Institutional Research

Result Update

India I Pharma & Healthcare

24 July, 2025

Dr. Reddy's Labs

Profitability miss due to weak US performance

BUY

Price: Rs1,247

Target Price: Rs1,510

Forecast return: 21%

DRRD's Revenue was largely in-line while EBITDA delivered a miss in 1QFY26. Profitability also missed by 280bp. Revenue grew 11% YoY to Rs85.4bn. US sales declined 11% YoY to Rs34bn (~USD398mn; 40% of sales) due to increased price erosion. DRRD expects pricing pressure on gRevlimid to intensify going forward. GM contracted 350bp YoY to ~57% due to higher price erosion, lower op. leverage partially offset by favorable product mix. Adj. EBITDA margin contracted 260bp YoY to 25.2% (our est. 28%) with EBITDA at Rs21.5bn (+1% YoY). Adj. PAT was Rs14.2bn (+2% YoY). For FY26E, management guided for double-digit revenue growth, EBITDA margins of 25%+ and R&D % sales of 7-7.5%. Interestingly, it expects cost savings of 500-600bp over near-to-medium term. We remain positive on DRRD on account of a) new product launches in the US, b) Semaglutide launch in Canada in early-2026 which we expect is a USD1-1.5bn market, and c) net cash surplus of Rs29bn. Also, DRRD is actively looking for inorganic opportunities in addition to organic investments in innovation and biosimilars. Accordingly, we have revised our FY27E EPS estimate by 7%. We roll forward to Sep'27 EPS and arrive at a revised TP of Rs1,510 (based on Sep'27 EPS at unchanged PE multiple of 24x). Maintain BUY.

US: gRevlimid loss to be offset by base business/niche launches over near-to-medium term

In 1QFY26, US revenue was USD398mn (down 14% YoY/down 3% QoQ) led by increased price erosion, largely in gRevlimid. At the end-1QFY26, there are 70 ANDAs and 3 NDAs under the 505(b)(2) route awaiting approval. Of these ANDAs, 43 are Para IVs, and 22 can secure the 'First to File' status. Also, post FY27E, there are several major patent expires in the US, of which, Abatacept (bOrencia) is an interesting opportunity. DRRD plans to file by Dec'25 and expects approval in 12 months with a launch planned by end-FY27E/1QFY28. We expect US revenue CAGR decline of 2% to USD1.6bn over FY25-28E.

Semaglutide: DRRD to make first entry in Canada in 2026E/India in 2027E

Semaglutide, the largest GLP-1 product, will start to go off-patent in EMs and select developed markets such as Canada from 2026E. DRRD plans to be the first to enter Semaglutide market in Canada in 2026E which we see as a limited competition market in the near-term. Also, DRRD's plans to enter into Semaglutide market in India once it goes off-patent in 2027E.

NRT portfolio drives EU/New product, price hike drives India business

In 1QFY26, EU/India sales grew 2.4x/11% YoY respectively. In EU, Germany/UK grew 13% YoY/10% YoY. During 1QFY26, 13 new products were launched. We expect EU segment to deliver 17% revenue CAGR over FY25-28E. Additionally, in India, DRRD continues to be ranked 10th in IPM as per IQVIA. DRRD launched 5 products. Going forward, we expect India segment to deliver revenue CAGR of 11% over FY25-28E.

Russia delivers strong growth in the quarter/Increased traction in API drives PSAI

In 1QFY26, EM sales grew 18% YoY largely led by Russia segment. Russia sales grew 28% YoY to Rs7.1bn led by volume growth/new product launches. Also, PSAI business grew 7% YoY to Rs8.2bn led by new launches in API. The strong demand in API is expected to continue going forward. We expect Russia/PSAI to deliver 10%/11% CAGR over FY25-28E.

Maintain BUY

We have increased our FY27E EPS estimate by 7% on account of lower R&D expense. Over FY25-28E, we expect revenue/EBITDA/PAT CAGR of 7%/3%/1%. However, we expect margins to contract 310bps to 24%. We roll forward to Sep'27 EPS and arrive at a revised **TP of Rs1,510** (based on Sep'27 EPS at a PE multiple of 24x). The stock is currently trading at 19x Sep'27 EPS. **Maintain BUY**.

Financial and valuation summary

YE Mar (Rs bn)	1QFY26A	1QFY25A	YoY (%)	1QFY26A	QoQ (%)	FY26E	FY27E	FY28E
Revenues	85	76	11	85	1.8	365	362	396
EBITDA	21	21	1	21	(7.5)	96	84	96
EBITDA margin (%)	25.2	27.7	(9)	25.2	(9.1)	26.2	23.3	24.2
Adj. Net profit	14	13	14.7	14	4.5	60	51	59
Adj. EPS (Rs)	85.4	83.9	2	85.4	4.5	69.2	71.5	56.8
EPS growth (%)						7.6	3.3	-20.5
PE (x)						17.3	20.1	17.6
EV/EBITDA (x)						11.3	12.2	10.3
PBV (x)						2.9	2.6	2.3
RoE (%)						17.2	13.6	13.8
RoCE (%)						14.6	11.6	12.0

Source: Company, Centrum Broking

Market Data

Bloomberg:	DRRD IN
52 week H/L:	1,421/1,020
Market cap:	Rs1041.1bn
Shares Outstanding:	834.6mn
Free float:	64.9%
Avg. daily vol. 3mth:	17,62,241

Source: Bloomberg

Changes in the report

Rating:	No
Target price:	Increased to Rs1510 from Rs1370

Source: Centrum Broking

Shareholding pattern

	Jun-25	Mar-25	Dec-24	Sep-24
Promoter	26.6	26.6	26.6	26.6
FIIs	25.3	25.8	26.9	27.5
DIIs	37.8	37.2	36.1	35.7
Public/other	10.3	10.4	10.4	10.2

Source: BSE

Centrum estimates vs Actual results

YE Mar (RS bn)	Centrum Q1FY26	Actual Q1FY26	Variance (%)
Revenue	83.0	85.5	3
EBITDA	23.2	21.5	-8
EBITDA margin	28%	25.2%	-280bp
Adj. PAT	14.8	14.2	-4

Source: Bloomberg, Centrum Broking

Pharma & Healthcare

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Thesis Snapshot

Estimate revision

YE Mar (RS bn)	FY26E New	FY26E Old	% var	FY27E New	FY27E Old	% var
Revenue	364.8	369.1	-1.2	361.5	357.5	1.1
EBITDA	95.5	96.7	-1.2	84.2	79.3	6.1
EBITDA margin	26.2	26.2	0bp	23.3	22.2	110bp
Adj. PAT	59.7	60.4	-1.1	51.4	47.9	7.2

Source: Bloomberg, NSE

DRL versus NIFTY 50

	1m	6m	1 year
DRRD IN	(5.3)	(3.3)	(9.1)
NIFTY 50	1.0	8.7	3.0

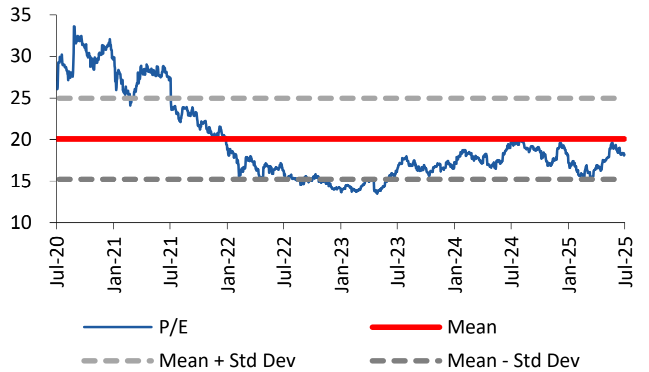
Source: Bloomberg, NSE

Valuations

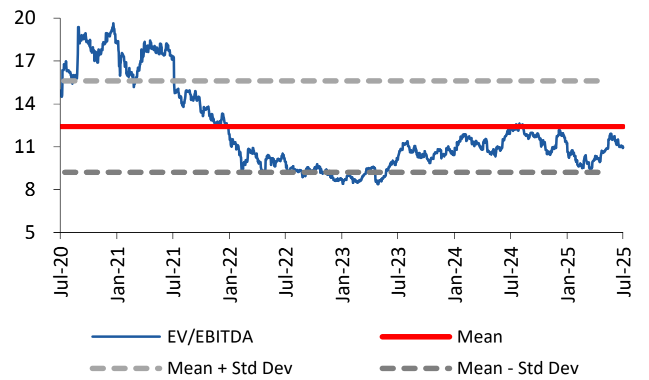
Over FY25-28E, we expect revenue/EBITDA/PAT CAGR of 7%/3%/1%. However, we expect margins to contract 310bps to 24%. We roll forward to Sep'27 EPS and arrive at a revised **TP of Rs1,510** (based on Sep'27 EPS at a PE multiple of 24x). The stock is currently trading at 19x Sep'27 EPS. **Maintain BUY**.

Valuations	Rs/share
EPS	63
PE multiple	24x
Derived TP	**1,510**

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY25-28E)			P/E (x)			EV/EBITDA (x)			RoE (%)		
	(Rs bn)	Sales	EBITDA	EPS	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E
SUNP	4,067	10	11	11	32	27	25	27	23	21	16	16	15
CIPLA	1,189	8	8	6	23	22	19	15	15	13	16	16	16
DRRD	**1049**	**7**	**3**	**1**	**18**	**20**	**18**	**11**	**12**	**11**	**17**	**14**	**14**
TRP	1192	12	15	21	49	38	34	29	24	21	29	29	29
JBCP	262	11	16	19	32	27	23	21	18	16	22	21	0

Source: Company, Centrum Broking, Bloomberg

Exhibit 1: Quarterly Table (Rs mn)

Y/E March	FY25					FY25	FY26E	Estimates	
	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26			Q1FY26E	% var
Net Sales	**76,727**	**80,162**	**83,586**	**85,060**	**85,452**	**3,25,535**	**3,64,682**	**83,046**	**3**
YoY Change(%)	14	17	16	20	11	17	12	8.24	
Gross Margin(%)	60.4	59.6	58.7	55.6	56.9	58.5	57.2	58.0	-110bp
EBITDA	**21,275**	**23,327**	**22,992**	**21,273**	**21,501**	**88,867**	**95,547**	**23,253**	**-8**
EBITDA Margin(%)	27.7	29.1	27.5	25.0	25.2	27.3	26.2	28.0	-280bp
YoY Change(%)	4	17	13	20	1	13	8	9	
Adjusted PAT	**13,924**	**14,384**	**14,130**	**15,291**	**14,178**	**57,729**	**59,783**	**14,827**	**-4**
Net Margin(%)	18.1	17.9	16.9	18.0	16.6	17.7	16.4	17.9	
YoY Change(%)	2	8	3	18.3	1.8	8	3.6	6.49	

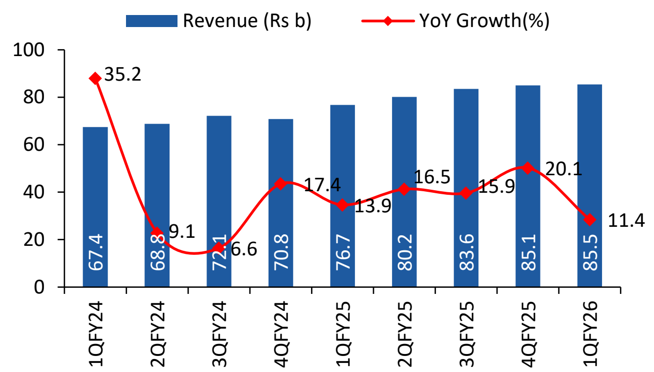
Source: Company, Centrum Broking

Exhibit 2: Segments (Rs mn)

Y/E March	FY25					FY25	FY26E	Q1FY26E	% var
	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26				
North America	38,462	37,281	33,834	35,586	34,123	1,45,164	1,50,772	35337	-3
YoY Change(%)	20%	18%	1%	9%	-11%	12%	4%		
Europe	5265	5770	12096	12750	12744	35,882	52028	10385	23
YoY Change(%)	4%	9%	143%	145%	142%	75%	45%		
India	13,252	13,971	13,464	13,047	14,711	53,734	59,107	14445	2
YoY Change(%)	15%	18%	14%	16%	11%	16%	10%		
Russia and Others CIS	7,400	9,000	9,400	8,900	9,100	34,700	39,143	8345	9
YoY Change(%)	-3%	13%	15%	24%	23%	12%	13%		
PSAI	7,657	8,407	8,219	9,563	8,181	33,846	37,753	8806	-7
YoY Change(%)	14%	20%	5%	16%	7%	14%	12%		
Others	4479	5554	4959	5082	4942	20,071	22201	4967	-1
YoY Change(%)	13%	31%	7%	4%	10%	13%	11%		

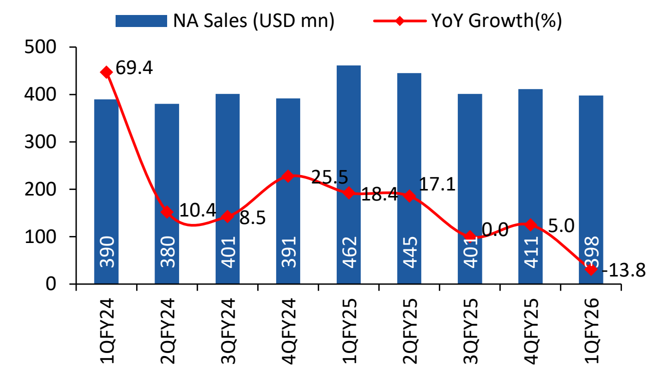
Source: Company, Centrum Broking

Exhibit 3: Sales grew 11% YoY to Rs85bn



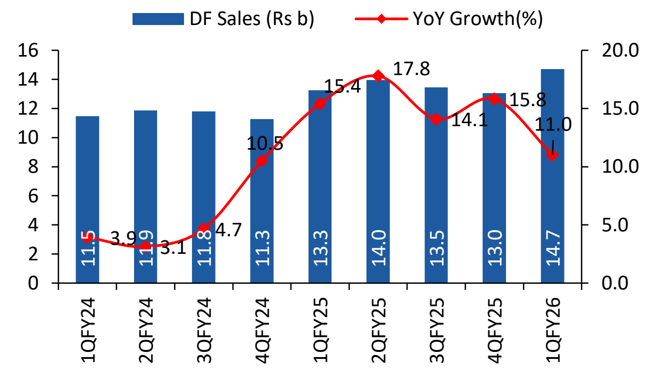
Source: Centrum Broking, Company Data

Exhibit 4: NA Sales declined 14% YoY to USD398mn



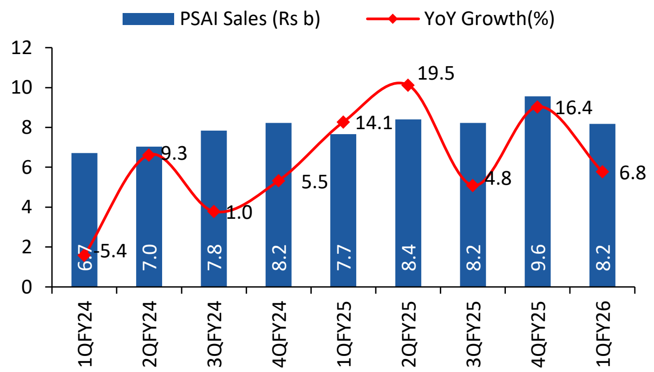
Source: Centrum Broking, Company Data

Exhibit 5: DF Sales grew by 11% to Rs15bn



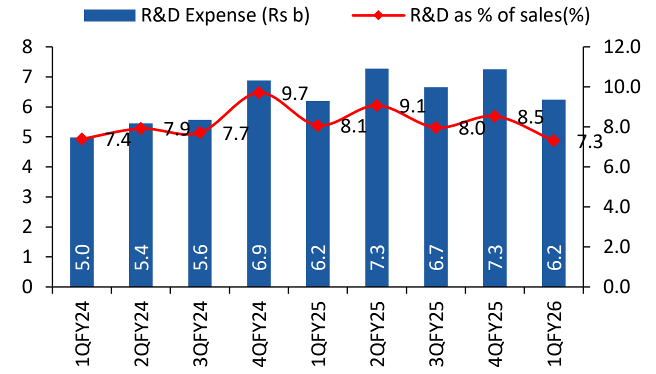
Source: Centrum Broking, Company Data

Exhibit 6: PSAI Sales grew by 7% YoY to Rs8bn



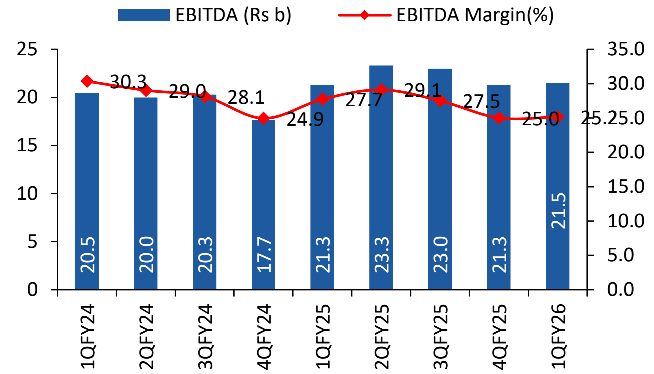
Source: Centrum Broking, Company Data

Exhibit 7: R&D as % sales contracted 80bps YoY to 7.3%



Source: Centrum Broking, Company Data

Exhibit 8: EBITDA Margin decline by 250bps YoY to 25%



Source: Centrum Broking, Company Data

Exhibit 9: Key Concall Commentary

Centrum Quarterly Monitor	Q4FY25	Q1FY26	Our Comments
Demand environment	US witnessed volume growth YoY but continues to see price erosion in generics market. Lower offtake in Lenalidomide led to QoQ decline. India business was aided by in-licensed products, new product launches offset by lower volumes.	US saw decline due price erosion in certain key products including Lenalidomide. India sales witnessed growth due to introduction of new products, price increase and commercial execution.	We expect new product launches to continue to help the growth and base business volumes to improve going forward.
Outlook and guidance	Guided for double digit revenue growth in FY26 with EBITDA margin of 25%.	Guided for double digit revenue growth in FY26 with gross/EBITDA margin of 57%/25%. R&D as % of sales around 7-7.5%	Expect one-off SG&A expenses to cool down while investments in new business capabilities to continue. Expect India business to be supported by new product launches.
New product launch updates	Partnered with Shanghai Henlius to commercialize Daratumumab biosimilar). Launched new products in USA.	Plan to launch gLiraglutide in FY26E in US. Expects the Semaglutide launch at the time of the LOE in the beginning of Jan'26. The subcutaneous formulation launch will be in CY28.	Sanofi vaccine portfolio contributed significantly to India business growth. GLP-1, biosimilar to drive future growth.
Regulatory actions	Received EIR at API facility (CTO-2) in Bollaram, Hyderabad with a VAI classification.	Semaglutide approval in end-Oct or early-Nov'25	Await further approvals from USFDA
On margins and exceptional items	Gross margin declined to 56% (down 300bp) and EBITDA margin was flat YoY at 25%	Gross margin contracted 350bp YoY to 56.9% and EBITDA margin declined 250bps at 25.2%	Decline in gross margin was due to price erosion in generics market.

Source: Centrum Broking

Quarterly Highlights

North America

- US sales saw decline of 11%YoY to Rs34.1bn in Q1FY26 (42% of sales), decline was due price erosion in certain key products including Lenalidomide.
- In Q1FY26, 5 new products were launched in US and 1 ANDA was filed with USFDA.
- Filings pending for approval 73 (70 ANDA's + 3 NDA's)

India

- India sales grew 11% YoY to Rs14.7bn in Q1FY26, driven by introduction of new products, price increases and commercial execution.
- As per IQVIA, IPM rank was maintained at 10.
- In Q126 DRRD launched 5 new brands- Includes 2 innovative assets Beyfortus (RSV Vaccine) and Sensimmune (Acarizex Slit)

Emerging Markets Business

- EM sales grew 18% YoY to Rs14bn. Growth was led by new product launches and volume growth and favourable foreign exchange.
- Russia & Others CIS sales grew by 28% YoY to Rs7.1bn during the quarter due to volume growth in Russia, new product launches. CIS grew by 2% YoY driven by new product launches.
- Rest of world grew 13% YoY to Rs5bn driven by new product launch and volume growth though partially moderated by price erosion.
- For the quarter, 26 new products were launched across the EM regions.

PSAI Business

- PSAI sales grew by 7% YoY to Rs8.2bn led by driven by launch of new API products and favourable forex, partially offset by lower pricing and softer demand. QoQ decline was due to seasonality.
- In Q1FY26, 12 DMFs were filed globally.

Europe

- Europe sales grew 145% YoY to Rs12.7bn primarily due to revenues from acquired NRT portfolio and incremental contributions from new product launches though partly offset by price erosion.
- NRT revenue at Rs 6.7bn with QoQ growth of 12%
- Germany grew 13% YoY and while UK sales grew 10% YoY.
- In Q1FY26, 13 new products were launched across European markets.

New business updates

- DRRD expanded partnership with Alvotech to co-develop, manufacture and co-commercialize **pembrolizumab**, a biosimilar candidate to Keytruda
- Expanded collaboration with Sanofi to launch **Beyfortus (Nirsevimab)**, a novel drug for preventing Respiratory Syncytial Virus (RSV) in India
- Launched **Sensimune** in India, an immunotherapy product for house dust mite-induced allergies, in partnership with ALK-Abelló

Others

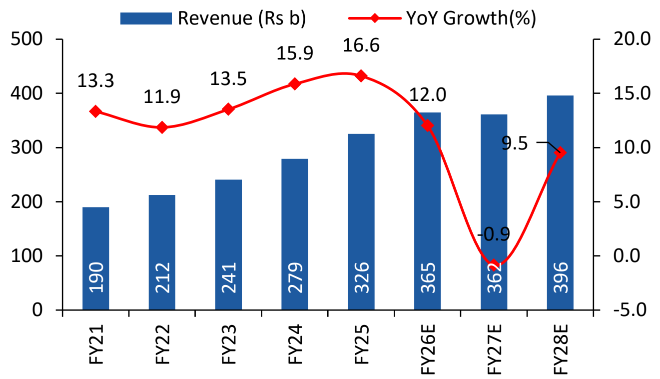
- R&D cost stood at Rs6.2bn (7.35 of sales) in Q1FY26.
- Q1FY26 Net Cash stood at Rs29.2bn and capex incurred of Rs6.8bn in Q1FY26.

Concall Highlights

- **FY26 Guidance**: a) Expect double-digit revenue growth; b) Gross/EBITDA margin of 57%/25%; c) R&D % sales is expected to be 7-7.5% and d) ETR of 25%. It expects growth to be led by: baseline growth, special products, cost optimization and BD.
- Expects 500-600bp cost savings as majority of the investments have largely been done (Abatacept/NRT etc.)
- The US business declined largely due to gRevlimid in 1QFY26
- Expects Semaglutide approval in end-Oct or early-Nov'25 and launch at the time of the LOE in the beginning of Jan'26
- **gLiraglutide**: Planning to launch in FY26E in the US
- Plans to launch 20 products in the US
- Expects price erosion to remain at similar levels for gRevlimid
- The launches in FY26/FY27 will be with partner, not from Vizag facility. The capacity from Vizag will come from FY28E.
- In Canada, DRRD is targeting 10mn/12mn pens with partner in FY26E/FY27E. These pens are single-use/1 pen per week.
- **Abatacept:** Planning to submit the product by Nov'25. Expects IV launch in Dec'26 or Jan'27. The subcutaneous formulation launch will be in CY28.
- **Capex in FY26E:** Rs20-27bn. Majority of capex is towards Peptides (API + Formulation) and Biosimilars.
- **India business:** Expect DD growth. Field force is 10K.
- Global Generics growth to be from price hike and minor volume growth.
- Out-licensing income was Rs1.2bn in 1QFY26
- Only going to launch gOzempic in Canada
- NRT portfolio is expected to continue to deliver MSD growth

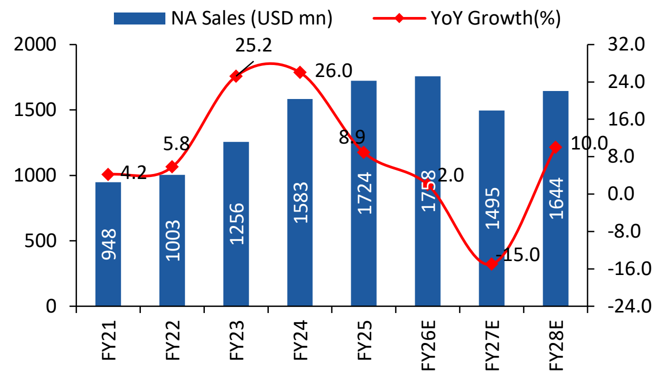
Story in charts

Exhibit 10: Revenue to exhibit at 7% CAGR over FY25-28E



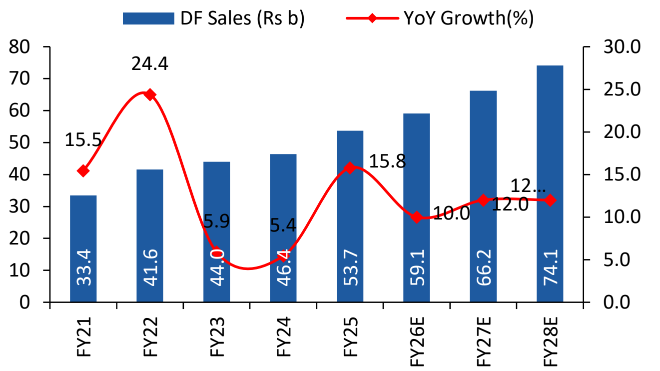
Source: Centrum Broking, Company Data

Exhibit 11: NA expected to decline at 2% CAGR over FY25-28E



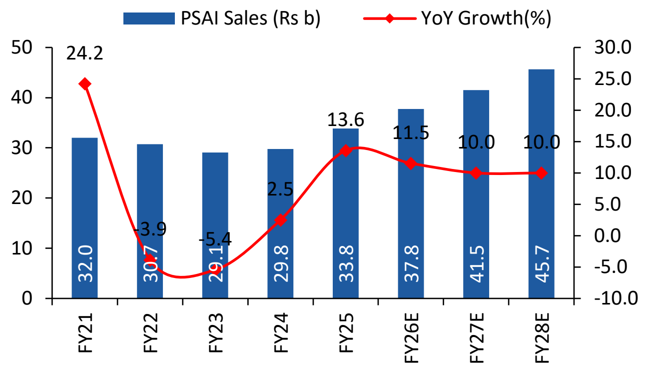
Source: Centrum Broking, Company Data

Exhibit 12: DF sales to witness 11% CAGR over FY25-28E



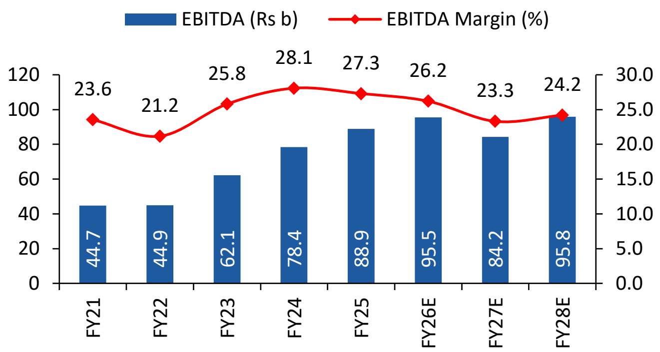
Source: Centrum Broking, Company Data

Exhibit 13: PSAI to witness 11% CAGR over FY25-28E



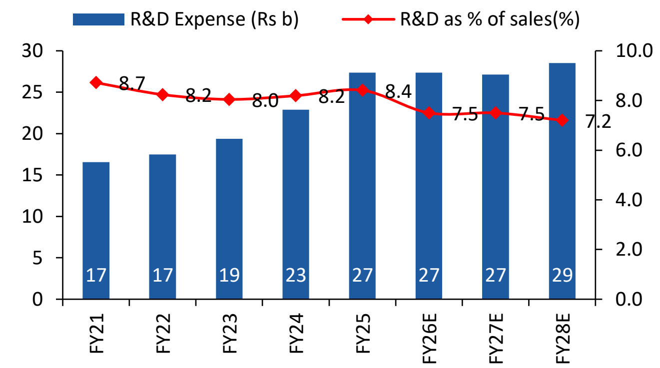
Source: Centrum Broking, Company Data

Exhibit 14: EBITDA to witness 3% CAGR over FY25-28E



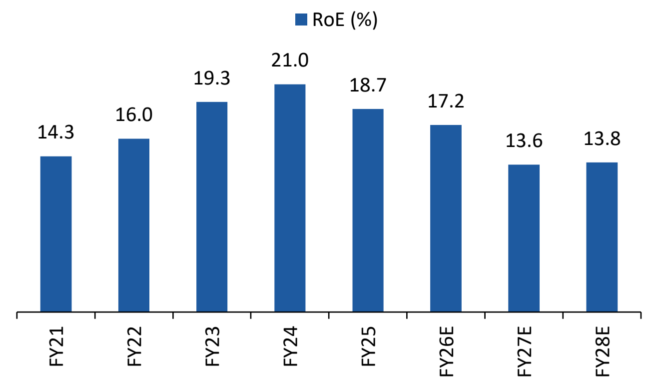
Source: Centrum Broking, Company Data

Exhibit 15: R&D as % of sales to reach 7% over FY25-28E



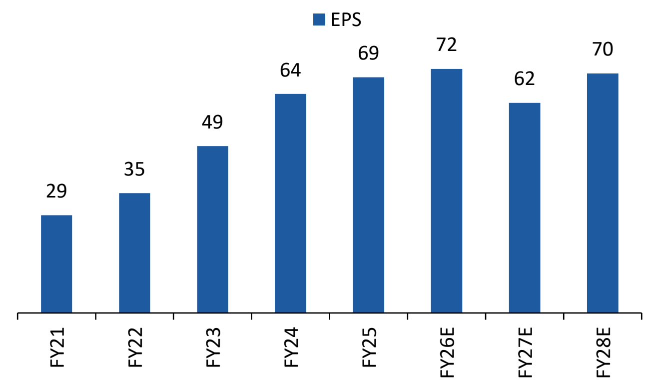
Source: Centrum Broking, Company Data

Exhibit 16: RoE to decline to 14% by FY28E



Source: Centrum Broking, Company Data

Exhibit 17: EPS to witness 1% CAGR over FY25-28E



Source: Centrum Broking, Company Data

P&L

YE Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenues	**279**	**326**	**365**	**362**	**396**
Operating Expense	201	237	269	277	300
Employee cost	0	0	0	0	0
Others	0	0	0	0	0
EBITDA	**78**	**89**	**96**	**84**	**96**
Depreciation & Amortisation	15	19	23	23	25
EBIT	**64**	**70**	**73**	**62**	**71**
Interest expenses	(3)	(5)	(3)	(3)	(3)
Other income	3	5	4	4	4
PBT	**70**	**79**	**80**	**69**	**78**
Taxes	16	19	20	17	20
Effective tax rate (%)	23.2	24.0	25.0	25.0	25.0
PAT	**54**	**60**	**60**	**51**	**59**
Minority/Associates	0	0	0	0	0
Recurring PAT	**54**	**58**	**60**	**51**	**59**
Extraordinary items	0	2	0	0	0
Reported PAT	**54**	**60**	**60**	**51**	**59**

Ratios

YE Mar	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (%)					
Revenue	15.9	16.6	12.0	(0.9)	9.5
EBITDA	26.2	13.4	7.5	(11.8)	13.7
Adj. EPS	70.8	12.4	(1.0)	(13.9)	14.0
Margins (%)					
Gross	58.6	58.5	57.2	55.3	55.8
EBITDA	28.1	27.3	26.2	23.3	24.2
EBIT	22.8	21.5	19.9	17.0	17.9
Adjusted PAT	19.2	18.5	16.4	14.2	14.8
Returns (%)					
ROE	21.0	19.5	17.2	13.6	13.8
ROCE	18.7	16.6	14.6	11.6	12.0
ROIC	17.2	14.6	13.8	11.9	13.4
Turnover (days)					
Gross block turnover ratio (x)	1.4	1.3	1.4	1.2	1.3
Debtors	100	96	101	112	107
Inventory	177	182	171	167	158
Creditors	91	90	80	76	74
Net working capital	119	128	128	173	206
Solvency (x)					
Net debt-equity	0.0	0.1	0.1	0.0	(0.1)
Interest coverage ratio	(22.4)	(18.8)	(29.8)	(26.3)	(29.9)
Net debt/EBITDA	0.2	0.4	0.4	(0.1)	(0.5)
Per share (Rs)					
Adjusted EPS	64.7	72.7	72.0	62.0	70.7
BVPS	338.0	406.2	430.5	482.9	544.0
CEPS	82.6	95.3	99.5	89.3	100.6
DPS	8.2	8.2	8.2	8.2	8.2
Dividend payout (%)	12.7	11.3	11.4	13.2	11.6
Valuation (x)					
P/E	19.3	17.1	17.3	20.1	17.6
P/BV	3.7	3.1	2.9	2.6	2.3
EV/EBITDA	13.4	12.0	11.3	12.2	10.3
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity share capital	4	4	4	4	4
Reserves & surplus	276	333	353	397	447
Shareholders fund	281	337	357	401	451
Minority Interest	0	0	0	0	0
Total debt	20	47	46	45	44
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(10)	(4)	(4)	(4)	(4)
Total liabilities	**291**	**380**	**399**	**441**	**491**
Gross block	203	243	270	292	315
Less: acc. Depreciation	(126)	(145)	(168)	(190)	(215)
Net block	77	98	102	102	100
Capital WIP	0	0	0	0	0
Net fixed assets	118	206	211	211	208
Non Current Assets	0	0	0	0	0
Investments	81	59	59	59	59
Inventories	64	71	75	73	79
Sundry debtors	80	90	112	111	121
Cash & Cash Equivalents	7	15	3	52	92
Loans & advances	0	0	0	0	0
Other current assets	26	33	33	33	36
Trade payables	31	36	33	34	37
Other current liab.	55	59	61	63	67
Provisions	0	0	0	0	0
Net current assets	91	114	128	171	223
Total assets	**291**	**380**	**399**	**441**	**491**

Cashflow

YE Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Profit Before Tax	70	79	80	69	78
Depreciation & Amortisation	15	19	23	23	25
Net Interest	(3)	(5)	(4)	(4)	(4)
Net Change – WC	(16)	(15)	(26)	6	(12)
Direct taxes	(16)	(19)	(20)	(17)	(20)
Net cash from operations	**50**	**60**	**53**	**77**	**67**
Capital expenditure	(12)	(107)	(27)	(22)	(22)
Acquisitions, net	0	0	0	0	0
Investments	(19)	22	0	0	0
Others	0	0	0	0	0
Net cash from investing	**(31)**	**(85)**	**(27)**	**(22)**	**(22)**
FCF	**19**	**(25)**	**25**	**54**	**45**
Issue of share capital	4	4	(32)	0	0
Increase/(decrease) in debt	7	27	(1)	(1)	(1)
Dividend paid	(8)	(8)	(8)	(8)	(8)
Interest paid	0	0	0	0	0
Others	(20)	10	4	4	4
Net cash from financing	**(17)**	**33**	**(37)**	**(5)**	**(5)**
Net change in Cash	1	8	(12)	49	40

Source: Company, Centrum Broking

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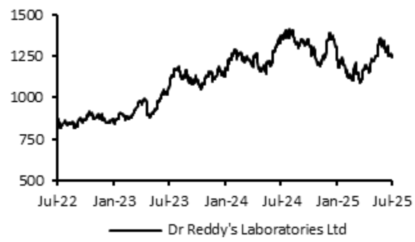
Dr. Reddys Labs



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