

Dr. Reddy's Laboratories Q3FY25



Dr. Reddy's Laboratories

Pricing pressure weighs on profitability

CMP INR 1,224	Target INR 1,245	Potential Upside 1.7%	Market Cap (INR Mn) INR 1,023,170	Recommendation HOLD	Sector Pharmaceuticals
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Result Highlights of Q3FY25:

- DRRD revenue, EBITDA, and PAT were largely in-line with our estimates.
- We expect the revenue to grow at 10.3% CAGR and PAT to grow at 5.2% CAGR over FY24-FY27E showing our confidence that the company is getting advanced in the biosimilars pipeline, key launches for cancer therapy and chronic constipation in India and launch of abatacept to gain market share.
- We reduce our FY26E/FY27E EPS estimates by 0.9% and 3.2% to INR 73.6/INR 77.8, respectively due to increased competition and pricing pressure in North America, and challenges in cardiovascular segments in India. We roll over our valuation multiple to FY27E and assign a PE multiple of 16.0x to arrive at a target price of INR 1,245 (previously: INR 1,329) reflecting challenges with pricing and competition in the key market. Therefore, we see limited upside potential and maintain a “HOLD” rating.

MARKET DATA

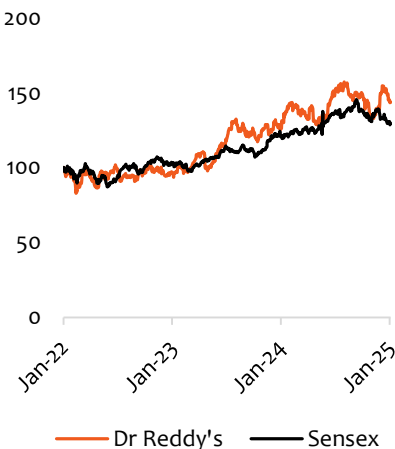
Shares outs (Mn)	834
Mkt Cap (INR Mn)	1,023,170
52 Wk H/L (INR)	1,421/1,120
Volume Avg (3m K)	1,952
Face Value (INR)	1
Bloomberg Code	DRRD IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,41,756	2,80,111	3,22,790	3,55,400	3,76,115
EBITDA	58,884	79,334	87,358	90,924	96,223
PAT	45,073	55,779	55,418	61,353	64,916
EPS (INR)	54.2	66.9	66.4	73.6	77.8
EBITDA Margin	24.4%	28.3%	27.1%	25.6%	25.6%
NPM	18.6%	19.9%	17.2%	17.3%	17.3%

Source: Company, DevChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	76,190
NIFTY	23,092

SHARE HOLDING PATTERN (%)

Particulars	Dec-24(%)	Sept-24(%)	Jun-24(%)
Promoters	26.6	26.6	26.7
FIIIs	40.1	41.8	42.3
DIIIs	22.9	21.5	20.7
Others	10.2	10.0	10.2
Total	100.0	100.0	100.0

Note: All the market data is as of previous closing

Volume and product launches drive top-line growth

- For Q3FY25, the revenue increased 15.8% YoY (+4.3% QoQ) to INR 83,812 Mn driven by growth across geographies (excluding North America).
- Revenue from North America (40.5% of revenue) grew 1.0% YoY (-9.2% QoQ) to INR 33,834 Mn, this muted growth was led by pricing pressure and increased competition which was offset by new product launches and volume growth.
- Revenue from India (16.1% of revenue) grew 14.1% YoY (-3.6% QoQ) to INR 13,464 Mn driven by an in-licensed vaccine portfolio, new product launches, and price increase.
- Revenue from the Emerging Markets (17.2% of revenue) grew 11.9% YoY (-1.3% QoQ) to INR 14,358 Mn driven by double-digit growth in Russia, new product launches, and volume growth.
- Revenue from PSAL (Pharmaceutical Services and Active Ingredients, 9.8% of revenue) grew 4.8% YoY (-2.2% QoQ) to INR 8,219 Mn.
- Revenue from Europe (14.5% of revenue) grew 143.4% YoY (109.6% QoQ) to INR 12,096 Mn which includes revenue of INR 6,049 Mn from the recently acquired NRT business. Underlying growth for Europe excluding NRT is 22.0% YoY and 5.0% QoQ.

Pricing pressure and increased other expenses impacted profitability margins

- EBITDA increased 11.7% YoY (+4.8% QoQ) to INR 22,726 Mn. EBITDA margin contracted 99 bps YoY (+13 bps QoQ) to 27.1% due to pricing pressure, increase in SG&A expenses led by higher logistics costs, integration of the Nicotine Replacement Therapy (NRT) business.
- Net profit increased 1.7% YoY (+4.6% QoQ) to INR 14,133 Mn, this was led by decrease in other income and increase in finance costs.

10.3%

Revenue CAGR between FY24 and FY27E

5.2%

PAT CAGR between FY24 and FY27E

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Key Concall Highlights:

- The **R&D expenditure** for Q3FY25 was **INR 6,660 Mn** (USD 78 Mn), at **8.0% of the sales** and was **higher by 25 bps YoY**, and an increase of **20.0% YoY**. The company expects R&D spend to be in the range of **8.5% to 9.0%** of sales for FY25E.
- The R&D investment is focused on developing **complex generic pipelines**, including promising GLP-1 assets and biosimilars.
- The company launched **Toripalimab**, the first and only **immuno-oncology drug** approved for the treatment of nasopharyngeal carcinoma. The company launched Elobixibat, a first-in-class drug to treat chronic constipation under the brand name BixiBat in India.
- The **competition in Canada** is expected to **intensify over time**, which will drive down reimbursement prices. The company is optimistic about its potential to gain market share in Canada, but the level of competition will be influenced by who receives approval first.
- The **acquisition of the NRT business** was completed in September 2024 and the company is now focusing on its **seamless integration**, which will happen in a **phased manner starting April 2025E**.
- The company made progress on its **biosimilar journey**, securing **marketing authorization** for **rituximab** in the **UK** and filing **denosumab** in **both the US and Europe**.
- The company launched **four new products in North America**, during **Q3FY25** and plans to close **FY25E with 15 to 20 launches**.
- The company launched a total of **9 products** across markets in the **European Generic business** segment. The company launched **6 brands in the India business** during Q3FY25.
- There are delays in the **gastro and cardiovascular segments** in India, with gastro expected to recover soon and cardiovascular segment may require another quarter to stabilize.
- DRRD stated that denosumab will support the launch of abatacept, as both products cater to the same segments and doctors. The strategic rationale was to establish a team and build market capabilities to gain greater or faster market share for abatacept.

View and Valuation:

DRRD reported strong growth across geographies, excluding North America, which was impacted by pricing pressure and competition. Europe's revenue surged, driven by the NRT business acquisition, while India and Emerging Markets grew on the back of new product launches. The EBITDA margin contracted due to pricing pressure, increased SG&A expenses, and logistics costs.

We reduce our FY26E/FY27E EPS estimates by 0.9% and 3.2% to INR 73.6/INR 77.8, respectively due to increased competition and pricing pressure in North America, and challenges in cardiovascular segments in India. We expect the revenue to grow at 10.3% CAGR and PAT to grow at 5.2% CAGR over FY24-FY27E showing our confidence that the company is getting advanced in the biosimilars pipeline, key launches for cancer therapy and chronic constipation in India, and launch of abatacept to gain market share. Currently, the stock is trading at a P/E multiple of 16.6/15.7 based on FY26E/FY27E EPS, respectively. We roll over our valuation multiple to FY27E and assign a PE multiple of 16.0x to arrive at a target price of INR 1,245 (previously: INR 1,329) reflecting challenges with pricing and competition in the key market. Therefore, we maintain our "HOLD" rating on the stock with a limited upside potential of 1.7%.

Revenue Segments

Segment-wise Revenue (INR Mn)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total Sales	72,148	70,829	76,726	80,162	83,585
Global Generics	63,095	61,190	68,857	71,576	73,752
North America	33,492	32,626	38,462	37,281	33,834
Europe	4,970	5,208	5,265	5,770	12,096
India	11,800	11,265	13,252	13,971	13,464
Emerging Markets	12,833	12,091	11,878	14,554	14,358
PSAI	7,839	8,219	7,657	8,407	8,219
PP & Others	1,214	1,420	212	179	1,614
Segment-wise Growth YoY (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total Sales	6.6%	12.5%	13.9%	16.6%	15.9%
Global Generics	6.5%	12.8%	14.6%	17.3%	16.9%
North America	9.6%	28.8%	20.2%	17.6%	1.0%
Europe	15.5%	5.0%	4.3%	9.2%	143.4%
India	4.7%	-12.2%	15.4%	17.8%	14.1%
Emerging Markets	-2.0%	8.5%	2.8%	19.7%	11.9%
PSAI	1.0%	5.5%	14.1%	19.5%	4.8%
PP & Others	73.2%	53.7%	-64.2%	-73.8%	32.9%
Segment-wise Contribution (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Total Sales	100.0%	100.0%	100.0%	100.0%	100.0%
Global Generics	87.5%	86.4%	89.7%	89.3%	88.2%
North America	46.4%	46.1%	50.1%	46.5%	40.5%
Europe	6.9%	7.4%	6.9%	7.2%	14.5%
India	16.4%	15.9%	17.3%	17.4%	16.1%
Emerging Markets	17.8%	17.1%	15.5%	18.2%	17.2%
PSAI	10.9%	11.6%	10.0%	10.5%	9.8%
PP & Others	1.7%	2.0%	0.3%	0.2%	1.9%

Source: Company, DevenChoksey Research

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Result Snapshot

Particulars (Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY	9MFY25	9MFY24	YoY
Revenue from Operations	83,812	80,382	72,368	4.3%	15.8%	241,155	208,973	15.4%
Total Expenditure	61,086	58,693	52,027	4.1%	17.4%	175,436	147,862	18.6%
Cost of Raw Materials	14,526	12,872	11,412	12.8%	27.3%	39,670	33,939	16.9%
Purchase of Stock	10,507	12,828	12,083	-18.1%	-13.0%	37,136	32,232	15.2%
Changes in Inventories	782	-2,033	-1,735	NA	NA	-5,507	-5,005	NA
Employee Cost	13,665	13,992	12,764	-2.3%	7.1%	41,794	37,464	11.6%
Other Expenses	21,606	21,034	17,503	2.7%	23.4%	62,343	49,232	26.6%
EBITDA	22,726	21,689	20,341	4.8%	11.7%	65,719	61,111	7.5%
EBITDA Margin (%)	27.1%	27.0%	28.1%	13 bps	-99 bps	27.3%	29.2%	-199 bps
Depreciation & Amortization	4,714	3,970	3,735	18.7%	26.2%	12,490	11,023	13.3%
Exceptional Items	-4	924	110	NA	NA	925	176	425.6%
EBIT	18,016	16,795	16,496	7.3%	9.2%	52,304	49,912	4.8%
Other Income	1,502	3,075	2,162	-51.2%	-30.5%	6,449	7,052	-8.6%
Interest Expense	817	757	394	7.9%	107.4%	2,172	1,118	94.3%
PBT	18,701	19,113	18,264	-2.2%	2.4%	56,581	55,846	1.3%
Tax	4,701	5,755	4,482	-18.3%	4.9%	15,358	13,277	15.7%
Share of Associates	42	61	27	-31.1%	55.6%	162	112	44.6%
PAT	14,042	13,419	13,809	4.6%	1.7%	41,385	42,681	-3.0%
PAT Margin	16.8%	16.7%	19.1%	6 bps	-233 bps	17.2%	20.4%	-326 bps
EPS (Reported)	17.0	15.1	16.6	12.5%	2.5%	48.8	51.2	-4.8%

Source: Company, DevenChoksey Research

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Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	241,756	280,111	322,790	355,400	376,115
COGS	76,577	82,087	96,653	114,912	121,609
Gross profit	165,179	198,024	226,136	240,488	254,505
Employee cost	46,466	50,301	55,215	57,946	61,323
Other expenses	59,829	68,389	83,564	91,619	96,959
EBITDA	58,884	79,334	87,358	90,924	96,223
Depreciation	13,176	14,700	17,120	19,989	21,155
EBIT	45,708	64,634	70,238	70,934	75,069
Finance Costs	1,428	1,711	2,974	3,464	3,666
Other Income	10,919	7,419	7,924	14,216	15,045
PBT	60,115	71,863	75,187	81,686	86,447
Tax	15,412	16,231	19,974	20,533	21,731
PAT	45,073	55,779	55,418	61,353	64,916
Reported EPS (INR)	54.3	67.0	66.4	73.6	77.8

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	58,873	45,433	39,733	40,516	54,874
CFFI	(41,371)	(40,283)	(33,428)	(40,998)	(43,372)
CFFF	(26,861)	(3,763)	(2,974)	(5,464)	(3,666)
Net Inc/Dec in cash	(9,359)	1,387	3,330	(5,946)	7,835
Opening Cash	14,852	5,779	7,107	10,437	4,491
Adjustment	286	(59)	0	0	0
Closing Cash	5,779	7,107	10,437	4,491	12,326

Exhibit 4: Key Ratio

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	24.4%	28.3%	27.1%	25.6%	25.6%
Tax rate (%)	25.6%	22.6%	26.6%	25.1%	25.1%
Net Profit Margin (%)	18.6%	19.9%	17.2%	17.3%	17.3%
RoE (%)	19.4%	19.7%	16.4%	15.4%	14.0%
RoCE (%)	18.7%	21.6%	19.8%	17.1%	15.7%
Current Ratio (x)	2.4	2.6	3.0	3.4	3.8
P/E(x)	22.6	18.3	18.4	16.6	15.7

Source: Company, DevenChoksey Research

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	337,132	398,484	463,401
Total Equity	232,861	282,548	337,966	399,318	464,235
Non-Current Liabilities					
Other financial liabilities	1,278	2,190	1,706	1,879	1,988
Borrowings	0	3,800	3,800	3,800	3,800
Other Non-current liabilities	2,991	4,220	3,820	4,121	4,312
Total Non-Current Liabilities	4,269	10,210	9,326	9,800	10,100
Current Liabilities					
Borrowings	11,190	12,723	12,723	10,723	10,723
Trade Paybles	22,684	26,144	18,536	15,741	13,327
Other current liabilities	51,847	57,013	62,550	68,870	72,884
Total Current Liabilities	85,721	95,880	93,810	95,334	96,934
Total Liabilities	89,990	106,090	103,136	105,133	107,034
Non-Current Assets					
Property Plants and Equipments	56,542	62,487	76,982	96,087	116,305
Other intangible assets	30,175	36,268	38,081	39,985	41,985
Other Non-current assets	31,879	41,830	40,658	41,356	41,872
Total Non-Current Assets	118,596	140,585	155,721	177,428	200,161
Current Assets					
Inventories	48,670	63,552	66,201	78,707	83,294
Trade Receivables	72,485	80,298	114,966	146,055	175,177
Cash and Bank	5,779	7,107	10,437	4,491	12,326
Other current assets	77,321	97,096	93,775	97,772	100,310
Total Current Assets	204,255	248,053	285,380	327,024	371,107
Total Assets	322,851	388,638	441,101	504,452	571,269

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Dr. Reddy's Laboratories				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Jan-25	1,224	1,245	HOLD	Buy	More than 15%
06-Nov-24	1,272	1,329	HOLD	Accumulate	5% – 15%
01-Aug-24	1,350	1,350	REDUCE	Hold	0 – 5%
10-May-24	1,175	1,118	REDUCE	Reduce	-5% – 0
01-Feb-24	1,224	1,292	HOLD	Sell	Less than – 5%
13-Nov-23	1,092	1,165	ACCUMULATE		
28-Jul-23	1,110	1,312	BUY		

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