

Dr Reddy's Labs

Estimate change



TP change



Rating change



Bloomberg	DRRD IN
Equity Shares (m)	834
M.Cap.(INRb)/(USDb)	964.5 / 11.3
52-Week Range (INR)	1421 / 1020
1, 6, 12 Rel. Per (%)	-2/-9/-11
12M Avg Val (INR M)	2884

Financials & Valuations (INR b)

Y/E MARCH	FY25	FY26E	FY27E
Sales	324.3	347.0	350.1
EBITDA	85.5	89.5	85.8
Adj. PAT	56.1	58.5	54.6
EBITDA Margin (%)	26.4	25.8	24.5
Adj. EPS (INR)	67.3	70.3	65.6
EPS Gr. (%)	6.1	4.4	-6.7
BV/Sh. (INR)	405	470	531

Ratios

Net D:E	-0.1	-0.3	-0.6
RoE (%)	18.2	16.1	13.1
RoCE (%)	14.7	12.1	10.4
Payout (%)	7.7	7.1	7.6

Valuations

P/E (x)	17.2	16.5	17.7
EV/EBITDA (x)	11.0	10.1	9.6
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	1.4	3.8	8.2
EV/Sales (x)	2.9	2.6	2.4

Shareholding Pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	26.6	26.6	26.7
DII	25.6	22.9	18.3
FII	37.6	40.2	44.7
Others	10.2	10.2	10.4

FII includes depository receipts

CMP: INR1,156

TP: INR1,220 (+6%)

Neutral

FY25 ends with a modest YoY earnings growth

Work in progress to add growth levers

- Dr Reddy's Labs (DRRD) delivered in-line sales, while a slight miss on EBITDA for 4QFY25. The company posted healthy growth in revenue across the segments, partly aided by the addition of acquired businesses. In addition, pharmaceutical services and active ingredients saw a healthy revival in FY25 performance vs. the muted show in FY23/FY24.
- We broadly retain our earnings estimates for FY25/FY27. We value DRRD at 18x 12M forward earnings to arrive at our TP of INR1,220.
- After three years of a strong 30% earnings CAGR over FY21-24E, the company ended FY25 with a moderate 6% earnings growth. DRRD is implementing a plan to expand product offerings across markets and add/ build capacity to cater to the respective markets. Having said this, the intensified competitive pressures in the base portfolio would keep earnings growth in check.
- Accordingly, we model stable earnings over FY25-27. **Reiterate Neutral.**

Inferior product mix offset by lower opex

- DRRD's 4QFY25 sales rose 20% YoY to INR85b (vs. est. of INR83b).
- The US sales increased 9% YoY to INR36b (~USD416m; 42% of sales), largely due to a rise in volumes of the base business and new launches, partly offset by price erosion. Europe sales surged 2.4x YoY to INR12.7b (15% of sales). India sales rose 16% YoY to INR13b (15% of sales). Emerging markets' sales improved 16% YoY to INR14b (16% of sales).
- Pharmaceutical Services and Active Ingredients (PSAI) segment's revenue grew 16% YoY to INR9.5b (11% of sales).
- Gross margin (GM) contracted 300bp YoY to 55.6%, mainly due to lower margins in the global generics business (down 270bp YoY). This was partly offset by a higher gross margin in the PSAI segment.
- EBITDA margin dipped 80bp YoY to 24% (our est: 26.5%) as lower GM was offset by lower expenses (R&D/SGA down 100bp/110bp YoY as % of sales).
- EBITDA was up 16% YoY to INR20.5b (vs. est. of INR21.9b).
- PAT grew at a higher rate of 26.7% YoY to INR15.4b, supported further by higher other income.
- During FY25, revenue/EBITDA/PAT grew 16%/9%/6% YoY to INR324b/INR85.5b/INR56b.

Highlights from the management commentary

- Management guided a double-digit YoY revenue growth and will maintain the EBITDA margin at FY25 levels in FY26.
- A certain one-time cost hurt gross margin by 80bp for the quarter.
- DRRD launched 7/18 products in NA in 4QFY25/FY25.

Quarterly Performance - IFRS

(INRb)

Y/E March	FY24				FY25E				FY24E	FY25E	Estimates	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	% Var
Sales	67.4	68.8	72.1	70.8	76.7	80.2	82.3	85.1	279.2	324.3	82.8	2.8
YoY Change (%)	35.2	9.1	6.6	17.4	13.9	16.5	14.1	20.1	15.9	16.2	16.9	
EBITDA	20.5	20.0	20.3	17.7	21.3	22.0	21.7	20.5	78.4	85.5	21.9	-6.4
YoY Change (%)	97.8	10.7	-1.3	34.0	4.0	10.3	7.1	16.1	26.2	9.1	24.0	
Margins (%)	30.3	29.0	28.1	24.9	27.7	27.5	26.4	24.1	28.1	26.4	26.5	
Amortization	3.6	3.8	3.9	3.5	3.8	4.0	4.7	4.6	14.8	17.1	4.9	
EBIT	16.9	16.1	16.4	14.1	17.5	18.1	17.0	16.0	63.5	68.5	17.0	
Other Income	1.1	1.6	2.0	1.7	1.4	2.6	0.5	3.4	6.4	7.8	0.7	
PBT before EO expenses	18.0	17.7	18.4	15.8	18.8	20.7	17.5	19.3	69.9	76.3	17.7	9.0
One-off income/(expense)	0.5	1.4	-0.1	0.2	0.0	-1.5	1.3	0.7	2.0	0.5	0.0	
Profit before Tax	18.5	19.1	18.3	16.0	18.8	19.2	18.7	20.1	71.9	76.8	17.7	13.1
Tax	4.4	4.3	4.5	2.9	4.9	5.8	4.7	4.2	16.2	19.5	4.0	
Rate (%)	24.0	22.7	24.5	18.4	26.0	30.0	25.1	20.8	22.5	25.4	22.6	
PAT	14.0	14.8	13.8	13.1	13.9	13.4	14.0	15.9	55.7	57.2	13.7	15.6
Adjusted PAT	13.7	13.3	13.8	12.1	13.9	13.6	13.2	15.4	52.8	56.1	11.8	30.0
YoY Change (%)	66.6	16.5	5.1	50.1	2.0	2.4	-4.3	26.7	29.6	6.1	-2.5	
Margins (%)	20.3	19.3	19.1	17.1	18.1	17.0	16.0	18.1	18.9	17.3	14.3	
EPS	16.4	15.9	16.5	14.5	16.7	16.3	15.8	18.4	63.4	67.3	14.3	10.7

Key performance Indicators (Consolidated)

(INRb)

Y/E March	FY24				FY25				FY24	FY25	FY25
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
INRm											
North America	32.0	31.7	33.5	32.6	38.5	37.3	33.8	35.6	129.9	144.1	34.5
YoY Change (%)	79.5	13.2	9.6	28.8	20.3	17.6	1.0	9.1	27.7	10.9	5.8
Europe	5.1	5.3	5.0	5.2	5.3	5.8	12.1	12.8	20.5	35.0	11.9
YoY Change (%)	22.5	25.9	15.5	5.0	3.8	9.2	143.4	144.8	16.5	70.6	127.8
India	11.5	11.9	11.8	11.3	13.3	14.0	13.5	13.0	46.4	53.1	12.4
YoY Change (%)	3.9	3.1	4.7	10.5	15.4	17.8	14.1	15.8	5.4	14.5	10.5
Russia & Others CIS	7.6	8.0	8.2	7.2	7.4	9.0	9.4	8.9	30.9	35.7	9.9
YoY Change (%)	49.8	-1.2	-9.9	-4.0	-2.6	12.5	14.6	23.6	3.8	15.4	37.0
Others	4.0	4.2	4.6	4.9	3.7	5.6	5.0	5.1	17.7	19.7	5.4
YoY Change (%)	-0.1	2.2	15.9	34.3	-5.3	32.1	7.0	3.9	12.8	10.9	10.0
PSAI	6.7	7.0	7.8	8.2	7.7	8.4	8.2	9.6	29.8	32.5	8.2
YoY Change (%)	-5.4	9.3	1.0	5.5	14.1	19.5	4.8	16.4	2.5	8.9	-0.5
Cost Break-up											
COGS (% of Sales)	41.3	41.3	41.5	41.4	39.6	40.4	42.0	44.4	41.4	40.8	41.1
SG&A (% of Sales)	21.0	21.7	22.7	23.9	24.6	23.0	23.6	22.9	22.3	23.7	23.6
R&D Expenses(% of Sales)	7.4	7.9	7.7	9.7	8.1	9.1	8.1	8.5	8.2	8.5	8.8
Gross Margin (%)	58.7	58.7	58.5	58.6	60.4	59.6	58.0	55.6	58.6	59.2	58.9
EBITDA Margin (%)	30.3	29.0	28.1	24.9	27.7	27.5	26.4	24.1	28.1	27.0	26.5
EBIT Margin (%)	25.0	23.4	22.7	19.9	22.8	22.5	20.7	18.8	22.8	21.6	20.6



Management call highlights

- DRRD has partnered with Shanghai Henlius Biotech to commercialize HLX15 (daratumumab biosimilar) in the US and Europe
- DRRD received Biologics License Application (BLA) acceptance for AVT03 (denosumab biosimilar) developed by partner, Alvotech, for the US market
- DRRD completed the divestment of our manufacturing facility in Shreveport, Louisiana, US.
- DRRD participated in India's 'Jan Aushadi' program with one of our products to provide accessible generic medicines to the public.
- DRRD expects SGA/R&D expenses in FY26 to be similar to those in FY25 as a % of sales.
- The ETR for FY25 was higher due to the reversal of previously recognized deferred tax assets related to land indexation and recognition of previously unrecognized deferred tax assets on operating tax losses. Management guided the ETR to be at similar levels in FY26.

Key exhibits

Exhibit 1: In CC terms, NA sales rose ~5.8% YoY in 4QFY25

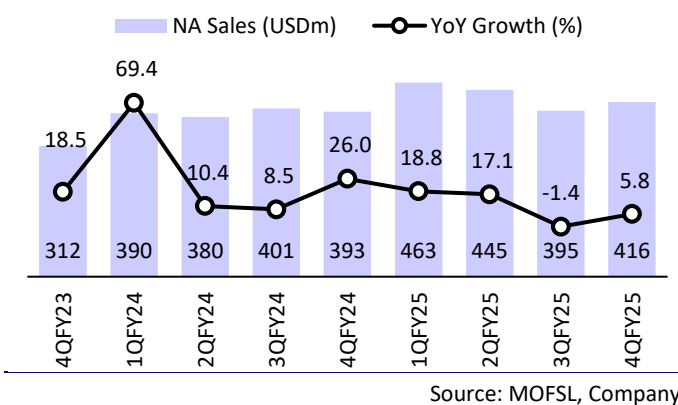


Exhibit 2: DF sales grew 15.8% YoY in 4QFY25

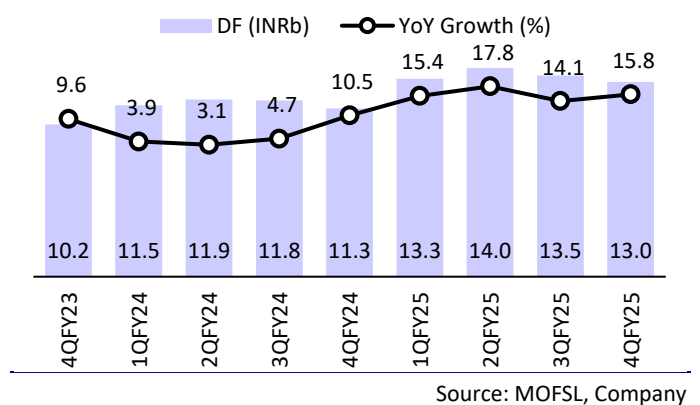


Exhibit 3: Gross profit increased 13.9% YoY

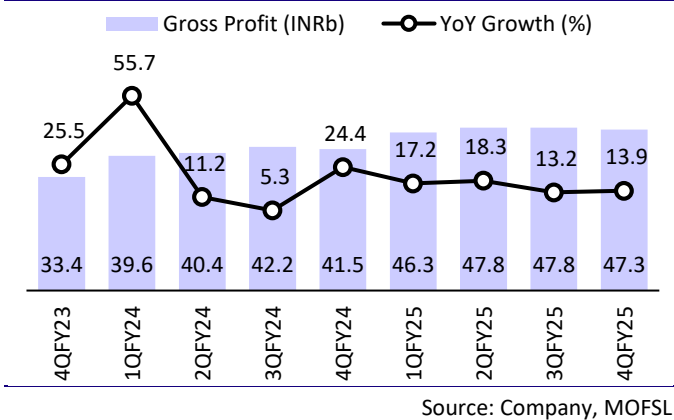


Exhibit 4: EBITDA increased 16% YoY

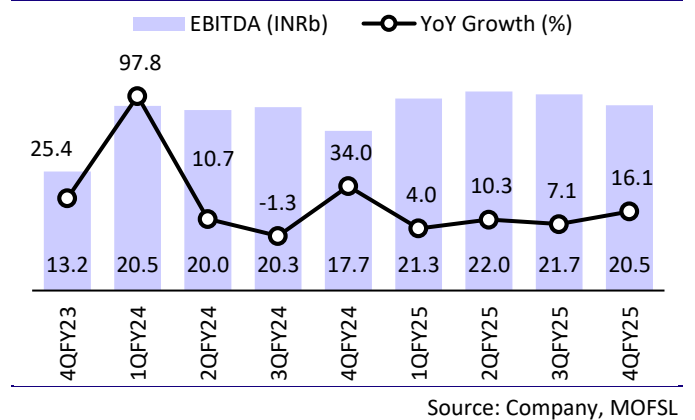
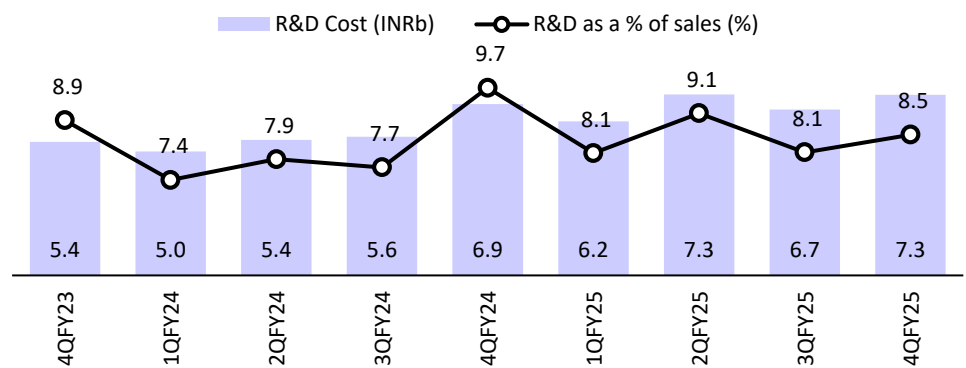


Exhibit 5: R&D expenses as a proportion of sales at 8.5% in 4QFY25



Source: MOFSL, Company

Expect earnings to be steady over the next two years

Peptides/biosimilars to enhance offerings in a regulated market

- In FY25, NA sales grew 9% YoY to USD1.7b; its new launches gained market share in select products, outweighing price erosion in certain products.
- DRRD launched 18 new products and filed 10 ANDAs in FY25.
- There are 76 ANDAs and 3 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.
- DRRD has invested considerably in product development and manufacturing capacity in the peptide category.
- Further, DRRD is building a biosimilar pipeline through in-house development as well as partnered products for regulated markets.
- Over FY25-27, we expect US sales to decline 8% to ~INR123b (USD1.5b). While the pipeline continues to remain rich, competition in products such as g-Revlimid would keep growth prospects under check.

Vaccine-driven growth in the India segment in FY25

- In FY25, India delivered a growth of 15.8% YoY to INR54b. In addition to new launches and steady execution in the base portfolio, the vaccine portfolio has been strengthening its growth trajectory in the domestic market.
- Excluding the vaccines business, the India business grew 6% YoY in FY25.
- The company launched 23 products during FY25 and continues to explore some in-licensing and partnership opportunities.
- DRRD is adding a growth driver through supplying medicines under the Jan-Aushadhi program as well.
- We expect a sales CAGR of 14% to reach INR69.8b over FY25-27.

Steady growth momentum in emerging markets

- In FY25, EM sales grew 11% YoY to INR54b, driven by new launches across various countries and a higher volume offtake of existing products.
- Specifically, the Russian business increased 16% YoY in FY25, led by superior execution by DRRD.
- Overall, we expect a sales CAGR of 8% to reach INR62b over FY25-27.

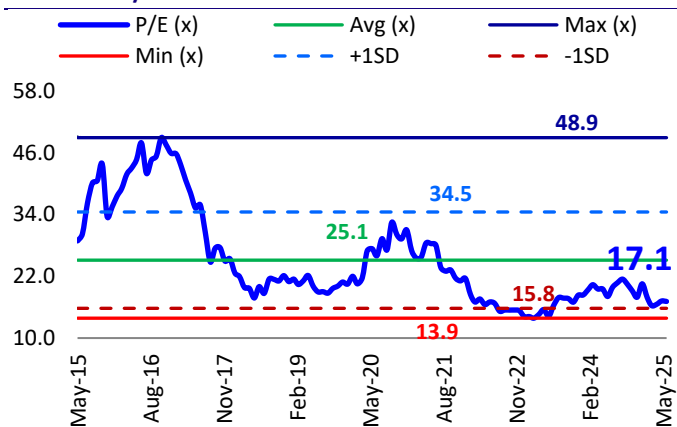
PSAI segment: Volume and new launches to aid growth

- In FY25, the PSAI segment's revenue grew 14% YoY to INR24.3b. DRRD delivered improved performance in the PSAI segment in FY25 after three years of muted performance.
- DRRD introduced new APIs and garnered a higher volume offtake of existing APIs to revive growth in this segment.
- It filed 52 DMFs in 4QFY25, which would provide support for sustainable growth momentum.
- We expect the PSAI business to post an 8% sales CAGR to reach INR39b over FY25-27.

Reiterate Neutral

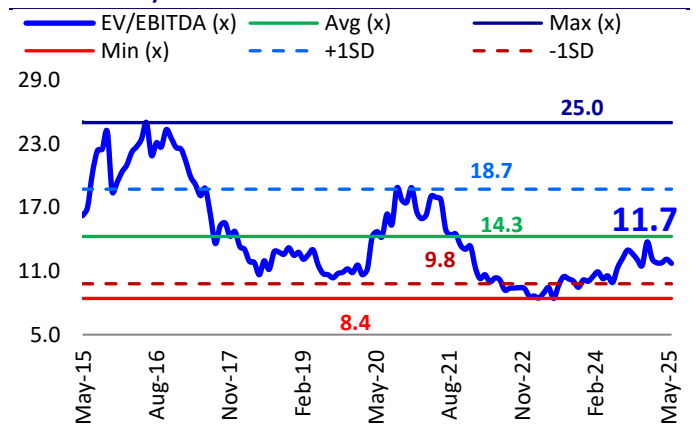
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- After three years of a strong 30% earnings CAGR over FY21-24E, the company ended FY25 with a moderate 6% earnings growth. DRRD is implementing a plan to expand product offerings across markets and add/ build capacity to cater to the respective markets. Having said this, the intensified competitive pressures in the base portfolio would keep earnings growth in check.
- Accordingly, we model stable earnings over FY25-27. **Reiterate 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 ~3.9% over FY25-27

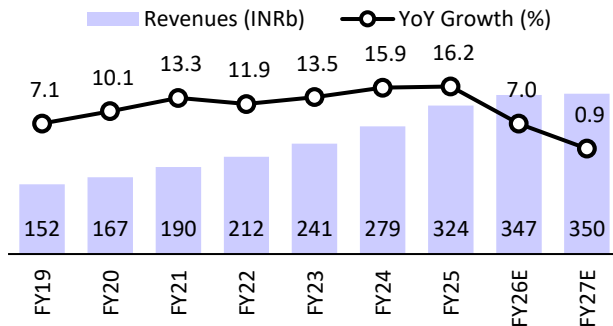


Exhibit 9: NA sales to decline 8% over FY25-27

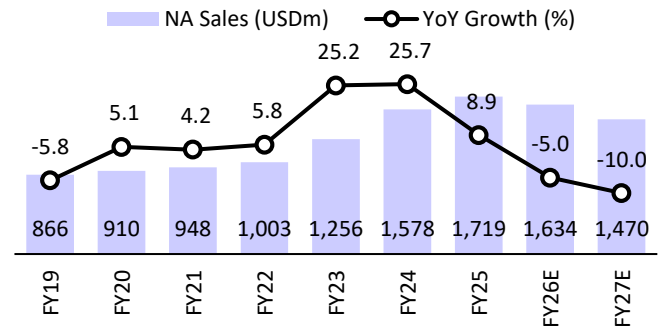


Exhibit 10: DF sales to exhibit 14% CAGR over FY25-27

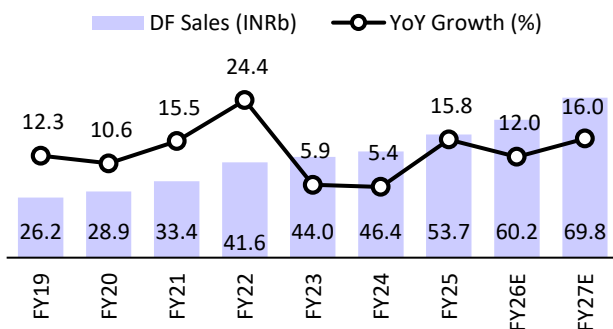


Exhibit 11: PSAI to post 8% sales CAGR over FY25-27

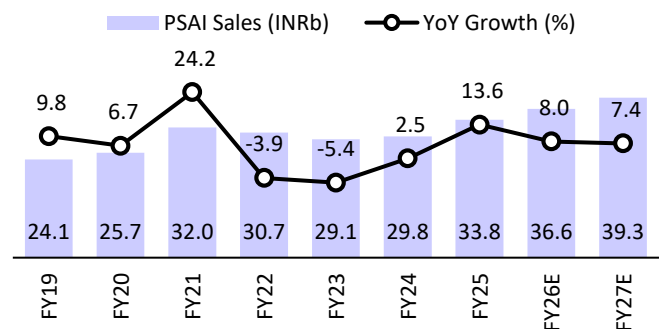


Exhibit 12: EBITDA margin to contract 250bp over FY25-27

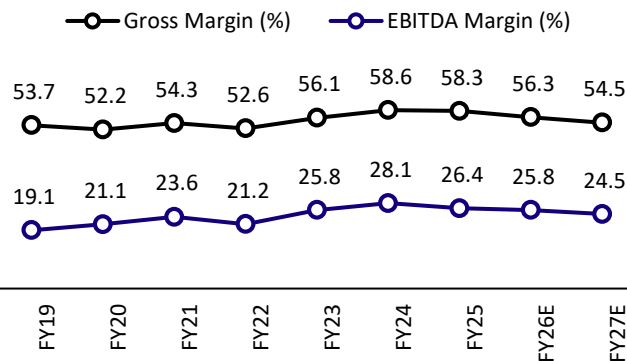


Exhibit 13: Competition in the base portfolio to keep EBITDA in check

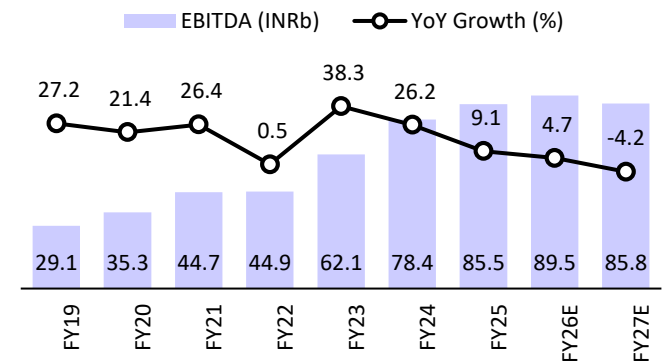


Exhibit 14: R&D expenses to settle at ~8% of sales by FY27

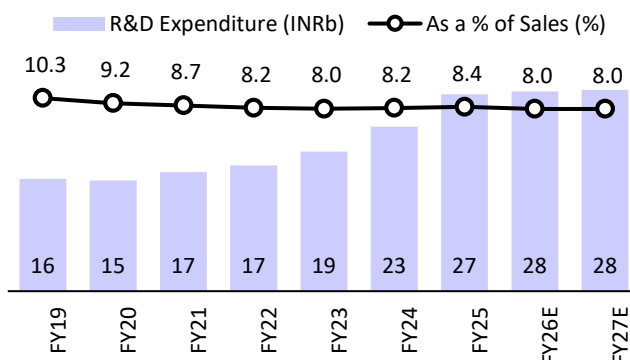
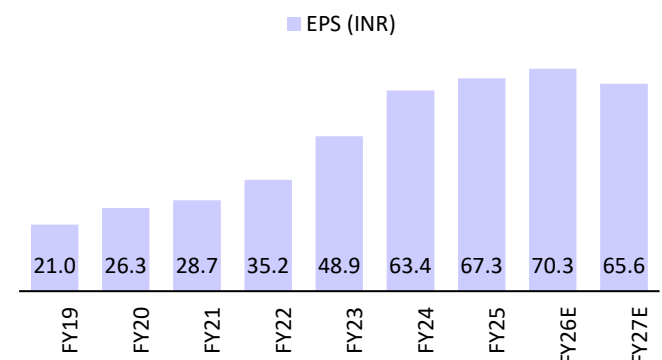


Exhibit 15: EPS to be stable over FY25-27



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Income Statement									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Net Sales	1,52,051	1,67,400	1,89,722	2,12,227	2,40,936	2,79,164	3,24,269	3,46,993	3,50,071
Change (%)	7.1	10.1	13.3	11.9	13.5	15.9	16.2	7.0	0.9
Total Expenditure	1,22,938	1,32,058	1,45,038	1,67,306	1,78,813	2,00,784	2,38,731	2,57,469	2,64,304
EBITDA	29,113	35,342	44,684	44,921	62,123	78,380	85,538	89,524	85,768
Change (%)	27.2	21.4	26.4	0.5	38.3	26.2	9.1	4.7	-4.2
Margin (%)	19.1	21.1	23.6	21.2	25.8	28.1	26.4	25.8	24.5
Depreciation & Amort.	11,980	12,472	12,798	11,825	12,663	14,847	17,064	18,044	18,204
Net Interest Exp	1,163	983	-1,653	-2,119	-2,853	-3,494	-4,724	-6,197	-4,648
One-off (Gains)/Losses	-1,800	7,718	7,700	6,381	-5,445	-1,981	1,491	0	0
PBT before EO Expense	22,443	25,749	35,001	38,679	53,943	69,889	76,275	78,578	73,312
Change (%)	56.5	14.7	35.9	10.5	39.5	29.6	9.1	3.0	-6.7
PBT after EO Expense	22,443	18,033	27,298	32,298	59,388	71,870	74,784	78,578	73,312
Tax	3,648	-1,466	9,175	8,730	15,300	16,186	19,538	20,037	18,695
Tax Rate (%)	16.3	-8.1	33.6	27.0	25.8	22.5	26.1	25.5	25.5
Reported PAT	18,795	19,499	18,123	23,568	44,088	55,684	54,545	58,541	54,618
Adjusted Net Profit	17,459	21,807	23,834	29,265	40,775	52,827	56,060	58,541	54,618
Change (%)	62.6	24.9	9.3	22.8	39.3	29.6	6.1	4.4	-6.7
Margin (%)	11.5	13.0	12.6	13.8	16.9	18.9	17.3	16.9	15.6

E: MOFSL Estimates

Balance Sheet									(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	830	830	830	832	833	833	833	833	833
Reserves	1,39,406	1,55,158	1,75,587	1,89,695	2,30,158	2,79,717	3,36,333	3,90,695	4,41,135
Net Worth	1,40,236	1,55,988	1,76,417	1,90,527	2,30,991	2,80,550	3,37,166	3,91,528	4,41,968
Loans	34,125	17,836	29,444	33,845	13,472	20,020	46,766	45,766	44,766
Deferred Liabilities/Tax	-3,844	-12,179	-10,397	-12,721	-6,363	-9,865	-4,400	-4,400	-4,400
Capital Employed	1,70,517	1,61,645	1,95,464	2,11,651	2,38,100	2,90,705	3,79,532	4,32,894	4,82,334
Gross Block	1,15,385	1,26,148	1,43,664	1,60,797	1,77,753	2,03,024	2,40,963	2,62,551	2,71,413
Less: Accum. Deprn.	61,533	74,005	86,803	98,628	1,11,291	1,26,138	1,43,202	1,61,246	1,79,449
Net Fixed Assets	53,852	52,143	56,861	62,169	66,462	76,886	97,761	1,01,305	91,964
Investments	30,769	33,264	33,115	38,393	62,180	81,250	59,428	59,428	59,428
Goodwill/Intangibles	47,393	31,711	40,847	31,664	35,094	41,204	108,613	108,613	108,613
Curr. Assets	88,325	1,02,936	1,24,659	1,51,647	1,50,922	1,77,404	2,08,679	2,58,055	3,15,869
Inventory	33,579	35,067	45,412	50,884	48,670	63,552	71,085	72,785	68,491
Account Receivables	39,982	52,015	49,759	66,818	72,485	80,298	90,420	106,276	92,866
Cash and Bank Balance	2,228	2,053	14,829	14,852	5,779	7,107	14,654	47,207	122,448
Others	12,536	13,801	14,659	19,093	23,988	26,447	32,520	31,786	32,063
Curr. Liability & Prov.	49,822	58,409	60,018	72,222	76,558	86,039	94,949	94,506	93,539
Account Payables	13,671	15,248	18,109	25,572	26,444	30,919	35,523	35,028	31,538
Other Current Liabilities	36,151	43,161	41,909	46,650	50,114	55,120	59,426	59,478	62,001
Net Current Assets	38,503	44,527	64,641	79,425	74,364	91,365	1,13,730	1,63,549	2,22,330
Appl. of Funds	1,70,517	1,61,645	1,95,464	2,11,651	2,38,100	2,90,705	3,79,532	4,32,894	4,82,335

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)									
EPS	21.0	26.3	28.7	35.2	48.9	63.4	67.3	70.3	65.6
Cash EPS	35.5	41.3	44.1	49.4	64.2	81.2	87.8	91.9	87.4
BV/Share	169.0	187.9	212.6	229.0	277.3	336.8	404.8	470.0	530.6
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	7.7	7.1	7.6
Valuation (x)									
P/E	55.1	44.1	40.3	32.9	23.7	18.3	17.2	16.5	17.7
Cash P/E	32.6	28.0	26.2	23.4	18.1	14.3	13.2	12.6	13.2
P/BV	6.9	6.2	5.4	5.1	4.2	3.4	2.9	2.5	2.2
EV/Sales	6.4	5.7	5.0	4.5	3.8	3.2	2.9	2.6	2.4
EV/EBITDA	33.2	26.8	21.2	21.0	14.7	11.4	11.0	10.1	9.6
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Return Ratios (%)									
ROIC	10.8	21.9	17.0	18.0	23.1	27.6	20.8	17.2	16.6
RoE	13.1	14.7	14.3	16.0	19.3	20.7	18.2	16.1	13.1
RoCE	8.9	17.4	11.8	12.3	15.9	18.4	14.7	12.1	10.4
Working Capital Ratios									
Fixed Asset Turnover (x)	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.4	1.3
Debtor (Days)	97	100	98	100	106	100	96	103	104
Inventory (Days)	75	75	77	83	75	73	76	76	74
Payable (Days)	32	32	32	38	39	38	37	37	35
Leverage Ratio									
Current Ratio (x)	1.8	1.8	2.1	2.1	2.0	2.1	2.2	2.7	3.4
Net Debt/Equity (x)	0.0	-0.1	-0.2	-0.2	-0.3	-0.3	-0.1	-0.3	-0.6

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Op. Profit/(Loss) before Tax	23,358	18,857	28,835	30,614	60,485	72,010	76,795	78,578	73,312
Depreciation	11,348	11,631	12,288	11,652	12,502	14,700	17,037	18,044	18,204
Interest/Dividends Recd.	119	90	144	-7	248	-567	152	-901	-1,101
Direct Taxes Paid	-4,841	-7,105	-5,716	-7,437	-10,714	-20,047	-19,993	-20,037	-18,695
(Inc)/Dec in WC	1,837	-7,536	-8,288	-18,407	-7,855	-20,182	-29,989	-17,266	16,460
Other Items	-3,117	13,904	8,440	11,693	4,209	-481	2,426		
CF from Operations	28,704	29,841	35,703	28,108	58,875	45,433	46,428	58,418	88,180
EO Expense	0	0	0	0	0	0	0	0	0
CF from Operations	32,427	30,056	35,703	28,108	58,875	45,433	46,428	58,418	88,180
(inc)/dec in FA	-6,226	-5,725	-12,476	-15,733	-18,784	-26,350	-33,154	-21,588	-8,863
Free Cash Flow	22,478	24,116	23,227	12,375	40,091	19,083	13,274	36,830	79,318
(Pur)/Sale of Investments	-2,282	-214	4,110	-11,201	-23,366	-15,716	25,118	0	0
Others	816	991	-14,181	1,280	1,063	1,724	-42,985		
CF from Investments	-7,692	-4,948	-22,547	-25,654	-41,087	-40,342	-51,021	-21,588	-8,863
Change in net worth	0	4	269	334	368	805	193	0	0
(Inc)/Dec in Debt	-15,182	-19,165	6,094	2,735	-20,397	4,346	23,196	-1,000	-1,000
Other Items	-2,142	-2,082	-2,514	-1,345	-1,853	-2,266	-4,872		
Dividend Paid	-4,002	-3,916	-4,147	-4,146	-4,979	-6,648	-6,662	-4,076	-4,076
CF from Fin. Activity	-21,326	-25,159	-298	-2,422	-26,861	-3,763	11,855	-5,076	-5,076
Inc/Dec of Cash	3,409	-51	12,858	32	-9,073	1,328	7,262	31,754	74,242
Add: Beginning Balance	2,542	2,228	2,053	14,829	14,852	5,779	7,107	14,654	47,207
Closing Balance	5,951	2,177	14,911	14,861	5,779	7,107	14,369	46,408	1,21,449
Bank balance/overdraft	-3,854	-190	0	-9	0	0	61	799	999
Closing Balance	2,228	1,962	14,820	14,852	5,779	7,107	14,654	47,207	1,22,448

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