recent acquisition of Stugeron brand would aid growth in the CNS therapy, which is currently Rs 2.8bn, as per MAT Aug'25 Pharmarack data. The company has an MR strength of 10,000 spread across 50 teams.

Healthy pipeline of biosimilar launches in US: Dr. Reddy's has a healthy pipeline of 4 biosimilar launches in the US market with Abatacept, own launch in Jan'27, to be the key. The company intends to launch Denosumab and pembrolizumab (Keytruda) through licensing deal with Alvotech and Daratumumab (Darzalex) with Henlius.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DRRD IN/Rs 1,303
Market cap	US$ 12.3bn
Free float	73%
3M ADV	US$ 21.4mn
52wk high/low	Rs 1,406/Rs 1,020
Promoter/FPI/DII	27%/27%/23%

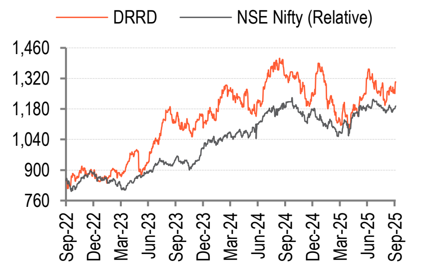
Source: NSE | Price as of 11 Sep 2025

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)	18.5	20.4	20.4
EV/EBITDA (x)	11.9	12.3	12.3
Adj. EPS growth (%)	5.5	(9.5)	(0.1)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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 valid till 03 February 2025**
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Note: Recommendation structure changed with effect from 21 June 2021

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