Q2FY25
Dr. Reddy's Laboratories

RESULT UPDATE

06-11-2024

Dr. Reddy's Laboratories ltd.

New launches across geographies will drive top-line growth

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 1,272*	**INR 1,329**	**4.5%**	**INR 10,86,327**	**HOLD**	**Pharmaceuticals**

Result Highlights of Q2FY25:

- Dr. Reddy beat our revenue estimates (+3.7%) due to strong double-digit across geographies. EBITDA was largely in-line with our estimate (+2.4%). However, Adj. PAT missed our estimate due to higher-than-expected finance cost and tax expenses.
- We largely maintain our FY26E estimates at INR 74.2 anticipating momentum in new launches, particularly in India and North America, where we expect the company to introduce several high-value, limited-competition products over FY26E, a positive outlook remains in Russia which will lead to market share gains and the launch of rituximab biosimilar in Europe by Feb-2025E.
- We largely maintain a PE multiple of 17.9x (previously: 18.0x) to FY26E EPS and arrive at a target price of INR 1,329/share (previously: INR 1,350). We upgrade our rating to "HOLD" from "REDUCE", which will have an upside potential of 4.5%.

MARKET DATA

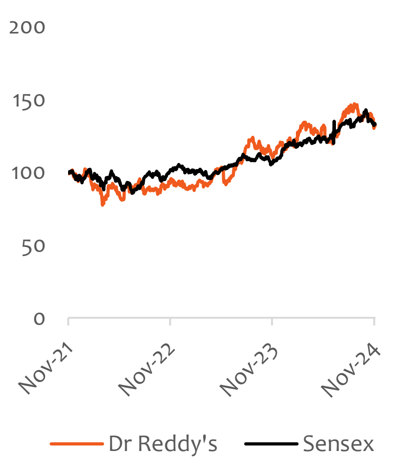
Shares outs (Mn)	167
Mkt Cap (INR Mn)	10,86,327
52 Wk H/L (INR)	1,421/1,056
Volume Avg (3m K)	454
Face Value (INR)	1
Bloomberg Code	DRRD IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	241,756	280,111	317,740	343,953	372,510
EBITDA	58,884	79,334	85,940	94,775	102,644
Adj. PAT	29,862	42,003	55,962	61,918	67,041
Adj. EPS (INR)	35.9	50.4	67.1	74.2	80.4
EBITDA Margin	24.4%	28.3%	27.0%	27.6%	27.6%
Adj. NPM	12.4%	15.0%	17.6%	18.0%	18.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Robust growth across geographies boosted top-line

- For Q2FY25, the revenue increased by 16.5% YoY (4.4% QoQ) to INR 80,382 Mn. The YoY growth was driven by strong performance in North America, India, and Emerging markets.
- North America (46.5% of revenue) grew by 17.6% YoY (-3.1% QoQ) to INR 37,281 Mn due to an increase in volume which was partially offset by single-digit price erosion and additional generic competition in certain base products.
- India (17.4% of revenue) grew by 17.8% YoY (+5.4% QoQ) to INR 13,971 Mn, fuelled by new brand launches and the integration of a recently in-licensed vaccine portfolio from Sanofi.
- Emerging markets (18.2% of revenue) grew by 19.7% YoY (+22.5% QoQ) to INR 14,554 Mn, driven by market share expansion, new product launches, and a robust performance in Russia.
- Pharmaceutical Services and Active Ingredients (PSAI, 10.5% of revenue) grew by 19.5% YoY (+9.8% QoQ) to INR 8,407 Mn. Europe (7.2% of revenue) grew by 9.2% YoY (+9.6% QoQ) to INR 5,770 Mn.

Increase in operating expenses weigh on profitability

- EBITDA increased 7.7% YoY (1.8% QoQ) to INR 21,689 Mn. EBITDA margin contracted 219 bps YoY (-70 bps QoQ) to 27.0%. The rising SG&A expenses due to investments in new business initiatives, capability building, and costs associated with the NRT acquisition added pressure on margins.
- Adj. Net profit decreased 9.4% YoY (-3.2% QoQ) to INR 13,481 Mn. An increase in R&D expenses driven by investments in complex generics, and biosimilars impacted bottom line.

MARKET INFO

SENSEX	79,477
NIFTY	24,213

SHARE HOLDING PATTERN (%)

Particulars	Sept-24(%)	Jun-24(%)	Mar-24(%)
Promoters	26.6	26.7	26.7
FIIs	27.5	27.7	29.1
DIIs	21.5	20.7	18.3
Others	24.2	24.9	25.9
Total	100.0	100.0	100.0

*Based on the previous closing
Note: All the market data is as of previous closing

10.8%

Revenue CAGR between FY24 and FY26E

21.4%

Adj. PAT CAGR between FY24 and FY26E

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Dr. Reddy's Laboratories ltd.

Key Concall Highlights:

- The R&D spend for Q2FY25 was **INR 7,270 Mn**, a **33.0% YoY** and 17.0% QoQ increase. Overall, it was **9.1% of total sales**, which was up by 115 bps YoY and the company expects R&D investment to be in the range of **8.5% to 9.0%** for FY25E.
- The focus of R&D is on developing **complex value-accretive products**, including **generic injectables, peptides, and biosimilars**, in line with the company's patient-centric strategy.
- The company **completed the acquisition of the NRT (Nicotine Replacement Therapy) portfolio** and paid an upfront cash consideration of GBP 458 Mn.
- The SG&A spend for the quarter included certain one-time costs related to the acquisition of NRT brand.
- Dr. Reddy will **begin recognizing revenue from the Nicotinell brand acquisition in Q3FY25E.**
- **Pricing pressure** was seen on certain products in the **European generic business.**
- The company **anticipates launching several limited competition, high-value products in North America in H2FY25E and FY26E.**
- **Strong launch momentum and growth in the base business** are contributing to the **positive outlook in India**.
- The company **expects continued double-digit growth in Russia** as it gains market share.
- The European Commission granted a **marketing authorization for rituximab biosimilar**, the company's first CHMP (Committee for Medicinal Products for Human Use) in Europe.
- **Rituximab** biosimilar will launch in Europe in **February 2025E. Denosumab biosimilar will be filed in Europe and the United States by the end of CY24E.**
- Dr. Reddy expects to launch denosumab in the United States in **FY26E and should be the third to fifth biosimilar to market.**

View and Valuation:

In Q2FY25, Dr. Reddy experienced strong revenue growth across North America, India, and emerging markets, driven by increased volumes, new product launches, and market share gains. EBITDA growth was moderate with rising SG&A expenses largely due to acquisition-related costs from the recent Nicotine Replacement Therapy (NRT) portfolio acquisition and increase in R&D expenses impacted margins.

We largely maintain our FY26E estimates at INR 74.2 anticipating momentum in new launches, particularly in India and North America, where we expect the company to introduce several high-value, limited-competition products over FY26E, positive outlook remains in Russia which will lead to market share gains and the launch of rituximab biosimilar in Europe by Feb-2025E. We expect the revenue to grow at 10.8% CAGR and Adj. PAT to grow at 21.4% CAGR for FY24-FY26E. Currently, the stock is trading at a PE multiple of 19.0x/17.1x, based on FY25E/FY26E EPS, respectively. We largely maintain a PE multiple of 17.9x (previously: 18.0x) to FY26E EPS and arrive at a target price of INR 1,329/share (previously: INR 1,350). We upgrade our rating to "HOLD" from "REDUCE" which will have an upside potential of 4.5%.

Revenue Segments

Segment-wise Revenue (INR Mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total Sales	**68,727**	**72,148**	**70,829**	**76,726**	**80,162**
Global Generics	**61,009**	**63,095**	**61,190**	**68,857**	**71,576**
North America	31,700	33,492	32,626	38,462	37,281
Europe	5,286	4,970	5,208	5,265	5,770
India	11,860	11,800	11,265	13,252	13,971
Emerging Markets	12,163	12,833	12,091	11,878	14,554
PSAI	**7,034**	**7,839**	**8,219**	**7,657**	**8,407**
PP & Others	**684**	**1,214**	**1,420**	**212**	**179**

Segment-wise Growth YoY (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total Sales	**9.0%**	**6.6%**	**12.5%**	**13.9%**	**16.6%**
Global Generics	9.0%	6.5%	12.8%	14.6%	17.3%
North America	13.2%	9.6%	28.8%	20.2%	17.6%
Europe	25.9%	15.5%	5.0%	4.3%	9.2%
India	3.1%	4.7%	-12.2%	15.4%	17.8%
Emerging Markets	-0.7%	-2.0%	8.5%	2.8%	19.7%
PSAI	**9.3%**	**1.0%**	**5.5%**	**14.1%**	**19.5%**
PP & Others	**1.0%**	**73.2%**	**53.7%**	**-64.2%**	**-73.8%**

Segment-wise Contribution (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Total Sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Global Generics	88.8%	87.5%	86.4%	89.7%	89.3%
North America	46.1%	46.4%	46.1%	50.1%	46.5%
Europe	7.7%	6.9%	7.4%	6.9%	7.2%
India	17.3%	16.4%	15.9%	17.3%	17.4%
Emerging Markets	17.7%	17.8%	17.1%	15.5%	18.2%
PSAI	**10.2%**	**10.9%**	**11.6%**	**10.0%**	**10.5%**
PP & Others	**1.0%**	**1.7%**	**2.0%**	**0.3%**	**0.2%**

Source: Company, KRChoksey Research

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Dr. Reddy's Laboratories ltd.

Result Snapshot

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from Operations	**80,382**	**76,961**	**69,026**	**4.4%**	**16.5%**
Total Expenditure	**58,693**	**55,657**	**48,888**	**5.5%**	**20.1%**
Cost of Raw Materials	12,872	12,272	9,559	4.9%	34.7%
Purchase of Stock	12,828	13,801	11,378	-7.1%	12.7%
Changes in Inventories	-2,033	-4,256	-907	-52.2%	124.1%
Employee Cost	13,992	14,137	12,803	-1.0%	9.3%
Other Expenses	21,034	19,703	16,055	6.8%	31.0%
EBITDA	**21,689**	**21,304**	**20,138**	**1.8%**	**7.7%**
EBITDA Margin (%)	**27.0%**	**27.7%**	**29.2%**	**-70 bps**	**-219 bps**
Depreciation & Amortization	3,970	3,806	3,755	4.3%	5.7%
Exceptional Items	924	5	55	NA	NA
EBIT	**16,795**	**17,493**	**16,328**	**-4.0%**	**2.9%**
Other Income	3,075	1,872	3,150	64.3%	-2.4%
Interest Expense	757	598	353	26.6%	114.4%
PBT	**19,113**	**18,767**	**19,125**	**1.8%**	**-0.1%**
Tax	5,755	4,902	4,345	17.4%	32.5%
Share of Associates	61	59	42	3.4%	45.2%
PAT	**13,419**	**13,924**	**14,822**	**-3.6%**	**-9.5%**
PAT Margin	**16.7%**	**18.1%**	**21.5%**	**-140 bps**	**-478 bps**
APAT	**13,481**	**13,929**	**14,877**	**-3.2%**	**-9.4%**
APAT Margin	**16.8%**	**18.1%**	**21.6%**	**-133 bps**	**-478 bps**

Source: Company, KRChoksey Research

Dr. Reddy's Laboratories ltd.

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**241,756**	**280,111**	**317,740**	**343,953**	**372,510**
COGS	76,577	82,087	92,844	99,302	107,547
Gross profit	**165,179**	**198,024**	**224,896**	**244,651**	**264,963**
Employee cost	46,466	50,301	56,128	59,872	64,842
Other expenses	59,829	68,389	82,828	90,004	97,477
EBITDA	**58,884**	**79,334**	**85,940**	**94,775**	**102,644**
Depreciation	13,176	14,700	15,720	16,988	18,398
EBIT	**45,708**	**64,634**	**70,219**	**77,788**	**84,246**
Finance Costs	1,428	1,711	2,870	3,239	3,508
Other Income	10,919	7,419	11,100	13,758	14,900
PBT	**60,115**	**71,863**	**78,450**	**88,307**	**95,639**
Tax	15,412	16,231	22,729	26,588	28,797
PAT	**45,073**	**55,779**	**55,962**	**61,918**	**67,041**
EPS (INR)	271.5	335.2	67.1	74.2	80.4
Adj. PAT	**29,862**	**42,003**	**55,962**	**61,918**	**67,041**
Adj. EPS (INR)	35.9	50.4	67.1	74.2	80.4

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	58,873	45,433	42,057	46,984	51,149
CFFI	(41,371)	(40,283)	(32,934)	(39,739)	(42,975)
CFFF	(26,861)	(3,763)	(2,870)	(5,239)	(3,508)
Net Inc/Dec in cash	**(9,359)**	**1,387**	**6,254**	**2,006**	**4,666**
Opening Cash	14,852	5,779	7,107	13,361	15,366
Adjustment	286	(59)	0	0	0
Closing Cash	**5,779**	**7,107**	**13,361**	**15,366**	**20,032**

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	24.4%	28.3%	27.0%	27.6%	27.6%
Tax rate (%)	25.6%	22.6%	29.0%	30.1%	30.1%
Adj. Net Profit Margin (%)	12.4%	15.0%	17.6%	18.0%	18.0%
RoE (%)	12.8%	14.9%	16.5%	15.5%	14.3%
RoCE (%)	18.7%	21.6%	19.8%	18.7%	17.5%
Current Ratio (x)	2.4	2.6	3.1	3.5	3.9
P/E(x)	23.5x	19.0x	19.0x	17.1x	15.8x

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	833	834	834	834	834
Other Equity	232,028	281,714	337,676	399,595	466,636
Total Equity	**232,861**	**282,548**	**338,510**	**400,429**	**467,470**
Non-Current Liabilities					
Other financial liabilities	1,278	2,190	1,680	1,818	1,969
Borrowings	0	3,800	3,800	3,800	3,800
Other Non-current liabilities	2,991	4,220	3,773	4,015	4,279
Total Non-Current Liabilities	**4,269**	**10,210**	**9,253**	**9,633**	**10,048**
Current Liabilities					
Borrowings	11,190	12,723	12,723	10,723	10,723
Trade Paybles	22,684	26,144	17,806	13,603	11,786
Other current liabilities	51,847	57,013	61,572	66,651	72,185
Total Current Liabilities	**85,721**	**95,880**	**92,100**	**90,977**	**94,694**
Total Liabilities	**89,990**	**106,090**	**101,353**	**100,611**	**104,742**
Non-Current Assets					
Property Plants and Equipments	56,542	62,487	77,887	98,734	121,313
Other intangible assets	30,175	36,268	38,081	39,985	41,985
Other Non-current assets	31,879	41,830	40,619	41,219	41,855
Total Non-Current Assets	**118,596**	**140,585**	**156,587**	**179,939**	**205,152**
Current Assets					
Inventories	48,670	63,552	63,592	68,015	73,662
Trade Receivables	72,485	80,298	113,168	141,351	173,498
Cash and Bank	5,779	7,107	13,361	15,366	20,032
Oher current assets	77,321	97,096	93,157	96,369	99,868
Total Current Assets	**204,255**	**248,053**	**283,276**	**321,101**	**367,060**
Total Assets	**322,851**	**388,638**	**439,864**	**501,040**	**572,212**

Source: Company, KRChoksey Research

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Dr. Reddy's Laboratories ltd.

Dr. Reddy's Laboratories			
Date	CMP (INR)	TP (INR)	Recommendation
06-Nov-24	1,272	1,329	HOLD
01-Aug-24	1,350	1,350	REDUCE
10-May-24	1,175	1,118	REDUCE
01-Feb-24	1,224	1,292	HOLD
13-Nov-23	1,092	1,165	ACCUMULATE
28-Jul-23	1,110	1,312	BUY
12-May-23	893	1,031	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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