

Weak Performance in North America

Est. vs. Actual for Q1FY26: Revenue – **INLINE**; EBITDA Margin – **INLINE**; PAT – **MISS**

Changes in Estimates Post Q1FY26:

FY26E/FY27E: Revenue: 0.7%/0.9%; EBITDA Abs: 0.7%/0.9%; PAT: 0.8%/1.1%

Recommendation Rationale

- **North America Business:** The U.S. business reported sales of \$398 Mn, reflecting headwinds with an 11% YoY overall revenue decline due to price erosion in key products, including gRevlimid. This was partially cushioned by new product launches and volume expansion.
- **India Business:** India business sales grew by 11% YoY. Growth for the quarter was driven by the introduction of new products, price increases, and commercial execution. During the quarter, Dr Reddy's has launched five new brands. Moreover, the company has outperformed IPM (8.6%), maintaining its 10th Rank.
- **Emerging Markets:** Q1FY26 revenue stood at Rs 1,404 Cr, grew 18% YoY, but was flat QoQ. The growth was largely driven by increased volumes of existing products, gains from new launches across multiple countries and favourable foreign exchange. QoQ performance remained stable as the gains from new product launches and favourable prices were largely offset by softer volume growth.
- **R&D investment for Q1FY26:** The company has invested Rs 624 Cr in R&D, reflecting a 7.3% YoY increase, driven by continued focus on complex assets such as GLP-1 and biosimilars.

Sector Outlook: Positive

Company Outlook & Guidance: We expect multiple levers to support the company's revenue growth trajectory going forward. The biosimilar segment remains a key growth driver, with two biosimilars slated for launch in Europe, each having the potential to contribute \$40–50 Mn in sales in FY26E. Additionally, Denosumab, scheduled for launch in FY27E, is estimated to generate \$50 Mn in annual sales. Another structural growth catalyst is the GLP-1 segment, currently a \$10 Bn market, which is expected to grow 5x over the next 5–6 years, offering significant upside potential.

Current Valuation: PE of 18.5x for FY27E earnings (earlier 17x/FY27E)

Current TP: Rs 1,360/share (Earlier TP: Rs 1250/share)

Recommendation: HOLD

Financial Performance

The company reported an 11.4% YoY revenue growth, aided by the acquired NRT business, which contributed Rs 669 Cr. Excluding NRT, the underlying revenue growth stood at 2.7% YoY. North American operations witnessed degrowth due to pricing pressure in key products. The India business grew 11% YoY, while the Europe business, excluding NRT, posted a robust 15% YoY increase. The Emerging Markets and API businesses also delivered healthy YoY growth of 18% and 7%, respectively.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	8,572	0.5	11.4	8,448	1.5
EBITDA	2,174	8.8	2.1	2,110	3.0
EBITDA Margin	25.4%	193	-232	25.0%	
Net Profit	1,410	-11.2	1.2	1,485	-5.1
EPS (Rs)	16.9	-11.2	1.2	17.8	-5.1

Source: Company, Axis Securities Research

(CMP as of 23rd July, 2025)

CMP (Rs)	1,248
Upside /Downside (%)	9%
High/Low (Rs)	1421/1020
Market cap (Cr)	1,04,150
Avg. daily vol. (6m)Shrs.	5,00,000
No. of shares (Cr)	83.20

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	26.6	26.6	26.6
FII's	26.9	25.8	25.3
MFs / UTI	11.1	12.9	13.6
Banks / FI's	0.2	0.2	0.0
Others	35.2	34.5	34.4

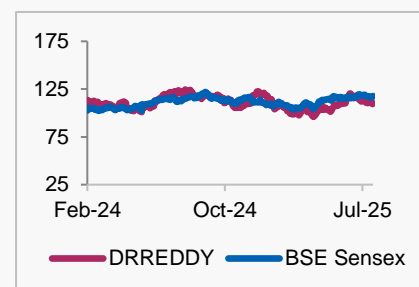
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	32,644	33,854	35,204
EBITDA	8,547	9,141	9,611
Net Profit	5,725	5,811	6,124
EPS (Rs)	69	70	73
PER (x)	18.2	17.9	17.0
P/BV (x)	12.4	11.5	10.5
EV/EBITDA (x)	3.1	2.7	2.3
ROE (%)	16.9	14.9	13.8

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0.7%	0.9%
EBITDA	0.7%	0.9%
PAT	0.8%	1.1%

Relative Performance



Source: Ace Equity, Axis Securities Research

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Financial Performance (Cont'd)

Gross margins for Q1FY26 were at ~67.2%, down 440 bps YoY but up 67 bps QoQ, primarily impacted due to higher price erosion in the generics segment and reduced operating leverage, partially offset by favourable product mix. Gross margins are also affected by the PSAI segment, which reported margin compression. EBITDA came in at Rs 2,174 Cr, translating to a margin of 25.4%, down 232 bps YoY but improvement of 193 bps QoQ. Reported PAT stood at Rs 1,410 Cr.

Outlook

Multiple growth levers are expected to support Dr. Reddy's revenue trajectory over the coming years. The biosimilar segment remains a key driver, with plans to launch two biosimilars in Europe, each projected to contribute \$40–50 Mn in sales by FY26E. Additionally, Denosumab, a biosimilar expected to launch in FY27E, is estimated to generate \$50 Mn in sales. The GLP-1 segment, currently valued at \$10 Bn, is projected to grow 5x over the next 5–6 years. To capitalise on this opportunity, DRRD is investing Rs 2,500 Cr in the GLP-1 API segment, with a revenue potential of \$150–200 Mn in FY27E. While the anticipated decline in gRevlimid sales poses a near-term headwind, it is expected to be mitigated by strong growth in the GLP-1 and biosimilar segments. However, operational margin pressures and the gRevlimid cliff remain near-term challenges.

Valuation & Recommendation

We **maintain our HOLD recommendation** on with a target price of Rs 1,360/share, implying an upside potential of **9%** from the CMP.

Key Con-call Highlights

Growth Outlook:

Consolidated revenue grew 11% YoY but was flat QoQ. US generics business saw a 17% YoY decline and 4% sequential decline due to pricing erosion and timing of product procurement. However, the company expects pick-up in new product launches to drive recovery and growth in the US segment during FY26. European generics business grew 124% YoY, supported by new product launches and the acquisition of the Nicotine Replacement Therapy (NRT) business. Emerging markets reported 10% YoY growth, backed by volume growth and new launches, with Russia up 17% YoY. India business showed strong double-digit growth of 11% YoY and 13% QoQ, driven by new product launches and pricing. Pharma Services and Active Ingredients business expects to return to double-digit growth for FY26 after seasonal softness. The overall focus remains on strengthening the base business, key pipeline assets (Semaglutide, Abatacept), and expanding presence in consumer healthcare, biosimilars, and complex generics.

Q1FY26 New Launches:

US market: 5 new product launches with more expected during the year, supporting the sales recovery. In Europe, 13 new generic product launches, strengthening portfolio and growth momentum. Emerging markets: 26 new product launches across multiple countries. In India, 5 new brands launched, including two innovative products-Beyfortus (RSV vaccine) and Sensimmune.

Biosimilars pipeline focuses on complex generics such as GLP-1 group and immunomodulators. Collaboration with Algotec for pembrolizumab biosimilar co-development was highlighted as a key strategic initiative. The company has filed 12 Drug Master Files and 11 Global Generic filings in the quarter, emphasising continued R&D and pipeline strengthening.

R&D Investment:

R&D spend guidance for FY26 is maintained at 7% to 7.5% of sales to support complex generics, biosimilars, and innovative therapy development.

Regulatory and Operational Updates:

USFDA inspections at Middleburgh API and Miryalaguda API facilities resulted in Form 483 observations; responses have been submitted. Also, USFDA inspection at Srikakulam formulation facility resulted in observations; response to follow.

Key Risks to Our Estimates and TP

- The USFDA inspection and issuing of WL/OAI or 483 observations may impact the company's revenue growth.
- Entry of new players may increase pricing pressure in the injectables portfolio.
- Delay in launching biosimilars in the market.

Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	33,854	35,204	33,615	34,886	0.7%	0.9%
EBITDA	9,141	9,611	9,076	9,524	0.7%	0.9%
PAT	5,811	6,124	5,763	6,059	0.8%	1.1%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Net Sales	7,696	8,038	8,381	8,528	8,572	11.4	0.5
Growth (YoY%)	13.9%	16.5%	15.8%	19.9%	11.4%		
Total Expenditure	5,566	5,962	6,108	6,531	6,399	15.0	-2.0
Raw Material Consumed	2,182	2,367	2,582	2,850	2,808	28.7	-1.5
% of sales	28.3%	29.4%	30.8%	33.4%	32.8%		
Gross margins (%)	71.7%	70.6%	69.2%	66.6%	67.2%	-440	67
Employee Expenses	1,414	1,399	1,367	1,401	1,504	6.4	7.3
% of sales	18.4%	17.4%	16.3%	16.4%	17.5%		
Other Expenses	1,970	2,103	2,161	2,203	2,088	5.9	-5.2
% of sales	25.6%	26.2%	25.8%	25.8%	24.4%		
Impertinent Costs	1	92	-0	77	0		
% of sales	0.0%	1.1%	0.0%	0.9%	0.0%		
R&D Expenses	557	727	666	730	624		
% of sales	7.2%	9.0%	7.9%	8.6%	7.3%		
EBITDA	2,130	2,077	2,273	1,998	2,174	2.1	8.8
EBITDAM (%)	27.7%	25.8%	27.1%	23.4%	25.4%	-232	193
Interest	60	76	82	66	83		
Depreciation	381	397	471	455	476		
Other Income	187	308	150	522	290		
PBT	1,877	1,911	1,870	2,000	1,905	1.5	-4.7
Tax	490	576	470	419	495		
Tax (%)	26.1%	30.1%	25.1%	20.9%	26.0%		
Reported PAT	1,387	1,336	1,400	1,581	1,410	1.7	-10.8
Associate Profit	6	6	4	6	0		
PAT after Eol	1,392	1,342	1,404	1,587	1,410	1.2	-11.2

Source: Company, Axis Securities Research

Geographical Breakup

(Rs Cr)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Global Generics	6,886	7,158	7,375	7,536	7,562	23.6	9.8
North America	3,846	3,728	3,383	3,559	3,412	4.6	-11.3
Europe (Inc NRT*)	527	577	1,210*	1,275*	1,274*	144.7	142.1
India	1,325	1,397	1,346	1,305	1,471	30.6	11.0
Emerging Markets	1,188	1,455	1,436	1,398	1,404	16.1	18.2
PSAI	766	841	822	956	818	4.4	6.8

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net sales	32,644	33,854	35,204	37,497
Other operating income	0	0	0	0
Net Revenue	32,644	33,854	35,204	37,497
Cost of goods sold	9,980	10,156	10,456	10,987
Contribution (%)	30.57%	30.00%	29.70%	29.30%
Other operating costs	14,117	14,557	15,138	16,124
EBITDA	8,547	9,141	9,611	10,387
Other income	1,097	700	750	800
PBIDT	9,644	9,841	10,361	11,187
Depreciation	1,704	1,760	1,880	1,996
Interest & Fin Chg.	283	315	301	287
E/o income / (Expense)	0	0	0	0
Pre-tax profit	7,658	7,766	8,180	8,904
Tax provision	1,954	1,984	2,090	2,276
(-) Minority Interests	0	0	0	0
Associates	22	28	34	39
Adjusted PAT	5,725	5,811	6,124	6,667

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Share Capital	83	83	83	83
Reserves & Surplus	33,844	38,990	44,449	50,452
Net Worth	33,927	39,073	44,533	50,535
Total Loan funds	4,696	4,496	4,296	4,096
Deferred Tax Liability	1,404	84	84	84
Long Term Provisions	30	30	30	30
Other Long-Term Liability	226	278	289	308
Capital Employed	49,427	54,656	60,353	66,899
Gross Block	17,961	19,461	21,061	22,611
Less: Depreciation	10,662	12,122	13,702	15,397
Net Block	7,298	7,339	7,359	7,213
Investments	3,331	4,405	4,846	5,330
Sundry Debtors	9,042	9,924	10,127	10,787
Cash & Bank Bal	2,460	3,368	7,894	12,586
Loans & Advances	0	0	0	0
Inventory	7,109	7,420	7,716	8,219
Other Current Assets	3,077	5,078	5,281	5,625
Total Current Assets	13,034	14,484	14,811	15,435
CurrLiab&Prov	25,018	30,196	35,864	42,546
Net Current Assets	11,984	15,712	21,053	27,111
Total Assets	49,427	54,665	60,371	66,926

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
PBT	7,680	7,794	8,214	8,943
Add: Depreciation	1,404	1,460	1,580	1,696
Add: Interest	283	315	301	287
Cash flow from operations	9,366	9,569	10,095	10,926
Change in working capital	212	1,592	264	763
Taxes	1,954	1,984	2,090	2,276
Miscellaneous expenses	0	0	0	0
Net cash from operations	7,200	5,993	7,741	7,887
Capital expenditure	(10,612)	(1,802)	(1,900)	(1,850)
Change in Investments	941	(1,074)	(441)	(485)
Net cash from investing	(9,671)	(2,876)	(2,341)	(2,335)
Increase/Decrease in debt	2,694	(200)	(200)	(200)
Dividends	(665)	(665)	(665)	(665)
Proceedings from equity	0	0	0	0
Interest	(283)	(315)	(301)	(287)
Others	1,457	(1,029)	291	291
Net cash from financing	3,204	(2,208)	(875)	(861)
Net Inc./(Dec.) in Cash	732	908	4,526	4,692
Opening cash balance	1,728	2,460	3,368	7,894
Closing cash balance	2,460	3,368	7,894	12,586

Source: Company, Axis Securities Research

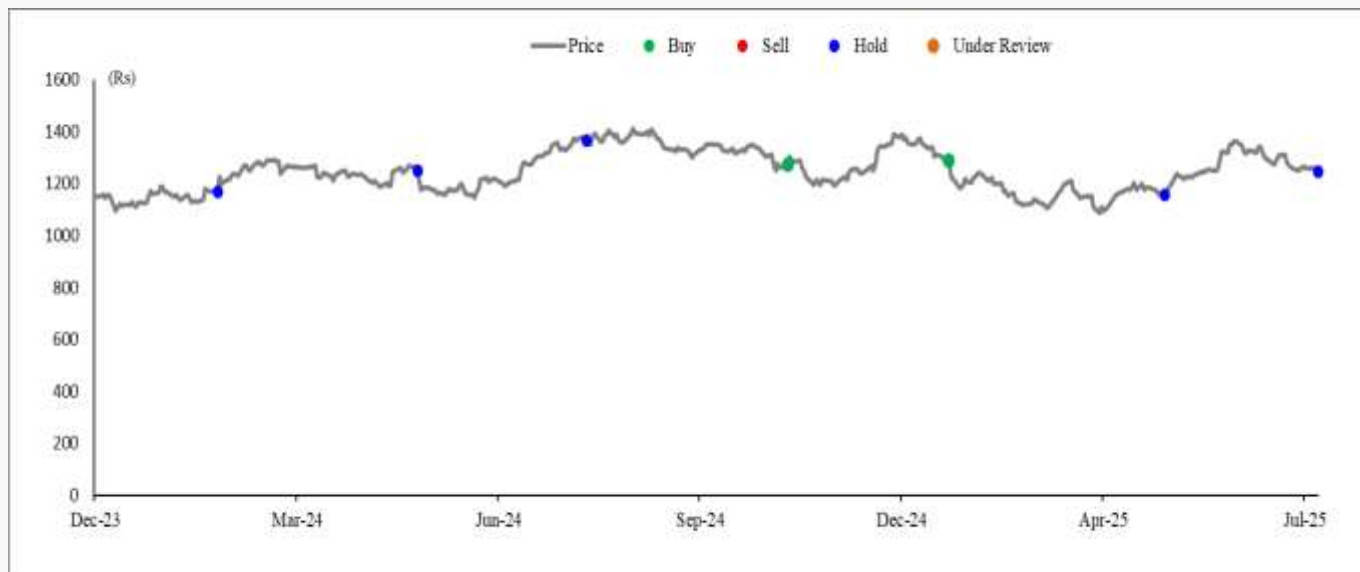
Ratio Analysis

(%)

Y/E March	FY24	FY25	FY26E	FY27E
Sales growth	13.5	16.5	3.7	4.0
OPM	28.3	26.2	27.0	27.3
Oper. profit growth	25.0	7.7	6.9	5.1
COGS / Net sales	29.3	30.6	30.0	29.7
Overheads/Net sales	42.4	43.2	43.0	43.0
Depreciation / G. block	7.5	7.8	7.5	7.5
Effective interest rate	22.5	25.4	25.4	25.4
Net wkg.cap / Net sales	0.4	0.3	0.4	0.4
Net sales / Gr block (x)	1.8	1.8	1.7	1.7
RoCE	26.9	19.7	20.9	21.7
Debt/equity (x)	0.1	0.1	0.1	0.1
Effective tax rate	22.5	25.4	25.4	25.4
RoE	19.7	16.9	14.9	13.8
Payout ratio (Div/NP)	797.1	797.1	797.1	797.1
EPS (Rs.)	66.9	68.6	69.7	73.4
EPS Growth	23.7	2.6	1.5	5.4
CEPS (Rs.)	84.5	89.1	90.8	96.0
DPS (Rs.)	8.0	8.0	8.0	8.0

Source: Company, Axis Securities Research

Dr. Reddy's Price Chart and Recommendation History



Date	Reco	TP	Research
31-Jan-24	HOLD	1,200	Result Update
08-May-24	HOLD	1,200	Result Update
30-Jul-24	HOLD	1,420	Result Update
05-Nov-24	BUY	1,532	Result Update
24-Jan-25	BUY	1,450	Result Update
12-May-25	HOLD	1,250	Result Update
24-Jul-25	HOLD	1,360	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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