

July 24, 2025

Q1FY26 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	REDUCE		REDUCE	
Target Price	1,270		1,225	
Sales (Rs. m)	3,54,486	3,52,436	3,55,851	3,54,559
% Chng.	(0.4)	(0.6)		
EBITDA (Rs. m)	89,084	73,695	91,856	73,288
% Chng.	(3.0)	0.6		
EPS (Rs.)	68.5	52.9	68.6	51.9
% Chng.	(0.1)	1.9		

Key Financials - Consolidated

Y/e Mar	FY24	FY25	FY26E	FY27E
Sales (Rs. bn)	279	326	354	352
EBITDA (Rs. bn)	78	86	89	74
Margin (%)	28.1	26.5	25.1	20.9
PAT (Rs. bn)	56	57	57	44
EPS (Rs.)	66.8	67.8	68.5	52.9
Gr. (%)	23.4	1.5	1.1	(22.8)
DPS (Rs.)	9.2	9.2	13.8	13.8
Yield (%)	0.7	0.7	1.1	1.1
RoE (%)	21.8	18.4	16.0	11.2
RoCE (%)	23.3	20.3	17.1	11.8
EV/Sales (x)	3.5	3.2	2.8	2.7
EV/EBITDA (x)	12.5	11.9	11.3	13.1
PE (x)	18.7	18.4	18.2	23.6
P/BV (x)	3.7	3.1	2.7	2.5

Key Data REDY.BO | DRRD IN

52-W High / Low	Rs.1,421 / Rs.1,020
Sensex / Nifty	82,727 / 25,220
Market Cap	Rs.1,041bn/ \$ 12,047m
Shares Outstanding	835m
3M Avg. Daily Value	Rs.2203.74m

Shareholding Pattern (%)

Promoter's	26.90
Foreign	36.36
Domestic Institution	26.74
Public & Others	10.00
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.3)	(3.3)	(9.1)
Relative	(6.3)	(10.5)	(11.7)

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Weak margins ex gRevlimid

Quick Pointers:

- Lower gRevlimid sales led to decline in US sales.
- There was Rs1.2bn of licensing income booked in Q1.

Dr. Reddy's (DRRD) Q1FY26 EBITDA adjusted for licensing income was in line with our estimate. The base business margins and US sales ex of gRevlimid continued to remain weak. We have scale up base business margins from the current level of 15-16% to +21-22% in FY27E. Our FY26 and FY27E EPS broadly remain unchanged. DRRD have been investing cash flow from gRevlimid to build pipeline across peptides, biosimilars and GLP products; benefits of that may take some time. Further thin US pipeline in near term and competition in certain key products remains a key risk. At CMP, DRRD is trading at valuations of 24x P/E on FY27E and factors in recovery in base business margins. We maintain our 'Reduce' rating with TP of Rs1,270/share; valuing at 24x FY27E EPS. Any big ticket ANDA approvals and sharp scale up in Semaglutide opportunity are key risks to our call.

- **Revenue growth aided by licensing income and NRT consolidation:** DRRD's sales grew by 11% YoY at Rs 85.5bn vs our estimates of Rs84bn. The beat was aided by licensing income to tune of Rs1.2bn. Further YoY growth was aided by consolidation of NRT business which registered Rs 6.7bn of revenues. Adj for NRT portfolio and milestone income, revenues were flat YoY. US revenue came in at \$399mn (\$411mn in Q4FY25) largely in line with our estimate. Price erosion in gRevlimid led to such decline QoQ. Domestic business increased by 11% YoY to Rs 14.7bn. PSAl sales grew by 7% YoY. Russia sales increased by 28% YoY to Rs 7.1bn aided by higher volumes from existing business and favourable forex. RoW growth was 12% YoY while EU sales adj for NRT portfolio was at 15%.
- **In line EBITDA, GMs declined YoY:** DRRD reported EBITDA of Rs 21.5bn (up 1% YoY). Adj for licensing income; EBITDA was largely in line with our est. GMs adj for licensing income and one offs came in at 56.3%; flat QoQ. The YoY was down due to pricing pressure in gRevlimid and reduced lower operating leverage. Segment wise PSAl margins came in lower at 13.2% (26.3% in Q4FY25) whereas generic margins were at 60.9% (59.3% in Q3FY25). R&D expenses remained flat YoY at Rs 6.2bn (7.3% of revenues). Amortization expenses came in higher at Rs 1.9bn given NRT business consolidation. Resultant PAT growth was 2% YoY.
- **Key concall takeaways: US business:** The company witnessed increased price erosion in certain key products including gRevlimid during the quarter. Filed 1 ANDA and launched 5 products. On gRevlimid, trying to avoid shelf price adjustments and sales should come off from Q3 onwards. Guided for 20 new launches in FY26, none of them meaningful.

- **Semaglutide:** launch set for early 2026 in Canada, followed by India and RoW post-Mar'26. DRRD among first filers. Company does not see any IP related issues for launch in Canada market and should launch immediately post exclusivity ends in Jan 2026. Would be launching only generic Ozempic. Company has 10mn pens capacity for CY26 and 12mn pen capacity in FY27. These are mostly single use pens/week. API will be provided by DRRD while pen will be provided by partner.
- Planning to launch Liraglutide in coming quarters. On gSaxenda DRRD is likely to be first-to-market in US but opportunity not as big as Semaglutide
- **Biosimilars:** Expanded Alvotek partnership for Keytruda biosimilar (pembrolizumab). On gAbatacept, read out for phase 3 clinical trials is in Nov 2025 and expect to launch IV product at start of CY27 and subsequently will launch subcutaneous version by CY28.
- **EU:** Growth driven by NRT acquisition and new launches. Ex-NRT, business grew 15% YoY. Completed integration of NRT portfolio in Nordics markets. Launched 13 products (ex-NRT). Biosimilar launches may accelerate growth beyond current double digits.
- **India:** Quarterly growth driven by new launches, price hikes, and strong execution. Launched 5 new brands, including 2 via expanded Sanofi partnership to introduce Beyfortus and Sensimmune. MR strength at 10,000.
- **PSAI:** Margins impacted by seasonality and overhead under-recovery. On track to achieve \$100mn sales from CDMO in FY26; aiming for \$250–300mn by FY30.
- **Russia:** Benefited from strong volumes, new product launches, and favourable forex movement, up 17% YoY in CC.
- **EM's:** Launched 26 new products in Q1FY26.
- **Others:** GMs declined YoY due to generics price erosion, partially offset by favorable product mix. Out licensing income during the quarter stood at Rs 1.2bn and will continue to be there in coming quarters. **PLI income:** Minimal in FY26, next tranche expected in FY27–28. Q1FY26 capex stood at Rs 6.8bn; net cash at Rs 29.2bn. R&D: Targeted Rs 25-27bn for FY26 with emphasis on complex generics, biosimilars and peptides. Mgmt indicated 400-500 bps of opex are discretionary in nature. ETR: Guided for 25% ETR in FY26

Exhibit 1: 1QFY26 Result Overview (Rs mn): NRT portfolio and licensing income aids growth

Y/e March	1QFY26	1QFY25	YoY gr. (%)	Q1FY26E	% Var	4QFY25	QoQ gr. (%)	FY26E	FY25	YoY gr. (%)
Net Sales	85,452	76,727	11.4	83,982	1.7	85,060	0.5	354,486	3,25,535	8.9
COGS	36,825	30,383	21.2	36,112	2.0	37,797	(2.6)	154,966	1,35,107	14.7
<i>% of Net Sales</i>	<i>43.1</i>	<i>39.6</i>		<i>43.0</i>	<i>0.2</i>	<i>44.4</i>		<i>43.7</i>	<i>41.5</i>	
SGA	20,882	18,881	10.6	19,825	5.3	19,500	7.1	83,877	76,811	9.2
<i>% of Net Sales</i>	<i>24.4</i>	<i>24.6</i>		<i>23.6</i>	<i>3.5</i>	<i>22.9</i>		<i>23.7</i>	<i>23.6</i>	
R&D	6,244	6,193	0.8	7,139	(12.5)	7,258	(14.0)	26,558.6	27,380	(3.0)
<i>% of Net Sales</i>	<i>7.3</i>	<i>8.1</i>		<i>8.5</i>	<i>(14.0)</i>	<i>8.5</i>		<i>7.5</i>	<i>8.4</i>	
Total Expenditure	63,951	55,457	15.3	63,076	1.4	64,555	(0.9)	2,65,402	2,39,298	10.9
EBITDA	21,501	21,270	1.1	20,906	2.8	20,505	4.9	89,084	86,237	3.3
<i>Margin (%)</i>	<i>25.2</i>	<i>27.7</i>		<i>24.9</i>	<i>1.1</i>	<i>24.1</i>		<i>25.1</i>	<i>26.5</i>	
Depreciation & Amortisation	4,765	3,810	25.1	4,700	1.4	4,555	4.6	20,042	17,059	17.5
EBIT	16,736	17,460	(4.1)	16,206	3.3	15,950	4.9	69,041	69,178	(0.2)
Other Income	739	470	57.2	1,000	(26.1)	2,465	(70.0)	3,500	4,358	(19.7)
Interest	(1,570)	(837)	87.6	(1,000)	57.0	(2,352)		-3,000	(4,724)	(36.5)
PBT	19,045	18,767	1.5	18,206	4.6	20,767	(8.3)	75,541	78,260	(3.5)
Share of Profit of Equity	2	59		54	(96.3)	55		200	217	(7.8)
Extra Ord Items	-	5		-	#DIV/0!	768		0	1,693	(100.0)
Total Taxes	4,951	4,901	1.0	4,565	8.5	4,181	18.4	18,885	19,538	(3.3)
<i>ETR (%)</i>	<i>26.0</i>	<i>26.1</i>		<i>25.1</i>	<i>3.7</i>	<i>20.1</i>		<i>25.0</i>	<i>25.0</i>	<i>0.1</i>
Minority Interest	(82)	-		-	#DIV/0!	(66)		-300	701	(142.8)
Reported PAT	14,178	13,920	1.9	13,695	3.5	15,939	(11.0)	57,156	56,545	1.1

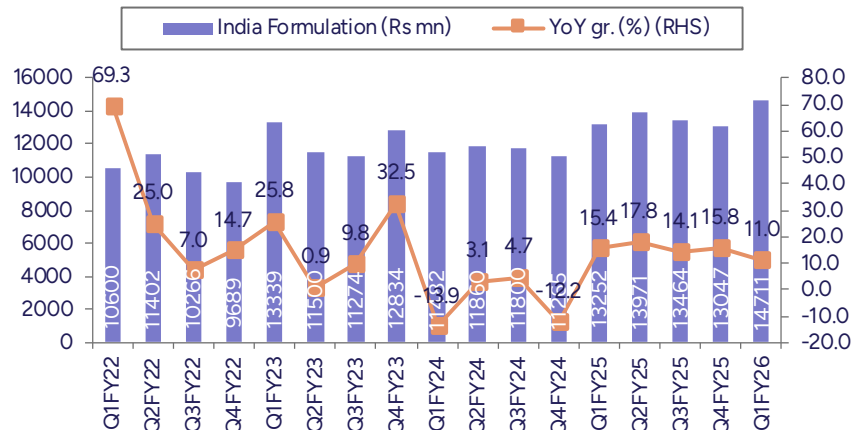
Source: Company, PL

Exhibit 2: Branded market performance offset decline in US QoQ

Major Sources of Revenues	1QFY26	1QFY25	YoY gr. (%)	4QFY25	QoQ gr. (%)	FY26E	FY25	YoY gr. (%)
PSAI (CPS & API)	8,181	7,657	6.8	9,563	(14.5)	36,554	33,846	8.0
<i>% of Net Sales</i>	<i>9.6</i>	<i>10.0</i>		<i>11.2</i>		<i>17.2</i>	<i>18.8</i>	
Branded Formulation	75,618	68,857	9.8	75,365	0.3	1,74,199	1,44,387	20.6
India	14,711	13,252	11.0	13,047	12.8	59,645	53,734	11.0
<i>% of Net Sales</i>	<i>17.2</i>	<i>17.3</i>		<i>15.3</i>		<i>28.0</i>	<i>29.8</i>	
International	60,907	55,605	9.5	62,318	(2.3)	1,14,554	90,653	26.4
<i>% of Net Sales</i>	<i>71.3</i>	<i>72.5</i>		<i>73.3</i>		<i>53.8</i>	<i>50.3</i>	
Russia & CIS	9,030	7,400	22.0	8,900	1.5	39,976	34,900	14.5
<i>% of Net Sales</i>	<i>10.6</i>	<i>9.6</i>		<i>10.5</i>		<i>18.8</i>	<i>19.3</i>	
Europe	12,744	5,265	142.1	12,750	(0.0)	52,384	35,882	46.0
<i>% of Net Sales</i>	<i>14.9</i>	<i>6.9</i>		<i>15.0</i>		<i>24.6</i>	<i>19.9</i>	
North America Generics	34,123	38,462	(11.3)	35,586	(4.1)	-	-	#DIV/0!
<i>% of Net Sales</i>	<i>39.9</i>	<i>50.1</i>		<i>41.8</i>		<i>-</i>	<i>-</i>	
Emerging Mkt Generics	5,010	4,478	11.9	5,082	(1.4)	22,195	19,871	11.7
<i>% of Net Sales</i>	<i>5.9</i>	<i>5.8</i>		<i>6.0</i>		<i>10.4</i>	<i>11.0</i>	
Innovative Prod	1,651	212	678.8	132	1,150.8	2,200	2,137	2.9
<i>% of Net Sales</i>	<i>1.9</i>	<i>0.3</i>		<i>0.2</i>		<i>1.0</i>	<i>1.2</i>	

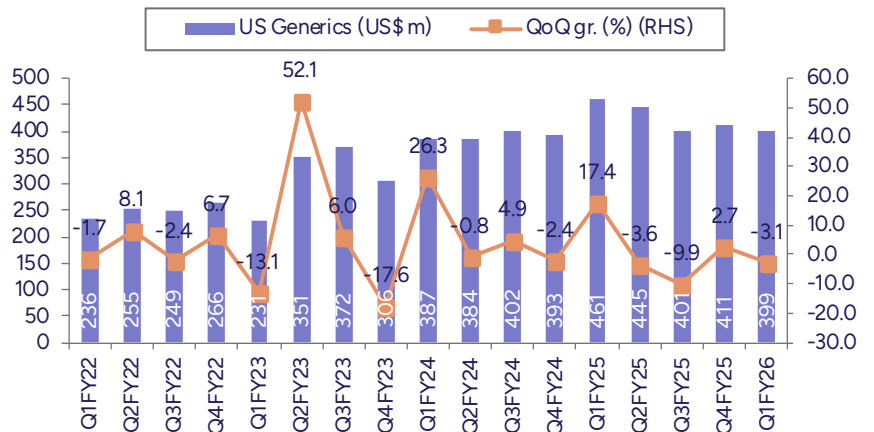
Source: Company, PL

Exhibit 3: India Form (Rs mn): Sustained growth momentum YoY



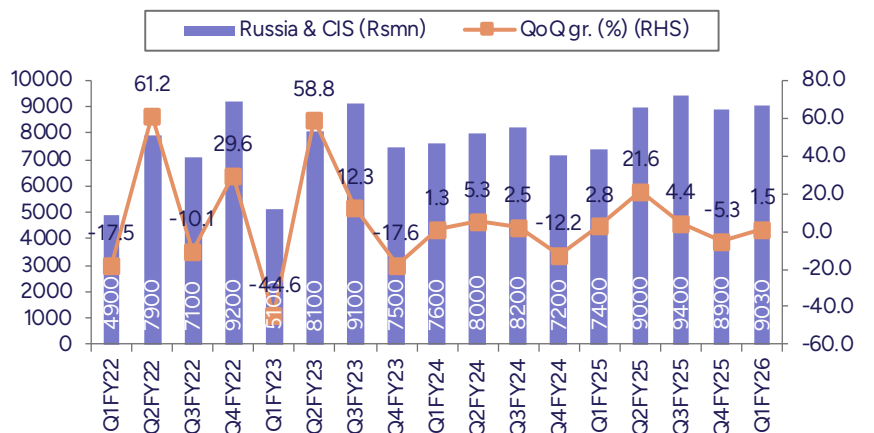
Source: Company, PL

Exhibit 4: US Generic: Witnessed price erosion in gRevlimid QoQ



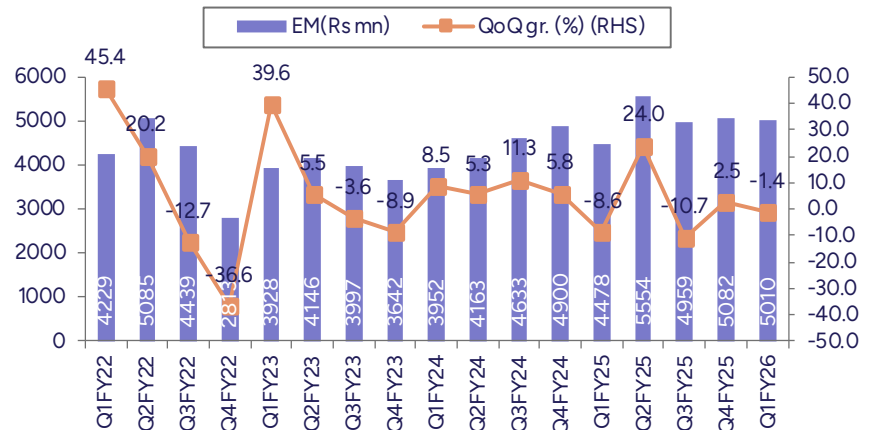
Source: Company, PL

Exhibit 5: Russia & CIS (Rs mn): Higher volumes and forex supported YoY



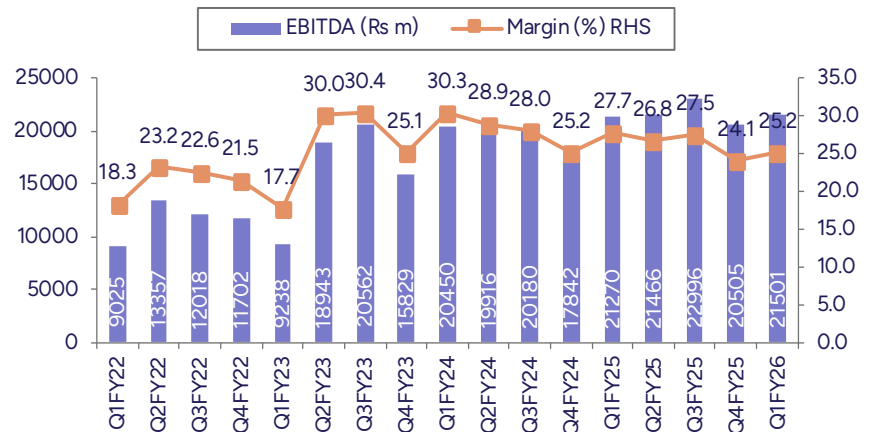
Source: Company, PL

Exhibit 6: EMs: Improved volumes & new launches aid growth YoY



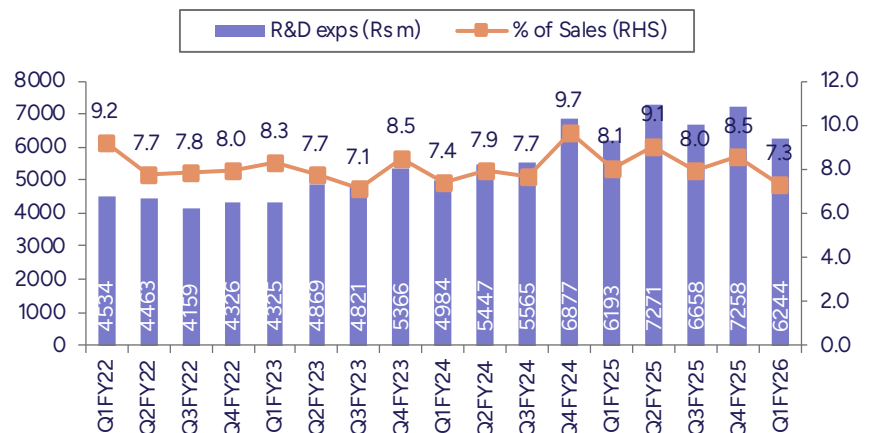
Source: Company, PL

Exhibit 7: Licensing income aided margins QoQ



Source: Company, PL

Exhibit 8: R&D spend lower at 7.3% YoY



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
Net Revenues	2,79,164	3,25,535	3,54,486	3,52,436
YoY gr. (%)	13.5	16.6	8.9	(0.6)
Cost of Goods Sold	1,15,557	1,35,107	1,54,966	1,64,503
Gross Profit	1,63,607	1,90,428	1,99,519	1,87,933
Margin (%)	58.6	58.5	56.3	53.3
Employee Cost	-	-	-	-
Other Expenses	22,873	27,380	26,559	28,683
EBITDA	78,392	86,236	89,084	73,695
YoY gr. (%)	21.4	10.0	3.3	(17.3)
Margin (%)	28.1	26.5	25.1	20.9
Depreciation and Amortization	14,856	17,058	20,042	21,443
EBIT	63,536	69,178	69,041	52,252
Margin (%)	22.8	21.3	19.5	14.8
Net Interest	(8,193)	(9,082)	(6,500)	(6,700)
Other Income	-	-	-	-
Profit Before Tax	71,729	78,260	75,541	58,952
Margin (%)	25.7	24.0	21.3	16.7
Total Tax	16,186	19,539	18,885	15,328
Effective tax rate (%)	22.6	25.0	25.0	26.0
Profit after tax	55,543	58,721	56,656	43,625
Minority interest	-	701	(300)	(300)
Share Profit from Associate	147	217	200	200
Adjusted PAT	55,684	56,544	57,156	44,125
YoY gr. (%)	23.6	1.5	1.1	(22.8)
Margin (%)	19.9	17.4	16.1	12.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	55,684	56,544	57,156	44,125
YoY gr. (%)	23.6	1.5	1.1	(22.8)
Margin (%)	19.9	17.4	16.1	12.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	55,684	56,544	57,156	44,125
Equity Shares O/s (m)	834	834	834	834
EPS (Rs)	66.8	67.8	68.5	52.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
Non-Current Assets				
Gross Block	2,40,426	3,63,693	3,73,198	3,82,328
Tangibles	1,81,304	2,08,808	2,30,808	2,52,808
Intangibles	59,122	1,54,885	1,42,389	1,29,519
Acc: Dep / Amortization	1,26,589	1,69,129	1,76,676	1,85,249
Tangibles	1,04,418	1,11,047	1,23,280	1,36,679
Intangibles	22,171	58,082	53,396	48,570
Net fixed assets	1,13,837	1,94,564	1,96,522	1,97,079
Tangibles	76,886	97,761	1,07,528	1,16,129
Intangibles	36,951	96,803	88,993	80,950
Capital Work In Progress	-	-	-	-
Goodwill	4,253	11,810	11,810	11,810
Non-Current Investments	5,255	15,202	19,822	19,822
Net Deferred tax assets	9,940	4,400	4,400	4,400
Other Non-Current Assets	1,632	972	972	972
Current Assets				
Investments	74,363	43,254	43,254	43,254
Inventories	63,552	71,085	78,775	78,319
Trade receivables	80,298	90,420	1,03,392	1,02,794
Cash & Bank Balance	7,107	14,654	40,513	78,399
Other Current Assets	26,447	32,520	34,146	35,853
Total Assets	3,76,744	4,74,481	5,29,205	5,68,302
Equity				
Equity Share Capital	834	834	834	834
Other Equity	2,79,716	3,32,554	3,78,201	4,10,816
Total Network	2,80,550	3,33,388	3,79,035	4,11,650
Non-Current Liabilities				
Long Term borrowings	5,990	7,864	7,864	7,864
Provisions	-	-	-	-
Other non current liabilities	4,833	7,236	7,236	7,236
Current Liabilities				
ST Debt / Current of LT Debt	14,030	38,902	38,902	38,902
Trade payables	30,191	35,523	40,894	43,411
Other current liabilities	51,090	55,968	59,674	63,639
Total Equity & Liabilities	3,76,744	4,74,481	5,29,205	5,68,302

Source: Company Data, PL Research


Cash Flow (Rs m)

Y/e Mar	FY24	FY25	FY26E	FY27E
PBT	86,585	95,318	95,584	80,395
Add. Depreciation	14,856	17,058	20,042	21,443
Add. Interest	8,193	9,082	6,500	6,700
Less Financial Other Income	-	-	-	-
Add. Other	(27,723)	(45,773)	(26,542)	(28,143)
Op. profit before WC changes	81,911	75,685	95,584	80,395
Net Changes-WC	(16,430)	(10,455)	(13,211)	5,828
Direct tax	(20,047)	(19,993)	(18,885)	(15,328)
Net cash from Op. activities	45,433	45,236	63,488	70,895
Capital expenditures	(27,435)	(87,494)	(26,620)	(22,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Invst. activities	(27,435)	(87,494)	(26,620)	(22,000)
Issue of share cap. / premium	-	7,056	-	-
Debt changes	1,836	24,872	-	-
Dividend paid	(6,648)	(6,438)	(11,509)	(11,509)
Interest paid	-	-	-	-
Others	(11,858)	24,315	500	500
Net cash from Fin. activities	(16,670)	49,805	(11,009)	(11,009)
Net change in cash	1,328	7,547	25,859	37,886
Free Cash Flow	29,030	17,732	41,488	48,895

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Net Revenue	80,162	83,586	85,060	85,452
YoY gr. (%)	16.5	15.9	20.1	11.4
Raw Material Expenses	32,393	34,534	37,797	36,825
Gross Profit	47,769	49,052	47,263	48,627
Margin (%)	59.6	58.7	55.6	56.9
EBITDA	21,466	22,996	20,505	21,501
YoY gr. (%)	7.8	14.0	14.9	1.1
Margin (%)	26.8	27.5	24.1	25.2
Depreciation / Depletion	3,975	4,719	4,555	4,765
EBIT	17,491	18,277	15,950	16,736
Margin (%)	21.8	21.9	18.8	19.6
Net Interest	(1,555)	20	(2,352)	(1,570)
Other Income	984	439	2,465	739
Profit before Tax	20,030	18,696	20,767	19,045
Margin (%)	25.0	22.4	24.4	22.3
Total Tax	5,752	4,704	4,181	4,951
Effective tax rate (%)	28.7	25.2	20.1	26.0
Profit after Tax	14,278	13,992	16,586	14,094
Minority interest	-	-	-	-
Share Profit from Associates	61	42	55	2
Adjusted PAT	13,415	14,038	15,873	14,096
YoY gr. (%)	(9.4)	1.8	21.4	1.3
Margin (%)	16.7	16.8	18.7	16.5
Extra Ord. Income / (Exp)	924	(4)	768	-
Reported PAT	14,339	14,034	16,641	14,096
YoY gr. (%)	(3.5)	1.0	29.0	1.2
Margin (%)	17.9	16.8	19.6	16.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14,339	14,034	16,641	14,096
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	15.1	17.0	19.2	17.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25	FY26E	FY27E
Per Share(Rs)				
EPS	66.8	67.8	68.5	52.9
CEPS	84.6	88.3	92.6	78.6
BVPS	336.4	399.7	454.5	493.6
FCF	34.8	21.3	49.7	58.6
DPS	9.2	9.2	13.8	13.8
Return Ratio(%)				
RoCE	23.3	20.3	17.1	11.8
ROIC	21.5	16.6	15.5	11.7
RoE	21.8	18.4	16.0	11.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	0.0	(0.1)	(0.2)
Net Working Capital (Days)	149	141	145	143
Valuation(x)				
PER	18.7	18.4	18.2	23.6
P/B	3.7	3.1	2.7	2.5
P/CEPS	14.7	14.1	13.5	15.9
EV/EBITDA	12.5	11.9	11.3	13.1
EV/Sales	3.5	3.2	2.8	2.7
Dividend Yield (%)	0.7	0.7	1.1	1.1

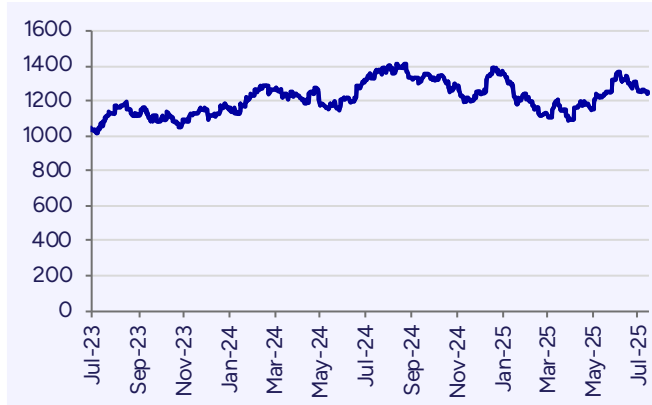
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY24	FY25	FY26E	FY27E
India Formulations	46,407	53,734	59,645	65,609
US formulations	1,29,895	1,45,163	1,41,773	1,08,167
Russia	22,300	26,000	30,333	33,367
PSAI	29,801	33,846	36,554	39,478

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-25	Reduce	1,225	1,311
2	12-May-25	Reduce	1,225	1,156
3	08-Apr-25	Reduce	1,335	1,088
4	24-Jan-25	Reduce	1,335	1,289
5	08-Jan-25	Reduce	1,335	1,353
6	06-Nov-24	Reduce	1,335	1,272
7	07-Oct-24	Reduce	1,200	1,327
8	29-Jul-24	Reduce	1,200	1,376

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,350	7,616
2	Aster DM Healthcare	BUY	620	622
3	Aurobindo Pharma	BUY	1,440	1,185
4	Cipla	BUY	1,730	1,511
5	Divi's Laboratories	Accumulate	6,800	6,889
6	Dr. Reddy's Laboratories	Reduce	1,225	1,311
7	Eris Lifesciences	BUY	1,740	1,734
8	Fortis Healthcare	BUY	785	806
9	HealthCare Global Enterprises	BUY	620	560
10	Indoco Remedies	Hold	325	330
11	Ipca Laboratories	Accumulate	1,525	1,456
12	J.B. Chemicals & Pharmaceuticals	BUY	2,030	1,633
13	Jupiter Life Line Hospitals	BUY	1,720	1,531
14	Krishna Institute of Medical Sciences	BUY	725	695
15	Lupin	BUY	2,400	1,979
16	Max Healthcare Institute	BUY	1,300	1,300
17	Narayana Hrudayalaya	BUY	1,950	1,990
18	Rainbow Children's Medicare	BUY	1,725	1,573
19	Sun Pharmaceutical Industries	BUY	2,000	1,680
20	Suntech Realty	BUY	650	427
21	Torrent Pharmaceuticals	Accumulate	3,850	3,354
22	Zydus Lifesciences	Accumulate	970	999

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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