

October 27, 2025

Impending Lenalidomide cliff; future launches critical to fill the void...

About the stock: Dr Reddy's (DRL) business encompasses generic formulations sales across US, Europe, RoW markets and branded generics in India and Russia CIS. The business also comprises of API sales under the head PSAI. The company is increasingly looking to expand its global portfolio with biosimilar and complex formulation offerings.

- Revenue breakup Q2FY26: US (~37%), India (~18%), Russia and CIS (~12%), Europe (~8%), RoW (~6%), PSAI (~11%) and NRT portfolio (~8%)
- It owns 14 formulation facilities, 9 API manufacturing facilities, one biologics facility and several R&D centres across the globe.

Investment Rationale:

- **Q2FY26- Muted numbers (ex-acquisition); Outlook optimistic-** Revenues grew ~10% YoY to ₹ 8828 crore driven by 138% growth in the Europe market to ₹ 1376 crore due to consolidation of Nicotine Replacement Therapy (NRT) portfolio. Excluding this acquisition, the growth was just ~1% positively impacted by growth in India, Russia, Europe; and neutralised by de-growth in the US which de-grew 13% to ₹ 3241 crore due to increased price erosion in certain key products including Lenalidomide (gRevlimid- cancer drug). India grew 13% to ₹ 1578 crore while Russia also did well with a growth of 26% to ₹ 870 crore. Europe ex-NRT stood at ₹676 crore growing 17% while RoW de-grew ~2% to ₹ 550 crore due to pricing pressure. EBITDA growth was flat YoY to ₹ 2077 crore and margins declined 230 bps to 23.5 mainly due to 594 bps decline in GPM (64.6%) which was attributable to higher price erosion in some generics in US; lower sales in gRevlimid and increase in SG&A expenses on account of costs associated with sales and marketing and new business initiatives. Net profit was down 0.4% YoY to ₹ 1337 crore.
- **Niche launches, in-licensing deals, acquisitions to determine the growth path-** But for the US performance which obviously got impacted by pricing pressure in Lenalidomide, the overall print was decent. The pressure on margins is both transient and strategic. The management has firm plans for GLP 1 opportunities, biosimilars and innovative products to be launched across the world. The idea is to fill the possible void after the complete genericization of gRevlimid (double digit growth guidance ex-US). R&D is expected to be around ~7-7.5% of the revenues with a possible recalibration as more focus on complex products. Overall, we believe DRL's capability of complex launches (at least 20 out of 100 in the pipeline) on a consistent basis across geographies to be the key determinant for overall performance. This, we believe is expected to be visible from FY28 onwards.

Rating and Target price

- Our target price is ₹ 1510 based on 24x FY27E EPS of 63.

Key Financial Summary

| Key Financials (₹ crore) | FY23 | FY24 | FY25 | 2 year CAGR (FY23-25) | FY26E | FY27E | 2 year CAGR (FY25-27E) |
|--------------------------|---------|---------|---------|-----------------------|---------|---------|------------------------|
| Revenues | 24669.7 | 28011.1 | 32644.0 | 15.0 | 34396.3 | 36192.3 | 5.3 |
| EBITDA | 6348.9 | 7924.7 | 8477.9 | 15.6 | 8168.7 | 7781.3 | -4.2 |
| EBITDA Margins (%) | 25.7 | 28.3 | 26.0 | | 23.7 | 21.5 | |
| Adjusted PAT | 4470.2 | 5563.2 | 5703.5 | 13.0 | 5419.7 | 5258.2 | -4.0 |
| EPS (Adjusted) | 53.6 | 66.7 | 68.4 | | 65.0 | 63.0 | |
| PE (x) | 23.7 | 19.2 | 18.7 | | 19.7 | 20.3 | |
| RoE (%) | 19.2 | 19.7 | 17.0 | | 15.0 | 12.9 | |
| RoCE (%) | 21.2 | 21.8 | 18.4 | | 15.5 | 13.8 | |

Source: Company, ICICI Direct Research

Dr.Reddy's



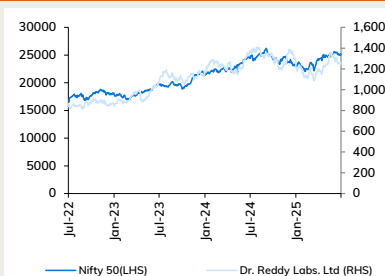
Particulars

| Particular | Amount |
|---------------------------|---------------|
| Market Capitalisation | ₹106752 crore |
| Debt (FY25) | ₹4677 crore |
| Cash & equivalents (FY25) | ₹1465 crore |
| EV | ₹109963 crore |
| 52 week H/L (₹) | 1405/1020 |
| Equity capital | ₹83.4 crore |
| Face value | ₹1 |

Shareholding pattern

| (in %) | Dec-24 | Mar-25 | Jun-25 | Sep-25 |
|----------|--------|--------|--------|--------|
| Promoter | 26.6 | 26.6 | 26.6 | 26.6 |
| FII's | 26.9 | 25.8 | 25.3 | 24.7 |
| DII's | 22.9 | 25.6 | 26.7 | 28.0 |
| Others | 23.6 | 22.0 | 21.3 | 20.7 |

Price Chart



Key risks

- Slower ramp up in new launches especially in the US
- Increasing intangible component on the balance sheet due to licensing deals

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Exhibit 1: Quarterly Summary

| ₹ Crore | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 | Q4FY24 | Q1FY25 | Q2FY25 | Q3FY25 | Q4FY25 | Q1FY26 | Q2FY26 | YoY (%) | QoQ (%) |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Total Operating Income | 6331.8 | 6789.8 | 6315.2 | 6757.9 | 6902.6 | 7236.8 | 7113.8 | 7696.1 | 8038.3 | 8381.2 | 8528.4 | 8572.1 | 8828.3 | 9.8 | 3.0 |
| Raw Material Expenses | 1847.0 | 2001.4 | 1898.1 | 1937.6 | 2003.0 | 2176.0 | 2092.1 | 2181.7 | 2366.7 | 2581.5 | 2850.0 | 2807.5 | 3123.7 | 32.0 | 11.3 |
| % of Revenues | 29.2 | 29.5 | 30.1 | 28.7 | 29.0 | 30.1 | 29.4 | 28.3 | 29.4 | 30.8 | 33.4 | 32.8 | 35.4 | 594 bps | 263 bps |
| Gross Profit | 4484.8 | 4788.4 | 4417.1 | 4820.3 | 4899.6 | 5060.8 | 5021.7 | 5514.4 | 5671.6 | 5799.7 | 5678.4 | 5764.6 | 5704.6 | 0.6 | -1.0 |
| Gross Profit Margins (%) | 70.8 | 70.5 | 69.9 | 71.3 | 71.0 | 69.9 | 70.6 | 71.7 | 70.6 | 69.2 | 66.6 | 67.2 | 64.6 | -594 bps | -263 bps |
| Employee expenses | 1151.7 | 1173.2 | 1276.0 | 1189.7 | 1280.3 | 1276.4 | 1283.6 | 1413.7 | 1399.2 | 1366.5 | 1400.6 | 1503.5 | 1452.1 | 3.8 | -3.4 |
| % of Revenues | 18.2 | 17.3 | 20.2 | 17.6 | 18.5 | 17.6 | 18.0 | 18.4 | 17.4 | 16.3 | 16.4 | 17.5 | 16.4 | -96 bps | -109 bps |
| Other expenses | 1434.2 | 1663.3 | 1607.2 | 1568.5 | 1611.0 | 1761.3 | 1906.9 | 1970.3 | 2195.8 | 2160.2 | 2279.9 | 2087.5 | 2175.3 | -0.9 | 4.2 |
| % of Revenues | 22.7 | 24.5 | 25.4 | 23.2 | 23.3 | 24.3 | 26.8 | 25.6 | 27.3 | 25.8 | 26.7 | 24.4 | 24.6 | -268 bps | 29 bps |
| Total Expenditure | 4432.9 | 4837.9 | 4781.3 | 4695.8 | 4894.3 | 5213.7 | 5282.6 | 5565.7 | 5961.7 | 6108.2 | 6530.5 | 6398.5 | 6751.1 | 13.2 | 5.5 |
| % of Revenues | 70.0 | 71.3 | 75.7 | 69.5 | 70.9 | 72.0 | 74.3 | 72.3 | 74.2 | 72.9 | 76.6 | 74.6 | 76.5 | 230 bps | 183 bps |
| EBITDA | 1898.9 | 1951.9 | 1533.9 | 2062.1 | 2008.3 | 2023.1 | 1831.2 | 2130.4 | 2076.6 | 2273.0 | 1997.9 | 2173.6 | 2077.2 | 0.0 | -4.4 |
| EBITDA Margins (%) | 30.0 | 28.7 | 24.3 | 30.5 | 29.1 | 28.0 | 25.7 | 27.7 | 25.8 | 27.1 | 23.4 | 25.4 | 23.5 | -230 bps | -183 bps |
| Total Depreciation | 309.2 | 323.7 | 315.5 | 353.3 | 375.5 | 373.5 | 367.7 | 381.1 | 397.0 | 471.4 | 454.7 | 476.1 | 504.6 | 27.1 | 6.0 |
| Interest | 30.9 | 41.8 | 35.4 | 37.1 | 35.3 | 39.4 | 59.3 | 59.8 | 75.7 | 81.7 | 65.6 | 83.0 | 90.7 | 19.8 | 9.3 |
| Share of profit/ (loss) of equity accounted investees | 0.0 | 0.0 | -7.6 | -4.3 | -4.2 | -2.7 | -3.5 | -5.9 | -6.1 | -4.2 | -5.5 | -0.2 | -6.3 | | |
| Other income | 40.8 | 58.7 | 138.5 | 174.0 | 315.0 | 216.2 | 197.5 | 187.2 | 307.4 | 150.2 | 522.1 | 290.3 | 323.9 | | |
| EBT | 1599.6 | 1645.1 | 1329.1 | 1850.0 | 1916.7 | 1829.1 | 1605.2 | 1882.6 | 1917.4 | 1874.3 | 2005.2 | 1905.0 | 1812.1 | -5.5 | -4.9 |
| Total Tax | 499.4 | 393.8 | 369.0 | 445.0 | 434.5 | 448.2 | 295.4 | 490.2 | 575.5 | 470.1 | 418.5 | 495.1 | 408.0 | -29.1 | -17.6 |
| Tax % | 31.8 | 24.9 | 27.8 | 24.1 | 22.7 | 24.5 | 18.4 | 26.0 | 30.0 | 25.1 | 20.9 | 26.0 | 22.5 | | |
| PAT | 1100.2 | 1251.3 | 960.1 | 1405.0 | 1482.2 | 1380.9 | 1309.8 | 1392.4 | 1341.9 | 1404.2 | 1586.7 | 1409.9 | 1336.8 | -0.4 | -5.2 |
| No. of Equity Shares | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | 83.4 | | |
| EPS (Diluted) | 13.4 | 15.1 | 11.5 | 16.8 | 17.8 | 16.6 | 15.7 | 16.7 | 16.1 | 16.8 | 19.0 | 16.9 | 16.0 | | |

Source: Company, ICICI Direct Research

Q2FY26 Results / Conference call highlights

North America

- US performance was impacted by price erosion in select key products notably gRevlimid.
- The management expects gRevlimid sales in Q3 to be less sales than that in Q2. Q3 can be a last quarter of having gRevlimid impact or might spill over to Q4.
- DRL has ~100 products in US pipeline out of which, ~20 complex generics are under development. Pipeline focus is shifting towards biosimilars (Abatacept) and complex peptides (GLP-1 molecules)
- Base business growth was impacted by competition and price erosion in few products. Management expects no further rise in intensity of price erosion.

Biosimilar and Peptides

- The management is confident of Abatacept BLA filling by December 2025 and potential launch from multiple manufacturing sites (India + US CMO) to mitigate regulatory and tariff risks.
- For Abatacept, Bachupally will be registered as a manufacturing source and CMO will be tech transferred-to from Bachupally. CMO will enable DRL day 1 launch for Subcutaneous in the US.
- Semaglutide launch is expected in 2026 (pending Canada approval). For early commercial supply, DRL has a target of 12 million pens that is expandable post FY27.
- DRL is awaiting the final hearing for the litigation between DRL and Novo Nordisk related to Semaglutide in the Delhi High Court.
- DRL had challenged patent and the interim decision allows DRL to make Semaglutide in India and export to foreign countries.
- DRL expects Canada market for Semaglutide will be competitive as can be seen from these number of filers.

Europe

- The Europe business was driven by NRT and new product launches which offset the pricing pressure. Excluding NRT, Europe grew 6% YoY.

- DRL launched 8 new generics in Q2FY26.
- The management is expecting double digit growth in Europe on account of integration of NRT portfolio and launch of biosimilar products like Rituximab, Denosumab and Abatacept.
- DRL received positive feedback from EMA's CHMP for Denosumab biosimilar.

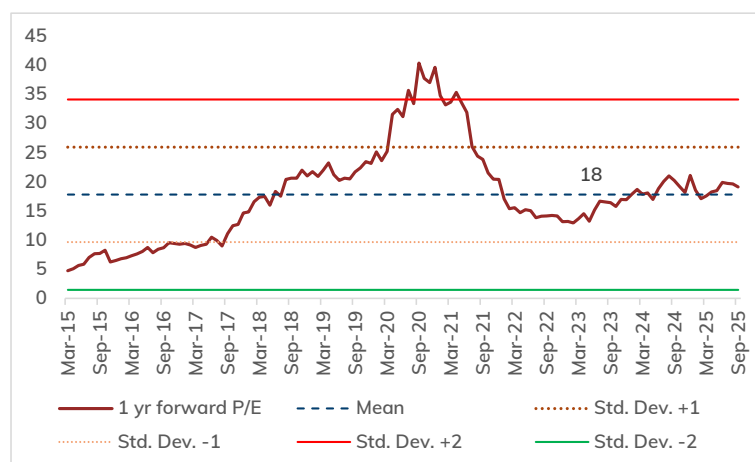
India

- 5% growth in India business was contributed from pricing and balance from new launches and higher volumes.
- The inorganic move of acquisition of Stugeron and related brands from Johnson and Johnson for 18 markets, including India as a key market for US\$ 50 million help them to expand the therapeutic presence.
- IPM grew 7.8% vs 9.8% growth of DRL in Q2FY26.
- Future Growth drivers for India business are expected to be legacy pipeline and acquired brands.
- DRL also received approval for Semaglutide injection in India recommended by SEC under CDSCO.

Other Aspects

- Exchange rate for the quarter was US\$ 1 = ₹88.78
- The R&D expense reduction was due to lower abatacept expenditure. R&D expenditure for Q2FY26 was 7% and is expected to stay in the same range.
- DRL has a net cash position of ₹2751 crore.
- 2/3rd of NRT business is integrated in Canada, Australia and other key markets, remaining markets of Southern Europe, Israel and Taiwan to be integrated in coming quarters.

Exhibit 2: 1-year forward PE band



Source: Company, ICICI Direct Research

Exhibit 3: Top 10 performing brands in India

| BRANDS | RANK | MAT SEP'22 | MAT SEP'23 | MAT SEP'24 | MAT SEP'25 |
|----------|------|------------|------------|------------|------------|
| ATARAX | 1 | 177.8 | 197.9 | 224.0 | 244.4 |
| VOVERAN | 2 | 248.2 | 244.1 | 239.0 | 239.0 |
| ECONORM | 3 | 149.3 | 190.3 | 209.7 | 230.9 |
| KETOROL | 4 | 130.3 | 156.8 | 202.7 | 226.0 |
| OMEZ | 5 | 199.7 | 209.7 | 218.1 | 215.6 |
| HEXAXIM | 6 | 101.0 | 135.8 | 155.3 | 187.3 |
| VENUSIA | 7 | 92.9 | 119.4 | 148.5 | 172.3 |
| ZEDEX | 8 | 121.1 | 135.6 | 140.8 | 164.4 |
| MENACTRA | 9 | 74.7 | 102.3 | 131.6 | 161.1 |
| OMEZ D+ | 10 | 0.0 | 1.6 | 120.6 | 156.7 |

Source: Company, ICICI Direct Research

Financial Tables

Exhibit 4: Profit and loss statement

₹ crore

| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | 28,011.1 | 32,644.0 | 34,396.3 | 36,192.3 |
| Growth (%) | 13.5 | 16.5 | 5.4 | 5.2 |
| Raw Material Expenses | 8,208.7 | 9,979.9 | 11,879.8 | 13,029.2 |
| Employee expenses | 5,030.0 | 5,580.0 | 5,751.1 | 6,152.7 |
| Other expenses | 6,847.7 | 8,606.2 | 8,596.8 | 9,229.0 |
| Total Operating Expenditure | 20,086.4 | 24,166.1 | 26,227.7 | 28,410.9 |
| EBITDA | 7,924.7 | 8,477.9 | 8,168.7 | 7,781.3 |
| Growth (%) | 24.8 | 7.0 | -3.6 | -4.7 |
| Interest | 171.1 | 282.8 | 355.1 | 234.5 |
| Depreciation | 1,470.0 | 1,704.2 | 2,000.2 | 2,014.3 |
| PBT before Exceptional Items | 7,186.3 | 7,657.8 | 7,120.1 | 6,907.9 |
| Share of profit/ (loss) of equity | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT | 7,186.3 | 7,657.8 | 7,120.1 | 6,907.9 |
| Total Tax | 1,623.1 | 1,954.3 | 1,700.4 | 1,649.7 |
| PAT | 5,563.2 | 5,703.5 | 5,419.7 | 5,258.2 |
| Adjusted PAT | 5,563.2 | 5,703.5 | 5,419.7 | 5,258.2 |
| Growth (%) | 24.5 | 2.5 | -5.0 | -3.0 |
| EPS | 66.7 | 68.4 | 65.0 | 63.0 |
| EPS (Adjusted) | 66.7 | 68.4 | 65.0 | 63.0 |

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement

₹ crore

| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Profit/(Loss) after taxation | 5,196.3 | 5,680.2 | 5,419.7 | 5,258.2 |
| Add: Depreciation & Amortization | 1,470.0 | 1,703.7 | 2,000.2 | 2,014.3 |
| Net Increase in Current Assets | -2,649.9 | -2,303.6 | -2,760.6 | -1,806.2 |
| Net Increase in Current Liabilities | 631.7 | -695.3 | 1,270.3 | 669.6 |
| CF from operating activities | 4,543.3 | 4,642.8 | 6,284.7 | 6,370.3 |
| (Inc)/dec in Fixed Assets | -2,637.1 | -3,388.6 | -3,832.3 | -2,220.0 |
| (Inc)/dec in Investments | -1,570.4 | 2,511.8 | -650.2 | -780.0 |
| Others | 179.2 | -4,225.3 | 1,080.8 | -5.1 |
| CF from investing activities | -4,028.3 | -5,102.1 | -3,401.7 | -3,005.1 |
| Inc / (Dec) in Equity Capital | 80.5 | -119.6 | 0.1 | 0.0 |
| Inc / (Dec) in Loan | 434.6 | 2,319.6 | 13.6 | 0.0 |
| Dividend & Dividend Tax | -664.8 | -666.2 | -667.2 | -667.2 |
| Others | -226.6 | -348.3 | -355.1 | -234.5 |
| CF from financing activities | -376.3 | 1,185.5 | -1,008.6 | -901.7 |
| Net Cash flow | 132.8 | 726.2 | 1,874.4 | 2,463.5 |
| Opening Cash | 577.9 | 710.7 | 1,465.4 | 990.6 |
| Closing Cash | 710.7 | 1,465.4 | 3,339.8 | 3,454.1 |
| Free Cash Flow | 1,906.2 | 1,254.2 | 2,452.4 | 4,150.3 |
| FCF Yield | 1.8% | 1.2% | 2.3% | 3.9% |

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet

₹ crore

| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Equity Capital | 83.4 | 83.4 | 83.5 | 83.5 |
| Net Network | 28,171.4 | 33,876.5 | 35,930.5 | 40,521.5 |
| Total Shareholders fund | 28,254.8 | 33,925.9 | 36,014.0 | 40,605.0 |
| Total Debt | 2,002.0 | 4,676.6 | 4,690.2 | 4,690.2 |
| Deferred Tax Liability | 84.1 | 1,403.8 | 1,478.8 | 1,538.0 |
| Other Non Current Liabilities | 314.0 | 245.4 | 1,376.9 | 1,432.0 |
| Long term Provisions | 23.9 | 30.8 | 41.1 | 41.7 |
| Source of Funds | 30,679 | 40,283 | 43,959 | 48,666 |
| Gross Block - Fixed Assets | 24,260.2 | 33,001.4 | 37,302.5 | 38,872.5 |
| Accumulated Depreciation | 14,384.7 | 16,088.9 | 18,089.1 | 20,103.4 |
| Net Block | 9,875.5 | 16,912.5 | 19,213.4 | 18,769.1 |
| Capital WIP | 1,419.3 | 2,465.6 | 1,996.8 | 2,646.8 |
| Net Fixed Assets | 11,294.8 | 19,378.1 | 21,210.2 | 21,415.9 |
| Goodwill | 550.1 | 1,313.9 | 1,403.9 | 1,403.9 |
| Investments | 4,930.5 | 4,051.1 | 4,701.3 | 5,481.3 |
| Inventory | 6,355.2 | 7,108.5 | 7,582.2 | 8,567.2 |
| Cash | 710.7 | 1,465.4 | 990.6 | 3,454.1 |
| Debtors | 8,029.8 | 9,042.0 | 9,775.4 | 10,411.5 |
| Loans & Advances & Other CA | 4,287.6 | 3,076.7 | 4,630.2 | 4,815.4 |
| Total Current Assets | 20,400.3 | 21,687.4 | 24,034.2 | 28,303.9 |
| Creditors | 2,614.4 | 2,647.8 | 3,532.3 | 3,926.6 |
| Provisions & Other CL | 5,150.6 | 6,495.8 | 6,881.6 | 7,156.9 |
| Total Current Liabilities | 8,185.0 | 9,143.6 | 10,413.9 | 11,083.5 |
| Net Current Assets | 12,215.3 | 12,543.8 | 13,620.3 | 17,220.4 |
| LT L&A, Other Assets | 630.3 | 1,163.6 | 768.4 | 799.1 |
| Deferred Tax Assets | 1,057.8 | 1,832.5 | 2,255.2 | 2,345.4 |
| Application of Funds | 30,679 | 40,283 | 43,959 | 48,666 |

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

| (Year-end March) | FY24 | FY25 | FY26E | FY27E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 66.7 | 68.4 | 65.0 | 63.0 |
| BV per share | 338.8 | 402.3 | 431.8 | 486.9 |
| Operating Ratios (%) | | | | |
| Gross Profit Margins | 70.7 | 69.4 | 65.5 | 64.0 |
| EBITDA margins | 28.3 | 26.0 | 23.7 | 21.5 |
| Net Profit margins | 19.9 | 17.5 | 15.8 | 14.5 |
| Inventory days | 282.6 | 260.0 | 233.0 | 240.0 |
| Debtor days | 104.6 | 101.1 | 103.7 | 105.0 |
| Creditor days | 116.2 | 96.8 | 108.5 | 110.0 |
| Asset Turnover | 1.2 | 1.0 | 0.9 | 0.9 |
| EBITDA conversion Rate | 57.3 | 54.8 | 76.9 | 81.9 |
| Return Ratios (%) | | | | |
| RoE | 19.7 | 17.0 | 15.0 | 12.9 |
| RoCE | 21.8 | 18.4 | 15.5 | 13.8 |
| RoIC | 31.5 | 24.9 | 19.9 | 13.8 |
| Valuation Ratios (x) | | | | |
| P/E | 19.2 | 18.7 | 19.7 | 20.3 |
| EV / EBITDA | 13.1 | 12.6 | 19.7 | 13.3 |
| EV / Revenues | 3.7 | 3.3 | 3.1 | 2.9 |
| Market Cap / Revenues | 3.8 | 3.3 | 3.1 | 2.9 |
| Price to Book Value | 3.8 | 3.2 | 3.0 | 2.6 |
| Solvency Ratios | | | | |
| Debt / Equity | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt / EBITDA | 0.3 | 0.6 | 0.6 | 0.6 |
| Current Ratio | 2.3 | 2.1 | 2.1 | 2.1 |
| Quick Ratio | 1.5 | 1.3 | 1.4 | 1.4 |
| Working Capital Cycle | 271.0 | 264.2 | 228.2 | 235.0 |

Source: Company, ICICI Direct Research

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