MIRAE ASSET Sharekhan

Dr Reddy's Laboratories Ltd

Price erosion mars Q1; new products key to growth

Pharmaceuticals	Sharekhan code: DRREDDY	
Reco/View: Hold ⇔	CMP: Rs. 1,287 (as on Jul 28, 2025)	Price Target: Rs. 1,352 ↓

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

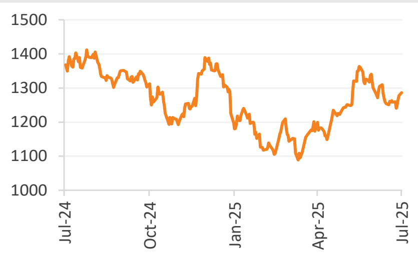
Company details

Market cap:	Rs. 1,07,373 cr
52-week high/low:	Rs. 1,293/1,283
NSE volume: (No of shares)	20.6 lakh
BSE code:	500124
NSE code:	DRREDDY
Free float: (No of shares)	61.2 cr

Shareholding (%)

Promoters	26.6
FII	25.3
DII	26.7
Others	21.3

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	10.6	-1.8	-6.0
Relative to Sensex	-1.6	7.6	-7.4	-5.4

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Nicotine replacement therapy- Recent acquisition from Haleon aided Europe revenues that stood at Rs. 1,274 crore versus Rs. 526.5 crore in Q1FY25.
- India branded biz revenues grew 11%, beating the Indian pharmaceutical market's 8% for the same period. US price erosion continues and lack of significant product launches is a near-term concern.
- Pharmaceuticals and active ingredients' revenues stood at Rs 818 crore, rising 7%, y-o-y.
- We retain our Hold rating with a revised PT of Rs. 1,352. At CMP, the stock trades at 1 year fwd PE of 18.5x, and 18.1x/19.0x to its FY2026/FY2027 earnings estimates.

Q1FY26 revenues grew 11% y-o-y to Rs. 8,572 crore, driven by sales from nicotine replacement therapy (NRT). Ex-NRT, net revenues grew ~3%, supported by 11% y-o-y growth in India business to Rs. 1,471 crore, while Russia biz grew 30% to Rs. 708 crore. North America (accounts for ~40% of consolidated revenues) to the contrary, declined by 11% y-o-y to Rs. 3,412 crore on account of price erosion and lack of significant new launches. gRevlimid is a significant contributor to the company's US revenues and is seeing price erosion. As a result, consolidated EBITDA for Q1FY26 grew by ~5%, to Rs 2,278 crore, while EBITDA margin declined by 149 bps. Net profit stood at Rs. 1,409.6 crore.

Key positives

- Topline growth in business from Europe was strong on account of launch of NRT portfolio. This also helped partially negate the effect of price erosion in the US.
- DRL launched 13 generic products in Europe.
- The company also completed 11 global filings.

Key negatives

- Price erosion in gRevlimid in the US continues and is expected to intensify as the drug becomes a complete generic.
- No big ticket drug launch expected in US in the upcoming quarters.

Management Commentary

- Indian branded business' revenues grew by 11.2%, beating Indian pharma industry's (IPM's) 8%.
- European generics' revenues grew 124% y-o-y on account of NPT portfolio and new launches.
- Emerging markets grew 10% y-o-y to Rs. 1,404 crore, supported by higher volumes and new product launches.
- North America business declined 11% y-o-y on account of price erosion primarily for Lina Dolemite and other products.
- **Guidance:** Capex stood at Rs.2,500-2,700 crore, Tax rate at 25% for FY26E and R&D expense as a percentage of revenue at 7.5%.

Revision in earnings estimates – We have revised our estimates to factor in Q1FY26 performance.

Our Call

Valuation – Maintain HOLD with revised PT of Rs. 1,352: We believe that current slow revenue growth and fall in margins will bottom out in the next few quarters and hence maintain our Hold rating on the stock with a PT of Rs.1,352. We value the stock at 20x on FY27E EPS of Rs. 67.6, ~25% above its four-year average P/E of 16.4x. Currently, the stock trades at a one-year forward P/E of 18.6x.

Key Risks

Adverse tariff impact from the US, which accounts for ~40% of revenues, delay in launch of new products, currency fluctuation risk.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26E	FY27E
Revenue	27,916.4	32,553.5	35,201.6	36,844.6
EBITDA (%)	28.1	26.5	24.5	22.4
Adjusted PAT	5,577.9	5,725.2	5,922.8	5,642.4
% y-o-y growth	26.2	(1.3)	42.0	32.0
Adjusted EPS (Rs.)	66.8	68.6	71.0	67.6
P/E (x)	18.4	16.7	18.1	19.0
P/B (x)	3.6	2.8	2.7	2.4
EV/EBITDA (x)	12.9	11.3	12.5	13.0
RoE (%)	21.6	18.4	16.2	13.5
RoCE (%)	23.7	20.7	17.6	15.3

Source: Company; Mirae Asset Sharekhan estimates

Key business updates

Complex drugs and biosimilars

Biosimilars to be key margin drivers –

- o Dr. Reddy's has a partnership with Alvotech to co-develop, manufacture and commercialize pembrolizumab, a biosimilar of a cancer immunotherapy drug.
- o Abatacept (medicine used to treat auto-immune diseases) phase-III trials readout is expected in November 2025 and management expects launch by December 2026/ January 2027.

Semaglutide (GLP – 1) :

- Semaglutide would be launched in 87 markets, including India, Brazil and Turkey, post FY26E.
- DRL plans to launch the drug in Canada by Jan of 2026, subject to receiving the approval by November 2025.
- DRL has in place a contract for manufacture of 10 million single use pens in FY26 and 12 million pens in FY27 in Canada.
- Current demand to be met through contracts and Vizag plant to manufacture the same from FY28 onwards.

Launches to be next growth lever: DRL has taken steps to counter the price erosion in the US, through geographic diversification and new product launches. While the new launches in Europe and Rest of the world (ROW) help in providing sustainable long term growth, we expect the same to be meaningfully EPS accretive only by FY28E. Additionally, we also await commentary in subsequent quarters regarding the US drug pipeline, especially in the biosimilars space

Margins to bottom out in next few quarters

While the launch of Semaglutide in FY26E is expected to garner good revenues, high competition in the market limits its potential growth. Key product launches are largely expected in H2FY27E and beyond, and hence, we factor in revenue growth of 6% and 4.6% for the full year FY26E and FY27E. Price erosion will continue to be a factor in the next few quarters, leading up to new launches.

DRL's Haloen acquisition of the ex – US NRT business is off to a good start with a successful launch in the UK and Nordics. DRL plans to further expand into Canada, Australia and Western Europe. Additionally, the JV with Nestle for the nutraceuticals portfolio is also in the early stages requiring higher spends. Consequently, SG&A for the quarter came in at 30% of sales, 44 bps higher y-o-y and 17 bps q-o-q. Trend is expected to continue in FY26E and FY27E post which the benefits of scale are expected to kick in. The R&D spends (currently stands at 7.3% of the sales) is also expected to impact margins in the current and the next fiscal.

Results Rs cr

Particulars	Q1FY26	Q1FY25	Q4FY25	% y-o-y	% QoQ
Net sales	**8,545.2**	**7,672.7**	**8,506.0**	**11.4%**	**0%**
Total Expenditure	6,266.8	5,512.8	6,031.1	13.7%	3.9%
EBITDA	**2,278.4**	**2,159.9**	**2,474.9**	**5.5%**	**-8%**
Depreciation & amortisation	476.5	381.0	455.5	25.1%	4.6%
EBIT	**1,801.9**	**1,778.9**	**2,019.4**	**1.3%**	**-11%**
Finance cost	-1,57.0	-83.7	-232.5	87.6%	-32.5%
PBT	**1,904.7**	**1,882.1**	**2,005.4**	**1.2%**	**-5%**
Tax provision	-495.1	-490.1	-418.1	1.0%	18.4%
Net profit	**1,409.6**	**1,392.0**	**1,587.3**	**1.3%**	**-11%**
Margin (%)					
EBITDA	26.7%	28.2%	29.1%	-148.8	-243.3
EBIT	21.1%	23.2%	23.7%	-209.8	-265.4
NPM	22.5%	25.3%	26.3%	-275.7	-382.5

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Input costs to ease with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. A confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is witnessing easing of input cost like raw-material costs, freight cost, and power cost, which help in expanding margins in the sector. The sector is also witnessing easing of price erosion followed by increasing contribution from new product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases operational profit of companies. The sector is mainly a low debt sector and increasing operational profit followed by experiencing advantage of low tax rate due to its operations in the SEZ sector; hence, overall, we stay positive view on the sector.

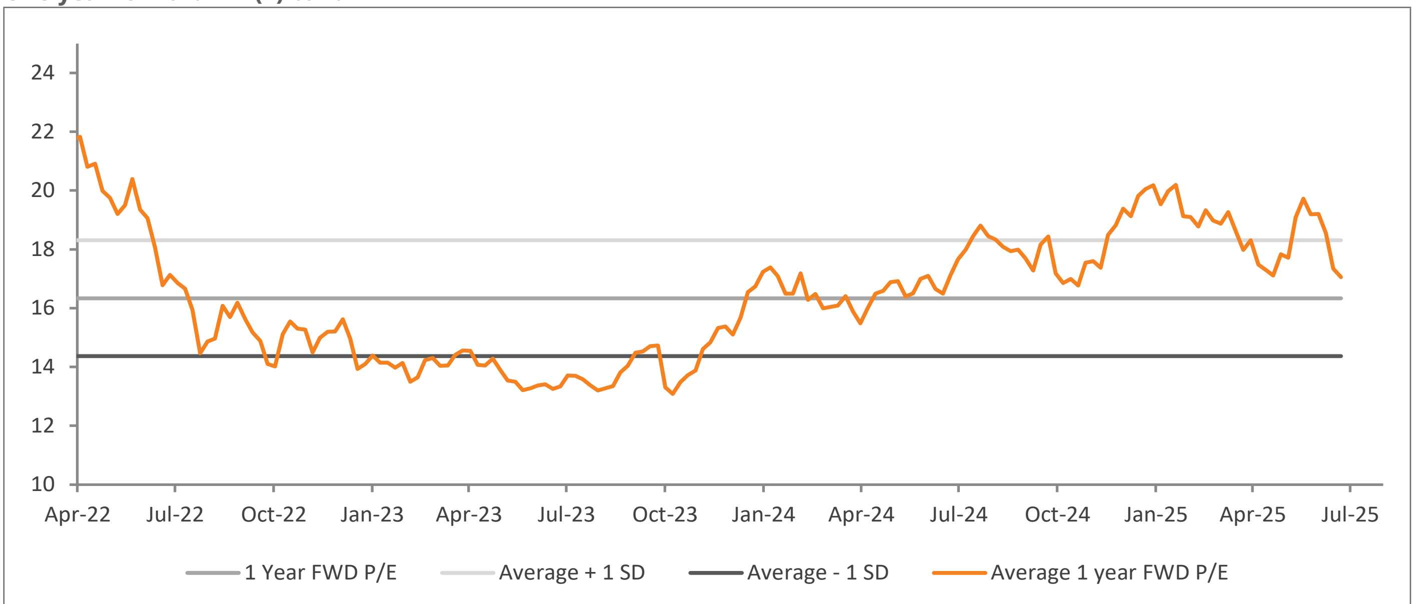
■ Company Outlook – Inorganic growth opportunity drives growth

The company has a global presence, especially in the formulations segment. Globally, the company is present in most markets with the US and India, accounting for ~41% and ~20%, respectively, of overall sales. In addition, management has charted out key focus areas for growth over the near term (under Horizon 1) and over the long term (under Horizon 2), which would propel growth. A confluence of cost-control and productivity-improvement measures, synergies through partnerships, market and product portfolio expansion, strong execution, and product-specific opportunities would be key growth drivers. Moreover, with strong geographical diversification, performance is expected to gather pace, backed by geographical expansion. A strong product pipeline in the U.S. generics and specialty business would fuel U.S. sales. On the other hand, a likely traction in acute therapies and the acquired portfolio and efforts to expand geographically and leverage the digital platform to grow brands would be key drivers for the Indian business.

■ Valuation – Maintain Hold with revised PT of Rs 1,352

With launches expected to gain momentum in FY27E, we expect margins to improve starting FY28E. We await further commentary in subsequent quarters regarding launch of biosimilars. Currently though, with margin pressures persisting and higher spends in R&D and new product launches, we expect EBITDA margins to lower by 196 bps and 406 bps to 24.5% and 22.4% in FY26E and FY27E. We value the stock at 20x on FY27E EPS of Rs. 67.6, 25% above its 4-year average P/E of 16.4x. Currently the stock trades at a 1 year Fwd P/E of 18.6x. Hence, we maintain our Hold rating on the stock with a PT of Rs.1,352.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Dr. Reddy's is one of the leading pharmaceutical companies present across most markets globally. With respect to segments, global generics (generic formulations) is one of the key segments accounting for around 79% of the company's overall revenue. Under global generics, the company offers more than 400 high-quality generic drugs, keeping costs reasonable by leveraging its integrated operations. Generic formulations include tablets, capsules, injectables, and topical creams across major therapeutic areas of gastrointestinal ailments, cardiovascular disease, pain management, oncology, anti-infective, pediatrics, and dermatology. The company is also present in APIs. The company is one of the leading manufacturers of API and partners with several leading generic formulator companies' world over. The company, through the API business, focuses on innovation- led affordability, which offers customers access to the most complex active ingredients, while maintaining a consistent global quality standard. The proprietary business is the third business segment and accounts for around 6% of the company's overall sales. The proprietary products business focuses on developing differentiated formulations, which significantly enhance benefits in terms of efficacy, ease of use, and the resolution of unmet patient needs. DRL's wholly owned subsidiary – Aurigene Discovery – is a clinical stage biotech company committed to bringing novel therapeutics for the treatment of cancer and inflammation. The company has fully integrated drug discovery and development infrastructure from hit generation to clinical development. Aurigene Discovery has pioneered customized models of drug discovery and development collaborations with large and mid-size pharmaceutical companies.

Investment theme

Dr. Reddy's is one of the leading pharmaceutical companies globally with higher presence in the formulations segments and backward integration for select APIs. Globally, the company is present in most markets with the U.S. and India accounting for ~37% and 17%, respectively, of overall sales. The company has a healthy compliance track record, which augurs well. The company is at an inflection point, wherein performance is expected to improve remarkably. A confluence of cost control as well as productivity improvement measures, synergies through partnerships, strong execution, and product-specific opportunities would be key growth drivers for the company. Moreover, with the diversification of its base business, performance is expected to gather pace, backed by geographical expansion. A strong product pipeline in the U.S. generic business would fuel U.S. sales. On the other hand, a likely revival in acute therapies and expected traction in the acquired portfolio would be key drivers for India business. Moreover, COVID-related opportunities, including COVID-19 vaccine Sputnik V, offer a sizeable growth opportunity going ahead as the company looks to tap export markets for Sputnik V. However, loss of exclusivity on gRevlimid's 2.5 and 20 mg strengths besides competitive intensity in the U.S. and India business will lead to a decline in earnings over the short-medium term at high single digits.

Key Risks

1) Adverse tariff impact from the USA which accounts for ~40% of revenues for DRL, 2) Delay in launch of new products.3) Currency fluctuation risk.

Additional Data

Key management personnel

Name	Designation
Venketeshwar Prasad	Chairman & Managing Director
Satish Reddy	Co- Chairman
Erez Israele	CEO
M. V. Narasimham	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	8.3
2	Blackrock Inc	4.14
3	ICICI Prudential Asset Management	4.12
4	Vanguard Group Inc/The	2.64
5	Nippon Life India Asset Management	1.94
6	First Sentier Investors ICVC	1.76
7	JPMorgan Chase & Co	1.63
8	SBI Funds Management Ltd	1.52
9	Mirae Asset Financial Group	1.27
10	PPFAS Asset Management	1.24

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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