

Biosimilars & GLP-1 to Drive Next Phase of Growth; Maintain Hold

Est. vs. Actual for Q2FY26: Revenue – **INLINE**; EBITDA Margin – **INLINE**; PAT – **INLINE**

Changes in Estimates Post Q2FY26:

FY26E/FY27E: Revenue: -1.0%/-2.0%; EBITDA Abs: -6.9%/-8.1%; PAT: -7.7%/-7.4%

Recommendation Rationale

- **North America Business:** The U.S. business reported sales of \$365 Mn vs \$445 Mn in Q2FY25, reflecting headwinds with an 18% YoY overall revenue decline in constant currency, due to price erosion in key products, including lower contribution from gRevlimid.
- **India Business:** India business sales grew by 13% YoY, driven by the price hike of 5% YoY and volumes/new launches outpacing IPM by 300 bps. DRRD continues to be ranked 10th in IPM as per IQVIA. It launched 11 products in India, and strengthened its GI portfolio with the launch of two novel drugs, Tegoprazan under the brand name of PCAB and Linaclotide under the brand name of ColoZo.
- **Emerging Markets:** Q2FY26 revenue stood at Rs 1,655 Cr, grew 14% YoY and 18% QoQ. The growth was largely driven by increased volumes of existing products, gains from new launches across multiple countries, and favourable foreign exchange. During the quarter, the company launched 32 new products across various Ems (39 in H1). Russia/CIS business delivered a 26%/10% YoY growth while ROW declined 2% YoY.
- **R&D Investment for Q2FY26:** The company has invested Rs 620 Cr in R&D, 7% of sales during the quarter. The spending has declined YoY due to reduced spending for Abatacept, as the major investment has already been completed.

Sector Outlook: Positive

Company Outlook & Guidance: Dr Reddy's Laboratories is strategically focused on leveraging key pipeline assets to offset the decline in high-margin gRevlimid sales and stabilise margins by FY27. Growth visibility is supported by advanced biosimilars and the GLP-1 portfolio, particularly Semaglutide and Abatacept. Semaglutide has received regulatory recommendation in India, with Health Canada feedback expected soon, positioning the company to launch up to 12 Mn pens globally across India, Brazil, and Canada as patents expire. In biosimilars, Denosumab achieved a positive EMA opinion, while Abatacept (gOrencia) remains on track for BLA submission by the end of CY25, backed by a planned US CMO partnership to mitigate regulatory and tariff risks. The newly acquired NRT portfolio continues to outperform expectations, with two-thirds of integration completed and strong traction in Europe. While near-term margins may face pressure, management's long-term target of sustaining a 25% EBITDA margin by FY27 appears achievable, supported by portfolio diversification, disciplined cost control, and consistent R&D investment at ~7% of revenues.

Current Valuation: PE of 19x for H1FY28E earnings (earlier 18.5x/FY27E)

Current TP: Rs 1,340/share (Earlier TP: Rs 1360/share)

Recommendation: We maintain our **HOLD** recommendation on the stock.

Financial Performance

The company reported a 9.8% YoY revenue growth, aided by the acquired NRT business, which contributed Rs 700 Cr. Excluding NRT, the overall revenue growth stood at flat YoY. North American operations witnessed degrowth due to pricing pressure in key products. The India business grew 13% YoY, while the Europe business, excluding NRT, posted a robust 17% YoY increase. The Emerging Markets and API businesses also delivered healthy YoY growth of 14% and 12%, respectively.

Key Financials (Consolidated)

(Rs Cr)	Q2FY26	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	8,828	3.0	9.8	8,522	3.6
EBITDA	2,010	-7.5	-3.2	2,026	-0.8
EBITDA Margin	22.8%	-259	-307	23.8%	
Net Profit	1,337	-5.2	-0.4	1,349	-0.9
EPS (Rs)	16.0	-5.2	-0.4	16.2	-0.9

Source: Company, Axis Securities Research

(CMP as of 24th October, 2025)

CMP (Rs)	1,283
Upside /Downside (%)	4%
High/Low (Rs)	1406/1020
Market cap (Cr)	1,07,050
Avg. daily vol. (6m)Shrs.	16,14,000
No. of shares (Cr)	83.20

Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	26.6	26.6	26.6
FIs	25.8	25.3	24.7
MFs / UTI	12.9	13.6	13.3
Banks / FIs	0.2	0.0	0.0
Others	34.5	34.4	35.3

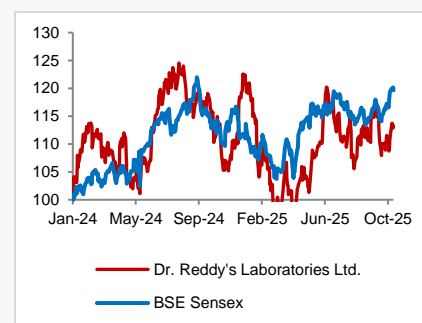
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	32,644	33,513	34,488
EBITDA	8,547	8,512	8,829
Net Profit	5,725	5,361	5,670
EPS (Rs.)	69	64	68
PER (x)	18.7	20.0	18.9
EV/EBITDA (x)	12.8	12.9	11.9
P/BV (x)	3.2	2.8	2.5
ROE (%)	16.9	13.9	13.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-1.0%	-2.0%
EBITDA	-6.9%	-8.1%
PAT	-7.7%	-7.4%

Relative Performance



Source: Ace Equity, Axis Securities Research

Result Gallery

[Q1FY26](#)

[Q4FY25](#)

[Q3FY25](#)

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Financial Performance (Cont'd)

Gross margins for Q2FY26 were at ~64.6%, down 590 bps YoY and 260 bps QoQ, mainly due to lower lenalidomide sales, price erosion in US Generics, and one-time inventory provisions. Gross margins were also affected by the PSAI segment, which reported margin compression. EBITDA came in at Rs 2,010 Cr, translating to a margin of 22.8%, down 300/260 bps YoY/QoQ. However, Adjusted EBITDA stood at Rs 2,156 Cr, 24.4%. Reported PAT stood at Rs 1,337 Cr and Adj. PAT of Rs 1,409 Cr.

Outlook

We expect multiple growth levers to support Dr Reddy's revenue trajectory over the coming years. The biosimilar segment remains a key driver, with two biosimilars launched in Europe (including Rituximab), each projected to contribute \$40–50 Mn in annual sales. Additionally, Denosumab, a biosimilar expected to launch in FY27, is estimated to generate around \$50 Mn in annual sales. The GLP-1 segment, currently valued at \$10 Bn, is projected to grow fivefold over the next 5–6 years. To capitalise on this opportunity, Dr Reddy's is investing Rs 2,500 Cr in the GLP-1 API segment, with revenue potential of \$150–180 Mn by FY27E (of which ~\$120 Mn is expected from Canada and the balance from other markets). Abatacept (gOrencia) is viewed as a high-value opportunity in the US, with some external estimates pegging it as a potential multi-billion-dollar market; we forecast revenue contribution of \$90–110 Mn in FY28E. The company remains focused on execution—submitting the BLA by Dec'25 and ensuring launch readiness for the lucrative subcutaneous (Sub-Q) format by early 2028, supported by strategic measures such as securing a US-based CMO to mitigate regulatory and tariff risks. While the anticipated decline in gRevlimid sales poses a near-term headwind, it is expected to be offset by strong growth in the GLP-1 and biosimilar portfolios. However, operational margin pressures and the gRevlimid cliff remain near-term challenges. Management continues to target a 25% EBITDA margin by FY27.

Valuation & Recommendation

We maintain our **HOLD** recommendation on the stock with a target price of Rs 1,340/share, implying an upside potential of **4%** from the CMP.

Key Con-call Highlights

Financial Performance:

- Consolidated revenue grew 9.8% YoY and 3% QoQ to \$992 Mn (Rs 8,805 Cr).
- US generics declined 18% YoY and 7% QoQ to \$365 Mn, due to gRevlimid price erosion. Contribution expected to taper further in Q3FY26, with minimal tail in Q4.
- Growth supported by the NRT acquisition and favourable forex.
- Europe generics grew 150% YoY to €135 Mn, driven by the NRT portfolio.
- Emerging markets up 14% YoY to Rs 1,655 Cr; Russia grew 13% YoY in constant currency.
- India grew 13% YoY and 7% QoQ to Rs 1,578 Cr, driven by new products, pricing (~5% increase), and volumes.
- PSAI grew 8% YoY to \$108 Mn; gross margins expected to improve to 20–25%.
- Other operating income: Rs 267 Cr, primarily from a US IP settlement and reversal of Rs 88 Cr liability.
- Management is executing cost mitigation, targeting R&D at 7% and SG&A at 28–30%, aiming for 5–7% cost reduction.

New Launches & Acquisitions:

- US: 7 new launches; Europe: 8 new generics; Emerging markets: 24 launches.
- India: 11 new brands, including Stugeron (acquired for Rs 100 Cr across 18 markets), Tegoprazan (PCAB), and Linaclotide (Colozo).

Biosimilars & Pipeline:

- Semaglutide: Current partner capacity is 12 Mn pens; FTO-11 expansion could reach 50 Mn units over the long term.
- Denosumab: Positive EMA opinion received.
- Abatacept (IV & Sub-Q): IV BLA submission on track for Dec'25; Sub-Q launch targeted early 2028, no new clinical studies required.
- Lenacapavir collaboration with Unitaid, CHAI, and Wits RHI to enhance HIV prevention access in low- and middle-income countries.

R&D and Strategic Focus:

- R&D spend Rs 620 Cr (7% of revenues); focus on complex generics, APIs, and biosimilars.
- Portfolio diversification, operational discipline, and pipeline execution underpin a 25% EBITDA margin target by FY27.

Regulatory & Compliance:

- USFDA: Bachupally Biologics pre-approval inspection issued Form 483 (5 observations); Rituximab CRL queries addressable.
- Mirfield API (UK): Form 483 (7 observations).
- Miryalaguda CTO-5 and Middleburgh (NY) facilities classified VAI.
- FTO-11 formulation facility: GMP & PAI inspections closed with VAI outcome

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	33,513	34,488	33,854	35,204	-1.0%	-2.0%
EBITDA	8,512	8,829	9,141	9,611	-6.9%	-8.1%
PAT	5,361	5,670	5,811	6,124	-7.7%	-7.4%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Net Sales	8,038	8,381	8,528	8,572	8,828	9.8	3.0
Growth (YoY%)	16.5%	15.8%	19.9%	11.4%	9.8%		
Total Expenditure	5,962	6,108	6,531	6,399	6,818	14.4	6.6
Raw Material Consumed	2,367	2,582	2,850	2,808	3,124	32.0	11.3
% of sales	29.4%	30.8%	33.4%	32.8%	35.4%		
Gross margins (%)	70.6%	69.2%	66.6%	67.2%	64.6%	-594	-263
Employee Expenses	1,399	1,367	1,401	1,504	1,452	3.8	-3.4
% of sales	17.4%	16.3%	16.4%	17.5%	16.4%		
Other Expenses	2,103	2,161	2,203	2,088	2,175	3.4	4.2
% of sales	26.2%	25.8%	25.8%	24.4%	24.6%		
Impertinent Costs	92	-0	77	0	67		
% of sales	1.1%	0.0%	0.9%	0.0%	0.8%		
R&D Expenses	727	666	730	624	618		
% of sales	9.0%	7.9%	8.6%	7.3%	7.0%		
EBITDA	2,077	2,273	1,998	2,174	2,010	-3.2	-7.5
EBITDAM (%)	25.8%	27.1%	23.4%	25.4%	22.8%	-307	-259
Interest	76	82	66	83	91		
Depreciation	397	471	455	476	505		
Other Income	308	150	522	290	324		
PBT	1,911	1,870	2,000	1,905	1,739	-9.0	-8.7
Tax	576	470	419	495	408		
Tax (%)	30.1%	25.1%	20.9%	26.0%	23.5%		
Reported PAT	1,336	1,400	1,581	1,410	1,331	-0.4	-5.6
Associate Profit	6	4	6	0	6		
PAT after EoI	1,342	1,404	1,587	1,410	1,337	-0.4	-5.2

Source: Company, Axis Securities Research

Geographical Breakup

(Rs Cr)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Global Generics	7,158	7,375	7,536	7,562	7,850	9.7	3.8
North America	3,728	3,383	3,559	3,412	3,241	-13.1	-5.0
Europe (Inc NRT*)	577	1,210	1,275	1,274	1,376	138.5 *	8.0
India	1,397	1,346	1,305	1,471	1,578	12.9	7.3
Emerging Markets	1,455	1,436	1,398	1,404	1,655	13.7	17.8
PSAI	841	822	956	818	945	12.4	15.5

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net sales	32,644	33,513	34,488	37,327
Other operating income	0	0	0	0
Net Revenue	32,644	33,513	34,488	37,327
Cost of goods sold	9,980	10,724	10,864	11,646
Contribution (%)	30.57%	32.00%	31.50%	31.20%
Other operating costs	14,117	14,277	14,795	16,088
EBITDA	8,547	8,512	8,829	9,593
Other income	1,097	800	1,000	960
PBIDT	9,644	9,312	9,829	10,553
Depreciation	1,704	1,835	1,985	2,135
Interest & Fin Chg.	283	315	273	231
E/o income / (Expense)	0	0	0	0
Pre-tax profit	7,658	7,163	7,572	8,188
Tax provision	1,954	1,830	1,936	2,094
Associates	22	28	34	39
Adjusted PAT	5,725	5,361	5,670	6,133

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	38,540	43,546	49,014
Net Worth	33,927	38,624	43,629	49,097
Total Loan funds	4,696	4,496	3,896	3,296
Deferred Tax Liability	1,404	84	84	84
Long Term Provisions	30	30	30	30
Other Long-Term Liability	226	275	283	307
Capital Employed	49,427	54,096	58,817	64,606
Gross Block	17,961	20,461	22,461	24,461
Less: Depreciation	10,662	12,197	13,882	15,716
Net Block	7,298	8,264	8,579	8,745
Investments	3,331	4,405	4,846	5,330
Sundry Debtors	9,042	9,824	9,921	10,738
Cash & Bank Bal	2,460	2,102	5,593	8,849
Loans & Advances	0	0	0	0
Inventory	7,109	7,345	7,559	8,181
Other Current Assets	3,077	5,027	5,173	5,599
Total Current Assets	13,034	14,377	14,185	14,581
Current Liabilities & Provision	25,018	28,704	33,092	38,697
Net Current Assets	11,984	14,327	18,907	24,115
Total Assets	49,427	54,096	58,817	64,606

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
PBT	7,680	7,191	7,606	8,227
Add: Depreciation	1,404	1,535	1,685	1,835
Add: Interest	283	315	273	231
Cash flow from operations	9,366	9,040	9,563	10,292
Change in working capital	212	1,477	141	945
Taxes	1,954	1,830	1,936	2,094
Miscellaneous expenses	0	9	9	9
Net cash from operations	7,200	5,725	7,478	7,245
Capital expenditure	(10,612)	(2,800)	(2,300)	(2,300)
Change in Investments	941	(1,074)	(441)	(485)
Net cash from investing	(9,671)	(3,874)	(2,741)	(2,785)
Increase/Decrease in debt	2,694	(200)	(600)	(600)
Dividends	(665)	(665)	(665)	(665)
Proceedings from equity	0	0	0	0
Interest	(283)	(315)	(273)	(231)
Others	1,457	(1,029)	291	291
Net cash from financing	3,204	(2,208)	(1,247)	(1,205)
Net Inc./(Dec.) in Cash	732	(358)	3,491	3,256
Opening cash balance	1,728	2,460	2,102	5,593
Closing cash balance	2,460	2,102	5,593	8,849

Source: Company, Axis Securities Research

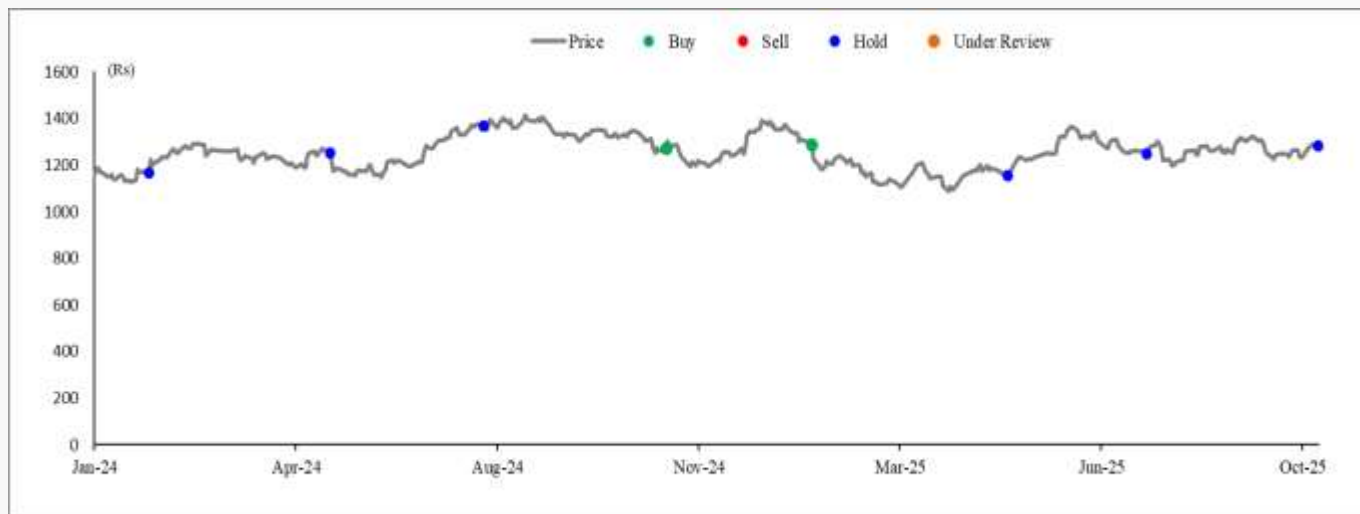
Ratio Analysis

(%)

Y/E March	FY25	FY26E	FY27E	FY28E
Sales growth	13.5	16.5	2.7	2.9
OPM	28.3	26.2	25.4	25.6
Oper. profit growth	25.0	7.7	(0.4)	3.7
COGS / Net sales	29.3	30.6	32.0	31.5
Overheads/Net sales	42.4	43.2	42.6	42.9
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	1.6	1.5
RoCE	26.9	19.7	18.5	18.7
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	13.9	13.0
Payout ratio (Div/NP)	797.1	797.1	797.1	797.1
EPS (Rs.)	66.9	68.6	64.3	68.0
EPS Growth	23.7	2.6	(6.4)	5.8
CEPS (Rs)	84.5	89.1	86.3	91.8
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
27-Oct-25	HOLD	1,340	Result Update

Source: Axis Securities Research

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Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
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