

Dr Reddy's Labs

Estimate change



TP change



Rating change



CMP: INR1,290

TP: INR1,330 (+3%)

Neutral

Soft g-Revlimid sales, high expenses dent earnings

FY26 to be another year of consolidation

- DRRD delivered in-line sales (adj. for NRT acquisition and milestone income) and marginally better operational performance in 3QFY25. Revenue/EBITDA YoY growth was moderate due to lower off-take of g-Revlimid and PSAI business, which was offset to some extent by healthy performance in the Russia market.
- We lower our earnings estimates by 5%/3% for FY26/FY27, factoring in 1) a gradual pick-up in potential launches in the NA market, thereby limiting visibility for growth beyond g-Revlimid; and 2) price erosion in the base portfolio. We value DRRD at 20x 12M forward earnings to arrive at a TP of INR1,330.
- DRRD is implementing efforts to build growth levers like a) semaglutide opportunities in Canada and other emerging markets, and b) a niche pipeline (abatacept biosimilar/Iron-sucrose) for the NA market. However, the timing of commercial success of these opportunities and higher anticipated competition in g-Revlimid may keep growth in check for the next two years. Maintain Neutral.

Higher opex impacts profitability YoY

- 3Q revenues grew 14.1% YoY to INR82.3b, adj. for the milestone income of INR1.3b. Adjusting for the accounting related to the NRT acquisition, revenue grew by 8.2% YoY to INR78b (vs. est. of INR76.3b).
- NA sales were stable YoY at INR33.8b (~USD401m; 40% of sales). Europe sales jumped 2.4x YoY to INR12b (14% of sales). Excluding the NRT acquisition, Europe sales grew by 22% YoY, supported by Germany/UK growth of 24%/39% YoY to INR3.3b/INR1.9b. India sales rose 14.1% YoY to INR13.5b (16% of sales). Emerging markets sales grew 12% YoY to INR14.4b (17% of sales). PSAI segment revenue grew 5% YoY to INR8.2b (10% of sales).
- Gross margin (GM) expanded by 190bp YoY to 60.4%, led by margins of PSAI segment (up 830bp YoY), offset by lower margin in GG (down 60bp YoY as % of sales).
- EBITDA margin contracted 30bp YoY to 27.8% (our est: 26.8%), led by higher SG&A/R&D expenses (+140bp/+80 YoY as % of sales).
- EBITDA grew by 7.1% YoY to INR21.7b (vs. est. of INR20.4b).
- PAT was INR13.1b (our est: INR11.9b), down 4.6% YoY.
- During 9MFY25, revenue/EBITDA grew 12.8%/7.1% YoY to INR239b/INR65b. PAT was flat YoY at INR40.7b.

Highlights from the management commentary

- DRRD would file abatacept biosimilar in Dec'25 for US markets.
- It expects steady growth momentum in the Russia market (+19% YoY in 3Q).
- DRRD indicated Canada, India and Brazil will be initial focus markets for Semaglutide over the next 12-18 months.

Bloomberg	DRRD IN
Equity Shares (m)	167
M.Cap.(INRb)/(USDb)	1075.9 / 12.4
52-Week Range (INR)	1421 / 1120
1, 6, 12 Rel. Per (%)	-2/-1/4
12M Avg Val (INR M)	2769

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	323.1	350.1	362.0
EBITDA	88.8	96.3	90.5
Adj. PAT	53.9	62.0	56.8
EBITDA Margin (%)	27.5	27.5	25.0
Adj. EPS (INR)	64.7	74.4	68.2
EPS Gr. (%)	2.0	15.0	-8.3
BV/Sh. (INR)	396	466	529

Ratios

Net D:E	-0.5	-0.6	-0.8
RoE (%)	17.6	17.3	13.7
RoCE (%)	16.4	15.9	12.8
Payout (%)	8.0	6.7	7.4

Valuations

P/E (x)	19.9	17.3	18.9
EV/EBITDA (x)	10.8	9.6	9.5
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	4.7	5.7	7.9
EV/Sales (x)	3.0	2.6	2.4

Shareholding Pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	26.6	26.6	26.7
DII	22.9	21.5	18.7
FII	40.2	41.9	44.1
Others	10.2	10.0	10.6

FII includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance - IFRS

(INRb)

Y/E March	FY24				FY25E				FY24E	FY25E	Estimates		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q-Adj.	4QE		3QE	% Var	
Sales	67.4	68.8	72.1	70.8	76.7	80.2	82.3	78.1	83.8	279.2	323.1	76.3	2.4
YoY Change (%)	35.2	9.1	6.6	17.4	13.9	16.5	14.1	8.2	18.4	15.9	15.7	5.7	
EBITDA	20.5	20.0	20.3	17.7	21.3	22.0	21.7	21.7	23.8	78.4	88.8	20.4	6.3
YoY Change (%)	97.8	10.7	-1.3	34.0	4.0	10.3	7.1	7.1	34.7	26.2	13.3	0.7	
Margins (%)	30.3	29.0	28.1	24.9	27.7	27.5	26.4	27.8	28.4	28.1	27.5	26.8	
Amortization	3.6	3.8	3.9	3.5	3.8	4.0	4.7	4.7	4.9	14.8	17.4	4.7	
EBIT	16.9	16.1	16.4	14.1	17.5	18.1	17.0	17.0	18.9	63.5	71.4	15.7	
Other Income	1.1	1.6	2.0	1.7	1.4	2.6	0.5	0.5	0.7	6.4	5.1	1.1	
PBT before EO expenses	18.0	17.7	18.4	15.8	18.8	20.7	17.5	17.5	19.6	69.9	76.5	16.8	3.8
One-off inc./ (exp.)	0.5	1.4	-0.1	0.2	0.0	-1.5	1.3	1.3	0.0	2.0	-0.2	0.0	
Profit before Tax	18.5	19.1	18.3	16.0	18.8	19.2	18.7	18.7	19.6	71.9	76.3	16.8	11.4
Tax	4.4	4.3	4.5	2.9	4.9	5.8	4.7	4.7	4.5	16.2	19.8	4.0	
Rate (%)	24.0	22.7	24.5	18.4	26.0	30.0	25.1	25.1	22.9	22.5	26.0	23.9	
PAT	14.0	14.8	13.8	13.1	13.9	13.4	14.0	14.0	15.1	55.7	56.5	12.8	9.6
Adjusted PAT	13.7	13.3	13.8	12.1	13.9	13.6	13.2	13.2	13.2	52.8	53.9	11.9	10.7
YoY Change (%)	66.6	16.5	5.1	50.1	2.0	2.4	-4.3	-4.3	8.8	29.6	2.0	-13.6	
Margins (%)	20.3	19.3	19.1	17.1	18.1	17.0	16.0	16.9	15.7	18.9	16.7	15.6	
EPS	16.4	15.9	16.5	14.5	16.7	16.3	15.8	15.8	15.8	63.4	64.7	14.3	10.7

E: MOFSL Estimates, Note: 3Q-Adjusted column is adjusted for revenue from NRT acquisition

Key performance Indicators (Consolidated)

(INR b)

Key performance indicators (consolidated)										(INR b)		
Y/E March	FY24				FY25E				FY24	FY25E	FY25E	
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3Q	3Q-Adj.	4QE			3QE
North America	32.0	31.7	33.5	32.6	38.5	37.3	33.8	33.8	34.5	129.9	144.1	33.6
YoY Change (%)	79.5	13.2	9.6	28.8	20.3	17.6	1.0	1.0	5.8	27.7	10.9	0.4
Europe	5.1	5.3	5.0	5.2	5.3	5.8	12.1	6.1	11.9	20.5	35.0	5.7
YoY Change (%)	22.5	25.9	15.5	5.0	3.8	9.2	143.4	21.8	127.8	16.5	70.6	15.0
India	11.5	11.9	11.8	11.3	13.3	14.0	13.5	13.5	12.9	46.4	53.6	13.3
YoY Change (%)	3.9	3.1	4.7	10.5	15.4	17.8	14.1	14.1	14.6	5.4	15.5	12.5
Russia & Others CIS	7.6	8.0	8.2	7.2	7.4	9.0	9.4	9.4	9.9	30.9	35.7	7.9
YoY Change (%)	49.8	-1.2	-9.9	-4.0	-2.6	12.5	14.6	14.6	37.0	3.8	15.4	-4.0
Others	4.0	4.2	4.6	4.9	3.7	5.6	5.0	5.0	5.4	17.7	19.7	6.3
YoY Change (%)	-0.1	2.2	15.9	34.3	-5.3	32.1	7.0	7.0	10.0	12.8	10.9	35.0
PSAI	6.7	7.0	7.8	8.2	7.7	8.4	8.2	8.2	8.8	29.8	33.1	8.4
YoY Change (%)	-5.4	9.3	1.0	5.5	14.1	19.5	4.8	4.8	6.8	2.5	10.9	7.0
Cost Break-up												
COGS (% of Sales)	41.3	41.3	41.5	41.4	39.6	40.4	42.0	39.6	39.2	41.4	40.3	41.4
SG&A (% of Sales)	21.0	21.7	22.7	23.9	24.6	23.0	23.6	24.1	23.6	22.3	23.7	23.5
R&D Exp.(% of Sales)	7.4	7.9	7.7	9.7	8.1	9.1	8.1	8.5	8.8	8.2	8.5	8.3
Gross Margins (%)	58.7	58.7	58.5	58.6	60.4	59.6	58.0	60.4	60.8	58.6	59.7	58.6
EBITDA Margins (%)	30.3	29.0	28.1	24.9	27.7	27.5	26.4	27.8	28.4	28.1	27.5	26.8
EBIT Margins (%)	25.0	23.4	22.7	19.9	22.8	22.5	20.7	21.8	22.5	22.8	22.1	20.6

E: MOFSL Estimates, Note: 3Q-Adjusted column is adjusted for revenue from NRT acquisition

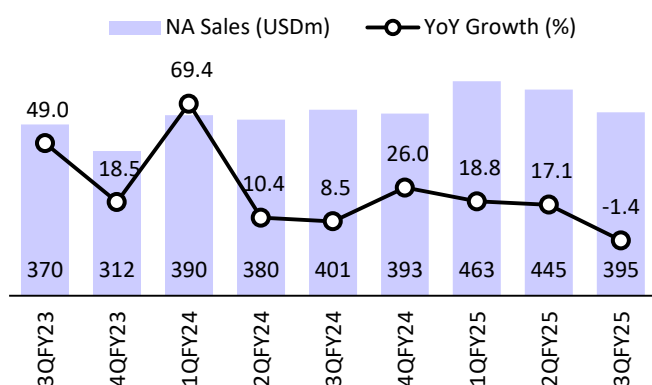


Management call highlights

- DRRD is fully integrated to manufacture abatacept as well as semaglutide.
- It got CRL for Iron sucrose, implying additional queries to be resolved before approval.
- Price erosion in the base portfolio affected growth in the NA market in 3Q.
- DRRD expects SGA expenses to be 28% of sales in FY25. It indicated R&D spend to be 8.5-9% of sales in FY25.
- R&D expenses stood at INR6.7b (8.5% of sales).
- DRRD launched Toripalimab, the first and only immuno-oncology drug approved for the treatment of nasopharyngeal carcinoma in India.
- DRRD launched Elobixibat, a first-in-class drug to treat chronic constipation, under the brand name BixiBat, in India.

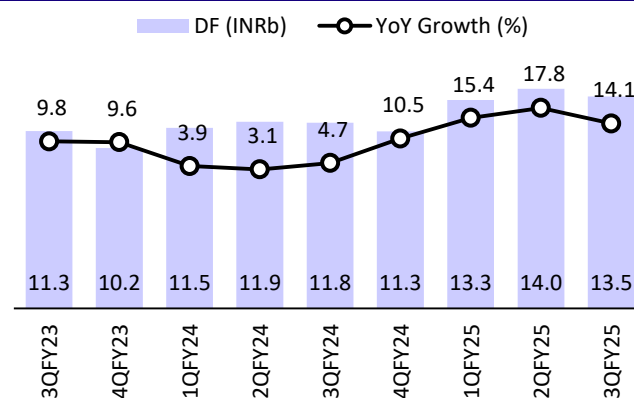
Key exhibits

Exhibit 1: In CC terms, NA sales down ~1.4% YoY in 3QFY25



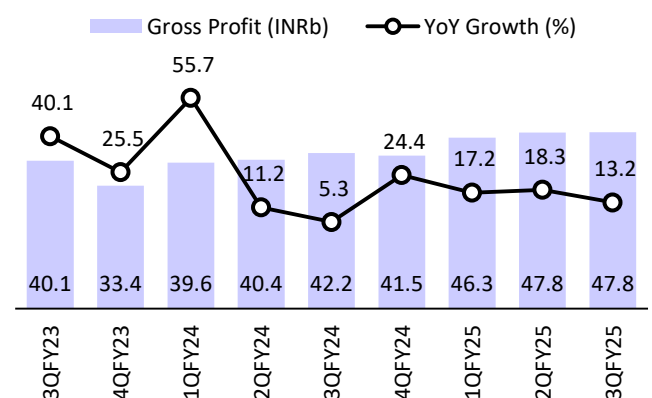
Source: MOFSL, Company

Exhibit 2: DF sales grew 14.1% YoY in 3QFY25



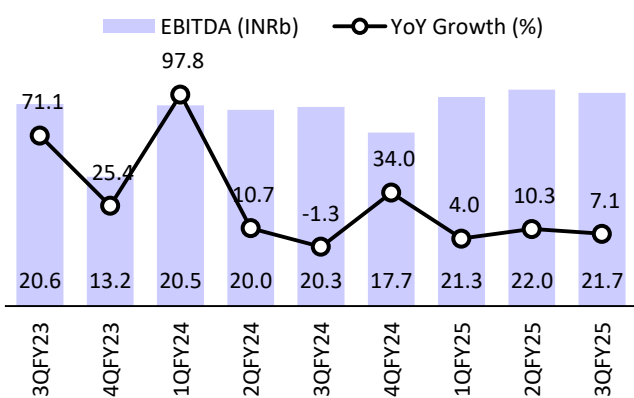
Source: MOFSL, Company

Exhibit 3: Gross profit increased 13.2% YoY in 3QFY25

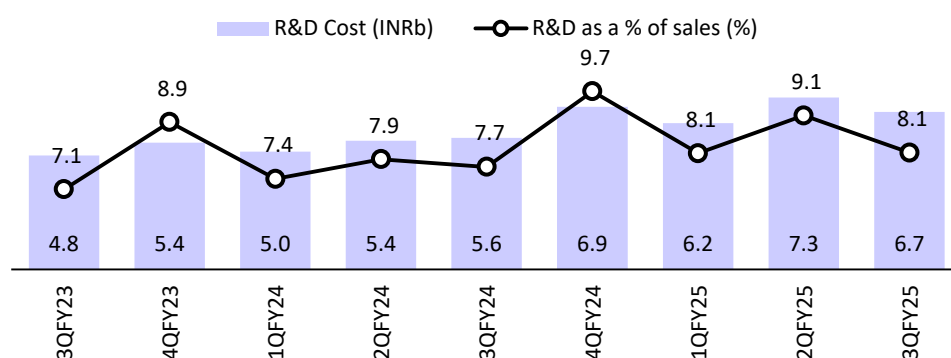


Source: Company, MOFSL

Exhibit 4: EBITDA increased 7.1% YoY in 3QFY25



Source: Company, MOFSL

Exhibit 5: R&D expenses as a proportion of sales at 8.1% in 1QFY25

Source: MOFSL, Company

Work-in-progress to offset g-Revlimid impact

Working on a differentiated portfolio for the US market

- In 9MFY25, NA sales posted robust 11% YoY growth to USD1.3b, largely led by strong traction in revlimid and an increase in sales volumes, partially offset by price erosion and market share loss in the base portfolio.
- While DRRD launched 11 new products during 9MFY25, the launch momentum is expected to be robust for FY25.
- There are 75 ANDAs and 4 NDAs under the 505(b)(2) route awaiting approval. Of these ANDAs, 44 are Para IVs and 20 have the potential to secure the 'First to File' status.
- Additionally, the company has filed Denosumab in the US through its partner Alvotech and plans to file Abacept in Dec'25. This product will provide a meaningful contribution from FY27-28 onward.
- Further, the company has received form 483 with seven observations for its Bollaram facility during the quarter.
- Over FY25-27, we expect US sales to decline 6% to ~INR127b (USD1.5b) due to the anticipated increase in competition in g-Revlimid from 4QFY26 onward.

New launches/in-licensing/JV to drive growth in the DF market

- In 9MFY25, India sales witnessed a healthy growth of 15.8% YoY to INR40.7b. The growth was driven by the in-licensed vaccine portfolio, new product launches and price hikes, and double-digit growth in derma, respiratory and vaccines.
- The company launched 22 products during 9M and is exploring some in-licensing and partnership opportunities.
- Further, the company operationalized its JV business in Aug'24 to undertake the nutraceutical and supplement products in India and Nepal, which would drive growth over the long term.
- We expect a sales CAGR of 14% to reach INR69.6b over FY25-27.

Geographical expansion to drive growth in the EM market

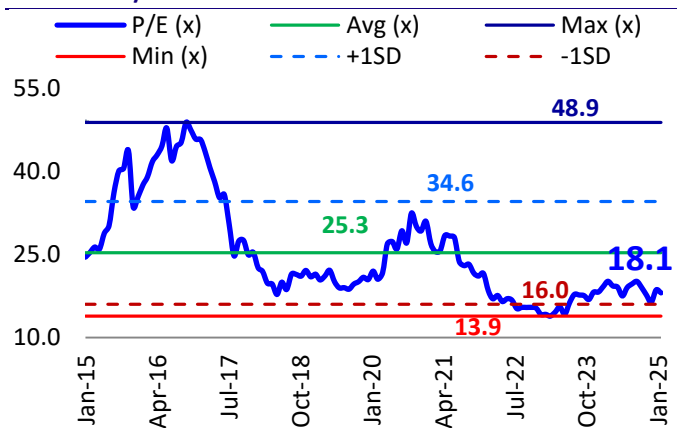
- In 9MFY25, EM sales grew 12% YoY to INR40.8b, led by market share expansion and new product launches, partly offset by unfavorable forex.
- Specifically, the Russian business witnessed 12% YoY growth due to price increases and improved volumes, partially offset by unfavorable currency exchange rates.
- We expect a sales CAGR of 12% to reach INR69b over FY25-27.

PSAI segment: Volume/new launches to aid growth

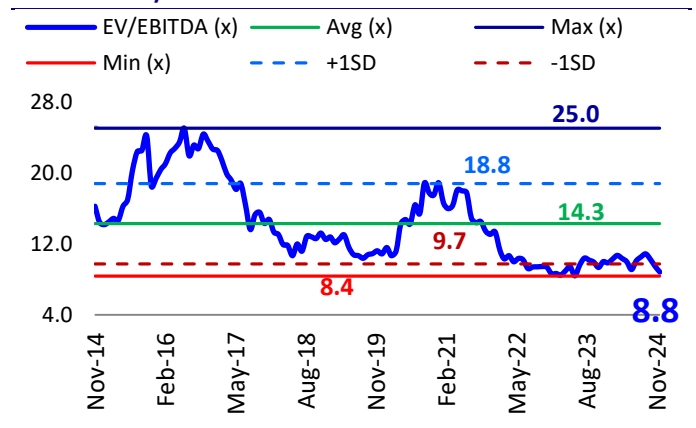
- In 9MFY25, the PSAI segment's revenue posted strong growth of 12.5% YoY to INR24.3b after a modest 2.5% YoY growth in sales in FY24. The growth was mainly driven by market share expansion, growth in services business, and revenues from new products.
- Further, the PSAI segment witnessed a gross margin expansion of 80bp YoY to 23%, led by an improvement in the product mix.
- We expect the PSAI business to post a 10% sales CAGR to reach INR40b over FY25-27.

Reiterate Neutral

- We lower our earnings estimates by 5%/3% for FY26/FY27, factoring in 1) a gradual pick-up in potential launches in the NA market, thereby limiting visibility for growth beyond g-Revlimid; and b) price erosion in the base portfolio. We value DRRD at 20x 12M forward earnings to arrive at a TP of INR1,330.
- DRRD is implementing efforts to build growth levers like a) semaglutide opportunities in Canada and other emerging markets, and b) a niche pipeline (abatacept biosimilar/Iron-sucrose) for the NA market. However, the timing of commercial success of these opportunities and higher anticipated competition in g-Revlimid may keep growth in check for the next two years. Maintain Neutral.

Exhibit 6: P/E chart

Source: MOFSL, Company, Bloomberg

Exhibit 7: EV/EBITDA chart

Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 8: Expect sales CAGR of ~5.9% over FY25-27

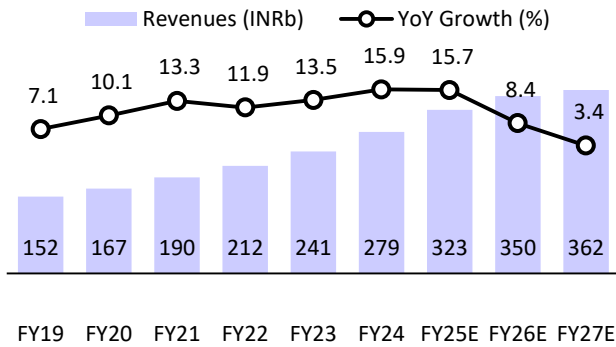


Exhibit 9: NA sales to decline 6% over FY25-27

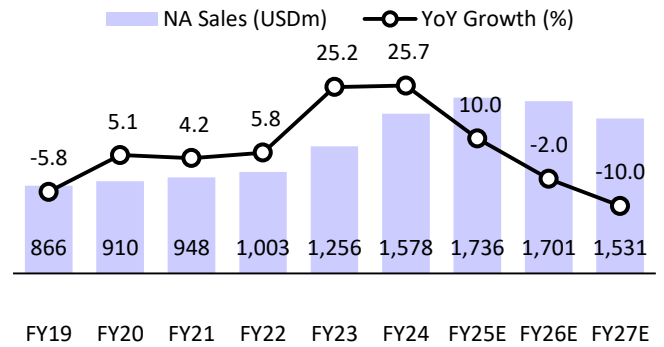


Exhibit 10: DF sales to exhibit 14% CAGR over FY25-27

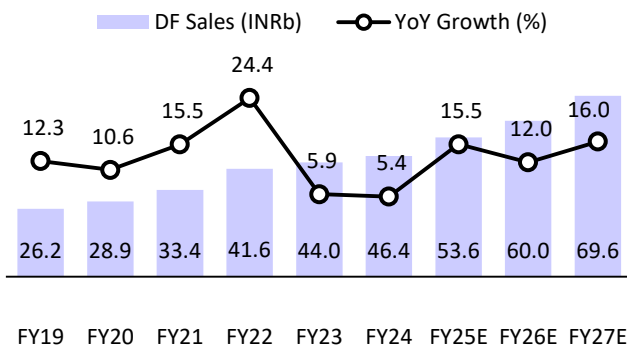


Exhibit 11: PSAI to post 10% sales CAGR over FY25-27

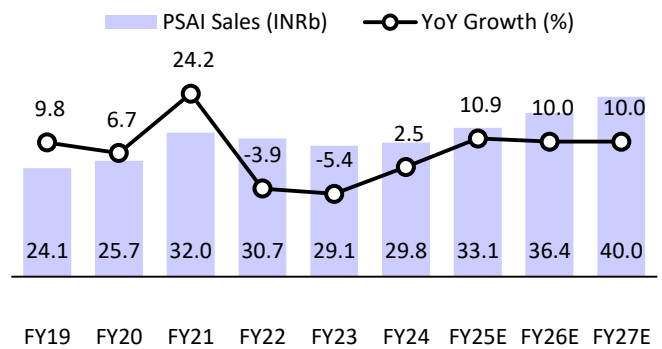


Exhibit 12: EBITDA margin to contract 250bp over FY25-27

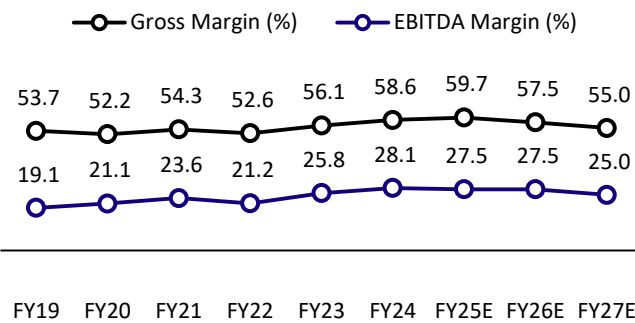


Exhibit 13: EBITDA to be on downtrend over FY25-27

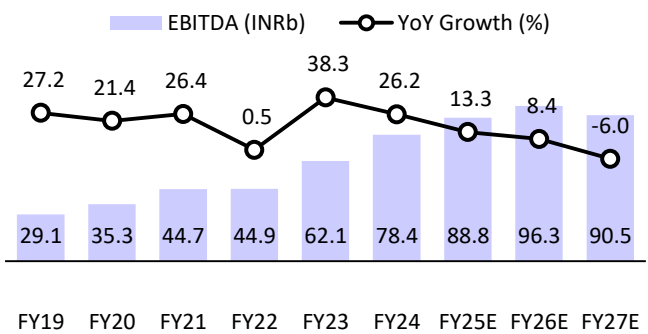


Exhibit 14: R&D expense to settle at ~8% of sales by FY27

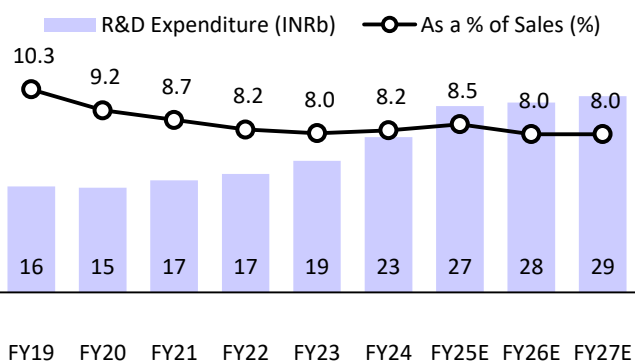
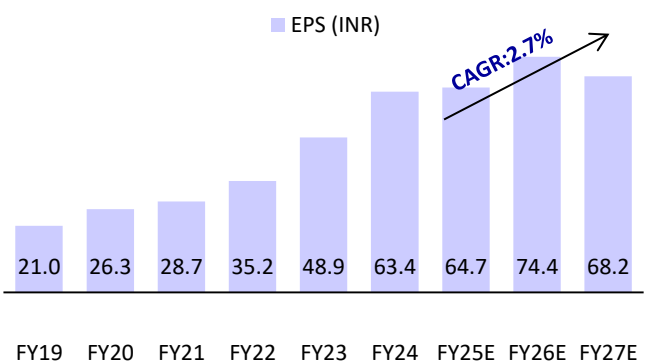


Exhibit 15: EPS to clock modest 2.7% CAGR over FY25-27



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	152	167	190	212	241	279	323	350	362
Change (%)	7.1	10.1	13.3	11.9	13.5	15.9	15.7	8.4	3.4
Total Expenditure	123	132	145	167	179	201	234	254	271
EBITDA	29	35	45	45	62	78	89	96	90
Change (%)	27.2	21.4	26.4	0.5	38.3	26.2	13.3	8.4	-6.0
Margin (%)	19.1	21.1	23.6	21.2	25.8	28.1	27.5	27.5	25.0
Depreciation & Amort.	12	12	13	12	13	15	17	18	19
EBIT	17	23	32	33	49	64	71	78	72
Net Interest Exp	1	1	-2	-2	-3	-3	-3	-2	-2
One-off (Gains)/Losses	-2	8	8	6	-5	-2	1	0	0
PBT before EO Expense	18	14	26	29	58	69	73	80	73
Change (%)	56.5	14.7	35.9	10.5	39.5	29.6	9.5	6.3	-8.3
PBT after EO Expense	18	14	26	29	58	69	73	80	73
Tax	4	-1	9	9	15	16	20	19	18
Tax Rate (%)	20.5	-10.3	35.5	30.3	26.5	23.5	27.1	24.1	24.2
Reported PAT	19	19	18	24	44	56	53	62	57
Adjusted Net Profit	17	22	24	29	41	53	54	62	57
Change (%)	62.6	24.9	9.3	22.8	39.3	29.6	2.0	15.0	-8.3
Margin (%)	11.5	13.0	12.6	13.8	16.9	18.9	16.7	17.7	15.7

Balance Sheet							(INR b)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	1	1	1	1	1	1	1	1	1
Reserves	139	155	176	190	230	280	329	387	440
Net Worth	140	156	176	191	231	281	330	388	441
Loans	34	18	29	34	13	20	19	18	17
Deferred Liabilities/Tax	-4	-12	-10	-13	-6	-10	-10	-10	-10
Capital Employed	171	162	195	212	238	291	340	397	449
Gross Block	115	126	144	161	178	203	200	209	217
Less: Accum. Deprn.	62	74	87	99	111	126	144	144	144
Net Fixed Assets	54	52	57	62	66	77	56	65	74
Investments	31	33	33	38	62	81	81	81	81
Goodwill/Intangibles	47	32	41	32	35	41	41	41	41
Curr. Assets	88	103	125	152	151	177	238	300	341
Inventory	34	35	45	51	49	64	59	71	60
Account Receivables	40	52	50	67	72	80	99	107	96
Cash and Bank Balance	2	2	15	15	6	7	51	90	152
Others	13	14	15	19	24	26	29	32	33
Curr. Liability & Prov.	50	58	60	72	77	86	76	91	88
Account Payables	14	15	18	26	26	31	26	34	27
Other Current Liabilities	36	43	42	47	50	55	50	56	61
Net Current Assets	39	45	65	79	74	91	162	210	252
Appl. of Funds	171	162	195	212	238	291	340	397	449

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	21.0	26.3	28.7	35.2	48.9	63.4	64.7	74.4	68.2
Cash EPS	35.5	41.3	44.1	49.4	64.2	81.2	85.6	96.2	90.8
BV/Share	169.0	187.9	212.6	229.0	277.3	336.8	396.3	465.7	528.9
DPS	4.0	4.7	5.0	4.1	4.1	4.3	4.3	4.3	4.3
Payout (%)	21.3	23.5	26.8	16.9	9.0	7.5	8.0	6.7	7.4
Valuation (x)									
P/E	61.3	49.1	44.9	36.7	26.4	20.3	19.9	17.3	18.9
P/BV	7.6	6.9	6.1	5.6	4.7	3.8	3.3	2.8	2.4
EV/Sales	7.1	6.3	5.6	5.0	4.2	3.6	3.0	2.6	2.4
EV/EBITDA	36.9	29.9	23.6	23.5	16.4	12.8	10.8	9.6	9.5
Dividend Yield (%)	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)									
ROIC	10.8	21.9	17.0	18.0	23.1	27.6	26.7	28.5	25.8
RoE	13.1	14.7	14.3	16.0	19.3	20.7	17.6	17.3	13.7
RoCE	8.9	17.4	11.8	12.3	15.9	18.4	16.4	15.9	12.8
Working Capital Ratios									
Fixed Asset Turnover (x)	1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.7	1.7
Debtor (Days)	97	100	98	100	106	100	101	107	102
Inventory (Days)	75	75	77	83	75	73	69	68	66
Payable (Days)	32	32	32	38	39	38	32	32	31
Leverage Ratio									
Current Ratio (x)	1.8	1.8	2.1	2.1	2.0	2.1	3.1	3.3	3.9
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.5	-0.6	-0.8

Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Op. Profit/(Loss) before Tax	22	26	35	39	54	70	77	81	75
Depreciation	12	12	13	12	13	15	17	18	19
Interest/Dividends Recd.	-6	5	6	3	-7	-5	0	-1	-1
Direct Taxes Paid	-4	1	-9	-9	-15	-16	-20	-19	-18
(Inc)/Dec in WC	1	-6	-7	-15	-4	-16	-26	-9	19
CF from Operations	25	38	38	30	40	48	48	70	93
EO Expense	0	0	-6	-5	0	0	0	0	0
CF from Operations	29	39	44	34	40	48	48	70	93
(inc)/dec in FA	-9	5	-27	-8	-20	-31	3	-9	-9
Free Cash Flow	16	43	11	22	20	17	51	61	85
(Pur)/Sale of Investments	3	-2	0	-5	-24	-19	0	0	0
Others	-2	-7	0	-13	0	0	0	0	0
CF from Investments	-8	-5	-27	-26	-44	-50	3	-9	-9
Change in net worth	0	1	2	-5	0	-2	1	0	0
(Inc)/Dec in Debt	-17	-16	12	4	-20	7	-1	-1	-1
Other Items	-1	-5	-13	9	1	2	2	-9	2
Dividend Paid	-4	-5	-5	-4	-4	-4	-4	-4	-4
CF from Fin. Activity	-21	-25	-5	4	-23	2	-2	-14	-3
Inc/Dec of Cash	0	8	13	12	-27	0	49	48	81
Add: Beginning Balance	3	2	2	15	15	6	7	51	90
Closing Balance	2	11	15	27	-12	6	56	99	171
FX Impact	0	0	0	0	0	0	0	0	0
FX impact net of bank balances	0	-9	0	-12	18	1	-5	-9	-20
Closing Balance	2	2	15	15	6	7	51	90	152

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