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nuvama institutional equities

DR REDDY'S LABS

RESULT UPDATE

In-line performance; setbacks in two products

Dr Reddy's (DRRD) reported in-line Q2FY26 revenue while EBITDA/adjusted PAT beat consensus by 2%/8%. Gross/reported EBITDA margin contracted ~492bp/~175bp YoY due to anticipated price erosion in gRevlimid as well as competition in some products.

Excluding Lenalidomide, DRRD's EBITDA margin works out to 19–20% (assuming 50% erosion in Lenalidomide) as per our calculation. The company was able to maintain a margin of ~25% for the quarter owing to a cut in R&D spending (as guided earlier). Q3FY26E is expected to be a weak-margin quarter and all attention is now on the fate of semaglutide filling in Canada. In light of the product setbacks, we are cutting FY27E EPS by 1%; retain 'BUY' with a TP of INR1,475.

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,283
12 month price target (INR)	1,475
52 Week High/Low	1,406/1,020
Market cap (INR bn/USD bn)	1,071/12.2
Free float (%)	73.4
Avg. daily value traded (INR mn)	2,223.0

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	26.64%	26.64%	26.64%
FII	35.52%	36.36%	37.29%
DII	27.98%	26.74%	25.62%
Pledge	0.00%	0.00%	0.00%

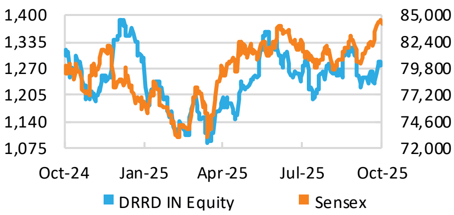
FINANCIALS (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	2,79,164	3,25,535	3,43,516	3,40,008
EBITDA	78,374	86,236	86,350	82,630
Adjusted profit	55,684	54,828	53,326	48,190
Diluted EPS (INR)	66.7	65.7	63.9	57.8
EPS growth (%)	54.0	(1.5)	(2.7)	(9.6)
RoAE (%)	21.8	18.5	14.5	11.7
P/E (x)	19.2	19.5	20.1	22.2
EV/EBITDA (x)	13.8	12.8	12.8	12.2
Dividend yield (%)	0.6	0.6	0.4	0.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	3,43,516	3,40,008	-0.4%	-0.8%
EBITDA	86,350	82,630	-1.1%	0.8%
Adjusted profit	53,326	48,190	-0.5%	-0.6%
Diluted EPS (INR)	63.9	57.8	-0.5%	-0.6%

PRICE PERFORMANCE



Operationally in-line, but PAT beat estimate on lower ETR

Revenue grew 10% YoY/3% QoQ to INR88.1bn, in line with consensus. Gross margin was 54.7%, -492bp YoY/-223bp QoQ due to gRevlimid price erosion and lower operating leverage in the PSAI segment. Reported EBITDA rose 3% YoY/3% QoQ to INR23.5bn, with margin down 175bp YoY to 26.7%. Adjusted for one-offs (VAT provision and pipeline discontinuation charges), EBITDA stood at INR22bn, -2% YoY/+2% QoQ. (2% beat versus consensus) while EBITDA margin was 24.9%, -300bp YoY. Adjusted PAT was INR15.1bn, +17% YoY/+7% QoQ due to the lower tax rate during the quarter. R&D spend contracted 15% YoY to INR6.2bn, (7% of revenue due to tapering of biosimilar R&D for Abatacept).

Price erosion impacts US performance; NRT improvement continues

DRRD's North America sales fell 13% YoY/5% QoQ led by price erosion in gRevlimid and competition in few products. India revenue grew 13% YoY/7% QoQ to INR15.8bn driven by price increases, launches and higher volumes. Europe revenue was INR13.8bn, up 8% QoQ. Europe ex-NRT grew 17% YoY/12% QoQ due to new launches, volume growth and favourable forex. Russia jumped 27%YoY/24% QoQ; however, in cc terms, growth was <4% YoY. CIS and Romania increased 11% YoY to INR2.3bn while the PSAI segment jumped 12% YoY/16% QoQ due to volume growth.

Setbacks in Conjugated Estrogen, Rituximab

DRRD has discontinued the development of Conjugated Estrogen while Rituximab has again received CRL due to the compliance challenge at its Bachupally facility. The growth in India and NRT business surprised us positively. We expect Q3FY26E to be a weak quarter in absence of any key launch. Due to the product setbacks, we have cut FY27E EPS by 1%. Retain '**BUY**' with a revised TP of INR1,475 (earlier INR1,486) Semaglutide approval and Abatacept fillings remain key triggers.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	88,051	80,162	9.8	85,452	3.0
EBITDA	21,957	22,390	(1.9)	21,501	2.1
Adjusted Profit	15,114	12,946	16.7	14,178	6.6
Diluted EPS (INR)	18.1	15.5	16.7	17.0	6.6

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	2,79,164	3,25,535	3,43,516	3,40,008
Gross profit	1,63,607	1,90,428	1,86,919	1,79,910
Employee costs	0	0	0	0
R&D cost	22,873	27,380	24,914	24,821
Other expenses	62,360	76,812	81,099	73,819
EBITDA	78,374	86,236	86,350	82,630
Depreciation	14,841	17,058	18,588	19,849
Less: Interest expense	1,711	2,829	3,608	8,582
Add: Other income	4,196	2,665	3,430	1,360
Profit before tax	71,870	76,784	69,013	63,507
Prov for tax	16,186	19,539	16,779	15,718
Less: Exceptional item	0	0	0	0
Reported profit	55,684	57,245	52,234	47,790
Adjusted profit	55,684	54,828	53,326	48,190
Diluted shares o/s	834	834	834	834
Adjusted diluted EPS	66.7	65.7	63.9	57.8
DPS (INR)	8.0	8.0	5.0	6.0
Tax rate (%)	22.5	25.4	24.3	24.7

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	834	834	834	834
Reserves	2,79,716	3,36,332	3,84,744	4,27,928
Shareholders funds	2,80,550	3,37,166	3,85,578	4,28,762
Minority interest	0	0	0	0
Borrowings	20,020	46,766	42,909	39,909
Trade payables	30,919	35,523	39,042	38,599
Other liabs & prov	52,060	70,231	63,310	62,664
Total liabilities	3,87,518	4,92,989	5,34,961	5,74,013
Net block	62,424	72,870	77,634	74,271
Intangible assets	41,204	1,08,613	1,07,995	1,07,012
Capital WIP	14,462	24,891	13,741	13,600
Total fixed assets	1,18,090	2,06,374	1,99,369	1,94,884
Non current inv	5,255	15,202	6,527	6,460
Cash/cash equivalent	7,107	14,654	78,275	1,19,782
Sundry debtors	80,298	90,420	96,937	97,811
Loans & advances	97,092	73,953	48,779	48,281
Other assets	63,552	71,085	79,997	81,975
Total assets	3,87,518	4,92,989	5,34,961	5,74,013

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Gross margin	58.6	58.5	54.4	52.9
R&D as a % of sales	8.2	8.4	7.3	7.3
Debt/EBITDA	0.3	0.5	0.5	0.5
EBITDA margin (%)	28.1	26.5	23.6	23.9
Net profit margin (%)	19.9	16.8	15.5	14.2
Revenue growth (% YoY)	13.5	16.6	5.5	(1.0)
EBITDA growth (% YoY)	21.4	10.0	(6.2)	0.4
Adj. profit growth (%)	54.0	(1.5)	(2.7)	(9.6)

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	51,823	56,791	52,584	48,190
Add: Depreciation	60,274	63,486	79,854	93,418
Interest (net of tax)	(29,680)	(37,149)	(17,696)	(23,721)
Others	3,245	13,282	(23,123)	(25,548)
Less: Changes in WC	(20,182)	(29,989)	(13,575)	(3,052)
Operating cash flow	45,433	46,428	61,266	73,569
Less: Capex	(27,414)	(33,666)	(14,088)	(15,139)
Free cash flow	18,019	12,762	47,178	58,429

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	82.8	84.6	87.5	87.0
India growth (%)	(5.2)	15.8	12.1	13.7
US generics (USD mn)	23.5	10.3	(17.0)	(22.1)
Russia & CIS cc growth (%)	5.2	16.6	20.3	8.9
Europe growth (%)	16.5	74.9	53.7	8.4
PSAI growth	2.5	13.6	12.1	14.5

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	21.8	18.5	14.5	11.7
RoCE (%)	24.9	21.0	16.2	14.0
Inventory days	177	182	176	185
Receivable days	100	96	100	105
Payable days	91	90	87	89
Working cap (% sales)	56.9	44.2	36.1	37.5
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	0	0.1	(0.1)	(0.2)
Interest coverage (x)	37.1	24.5	17.3	7.2

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	19.2	19.5	20.1	22.2
Price/BV (x)	3.8	3.2	2.8	2.5
EV/EBITDA (x)	13.8	12.8	12.8	12.2
Dividend yield (%)	0.6	0.6	0.4	0.5

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	54.0	(1.5)	(2.7)	(9.6)
RoE (%)	21.8	18.5	14.5	11.7
EBITDA growth (%)	21.4	10.0	(6.2)	0.4
Payout ratio (%)	11.9	11.6	8.0	10.5

Q2FY26 earnings call highlights

Financials and strategy

- **EBITDA margin guidance:** Maintaining the EBITDA margin commitment at 25%.
- **Growth guidance:** Confident of delivering double-digit growth in ex-US markets over medium term.
- **PSAI gross margin:** To remain in the 20–25% range due to product mix and leverage.
- **R&D:** USD70mn in Q2FY26 and expected to be 7% of sales going forward.
- **Opex:** 28–30% range going forward.
- **NRT:** Margins would increase as DRRD's fees paid to Haleon reduces.
- **Abatacept:** Nearing phase III and filling for IV version is on track.
- **Semaglutide in Canada:** Review by Health Canada expected in next few weeks.
- Gross margin decreased due to lower gRevlimid sales, product specific price erosion in US generics and lower leverage in PSAI business.
- SG&A costs increased due to focused investments in NRT and branded generics segments. One time provision of INR700mn for a VAT liability and INR0.5bn impairment charge associated with discontinuation of a pipeline product (Conjugated Estrogen). Excluding one-offs, SG&A spend was 29.2% of sales.
- R&D expenditure was lower due to reduced investment in biosimilars following the completion of major funding for Abatacept biosimilar candidate. The R&D spends were directed towards complex generics, biosimilars, APIs and novel biologics with a focus on oncology, peptides and injectable drugs.
- Strategic priority is to grow base business, focus on key pipeline assets such as semaglutide and Abatacept, and improve operational efficiency and productivity across the value chain.
- Operating WC by end of the quarter at INR133.3bn. Net cash surplus stood at INR27.5bn.
- FCF in Q2FY25 was INR10.5bn (USD118mn). RoCE for Q2FY26 was ~22%.
- ETR at 22.2% (30% in Q2FY25) primarily due to favourable jurisdictional mix.
- USD502mn hedged using combination of forward structure derivative contract scheduled to mature through Dec-26 at the rate of INR86.9/USD. It also has hedged RUB4.3bn at RUBINR of 1.03, with maturity due over next four months.

Key products

- **Abatacept –** Confident of submitting BLA for IV version by Dec-2025. Phase-III trial should be completed soon and filling is on track. Subcutaneous (SC) version development requires different tests but no separate trial. The company is expected to launch SC version in 2028 and is subject to the IP settlement. DRRD plans to file Abatacept SC from Bachupally unit as well as from its US CMO partner as back up. Bachupally unit is approved by EMA hence not worried about the approval in Europe. The US CMO would help DRRD in risk mitigation in case of compliance challenge at Bachupally, US tariffs or future capacity shortage. The company is assured that it will be able to launch SC version on day 1- of expiry. For the CMO, the tech transfer would take place from Bachupally.

- **Semaglutide in Canada:** Expecting feedback from Health Canada in next few weeks. Canada market will be very competitive if multiple players get approval.
- **Semaglutide in other markets:** DRRD is confident of launching all 12mn pens across 87 markets including in India, Brazil, Turkey and Latam if approvals come through. The company has also tied up with B2B partners their own launches in Asia and Latam regions. DRRD would initially work with the third-party fill-finish operator and will likely be ready with two cartridge lines at FTO-11 by 2H27. It plans to have a combined capacity up to 50mn in the future.
- **Semaglutide in India:** The SEC under CDSCO has recommended approval to market the drug in India. The company has challenged the innovator's patents and case in the high court. All hearings are completed but judge's decision is awaited. DRRD is ready to appeal if decision is unfavourable. As of now, DRRD can launch in India only at expiration (Mar-26). The company requires a separate application for Wegovy generic in India
- **Denosumab:** Received +ve CHMP opinion from EMA.
- **COYA-302:** IND application for the treatment of patients with ALS is accepted.
- **Rituximab BLA:** Received CRL due to form 483 at Bachupally biologics facility, DRRD is actively addressing these observations. Rituximab was strategically chosen to initiate the USFDA regulatory processes early. This is helping the company anticipate and address potential issues for Bachupally. Management remains confident about eventual approval of the product.

North America

- **Revenue**: USD373mn, down YoY/QoQ due to gRevlimid price erosion. Launched seven new products in Q2FY26, but few products have become competitive.
- **Price erosion:** Currently stable on the base products. Newer launches may face erosion as they have not exhausted their potential erosion.
- **gRevlimid:** While it witnessed price erosion, the company is still expecting small revenue contribution in Q3FY26 as well.
- Overall pipeline includes ~100 products of which 20 are complex generics.
- No certainty on tariffs on biologics.
- Base business down due to competition and price erosion across ~5 products.

India

- Revenue grew 13% YoY on the back of 11 new product launches during the quarter, 5% price growth and higher volumes. Price growth is expected to be in the same range going ahead. The company has improved its rank to 9th in September and continues to outperform the IPM.
- **Novel GI drug launches:** 1) PCAB (Tegoprazan) - for acid-related GI diseases and 2) Colozo (Linaclotide) - for chronic constipation management in adults.
- **GST rate changes:** no a significant impact.
- **Stugeron**: Acquired Stugeron and related brands from Janssen Pharmaceuticals for USD50mn. The portfolio has sales of ~INR1bn (majority sales are in India)

- **Tocilizumab:** only for Indian market.

Europe

- **Europe:** Revenue stood at USD135mn due to 8 new launches across markets.
- Has also launched Bevacizumab and Rituximab in multiple countries; will also expand these products to other countries going forward. Denosumab and Abatacept are key future products in Europe.
- Key growth drivers in Europe would be NRT, biosimilars (Rituximab, Denosumab and bevacizumab) and replication of products from US portfolio.
- **NRT business:** Integration completed for two–third of the portfolio and in the next phase, it will integrate Southern Europe, Israel and Taiwan. Many emerging markets are still managed by Haleon under a fee arrangement; hence, DRRD's direct investment in those markets isn't yet visible. As DRRD gradually takes over these markets, fees paid to Haleon will reduce which increases margins and allows DRRD to start investing directly. DRRD is currently investing only in fully controlled markets like UK and Scandinavia, with two more waves pending, and early results have already exceeded expectations in growth and margins.

Emerging markets

- Revenue grew 14% YoY/18% QoQ driven by 24 new product launches across markets and aided by favourable FX movement.
- **Russia:** Revenue grew 13% YoY/ 18% QoQ in cc terms.
- EM business growth drivers: Biologics, legacy brands and some acquisitions in Russia.

Manufacturing facilities

- **Bachupally biologics unit:** Bachupally biologics facility: Received 5 observations in Sep-2025 inspection. It's a sterile plant and queries are related to the nature of the site. If current fill-finish line (FFM1) have further issues, an alternate line (FFM2) is available as backup.
- **Other facilities:** 1) Mirfield, UK : 7 observations in Sep-2025 inspection, 2) VAI classification received at API facilities located at Srikakulam, CT0-5 (Miryalaguda), and Middleburgh (New York)
- **GLP -1 facilities:** CTO-6 will make GLP-1 API and it has potential to reach 800kg of capacity in future. Sufficient capacity exists to support submissions for all key peptides, including R&D projects. The company has created capacity not just for Semaglutide and Liraglutide, but also for 40+ under development peptides**.** Its strategy combines in-house production (FTO-11) and partner collaborations for every important product**.**

Other updates

- **PSAI business:** revenue grew 8% YoY and 13% QoQ. The company has filed 37 DMFs globally. Peptides would be important growth driver going forward.
- **Lenacapavir:** Working on this long acting HIV prevention tool for LMIC countries.
- DRRD filed 37 DMFs globally in Q2FY26 taking the total to 49 for H1FY26.
- INR/USD rate of 88.78.

Exhibit 1: Revenue by segment (INR mn)

Year to March	Q2FY26	Q2FY25	% change	Q1FY26	% change
Global generics	78,498	71,576	9.7	75,620	3.8
North America (USD mn)	373	445	-16.2	400	-6.8
Europe	13,762	5,770	138.5	12,744	8.0
India	15,780	13,971	12.9	14,711	7.3
Russia	8,750	6,900	26.8	7,080	23.6
CIS and Romania	2,340	2,100	11.4	1,950	20.0
Russia and CIS	11,090	9,000	23.2	9,030	22.8
ROW	5,460	5,600	-2.5	5,010	9.0
PSAI	9,450	8,407	12.4	8,181	15.5
Propr. products/Others	103	179	-42.5	1,651	-93.8
Net Sales	88,051	80,162	9.8	85,452	3.0

Source: Company

Exhibit 2: Ex-gRevlimid quarterly financials (INR mn)

Ex-Revlimid adjustments	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Revenue	75,441	65,519	15.1	74,210	1.7
Gross profit	40,574	34,590	17.3	38,509	5.4
Gross margins	53.8	52.8		51.9	
EBITDA	14,391	9,944	44.7	11,945	20.5
EBITDA margins	19.1	15.2		16.1	
PAT	9,818	4,234	131.9	7,489	31.1

Source: Nuvama Research

Exhibit 3: Actuals versus estimates (INR mn)

Year to March	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Nuvama estimates	Deviation (%)	Consensus	Deviation (%)
Net Revenue	**88,051**	**80,162**	**9.8**	**85,452**	**3.0**	**88,099**	**(0.1)**	**87,062**	**1.1**
Cost of revenue	39,911	32,393	23.2	36,825	8.4	38,568	3.5		
Gross profit	48,140	47,769	0.8	48,627	(1.0)	49,532	(2.8)		
Gross Margin (%)	54.7	59.6	(492)	56.9	(223)	56.2	(155.0)		
SG&A	26,436	23,007	14.9	25,647	3.1	25,108	5.3		
R&D	6,202	7,271	(14.7)	6,244	(0.7)	7,048	(12.0)		
Total expenses	72,549	62,671	15.8	68,716	5.6	70,724	2.6		
EBITDA Computed	**21,957**	**22,390**	**(1.9)**	**21,501**	**2.1**	**22,023**	**(0.3)**	**21,577**	**1.8**
EBITDA margin (%)	**24.9**	**27.9**	**(299.4)**	**25.2**	**(22.5)**	**25.0**	**(6.1)**	**24.8**	**15**
Other (income)/exp	-2,011	-60	3,251.7	-739	172.1	-352	470.7		
Depreciation	5,713	4,899	16.62	4,765	19.9	4,647.0	22.9		
EBIT	19,809	17,965	10.3	18,758	5.6	17,728	11.7		
Interest expense	774	1,555	(50.2)	1,570	(50.7)	-1,526	(150.7)		
Share of profit to investees	63	61	-	2	-	60	5.0		
Profit before tax	20,646	19,520	5.8	20,330	1.6	19,314	6.9		
Less: Provision for Tax	4,082	5,752	(29.0)	4,951	(17.6)	4,828	(15.5)		
Reported Profit	**14,268**	**13,415**	**6.4**	**14,096**	**1.2**	**14,485**	**(1.5)**	**13,975**	**2.1**
Adjusted Profit	**15,114**	**12,946**	**17**	**14,178**	**7**	**14,485**	**4.3**	**13,975**	**8.2**
Adjusted Diluted EPS	**18.1**	**15.5**	**16.7**	**17.0**	**6.6**	**17**	**4.3**		

Source: Company, Nuvama Research

Exhibit 4: SotP-based target price (INR)

Particulars	INR
FY27 : Core EPS	57.8
Target PE	24
Core business value	1,409
Revlimid NPV	66
TP	**1,475**

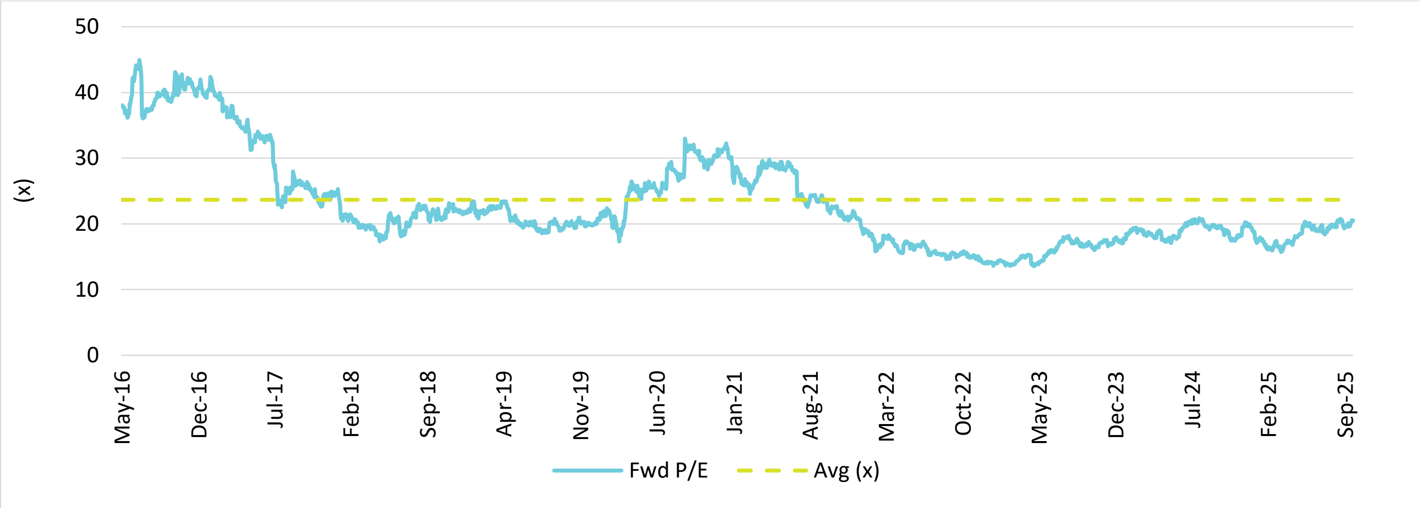
Source: Company, Nuvama Research

Exhibit 5: Quarterly snapshot (INR mn)

Year to March	Q2FY26	Q2FY25	% change	Q1FY26	% change	FY25	FY26E	FY27E
Net Revenue	**88,051**	**80,162**	**9.8**	**85,452**	**3.0**	**3,25,535**	**3,43,516**	**3,40,008**
Cost of revenue	39,911	32,393	23.2	36,825	8.4	1,35,107	1,56,597	1,60,098
Gross profit	48,140	47,769	0.8	48,627	(1.0)	1,90,428	1,86,919	1,79,910
Gross margin	54.7	59.6	(491.8)	56.9	(223.3)	58	54	53
SG&A	26,436	23,007	14.9	25,647	3.1	93,870	99,687	93,668
R&D	6,202	7,271	(14.7)	6,244	(0.7)	27,380	24,914	24,821
Total expenses	72,549	62,671	15.8	68,716	5.6	2,56,357	2,81,198	2,78,587
EBITDA Computed	**21,957**	**22,390**	**(1.9)**	**21,501**	**2.1**	**86,236**	**86,350**	**82,630**
EBITDA margin (%)	**24.9**	**27.9**	**(299.4)**	**25.2**	**(22.5)**	**26.5**	**25.1**	**24.3**
EBITDA Reported	**23,511**	**22,804**	**3.1**	**22,784**	**3.2**			
EBITDA margin (%)	**26.7**	**28.4**	**(174.6)**	**26.7**	**3.9**			
Other (income)/exp	-2,011	-60	3,251.7	-739	172.1	-2,665	-3,430	-1,360
Depreciation	5,713	4,899	16.6	4,765	19.9	17,058	18,588	19,849
EBIT	19,809	17,965	10.3	18,758	5.6	71,843	65,749	62,781
Financial income	1,681	2,312	(27.3)	2,400	(30.0)	7,553	6,687	9,068
Financial expense	-907	-757	19.8	-830	9.3	-2,829	-3,608	-8,582
Interest expense/income	774	1,555	(50.2)	1,570	(50.7)	4,724	3,079	486
Share of profit to investees	63	61		2		217	185	240
Profit before tax	20,646	19,520	5.8	20,330	1.6	76,784	69,013	63,507
Less: Provision for Tax	4,082	5,752	(29.0)	4,951	(17.6)	19,539	16,779	15,718
Reported Profit (for company)	**14,268**	**13,415**	**6.4**	**14,096**	**1.2**	**48,991**	**45,897**	**39,122**
Adjusted Profit	**15,114**	**12,946**	**16.7**	**14,178**	**6.6**	**54,828**	**53,326**	**48,190**
No. of Diluted shares outstanding	**834**	**834**		**834**		**834**	**834**	**834**
Adjusted Diluted EPS	**18.1**	**15.5**	**16.7**	**17.0**	**6.6**	**65.7**	**63.9**	**57.8**
as % of revenues								
Cost of revenue	45.3	40.4	491.8	43.1	223.3	41.5	45.6	47.1
SG&A	30.0	28.7	132.3	30.0	1.0	28.8	29.0	27.5
R&D	7.0	9.1	-202.7	7.3	-26.3	8.4	7.3	7.3
Total operating expenses	82.4	78.2	421.4	80.4	198.0	78.7	81.9	81.9
Gross profit	54.7	59.6	-491.8	56.9	-223.3	58.5	54.4	52.9
Operating profit	22.5	22.4	8.6	22.0	54.6	22.1	19.1	18.5
Net profit	16.2	16.7	-53.1	16.5	-29.2	15.0	13.4	11.5
Tax rate	19.8	29.5	(969.6)	24.4	(458.2)	25.4	24.3	24.7

Source: Company, Nuvama Research

Exhibit 6: DRRD continues to trade below its long-term average P/E as limited period earnings from gRevlimid are set to end soon



Source: Nuvama Research, Bloomberg

Company Description

Dr Reddy's is one of the largest Indian generic companies in the world with presence in more than 40 countries. The US is its largest market, contributing 40% of its revenues. It has one of the largest complex generic portfolios among Indian generic players, which has enabled it to become a prominent generic player in the US. Russia and India are the two other key geographies, where it has significant presence. Apart from strengths in developing niche generic products, vertical integration into APIs has enabled it to become a global generic powerhouse. It operates 30 facilities (10 US FDA approved) and is actively supported by an extensive R&D programme. It also has a deep biosimilar pipeline.

Investment Theme

We see that Dr. Reddy's (DRRD) is fully prepared to minimise Revlimid IP expiry impact by increased organic spend on developmental assets and by acquisition of NRT business. Dr. Reddy's plans to launch 1) Semaglutide in Canada in Jan-26, 2) Abatacept biosimilar in FY27E. In India DRRD can benefit from vaccine distribution, Nestle JV, launches of in-licensed products and field force expansion. European business can benefit from biosimilar launches, NRT business growth and facility expansions. With expiry of Revlimid coming close, we reckon DRRD's proactive measures shall mitigate large part of the expected EBITDA impact that was dependent on gRevlimid.

Key Risks

- Delay in approval of key complex products
- Higher price erosion/competition in the US products
- Failure to obtain approvals for biosimilars and delays in ramp-up of proprietary pipeline
- Currency fluctuation

Additional Data

Management

Chairman	K Satish Reddy
Co Chairman and MD	GV Prasad
CEO	Mr. Erez Israeli
CFO	M V Narasimham
Auditor	S.R. Batliboi & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
ICICI Pru AMC	4.39	PPFAS	1.45
Blackrock	2.94	Mirae	1.29
Vanguard	2.67	First Sentier I	1.12
Nippon Life	1.91	UTI AMC	0.92
SBI Funds	1.47	Norges	1.06

**Latest public data*

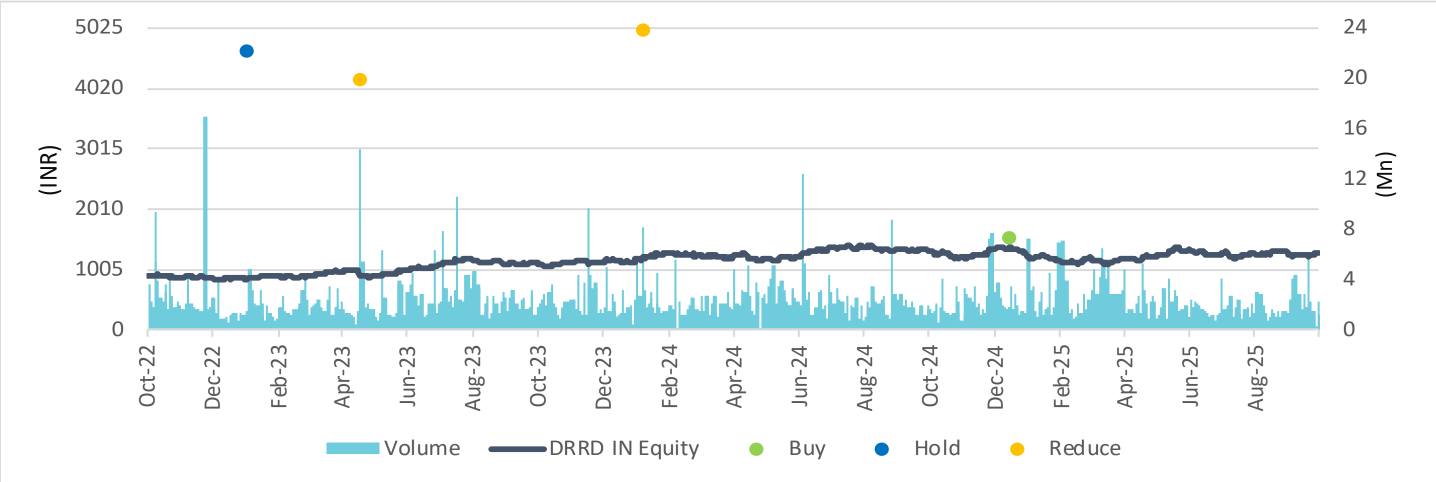
Recent Company Research

Date	Title	Price	Reco
23-Jul-25	Misses numbers; new drivers in place ; *Result Update*	1,247	Buy
18-Jul-25	Converting gRevlimid cash to new trigger; *Visit Note*	1,263	Buy
10-May-25	Mixed results; margins fall short; *Result Update*	1,155	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
23-Oct-25	Cipla	Eli Lilly deal: A weighty growth affair; *Company Update*
07-Oct-25	Pharmaceuticals	Q2FY26: A low-key quarter for pharma; *Sector Update*
01-Oct-25	Pharmaceuticals	Pfizer-US deal provides temporary relief; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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