

Dr Reddy's Labs

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	DRRD IN
Equity Shares (m)	833
M.Cap.(INRb)/(USDb)	1061.5 / 12.6
52-Week Range (INR)	1421 / 1057
1, 6, 12 Rel. Per (%)	-1/-8/-5
12M Avg Val (INR M)	2684

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	323.1	375.9	371.3
EBITDA	90.8	103.4	92.8
Adj. PAT	57.7	66.4	58.2
EBITDA Margin (%)	28.1	27.5	25.0
Adj. EPS (INR)	69.3	79.7	69.9
EPS Gr. (%)	9.2	15.0	-12.3
BV/Sh. (INR)	400	474	539
Ratios			
Net D:E	-0.5	-0.6	-0.8
RoE (%)	18.8	18.2	13.8
RoCE (%)	17.1	16.8	12.9
Payout (%)	7.2	6.3	7.2
Valuations			
P/E (x)	18.4	16.0	18.3
EV/EBITDA (x)	10.4	8.8	9.3
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	4.9	5.4	7.0
EV/Sales (x)	2.9	2.4	2.3

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	26.6	26.7	26.7
DII	21.5	20.7	21.0
FII	41.9	42.4	42.4
Others	10.0	10.2	9.9

FII includes depository receipts

CMP: INR1,272 **TP: INR1,390 (+9%)** **Neutral**

North America/Russia/ROW drive earnings

Limited visibility to grow beyond the g-Revlimid opportunity

- Dr Reddy's Lab (DRRD) delivered in-line 2QFY25 performance. DRRD exhibited robust YoY growth in North America (NA), Russia, and ROW markets and a healthy scale-up in the pharmaceutical services and active ingredients segment. This was offset by moderate YoY growth in the Europe/CIS business.
- Higher volume growth and new launches have been the key factors driving superior performance in NA, Russia, and ROW markets. Ex-Sanofi portfolio, the Indian business also delivered healthy YoY growth of 9% for the quarter.
- We largely maintain our earnings estimate for FY25/FY26/FY27. We value DRRD on an SOTP basis (22x base business earnings and add NPV of INR60 from g-Revlimid) to arrive at a TP of INR1,390.
- DRRD continues to work on building a differentiated product portfolio to suit its focus markets. Accordingly, it acquired the Nicotine Replacement Therapy (NRT) portfolio for global markets (Ex-US) and formed a JV with Nestle to expand its complimentary nutraceutical portfolio. It has complete manufacturing presence for GLP-1 products and is building a biosimilar pipeline for regulated markets. Having said that, the earnings are expected to be stable over the next two years due to competition kicking in g-Revlimid 4QFY26 onwards and some gestation period to achieve commercial benefits from the differentiated portfolio. Maintain Neutral on limited upside at current valuation.

Product mix benefits more than offset by higher SGA expenses YoY

- DRRD 2QFY25 revenues grew 16.5% YoY at INR80.2b (vs est. of INR78.1b). Sequentially, DRRD sales grew 4.5%. US sales were up 17.6% YoY to INR37.3b (~USD445m; 47% of sales). Europe sales were up 9.2% YoY to INR5.8b (7% of sales). India sales were up 17.8% YoY at INR14b (17% of sales). Emerging market sales grew 20% YoY to INR14.6b (18% of sales). The PSAI segment's revenue grew 20% YoY to INR8.4b (10% of sales).
- Gross Margin (GM) expanded 90bp YoY to 59.6%, led by a better product mix. However, the EBITDA margin contracted 40bp YoY to 28.6% (our est: 27.8%) led by higher SG&A/R&D expenses (+20bp/+120 YoY as a % of sales).
- EBITDA grew 12.1% YoY to INR22.4b (vs est. of INR21.7b).
- DRRD had an impairment related to gNuvaring (INR924m) and acquisition-related one-time expense (INR562m).
- DRRD had adj. PAT of INR13.6b (our est: INR14.2b), up 2% YoY.
- In 1HFY25, the Revenue/EBITDA/PAT were up 15%/9%/2% to INR157b/INR44b/INR27b, respectively. We expect Revenue/EBITDA/PAT to grow 16.3%/25.1%/16.5% YoY to INR166b/INR47b/INR30b in 2HFY25.

Highlights from the management commentary

- Adj. for one-time acquisition cost, DRRD indicated SGA spend would be 27.5%-28% of sales for FY25.
- Ex-Sanofi portfolio, the Indian business grew 9.7% YoY for 2QFY25.
- DRRD indicated that the b-Abatacept launch is likely to be in FY27.

Quarterly Performance - IFRS										(INRb)		
Y/E March	FY24					FY25E			FY24E	FY25E	Estimates	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	% Var
Sales	67.4	68.8	72.1	70.8	76.7	80.2	82.9	83.4	279.2	323.1	78.1	2.6
YoY Change (%)	35.2	9.1	6.6	17.4	13.9	16.5	14.9	17.7	15.9	15.7	13.6	
Total Expenditure	46.9	48.8	51.9	53.2	55.5	58.1	59.3	59.5	200.8	232.3	56.4	
EBITDA	20.5	20.0	20.3	17.7	21.3	22.0	23.6	23.9	78.4	90.8	21.7	1.4
YoY Change (%)	97.8	10.7	-1.3	34.0	4.0	10.3	16.4	35.1	26.2	15.8	8.8	
Margins (%)	30.3	29.0	28.1	24.9	27.7	27.5	28.5	28.6	28.1	28.1	27.8	
Amortization	3.6	3.8	3.9	3.5	3.8	4.0	4.9	5.1	14.8	17.8	3.8	
EBIT	16.9	16.1	16.4	14.1	17.5	18.1	18.7	18.8	63.5	73.0	18.0	
YoY Change (%)	131.5	8.3	-5.1	41.3	3.5	11.9	14.0	33.1	28.5	14.9	11.5	
Margins (%)	25.0	23.4	22.7	19.9	22.8	22.5	22.6	22.6	22.8	22.6	23.0	
Other Income	1.1	1.6	2.0	1.7	1.4	2.6	1.1	1.2	6.4	6.3	0.7	
PBT before EO expenses	18.0	17.7	18.4	15.8	18.8	20.7	19.8	20.1	69.9	79.3	18.7	10.7
One-off income/(expense)	0.5	1.4	-0.1	0.2	0.0	-1.5	0.0	0.0	2.0	-1.5	0.0	
Profit before Tax	18.5	19.1	18.3	16.0	18.8	19.2	19.8	20.1	71.9	77.9	18.7	2.7
PBT after EO Expenses	18.5	19.1	18.3	16.0	18.8	19.2	19.8	20.1	71.9	77.8	18.7	
Tax	4.4	4.3	4.5	2.9	4.9	5.8	4.7	3.1	16.2	18.5	4.4	
Rate (%)	24.0	22.7	24.5	18.4	26.0	30.0	23.9	15.7	22.5	23.8	23.7	
PAT	14.0	14.8	13.8	13.1	13.9	13.4	15.1	16.9	55.7	59.3	14.2	-5.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.9	0.9	0.9	0.0	2.7	0.0	
Reported Profit	14.0	14.8	13.8	13.1	13.9	12.6	14.2	16.0	55.7	56.6	14.2	-11.8
Adjusted PAT	13.7	13.3	13.8	12.1	13.9	13.6	14.2	16.0	52.8	57.7	14.2	-4.5
YoY Change (%)	66.6	16.5	5.1	50.1	2.0	2.4	2.9	32.0	29.6	9.2	7.2	
Margins (%)	20.3	19.3	19.1	17.1	18.1	17.0	17.1	19.2	18.9	17.9	18.2	
EPS	16.4	15.9	16.5	14.5	16.7	16.3	17.0	19.2	63.4	69.3	17.1	-4.5

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY24					FY25E			FY24	FY25E	FY25E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
INRm												
North America	32.0	31.7	33.5	32.6	38.5	37.3	38.2	38.7	129.9	152.6	36.5	
YoY Change (%)	79.5	13.2	9.6	28.8	20.3	17.6	14.0	18.6	27.7	17.5	15.2	
Europe	5.1	5.3	5.0	5.2	5.3	5.8	5.7	6.2	20.5	23.0	6.1	
YoY Change (%)	22.5	25.9	15.5	5.0	3.8	9.2	15.0	19.5	16.5	12.0	15.0	
India	11.5	11.9	11.8	11.3	13.3	14.0	13.7	12.7	46.4	53.6	13.6	
YoY Change (%)	3.9	3.1	4.7	10.5	15.4	17.8	16.0	12.6	5.4	15.5	15.0	
Russia & Others CIS	7.6	8.0	8.2	7.2	7.4	9.0	7.9	6.9	30.9	31.2	7.7	
YoY Change (%)	49.8	-1.2	-9.9	-4.0	-2.6	12.5	-4.0	-4.3	3.8	0.9	-4.0	
Others	4.0	4.2	4.6	4.9	3.7	5.6	7.9	8.2	17.7	25.4	4.9	
YoY Change (%)	-0.1	2.2	15.9	34.3	-5.3	32.1	70.0	66.8	12.8	43.0	15.0	
PSAI	6.7	7.0	7.8	8.2	7.7	8.4	8.4	8.6	29.8	33.1	8.3	
YoY Change (%)	-5.4	9.3	1.0	5.5	14.1	19.5	7.0	4.7	2.5	10.9	18.0	
Cost Break-up												
COGS (% of Sales)	41.3	41.3	41.5	41.4	39.6	40.4	40.7	40.8	41.4	40.4	40.3	
SG&A (% of Sales)	21.0	21.7	22.7	23.9	24.6	23.0	22.5	22.0	22.3	23.0	24.0	
R&D Expenses(% of Sales)	7.4	7.9	7.7	9.7	8.1	9.1	8.3	8.5	8.2	8.5	7.9	
Gross Margins(%)	58.7	58.7	58.5	58.6	60.4	59.6	59.3	59.2	58.6	59.6	59.7	
EBITDA Margins(%)	30.3	29.0	28.1	24.9	27.7	27.5	28.5	28.6	28.1	28.1	27.8	
EBIT Margins(%)	25.0	23.4	22.7	19.9	22.8	22.5	22.6	22.6	22.8	22.6	23.0	



Management call highlights

- DRRD has been actively working on the GLP-1 portfolio. It intends to launch products in this category on day one across global markets. It has considerable capacity to be a large API supplier for this set of products.
- R&D spend is expected to be 8.5%-9% of sales for FY25. Of the total R&D expense, ~36% of R&D goes toward biologics and Origin, 50% toward generics, and the remaining 14% toward API.
- DRRD has guided the ETR for FY25 to be ~25%.
- DRRD expects to launch b-Rituximab in Feb'25 for the EU market. It has submitted a response with respect to queries on filing with USFDA. It expects approval in 1HFY26.
- Denosumab is another potential product to be filed at the end of FY25 for the EU market and at the end of CY25 for the US market.
- DRRD had ~22 new launches in emerging markets in 2QFY25.
- With INR927m impairment related to Nuvaring in 2QFY25, DRRD has written 100% of carrying value of this product.
- DRRD aims to drive growth in the NRT portfolio through a focused approach on select brands, extending the reach and lifecycle management of certain brands.
- The company aims to commence the Nicotinell business in the UK in FY26. By the end of next year, the company plans to market the product across 80% of countries.

Key exhibits

Exhibit 1: In CC terms, NA sales grew ~15.8% YoY in 2QFY25

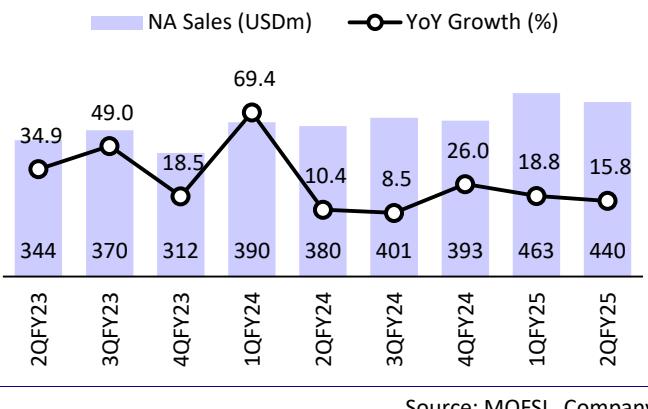


Exhibit 2: DF sales grew 17.8% YoY in 2QFY25

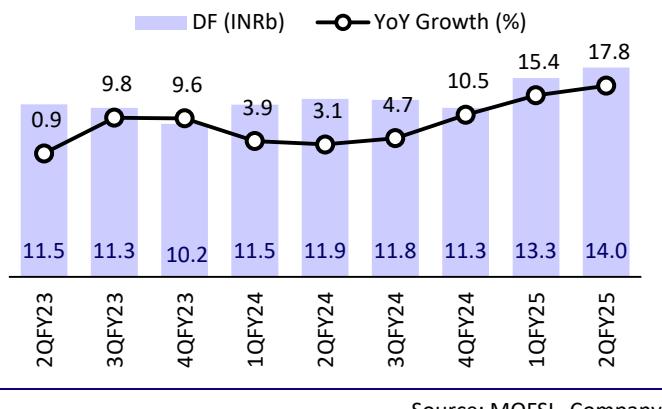


Exhibit 3: Gross profit increased 18.3% YoY in 2QFY25

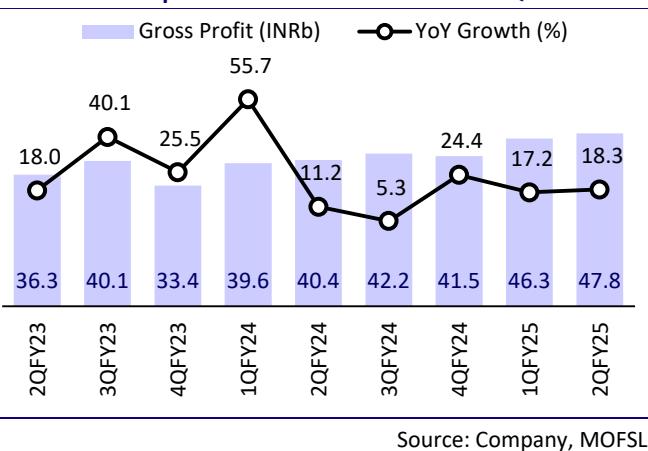


Exhibit 4: EBITDA increased 15% YoY in 2QFY25

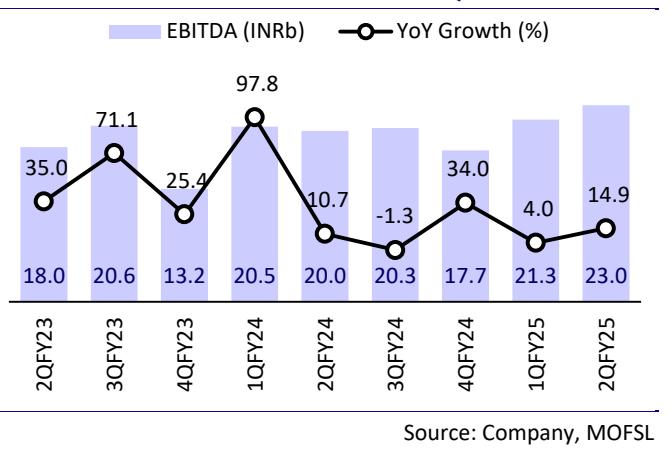
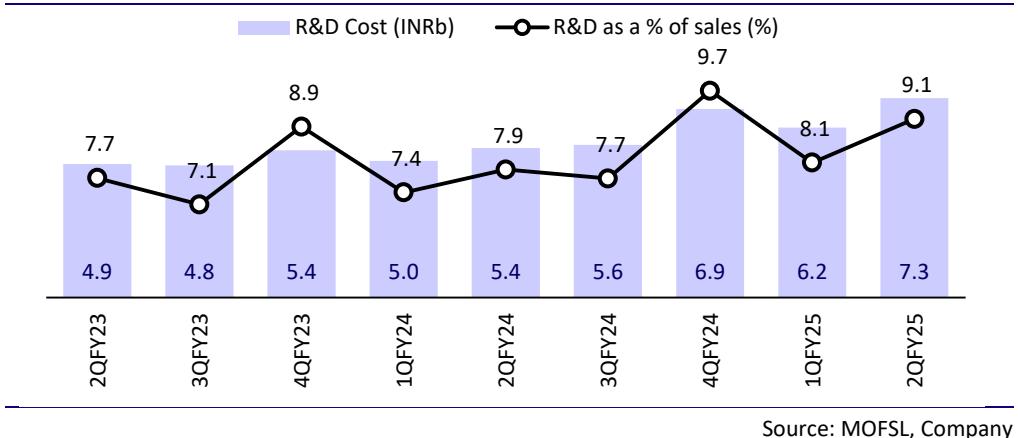


Exhibit 5: R&D expenses as a proportion of sales at 9.1% in 2QFY25



Source: MOFSL, Company

Limited visibility to grow beyond the g-Revlimid opportunity

Working on a differentiated portfolio for the US market

- In 1HFY25, DRRD's NA sales posted a robust 18% YoY growth to USD908m. This was largely on account of the integration of the Mayne portfolio, new launches, and an increase in sales volumes, partially offset by price erosion.
- While DRRD launched seven new products during the quarter, the launch momentum is expected to be robust for FY25.
- There are 80 ANDAs and five NDAs under the 505(b)(2) route awaiting approval. Of these ANDAs, 45 are Para IVs and 23 have the potential to secure the 'First to File' status.
- Additionally, USFDA has approved IND AUR-112, a selective inhibitor of MALT1 being developed for the treatment of lymphoid malignancies.
- Further, the company has received the VAI classification for two of the formulations manufacturing facilities in Duvvada, Visakhapatnam, and the API manufacturing facility in Srikakulam, Andhra Pradesh during the quarter.
- Over FY25-27, we expect the US segment sales growth to remain flat at ~INR150b (USD1.9b) due to the anticipated increase in competition in g-Revlimid from 4QFY26 onwards.

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

- In 1HFY25, Indian sales witnessed a healthy growth of 17% YoY to INR27.2b. The growth was driven by the in-licensed vaccine portfolio, new product launches and price hikes, and double-digit growth in derma/respiratory/vaccines.
- The company launched 16 products during 1H 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 12% to reach INR67.7b over FY25-27.

Geographical expansion/in-licensing to drive growth in the EM market

- In 1HFY25, EM sales grew 11% YoY to INR26.4b. The growth is attributed to the market share expansion and new product launches, partly offset by unfavorable forex.

- Having said that, the Russian business witnessed 9% YoY growth due to price increases and improved volumes partially offset by unfavorable currency exchange rates. DRRD's partnership with Novartis to distribute anti-diabetes brands Galvus and Galvus Met in Russia also supported the business growth to some extent.
- We expect a sales CAGR of 9% to reach INR66.8b over FY25-27.

PSAI segment: Volume/new launches to aid growth

- In 1HFY25, the PSAI segment's revenue posted a strong growth of 17% YoY to INR16b after a modest 2.5% YoY growth in sales for 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 13.6% YoY to 26.7%. This was led by an improvement in the product mix.
- We expect the PSAI business to post an 8.7% sales CAGR to reach INR39b over FY25-27.

Reiterate Neutral

- We largely maintain our earnings estimate for FY25/FY26/FY27. We value DRRD on an SOTP basis (22x base business earnings and add NPV of INR60 from g-Revlimid) to arrive at a TP of INR1,390.
- DRRD continues to work on building a differentiated product portfolio to suit its focus markets. Accordingly, it acquired the NRT portfolio for global markets (Ex-US) and formed a JV with Nestle to expand the complimentary nutraceutical portfolio. It has complete manufacturing presence for GLP-1 products and is building a biosimilar pipeline for regulated markets.
- Having said that, the earnings are expected to be stable over the next two years due to competition kicking in g-Revlimid from 4QFY26 onwards and some gestation period to achieve commercial benefits from its differentiated portfolio. Maintain Neutral on limited upside at current valuation.

Exhibit 6: P/E chart



Exhibit 7: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

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Story in charts

Exhibit 8: Expect sales CAGR of ~7.2% over FY25-27

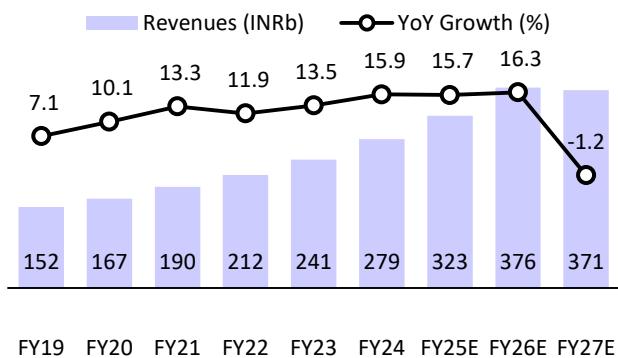


Exhibit 9: NA sales to remain flat over FY25-27

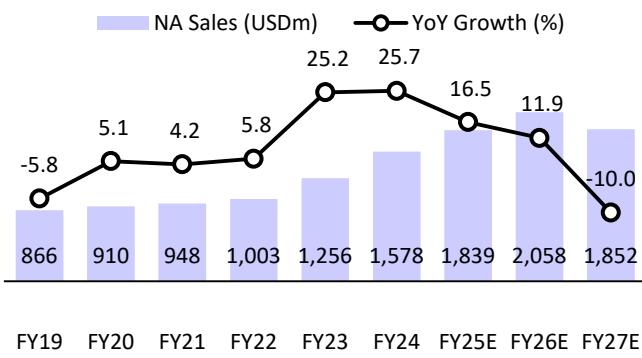


Exhibit 10: DF sales to exhibit 12% CAGR over FY25-27

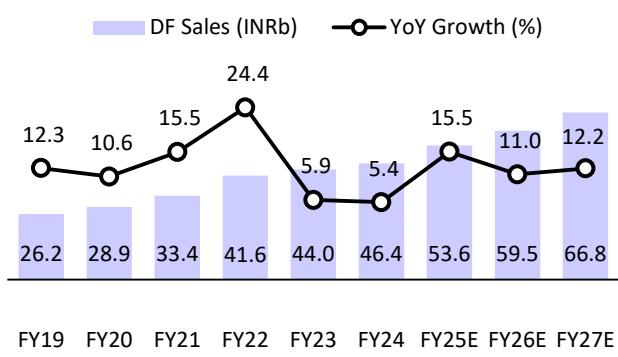


Exhibit 11: PSAI to post 8.7% sales CAGR over FY25-27



Exhibit 12: EBITDA margin to contract 310bp over FY25-27

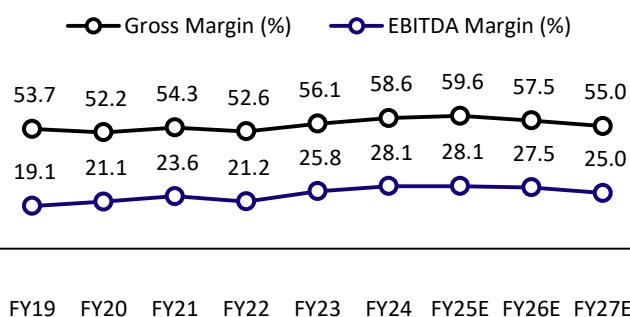


Exhibit 13: EBITDA growth to remain flat over FY25-27

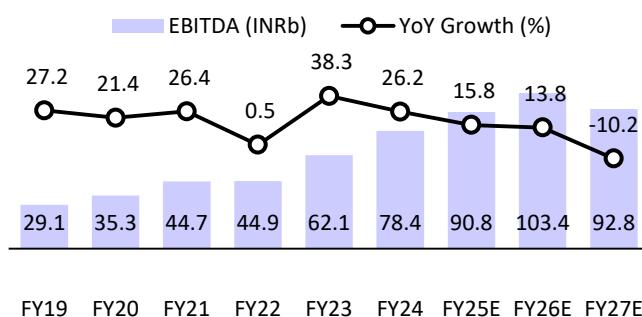


Exhibit 14: R&D expense to settle at ~8% of sales by FY27

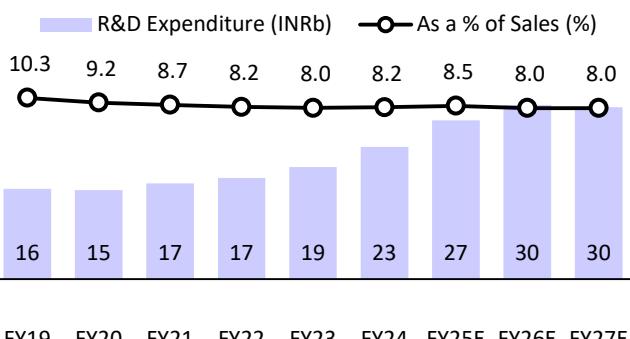
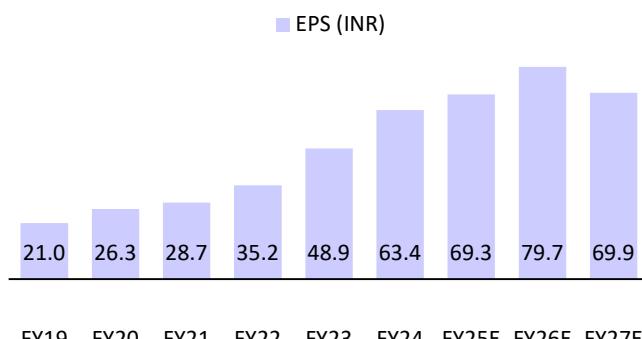


Exhibit 15: EPS to remain flat over FY25-27



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	376	371	
Change (%)	7.1	10.1	13.3	11.9	13.5	15.9	15.7	16.3	-1.2	
Total Expenditure	123	132	145	167	179	201	232	273	279	
EBITDA	29	35	45	45	62	78	91	103	93	
Change (%)	27.2	21.4	26.4	0.5	38.3	26.2	15.8	13.8	-10.2	
Margin (%)	19.1	21.1	23.6	21.2	25.8	28.1	28.1	27.5	25.0	
Depreciation & Amort.	12	12	13	12	13	15	18	20	19	
EBIT	17	23	32	33	49	64	73	84	74	
Net Interest Exp	1	1	-2	-2	-3	-3	-4	-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	76	86	75	
Change (%)	56.5	14.7	35.9	10.5	39.5	29.6	13.5	9.8	-12.3	
PBT after EO Expense	18	14	26	29	58	69	76	86	75	
Tax	4	-1	9	9	15	16	19	21	18	
Tax Rate (%)	20.5	-10.3	35.5	30.3	26.5	23.5	24.4	24.0	24.1	
Reported PAT	19	19	18	24	44	56	57	66	58	
Adjusted Net Profit	17	22	24	29	41	53	58	66	58	
Change (%)	62.6	24.9	9.3	22.8	39.3	29.6	9.2	15.0	-12.3	
Margin (%)	11.5	13.0	12.6	13.8	16.9	18.9	17.9	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	332	394	448	
Net Worth	140	156	176	191	231	281	333	395	449	
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	342	403	456	
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	240	313	351	
Inventory	34	35	45	51	49	64	59	77	62	
Account Receivables	40	52	50	67	72	80	99	115	99	
Cash and Bank Balance	2	2	15	15	6	7	54	87	157	
Others	13	14	15	19	24	26	29	34	33	
Curr. Liability & Prov.	50	58	60	72	77	86	77	97	90	
Account Payables	14	15	18	26	26	31	26	37	28	
Other Current Liabilities	36	43	42	47	50	55	50	60	62	
Net Current Assets	39	45	65	79	74	91	164	216	260	
Appl. of Funds	171	162	195	212	238	291	342	403	456	

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	69.3	79.7	69.9
Cash EPS	35.5	41.3	44.1	49.4	64.2	81.2	90.6	103.1	93.1
BV/Share	169.0	187.9	212.6	229.0	277.3	336.8	399.7	474.4	539.2
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	7.4	6.3	7.2
Valuation (x)									
P/E	60.7	48.6	44.5	36.3	26.1	20.1	18.4	16.0	18.3
PEG (x)	1.0	2.0	4.8	1.6	0.7	0.7	2.0	1.1	-1.5
Cash P/E	36.0	30.9	28.9	25.9	19.9	15.7	14.1	12.4	13.7
P/BV	7.6	6.8	6.0	5.6	4.6	3.8	3.2	2.7	2.4
EV/Sales	7.0	6.3	5.5	4.9	4.2	3.6	2.9	2.4	2.3
EV/EBITDA	36.6	29.6	23.4	23.2	16.2	12.7	10.4	8.8	9.1
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	28.2	29.9	25.7
RoE	13.1	14.7	14.3	16.0	19.3	20.7	18.8	18.2	13.8
RoCE	8.9	17.4	11.8	12.3	15.9	18.4	17.0	16.8	12.9
Working Capital Ratios									
Fixed Asset Turnover (x)	1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.8	1.7
Debtor (Days)	97	100	98	100	106	100	101	104	105
Inventory (Days)	75	75	77	83	75	73	69	66	68
Payable (Days)	32	32	32	38	39	38	32	31	32
Leverage Ratio									
Current Ratio (x)	1.8	1.8	2.1	2.1	2.0	2.1	3.1	3.2	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	79	87	76
Depreciation	12	12	13	12	13	15	18	20	19
Interest/Dividends Recd.	-6	5	6	3	-7	-5	0	-1	-1
Direct Taxes Paid	-4	1	-9	-9	-15	-16	-19	-21	-18
(Inc)/Dec in WC	1	-6	-7	-15	-4	-16	-26	-19	25
CF from Operations	25	38	38	30	40	48	52	66	102
EO Expense	0	0	-6	-5	0	0	0	0	0
CF from Operations	29	39	44	34	40	48	52	66	102
(inc)/dec in FA	-9	5	-27	-8	-20	-31	3	-9	-9
Free Cash Flow	16	43	11	22	20	17	55	58	93
(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	0	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	-3	-14	-3
Inc/Dec of Cash	0	8	13	12	-27	0	52	44	90
Add: Beginning Balance	3	2	2	15	15	6	7	54	87
Closing Balance	2	11	15	27	-12	6	59	98	177
FX Impact	0	0	0	0	0	0	0	0	0
FX impact net of bank balances	0	-9	0	-12	18	1	-6	-10	-20
Closing Balance	2	2	15	15	6	7	54	87	157

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BUY	>=15%
SELL	< - 10%
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