

Dr Reddy's' Form 20-F disclosures indicate that gRevlimid sales in FY26 were closer to our base-case estimate (~\$300mn). However, assuming muted growth in the company's base oncology portfolio since FY22, gRevlimid contribution would have been higher by ~\$100mn in FY26 vs our base case. We have maintained the view that the debate around the magnitude of the Semaglutide opportunity for Dr Reddy's (please connect with us for our detailed assumptions) is only meaningful if the ex-gRevlimid US base settles at ~\$900mn-\$1bn. To that extent, we now have greater clarity around the FY26 US base business levels (lower bound closer to \$900mn) even as our and the street's gRevlimid EBITDA contribution assumptions for FY26 might still prove to be conservative. Besides, price erosion in global generics in FY26 remained in the high single digit. We argue for measured optimism around an on-time approval for Abatacept (IV US launch base case - 4QFY27), given that a majority of the past CRLs issued by the USFDA to first biosimilar filers cited facility-linked queries (Exhibit 1) and Dr Reddy's' Bachupally facility has faced repeated challenges in meeting the FDA's expectations over the last 3 years (US CMO option more likely for the subcutaneous filing). Note that even the company's partnered biosimilar filings such as Denosumab have faced a similar set of challenges (delayed by a year vs the company's initial expectations). We roll forward to Jun-28E EPS and revise up our TP by 8.3% to Rs1,300 from Rs1,200 earlier; retain REDUCE.

#### Bachupally has faced repeated challenges in meeting the FDA's expectations

The Bachupally biologics facility has undergone three FDA inspections over the last 3 years (Oct-23, Sep-25, Jun-26). The first inspection was a pre-license inspection (PLI) for Rituximab which resulted in 9 Form-483 observations. A reinspection conducted in Sep-25 resulted in 5 Form-483 observations, with the FDA noting that CAPAs implemented in response to observation 2 from the Oct-23 inspection could not be adequately assessed. Note that Rituximab was expected to be launched in FY25. While Abatacept has been filed from a separate block and the company is confident of addressing the 7 observations issued post the recent PLI, we note that a majority of the past CRLs issued by the FDA to first biosimilar filers cited facility-linked queries (Exhibit 1), with some filers also receiving multiple CRLs.

#### Partnered biosimilar filings have faced a similar set of challenges

Alvotech, Dr Reddy's' partner for Denosumab, had received a CRL in Jan-26 following a PLI of Alvotech's Reykjavik facility. Alvotech undertook remediation and following a reinspection in May-26, which concluded with observations that the company characterized as addressable, announced its intent to resubmit the BLA for Denosumab with an approval now expected in CY26 (delayed by a year vs Dr Reddy's' initial expectations).

Target Price – 12M	Jun-27
Change in TP (%)	8.3
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(4.2)

Stock Data	DRRD IN
52-week High (Rs)	1,415
52-week Low (Rs)	1,148
Shares outstanding (mn)	834.7
Market-cap (Rs bn)	1,133
Market-cap (USD mn)	11,966
Net-debt, FY27E (Rs mn)	(26,944.8)
ADTV-3M (mn shares)	2.2
ADTV-3M (Rs mn)	3,402.1
ADTV-3M (USD mn)	35.9
Free float (%)	73.1
Nifty-50	23,865.8
INR/USD	94.7

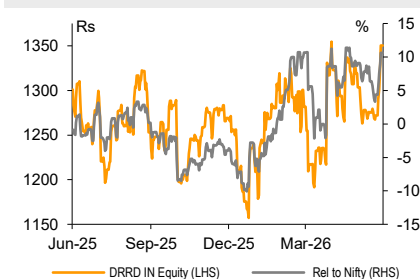
#### Shareholding, Mar-26

Promoters (%)	26.6
FPIs/MFs (%)	21.1/42.7

#### Price Performance

(%)	1M	3M	12M
Absolute	4.1	8.1	5.8
Rel. to Nifty	2.7	1.2	13.1

#### 1-Year share price trend (Rs)



#### Dr Reddy's: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	324,269	340,463	370,451	403,750	443,647
EBITDA	85,452	74,772	74,514	87,246	103,212
Adj. PAT	56,672	50,293	44,880	54,292	66,325
Adj. EPS (Rs)	68.3	60.6	54.1	65.4	79.9
EBITDA margin (%)	26.4	22.0	20.1	21.6	23.3
EBITDA growth (%)	9.0	(12.5)	(0.3)	17.1	18.3
Adj. EPS growth (%)	1.8	(11.3)	(10.8)	21.0	22.2
RoE (%)	18.5	14.2	11.3	12.3	13.4
RoIC (%)	21.0	13.5	10.7	12.2	13.9
P/E (x)	19.9	22.4	25.1	20.7	17.0
EV/EBITDA (x)	12.5	14.2	14.3	12.2	10.3
P/B (x)	3.4	3.0	2.7	2.4	2.2
FCFF yield (%)	(5.5)	0.8	2.1	2.6	3.3

Source: Company, Emkay Research

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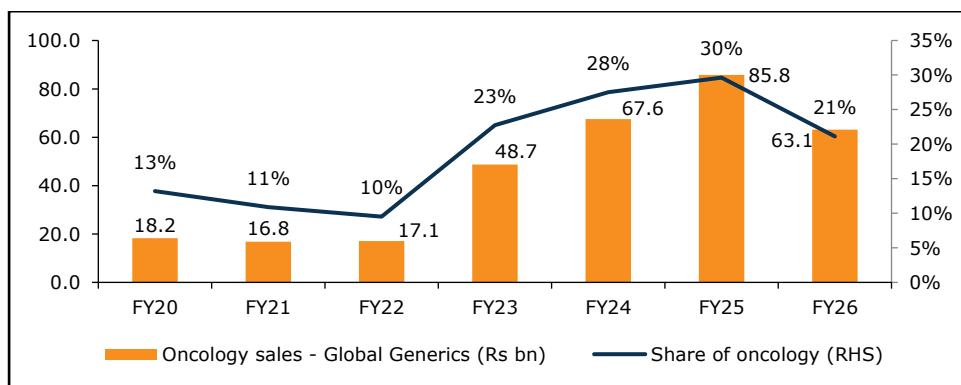
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**Exhibit 1: A majority of the past CRLs issued by the USFDA to first biosimilar filers cited facility-linked queries**

Innovator	Brand Name	Product	First filer	Filing Date	Approval Date	Marketing Date	Queries raised in the CRL	CRL Issue Date	BLA Resubmission Date
Genentech and Biogen	Rituxan	Rituximab	Celltrion/ Teva	Apr-17	Nov-18	Nov-19	Filing impacted by issues identified at Celltrion’s manufacturing facility in South Korea	Feb-18	May-18
Genentech	Actemra	Tocilizumab	Fresenius Kabi	May-22	Mar-24	Apr-24	Outstanding facility inspection deficiencies	May-23	Sep-23
Sanofi	Lantus	Insulin Glargine	Biocon	Apr-17	Jun-20	Aug-20	Additional clinical data requested in support of the manufacturing site change from Bangalore to Malaysia	May-18	Feb-19
						<b>Second CRL</b>	CRL linked to the observations made at the conclusion of the pre-license inspection of the manufacturing facility in Malaysia	Aug-19	Dec-19
Novo Nordisk	Novolog	Insulin Aspart	Sanofi-Aventis	Sep-22	Feb-25	Jul-25	Inadequacy of the proposed endotoxin test method for drug product release	Sep-23	Aug-24
Amgen	Neulasta	Pegfilgrastim	Biocon	Dec-16	Jun-18	Jul-18	Deficiencies relating to the facility and manufacturing	Oct-17	Dec-17
Amgen	Epogen	Epoetin alfa	Pfizer	Dec-14	May-18	Nov-18	Biopotency, immunogenicity and product quality issues	Oct-15	Dec-16
						<b>Second CRL</b>	Manufacturing facility-linked deficiencies	Jun-17	Nov-17
Roche	Herceptin	Trastuzumab	Biocon	Nov-16	Dec-17	Dec-19	Queries related to the update of the application with chemistry, manufacturing, and control (CMC) data after Biocon made plant modifications requiring requalification at its Bangalore facility	NA	NA

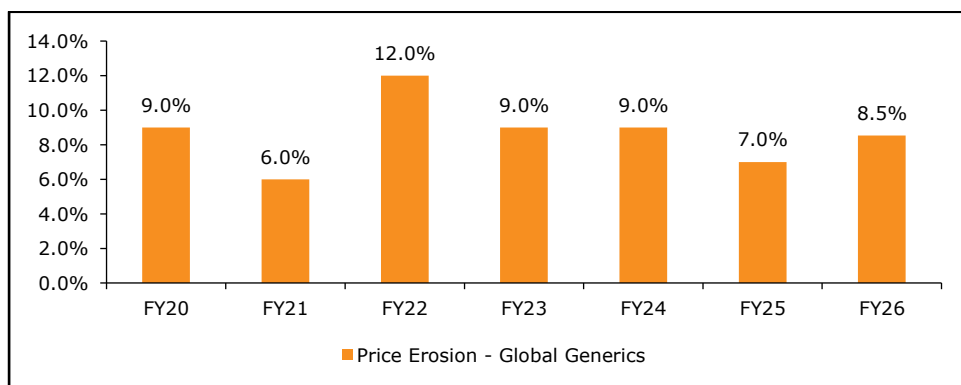
Source: Company, Emkay Research

**Exhibit 2: Share of oncology in Dr Reddy’s’ global generic sales stood at ~21% in FY26**



Source: Company, Emkay Research

**Exhibit 3: Price erosion in global generics in FY26 remained in the high single digit**



Source: Company, Emkay Research; Note: FY26 price erosion excludes the impact of the US shelf stock adjustment for gRevlimid

## Dr Reddy's: Consolidated Financials and Valuations

### Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
<b>Revenue</b>	<b>324,269</b>	<b>340,463</b>	<b>370,451</b>	<b>403,750</b>	<b>443,647</b>
Revenue growth (%)	16.2	5.0	8.8	9.0	9.9
<b>EBITDA</b>	<b>85,452</b>	<b>74,772</b>	<b>74,514</b>	<b>87,246</b>	<b>103,212</b>
EBITDA growth (%)	9.0	(12.5)	(0.3)	17.1	18.3
Depreciation & Amortization	17,059	20,607	23,474	25,622	27,973
<b>EBIT</b>	<b>68,393</b>	<b>54,165</b>	<b>51,040</b>	<b>61,625</b>	<b>75,239</b>
EBIT growth (%)	7.6	(20.8)	(5.8)	20.7	22.1
Other operating income	-	-	-	-	-
Other income	3,312	3,964	4,216	4,589	5,035
Financial expense	(4,724)	(4,132)	(4,201)	(5,888)	(7,943)
<b>PBT</b>	<b>76,429</b>	<b>62,261</b>	<b>59,456</b>	<b>72,102</b>	<b>88,217</b>
Extraordinary items	(127)	(7,444)	0	0	0
Taxes	19,056	12,352	14,864	18,025	22,054
Minority interest	(701)	384	288	216	162
Income from JV/Associates	-	-	-	-	-
<b>Reported PAT</b>	<b>56,545</b>	<b>42,849</b>	<b>44,880</b>	<b>54,292</b>	<b>66,325</b>
PAT growth (%)	1.5	(24.2)	4.7	21.0	22.2
<b>Adjusted PAT</b>	<b>56,672</b>	<b>50,293</b>	<b>44,880</b>	<b>54,292</b>	<b>66,325</b>
<b>Diluted EPS (Rs)</b>	<b>68.3</b>	<b>60.6</b>	<b>54.1</b>	<b>65.4</b>	<b>79.9</b>
Diluted EPS growth (%)	1.8	(11.3)	(10.8)	21.0	22.2
<b>DPS (Rs)</b>	<b>8.0</b>	<b>8.0</b>	<b>7.0</b>	<b>8.0</b>	<b>9.0</b>
<b>Dividend payout (%)</b>	<b>11.8</b>	<b>13.2</b>	<b>12.9</b>	<b>12.2</b>	<b>11.3</b>
EBITDA margin (%)	26.4	22.0	20.1	21.6	23.3
EBIT margin (%)	21.1	15.9	13.8	15.3	17.0
Effective tax rate (%)	24.9	19.8	25.0	25.0	25.0
<b>NOPLAT (pre-IndAS)</b>	<b>51,340</b>	<b>43,419</b>	<b>38,280</b>	<b>46,218</b>	<b>56,429</b>
Shares outstanding (mn)	830	830	830	830	830

Source: Company, Emkay Research

### Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	73,117	58,297	55,241	67,513	83,182
Others (non-cash items)	(40,992)	(15,953)	(21,437)	(27,021)	(34,193)
Taxes paid	19,993	13,526	14,864	18,025	22,054
Change in NWC	(18,025)	(15,590)	(10,221)	(11,350)	(13,598)
<b>Operating cash flow</b>	<b>46,428</b>	<b>56,755</b>	<b>57,719</b>	<b>66,901</b>	<b>77,474</b>
Capital expenditure	(105,343)	(48,115)	(35,563)	(38,760)	(42,590)
Acquisition of business	(615)	(862)	0	0	0
Interest & dividend income	-	-	-	-	-
<b>Investing cash flow</b>	<b>(51,021)</b>	<b>(65,513)</b>	<b>(31,362)</b>	<b>(32,872)</b>	<b>(34,647)</b>
Equity raised/(repaid)	368	232	0	0	0
Debt raised/(repaid)	26,746	30,575	(2,000)	(6,000)	(6,000)
Payment of lease liabilities	0	0	0	0	0
Interest paid	4,724	4,132	4,201	5,888	7,943
Dividend paid (incl tax)	(6,662)	(6,659)	(5,810)	(6,640)	(7,470)
Others	(13,321)	(19,990)	(8,276)	(10,329)	(12,823)
<b>Financing cash flow</b>	<b>11,855</b>	<b>8,290</b>	<b>(11,885)</b>	<b>(17,081)</b>	<b>(18,350)</b>
Net chg in Cash	7,262	(468)	14,472	16,948	24,477
OCF	46,428	56,755	57,719	66,901	77,474
Adj. OCF (w/o NWC chg.)	64,453	72,345	67,940	78,251	91,073
FCFF	(58,915)	8,640	22,156	28,141	34,884
FCFE	(61,744)	4,902	17,575	23,801	30,904
OCF/EBITDA (%)	54.3	75.9	77.5	76.7	75.1
FCFE/PAT (%)	(109.2)	11.4	39.2	43.8	46.6
<b>FCFF/NOPLAT (%)</b>	<b>(114.8)</b>	<b>19.9</b>	<b>57.9</b>	<b>60.9</b>	<b>61.8</b>

Source: Company, Emkay Research

### Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	834	835	835	835	835
Reserves & Surplus	332,554	376,228	415,298	462,950	521,805
<b>Net worth</b>	<b>333,388</b>	<b>377,063</b>	<b>416,133</b>	<b>463,785</b>	<b>522,640</b>
Minority interests	3,778	3,394	3,106	2,890	2,728
Non-current liab. & prov.	(1,097)	(3,425)	(3,425)	(3,425)	(3,425)
<b>Total debt</b>	<b>46,766</b>	<b>77,341</b>	<b>75,341</b>	<b>69,341</b>	<b>63,341</b>
<b>Total liabilities &amp; equity</b>	<b>382,835</b>	<b>454,373</b>	<b>491,155</b>	<b>532,591</b>	<b>585,284</b>
Net tangible fixed assets	72,924	100,664	110,243	120,300	131,106
Net intangible assets	96,803	105,059	107,570	110,650	114,462
Net ROU assets	-	-	-	-	-
Capital WIP	24,837	15,266	15,266	15,266	15,266
Goodwill	11,810	12,893	12,893	12,893	12,893
Investments [JV/Associates]	4,811	5,673	5,673	5,673	5,673
<b>Cash &amp; equivalents</b>	<b>57,908</b>	<b>87,814</b>	<b>102,286</b>	<b>119,234</b>	<b>143,711</b>
Current assets (ex-cash)	205,388	229,541	248,404	269,350	294,447
Current Liab. & Prov.	91,646	102,537	111,179	120,776	132,274
<b>NWC (ex-cash)</b>	<b>113,742</b>	<b>127,004</b>	<b>137,225</b>	<b>148,575</b>	<b>162,173</b>
<b>Total assets</b>	<b>382,835</b>	<b>454,373</b>	<b>491,155</b>	<b>532,591</b>	<b>585,284</b>
Net debt	(11,142)	(10,473)	(26,945)	(49,893)	(80,370)
Capital employed	382,835	454,373	491,155	532,591	585,284
<b>Invested capital</b>	<b>295,279</b>	<b>345,620</b>	<b>367,930</b>	<b>392,418</b>	<b>420,634</b>
BVPS (Rs)	401.7	454.3	501.4	558.8	629.7
Net Debt/Equity (x)	-	-	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.1)	(0.1)	(0.4)	(0.6)	(0.8)
Interest coverage (x)	(15.2)	(14.1)	(13.2)	(11.2)	(10.1)
<b>RoCE (%)</b>	<b>21.0</b>	<b>13.8</b>	<b>11.6</b>	<b>12.8</b>	<b>14.3</b>

Source: Company, Emkay Research

### Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	19.9	22.4	25.1	20.7	17.0
P/CE(x)	15.3	15.9	16.5	14.1	11.9
P/B (x)	3.4	3.0	2.7	2.4	2.2
EV/Sales (x)	3.3	3.1	2.9	2.6	2.4
EV/EBITDA (x)	12.5	14.2	14.3	12.2	10.3
EV/EBIT(x)	15.6	19.7	20.9	17.3	14.2
EV/IC (x)	3.6	3.1	2.9	2.7	2.5
FCFF yield (%)	(5.5)	0.8	2.1	2.6	3.3
FCFE yield (%)	(5.5)	0.4	1.6	2.1	2.7
Dividend yield (%)	0.6	0.6	0.5	0.6	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	17.5	14.8	12.1	13.4	14.9
Total asset turnover (x)	1.0	0.8	0.8	0.8	0.8
Assets/Equity (x)	1.1	1.2	1.2	1.2	1.1
<b>RoE (%)</b>	<b>18.5</b>	<b>14.2</b>	<b>11.3</b>	<b>12.3</b>	<b>13.4</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	15.8	12.8	10.3	11.4	12.7
IC turnover (x)	1.3	1.1	1.0	1.1	1.1
<b>RoIC (%)</b>	<b>21.0</b>	<b>13.5</b>	<b>10.7</b>	<b>12.2</b>	<b>13.9</b>
<b>Operating metrics</b>					
Core NWC days	128.0	136.2	135.2	134.3	133.4
<b>Total NWC days</b>	<b>128.0</b>	<b>136.2</b>	<b>135.2</b>	<b>134.3</b>	<b>133.4</b>
Fixed asset turnover	1.0	0.8	0.8	0.8	0.8
Opex-to-revenue (%)	32.0	31.6	30.4	30.4	30.2

Source: Company, Emkay Research

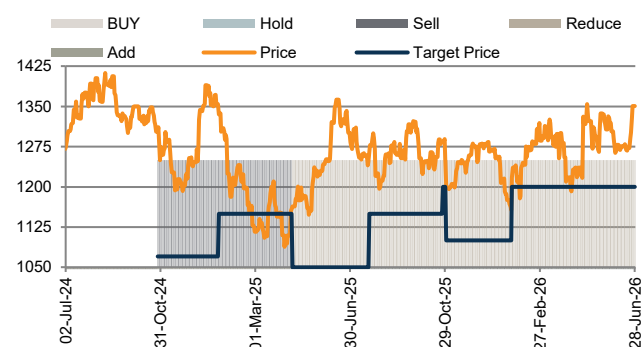
This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions.com)

## RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
13-May-26	1,265	1,200	Reduce	Shashank Krishnakumar
22-Jan-26	1,218	1,200	Reduce	Shashank Krishnakumar
30-Oct-25	1,202	1,100	Reduce	Shashank Krishnakumar
26-Oct-25	1,284	1,200	Reduce	Shashank Krishnakumar
24-Jul-25	1,266	1,150	Reduce	Shashank Krishnakumar
05-Jun-25	1,291	1,050	Reduce	Shashank Krishnakumar
09-May-25	1,156	1,050	Reduce	Shashank Krishnakumar
17-Apr-25	1,164	1,050	Reduce	Shashank Krishnakumar
24-Jan-25	1,224	1,150	Sell	Shashank Krishnakumar
13-Jan-25	1,335	1,150	Sell	Shashank Krishnakumar
06-Nov-24	1,302	1,070	Sell	Shashank Krishnakumar
27-Oct-24	1,303	1,070	Sell	Shashank Krishnakumar

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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<b>SELL</b>	>15% downside

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