

Dr Reddy's Laboratories (DRRD)

Pharmaceuticals | NBIE conference update

BUY
CMP: Rs1,165 | Target Price (TP): Rs1,415 | Upside: 22%
February 25, 2025

Acquisitions Drive Growth, Strategy Anchors Future

Key Points

- We hosted the management of Dr Reddy's Laboratories (DRRD), represented by Ms. Aishwarya Sitharam, Lead- Investor Relations to gain insights into the current business outlook.
- The company is focusing on four key areas to drive future growth: expanding its base business, launching specialty products (e.g., GLP-1 agonists, biosimilars), exploring new opportunities through M&A and partnerships, and optimizing costs. The company aims to sustain double-digit growth and maintain 25% EBITDA margins through these initiatives.
- DRL is investing in high-margin, complex generics (e.g., Isucross) and biosimilars (e.g., Abatacept, Rituximab) for developed markets. It is also exploring opportunities in GLP-1 agonists, particularly in emerging markets, while strengthening its R&D and manufacturing capabilities to support these initiatives.
- We like DRL's strategic decision-making and growing focus on the Branded business (JVs with MNCs like Sanofi, Bayer, and Nestle, Haelon NRT acquisition). Given the expected decline in Revlimid sales and its impact on margins, we have lowered our estimates. However, DRL's expanding branded presence and cost optimization efforts should help offset these pressures. We maintain a BUY rating with a revised TP of Rs1,415, valuing it at 21x PE on Dec26E EPS of Rs67 and an NPV of Rs13 for the Revlimid opportunity.

Business performance: India business grew by ~14% YoY to Rs13.4bn. Growth was led by In-licensed vaccine portfolio, new launches and price hike, partially offset by lower volume pick-up in certain brands in Cardiac and Gastrointestinal therapy areas. The US business remained flat to 1% growth YoY to US\$397mn as volume growth in the base portfolio and new launches were offset by pricing pressure in the base portfolio. QoQ decline of 5% was due to lower sales in certain products including Revlimid. EU business was up by 143% YoY to Rs. 12bn, excluding the NRT portfolio. EU reported a 22% growth YoY. The raise was due to new product launches and increase in base business offset by price erosion. Russia business was up by 19% YoY to Rs7bn due to an increase in volume, new launches and price hikes, partially offset by unfavorable currency movement, while the RoW business improved by 7% YoY to Rs4.9bn majorly due to new product launches partially offset by forex losses. PSAI business was up by 5% YoY at Rs8.2bn. Overall business' gross margin improved by 20bps YoY to 58.7%, YoY; the increase was on back of favorable product mix partially offset by price erosion. S,G&A increased by 18% YoY to Rs. 19.4bn on account of cost associated to NRT business and higher freight cost leading to a decline of 46bps YoY in EBITDA margins to 27.5% .

Outlook: We expect DRL's Revenue/EBITDA to clock a CAGR of 10%/3%/1% over FY24-FY27E. EBITDA margin is expected at ~23% over FY26E-FY27E. The company is expected to generate strong FCF of ~Rs 53/Rs51bn in FY26E/FY27E, which is mainly expected to be utilized for inorganic opportunities.

Valuation: We like DRL management's strategic decision-making ability and its enhanced focus on the Branded business. We also appreciate their recent JVs with MNCs like Sanofi, Bayer, and Nestle. The company recently acquired Haelon's NRT business, further strengthening its portfolio. Considering the expected decline in Revlimid sales and its impact on gross margins, we have revised our estimates downward. However, we believe DRL's strategic initiatives, including its expanding branded presence and cost optimization efforts, will help mitigate these headwinds. We maintain our BUY rating on DRL with a revised TP of Rs1,415, valuing it at 21x PE on Dec26E base EPS of Rs67 and an NPV of Rs13 for the Revlimid opportunity.

Est Change	Downgrade
TP Change	Downgrade
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	REDY.BO
Bloomberg:	DRRD IN Equity
Mkt Cap (Rsbn/US\$bn):	971.8 / 11.2
52 Wk H / L (Rs):	1,421 / 1,120
ADTV-3M (mn) (Rs/US\$):	3,024.3 / 35.2
Stock performance (%) 1M/6M/1yr:	(4.9) / (16.3) / (9.6)
Nifty 50 performance (%) 1M/6M/1yr:	(2.8) / (6.5) / 1.6

Shareholding	1QFY25	2QFY25	3QFY25
Promoters	26.7	26.6	26.6
DII's	20.7	21.5	22.9
FII's	27.7	27.5	26.9
Others	10.4	10.1	10.4
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars(Rsmn)	FY24	FY25E	FY26E	FY27E
Net sales	2,79,164	3,20,330	3,41,300	3,75,112
EBITDA	78,230	79,716	80,285	81,139
Net profit	55,684	54,897	55,113	55,104
EPS (Rs)	67.1	66.1	66.4	66.4
EPS growth (%)	23.6	-1.4	0.4	0.0
EBITDA margin(%)	28.0	24.9	23.5	21.6
PER (x)	17.4	17.6	17.5	17.5
EV/Sales (x)	3.3	3.0	2.8	2.6
EV/EBITDA (x)	11.9	11.9	11.9	11.9
RoCE (%)	20.1	17.2	16.1	15.3
RoE (%)	21.7	19.5	19.8	20.1
ROIC (%)	25.6	21.5	20.8	20.4

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Conference call highlights

Growth Strategy Post-Lenalidomide (Revlimid)

- Lenalidomide, a key product contributing significantly to DRL's margins and cash flows, is expected to go off-patent in January 2026. The company has been preparing for this eventuality over the past four years by investing in four key growth levers:
- Base Business Growth: The base business, excluding Lenalidomide and Revlimid, is expected to grow in single digits in the US due to price erosion and new launches. Other geographies like India, emerging markets, and Europe are expected to grow in double digits.
- Special Products: This category includes products like Lenalidomide, GLP-1 agonists, and biosimilars. These products provide opportunistic growth and are not part of the base business. DRL is focusing on building a pipeline in GLP-1 agonists and biosimilars, particularly for developed markets.
- Business Development (BD): DRL is actively exploring M&A, licensing, and partnerships to drive growth. The company has sufficient cash reserves to pursue strategic transactions.
- Cost Optimization: With the loss of Lenalidomide, DRL plans to moderate discretionary expenses, particularly in R&D and SG&A, to maintain its commitment to double-digit growth, 25% EBITDA margins, and 25% ROCE.

India Business Performance

- DRL's India business grew 10% YoY in the last quarter, outperforming the market growth of 7%. However, the company acknowledged underperformance in certain brands within the cardiac and GI segments. Recovery is expected in the next couple of quarters.
- DRL is pivoting towards innovation in India, bringing breakthrough drugs like Tori Palimab (a head and neck cancer drug) to the market. This strategy aims to complement the traditional branded generics business and tap into unmet medical needs.

US Business Outlook

- The US market remains a key focus for DRL, with growth driven by new product launches. The company plans to launch 15-20 products annually, including complex generics and biosimilars.
- Key products in the pipeline include Isucrose and Conjugated Estrogen, which are expected to launch in the next few quarters. However, the company faced a setback with a CRL (Complete Response Letter) for Isucrose, delaying its launch.
- DRL is also building its biosimilars portfolio, with products like Rituximab and Abatacept (a \$4 billion product) expected to launch in developed markets. The company is investing in front-end capabilities for biosimilars in the US and Europe.

GLP-1 Agonists Opportunity

- DRL is actively pursuing opportunities in the GLP-1 agonists space, particularly in markets like Canada, India, and Brazil, where products like Semaglutide are expected to go off-patent in 2026.
- The company has already filed for approval in Canada and expects to be among the first to launch in January 2026. DRL has invested heavily in API and fill-finish capacities for peptides and has secured pen procurement contracts.

- The GLP-1 opportunity is seen as a key growth driver, especially in emerging markets where the innovator did not previously participate. DRL expects to leverage its existing commercial presence in 75+ countries to tap into this opportunity.

Biosimilars Strategy

- DRL is expanding its biosimilars portfolio, with a focus on developed markets. The company has already launched Rituximab in the US and Europe through a partner and is working on building its own front-end capabilities.
- Key products in the pipeline include Abatacept (Orencia biosimilar), which is expected to launch in 2027. DRL is also developing Denosumab (licensed from Amgen) for osteoporosis, which will help build commercial capabilities ahead of the Abatacept launch.

R&D and Manufacturing Investments

- DRL has been investing heavily in R&D and manufacturing, particularly in APIs and peptides. The company has set up capacities for peptide APIs and fill-finish, with facilities in Bachupally and Hyderabad already approved by regulatory agencies.
- The company is also exploring CDMO opportunities, although this remains a small part of the overall business.

Cost Optimization and Margin Outlook

- DRL is focused on optimizing costs, particularly in R&D and SG&A, to offset the impact of Lenalidomide's loss. The company remains committed to delivering 25% EBITDA margins and 25% ROCE on a long-term basis, despite potential short-term volatility.

Regulatory and Market Challenges

- DRL does not expect significant impact from the US Inflation Reduction Act or other regulatory changes. The company believes its role as a key supplier of affordable generics to the US market will remain critical.
- In India, DRL expects therapy costs for GLP-1 agonists to decline significantly post-launch, making these drugs more accessible to patients.

Exhibit 1: Revised estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,21,360	3,59,649	3,21,360	3,59,649	(0.3)	(5.1)
EBITDA	75,324	83,402	75,324	83,402	5.8	(3.7)
Margin (%)	23.4	23.2	23.4	23.2	145 bps	33 bps
PAT	51,612	57,616	51,612	57,616	6.4	(4.3)
Margin (%)	16.1	16.0	16.1	16.0	108 bps	13 bps
EPS	62.2	69.4	62.2	69.4	6.4	(4.3)

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Segment revenue

(Rsmn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ(%)
Global Generics	63,062	71,622	73,694	16.9	2.9
US (\$ mn)	403	451	397	(1.5)	(12.0)
Europe	4,970	5,770	12,096	143.4	109.6
India	11,800	13,971	13,464	14.1	(3.6)
ROW	12,800	14,600	14,300	11.7	(2.1)
PSAI	7,839	8,407	8,219	4.8	(2.2)
Proprietary Products & Others	1,214	179	1,614	32.9	801.7

Source: Nirmal Bang Institutional Equities Research

Valuation and Outlook

DRL's revenue is expected to clock a CAGR of 10% over FY24-FY27E with EBITDA margin likely remaining at ~22%. Revenue is expected to be mainly driven by strong growth complex generics and Branded Generics, including in India, Russia, EU (on back of Haelon's NRT business, GLP-1 agonists) and other EMs. The US business is likely to clock 3% CAGR over FY24-FY27E, driven by new product launches and volume in the base business, partially offset by continuous price erosion in the base business. On the margin front, under Horizon 2, resumption of investments in the Speciality pipeline and persistent spending on complex generics & biosimilars are likely to affect margins. Net profit is expected to clock a CAGR of ~1% over FY24-FY27E on the back of operational performance.

DRL is currently trading at 18x/17x PE on FY26E/FY27E and 11x/10x on FY26E/FY27E EV/EBITDA. ROE/ROCE is expected at 14%/12% in FY27E. The 5 and 3 Years average PE of DRL is 21 and 17 respectively. We like DRL management's strategic decision-making ability and its enhanced focus on the Branded business. We also appreciate their recent JVs with MNCs like Sanofi, Bayer, and Nestle. The company recently acquired Haelon's NRT business, further strengthening its portfolio. Considering the expected decline in Revlimid sales and its impact on gross margins, we have revised our estimates downward. However, we believe DRL's strategic initiatives, including its expanding branded presence and cost optimization efforts, will help mitigate these headwinds. We maintain our BUY rating on DRL with a revised TP of Rs1,415, valuing it at 21x PE on Dec26E base EPS of Rs67 and an NPV of Rs13 for the Revlimid opportunity.

Exhibit 3: One-year Rolling Forward P/E Chart



Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 4: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net sales	2,45,879	2,79,164	3,20,330	3,41,300	3,75,112
% growth	15.6	13.5	14.7	6.5	9.9
Cost of Sales	1,06,536	1,15,557	1,32,131	1,45,143	1,64,143
Gross profit	1,39,343	1,63,607	1,88,199	1,96,157	2,10,969
% growth	24.3	17.4	15.0	4.2	7.6
R&D Expenditure	19,381	22,873	25,626	27,304	30,009
SG&A Expenditure	56,089	62,504	81,255	88,568	96,539
Total expenditure	1,82,006	2,00,934	2,39,012	2,61,015	2,90,691
Operating Profit	63,873	78,230	81,317	80,285	84,420
% growth	41.0	22.5	3.9	(1.3)	5.2
Operating Profit margin (%)	26.0	28.0	25.4	23.5	22.5
Extraordinary Items	-	-	-	-	-
Other Income	5,907	4,199	4,199	4,409	4,629
Finance (Expense) / Income	2,853	3,994	3,844	4,096	3,751
Depreciation & Amortisation	12,636	14,700	15,601	16,396	17,191
Share of Profit in Equity Investments	370	147	154	162	170
Profit before tax	60,367	71,870	73,914	72,556	75,780
% growth	86.9	19.1	2.8	(1.8)	4.4
Tax	15,300	16,186	18,478	18,139	18,945
Effective tax rate (%)	25.3	22.5	25.0	25.0	25.0
Reported PAT	45,067	55,684	55,435	54,417	56,835
Adjusted PAT	45,067	55,684	55,435	54,417	56,835
% growth	58.3	23.6	(0.4)	(1.8)	4.4
EPS (Rs)	54	67	67	66	68
% growth	58.3	23.6	(0.4)	(1.8)	4.4

*In IFRS format

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Equity	833	834	834	834	834
Reserves	2,30,158	2,81,714	3,31,606	3,80,581	4,31,733
Net worth	2,30,991	2,82,548	3,32,440	3,81,415	4,32,567
Net deferred tax liabilities	-6,363	-13,455	-14,057	-14,057	-14,057
Short-term loans	12,194	14,030	14,030	14,030	14,030
Long-term loans	1,278	5,990	35,990	55,990	78,990
Other non-current liabilities	2,907	3,379	3,379	3,379	3,379
Liabilities	2,41,007	2,92,492	3,71,782	4,40,757	5,14,909
Intangible assets & goodwill	35,094	42,452	42,452	42,452	42,452
Net block	66,462	75,997	70,396	64,000	56,810
Other non-current assets	6,162	7,840	8,221	8,415	8,728
Inventories	48,670	63,552	70,209	74,805	82,216
Debtors	72,485	80,298	83,374	88,831	97,632
Cash	5,779	7,107	61,789	1,19,059	1,77,298
Loans and advances	57,250	51,702	61,702	71,702	81,702
Other current assets	22,756	45,394	51,692	54,900	60,072
Total current assets	2,06,940	2,48,053	3,28,765	4,09,297	4,98,921
Creditors	26,444	26,144	14,480	15,906	17,988
Other current liabilities	47,207	55,706	63,573	67,502	74,014
Total current liabilities	73,651	81,850	78,053	83,408	92,002
Net current assets	1,33,289	1,66,203	2,50,713	3,25,889	4,06,919
Total assets	2,41,007	2,92,492	3,71,782	4,40,757	5,14,909

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	45,067	54,952	73,914	72,556	75,780
Depreciation	12,636	14,841	15,601	16,396	17,191
Net Chg in WC	(7,855)	(20,182)	(21,397)	(8,628)	(14,129)
Taxes	(10,714)	(20,047)	(18,478)	(18,139)	(18,945)
Others	20,027	15,810	1,188	527	1,026
CFO	59,161	45,374	50,828	62,712	60,923
Capex	(18,784)	(26,350)	(10,000)	(10,000)	(10,000)
Net Investments made	(23,366)	(15,716)	(10,000)	(10,000)	(10,000)
Others	777	1,783	-	-	-
CFI	(41,373)	(40,283)	(20,000)	(20,000)	(20,000)
Change in Share capital	368	805	-	-	-
Change in Debts	(20,397)	4,346	30,000	20,000	23,000
Div. & Div Tax	-4,979	-6,648	-5,544	-5,442	-5,684
Others	(1,853)	(2,266)	(602)	-	-
CFF	(26,861)	(3,763)	23,854	14,558	17,316
Total Cash Generated	(9,073)	1,328	54,682	57,270	58,240
Cash Opening Balance	14,852	5,779	7,107	61,789	1,19,059
Cash Closing Balance	5,779	7,107	61,789	1,19,059	1,77,298

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Profitability & return ratios					
EBITDA margin (%)	26.0	28.0	25.4	23.5	22.5
Net profit margin (%)	18.3	19.9	17.3	15.9	15.2
RoE (%)	21.4	21.7	18.0	15.2	14.0
RoCE (%)	19.0	20.1	16.0	12.9	11.5
Working capital & liquidity ratios					
Receivables (days)	95	95	95	95	95
Inventory (days)	80	80	80	80	80
Payables (days)	40	40	40	40	40
Current ratio (x)	2.8	3.0	4.2	4.9	5.4
Quick ratio (x)	2.1	2.3	3.3	4.0	4.5
Leverage ratios					
Net Debt/Equity (x)	0.0	-0.2	-0.1	-0.2	-0.3
Net Debt/EBITDA (x)	-0.8	-0.5	-0.9	-1.5	-2.0
Valuation ratios					
EV/sales (x)	3.7	3.3	2.8	2.5	2.1
EV/EBITDA (x)	14.4	11.9	11.0	10.5	9.5
P/E (x)	21.4	17.4	17.4	17.8	17.0
P/BV (x)	4.2	3.4	2.9	2.5	2.2

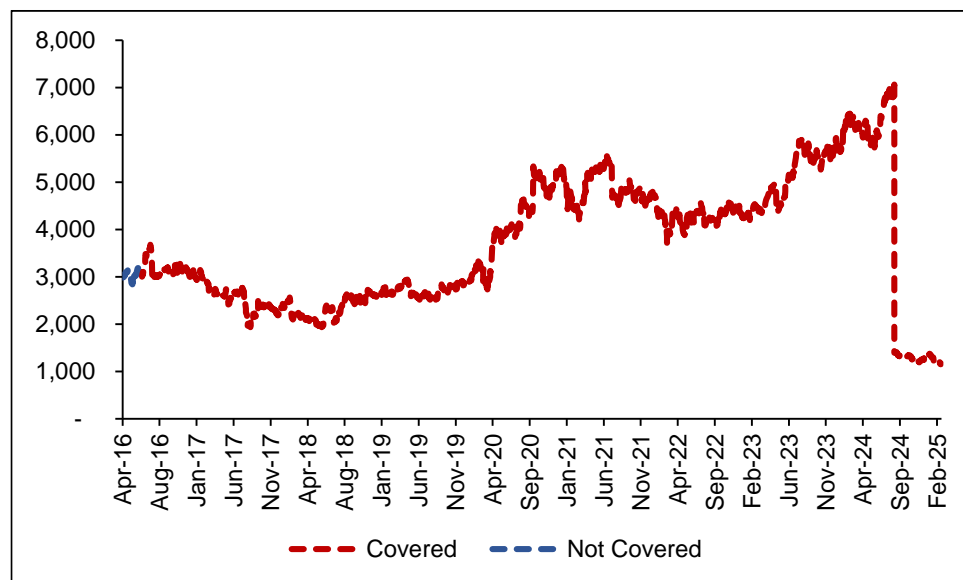
Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price	Target price (Rs)
10 June 2016	Buy	3,160	3,950
27 July 2016	Buy	3,300	3,950
6 February 2017	Buy	3,142	3,950
15 May 2017	Buy	2,584	3,366
28 July 2017	Buy	2,620	3,020
1 November 2017	Buy	2,428	3,216
29 January 2018	Buy	2,508	3,077
23 May 2018	Buy	2,004	2,898
23 July 2018	Buy	2,059	2,898
27 July 2018	Buy	2,110	2,898
29 October 2018	Buy	2,405	3,122
4 February 2019	Hold	2,791	3,122
5 April 2019	Buy	2,772	3,348
20 May 2019	Buy	2,748	3,281
30 July 2019	Buy	2,653	3,281
23 September 2019	Hold	2,829	3,138
4 November 2019	Buy	2,755	3,138
28 January 2020	Hold	3,189	3,188
27 March 2020	Hold	2,945	3,333
23 April 2020	Sell	4,056	3,647
20 May 2020	Sell	3,911	3,647
30 July 2020	Sell	4,300	3,998
18 September 2020	Buy	4,827	5,656
23 September 2020	Hold	5,168	5,656
29 October 2020	Buy	4,950	5,737
27 November 2020	Buy	4,899	5,648
7 January 2021	Buy	5,292	6,231
1 February 2021	Buy	4,603	5,594
10 March 2021	Buy	4,448	5,594
5 April 2021	Buy	4,588	5,594
17 May 2021	Hold	5,197	5,782
28 July 2021	Hold	4,844	5,240
26 September 2021	Buy	4,777	5,515
31 October 2021	Buy	4,670	5,644
30 January 2022	Buy	4,218	5,689
21 February 2022	Buy	4,321	5,710
31 March 2022	Buy	4,351	5,349
20 May 2022	Buy	3,928	5,424
29 July 27, 2022	Buy	4,259	5,587
29 September 2022	Hold	4,267	4,468
29 October 2022	Hold	4,461	4,640
27 January 2023	Hold	4,200	4,745
16 March 2023	Hold	4,384	4,482
11 May 2023	Hold	4,868	4,762
19 July 2023	Hold	5,187	5,180
27 July 2023	Hold	5,437	5,788
29 October 2023	Hold	5,420	5,997
31 January 2024	Hold	5,835	6,553
8 May 2024	Buy	6,273	7,335
30 July 2024	Buy	6,835	7,897
25 January 2025	Buy	#1,290	1,524
25 February 2025	Buy	1,165	1,415

Price Post-Split

Rating Track Graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

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