

Neutral

Dr. Reddy's Laboratories (REDY.BO)

4Q25 below: Topline inline, margin miss; maintain Neutral on limited upside

REDY.BO 12m Price Target: **Rs1,200.00** Price: **Rs1,156.40** Upside: **3.8%**

Dr. Reddy's 4Q25 revenue/adj. EBITDA grew 20%/15% yoy each, driven by robust performance in Europe and Russia. Adj. EBITDA margins declined to ~24% (below GSe) on account of moderation in GMs (-300bps yoy, lower licensing income/ price erosion) and higher SG&A spends (investments in sales/marketing, higher freight and NRT business).

Going forward, Dr. Reddy's aspires to grow overall topline in double digit and maintain FY25 margins in FY26.

We raise our FY26E-28E EPS estimates by up to 4% to factor in the Q4 numbers, slightly higher growth in the North America business and updated business outlook, and arrive at a SOTP-based, TP of Rs1,200/sh (vs. Rs1,175 prior). We maintain our Neutral rating, on limited return potential from current levels.

Exhibit 1: DRRD 4Q came below consensus estimates

Q4FY25 variance table

Rs. mn	4Q25	vs GSe	vs BBG	4Q24	YoY (%)	3Q25	QoQ (%)
Sales	85,060	0%	2%	70,830	20%	82,320	3%
Adj. EBITDA	20,497	-15%	-9%	17,842	15%	21,725	-6%
EBITDA margins (%)	24.1%	-415bps	-304bps	25.2%	-109bps	26.4%	-229bps
Net income (adj)	16,515	7%	12%	12,940	28%	13,181	25%
Net margins (%)	19.4%	124bps	181bps	18.3%	115bps	16.0%	340bps

Source: Company data, Bloomberg, Goldman Sachs Global Investment Research

North America business remains resilient: 4Q revenues came in at US\$418mn (+7% yoy, +4% qoq) driven by new launches partially offset by low single digit price erosion. The company launched 7 products in the region in Q4, implying 18 launches for the year thereby achieving its guidance of launching 15-20 new products in FY25. It intends to maintain the new launch run-rate in FY26. Dr. Reddy's mentioned that it remains on track to launch generic versions of Semaglutide in Canada in CY26 as it aspires to be among the first few companies to be in the market from day 1 (of

Shyam Srinivasan, CFA

+91(22)6616-9346 | shyam.srinivasan@gs.com
Goldman Sachs India SPL

Karan Vora, CFA

+91(22)6616-9146 | karan.vora@gs.com
Goldman Sachs India SPL

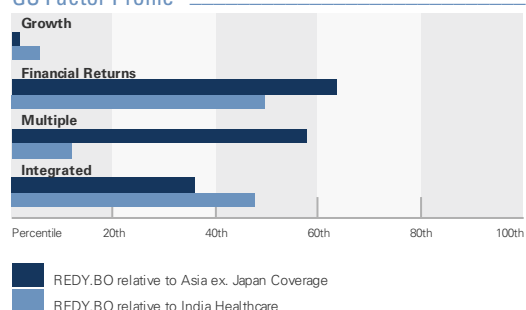
Key Data

Market cap: Rs959.1bn / \$11.2bn
Enterprise value: Rs927.0bn / \$10.8bn
3m ADTV: NA
India
India Healthcare
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	3/25	3/26E	3/27E	3/28E
Revenue (Rs mn) New	324,269.0	356,983.0	361,608.4	405,912.9
Revenue (Rs mn) Old	324,451.8	361,866.8	363,663.7	405,045.0
EBITDA (Rs mn)	85,514.1	93,738.0	78,513.4	90,921.7
EPS (Rs) New	68.73	72.48	56.15	65.24
EPS (Rs) Old	67.50	71.51	54.09	62.90
P/E (X)	18.4	16.0	20.6	17.7
P/B (X)	3.1	2.5	2.3	2.1
Dividend yield (%)	1.2	1.4	1.1	1.2
CROCI (%)	14.6	15.8	11.6	14.3
	3/25	6/25E	9/25E	12/25E
EPS (Rs)	19.81	17.48	19.93	18.95

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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Neutral

Dr. Reddy's Laboratories (REDY.BO)

Rating since May 2, 2016

Ratios & Valuation

	3/25	3/26E	3/27E	3/28E
P/E (X)	18.4	16.0	20.6	17.7
P/B (X)	3.1	2.5	2.3	2.1
FCF yield (%)	1.8	3.5	4.3	5.0
EV/EBITDAR (X)	12.2	9.9	11.5	9.5
EV/EBITDA (excl. leases) (X)	12.2	9.9	11.5	9.5
CROCI (%)	14.6	15.8	11.6	14.3
ROE (%)	18.3	16.8	11.7	12.4
Net debt/equity (%)	(3.5)	(9.6)	(15.5)	(23.0)
Net debt/equity (excl. leases) (%)	(4.7)	(10.7)	(16.5)	(23.9)
Interest cover (X)	—	—	—	—
Days inventory outst, sales	75.8	76.0	81.7	80.1
Receivable days	96.1	97.1	101.1	96.2
Days payable outstanding	71.1	68.8	66.9	64.0
DuPont ROE (%)	16.7	15.5	11.0	11.5
Turnover (X)	0.7	0.6	0.6	0.6
Leverage (X)	1.5	1.4	1.4	1.4
Gross cash invested (ex cash) (Rs)	476,841.0	518,165.2	544,348.7	568,873.6
Average capital employed (Rs)	280,477.0	335,281.5	351,404.4	358,078.0
BVPS (Rs)	402.49	460.07	500.50	553.56

Growth & Margins (%)

	3/25	3/26E	3/27E	3/28E
Total revenue growth	16.2	10.1	1.3	12.3
EBITDA growth	9.1	9.6	(16.2)	15.8
EPS growth	2.9	5.5	(22.5)	16.2
DPS growth	2.9	5.5	(22.5)	16.2
EBIT margin	21.1	21.4	16.7	17.6
EBITDA margin	26.4	26.3	21.7	22.4
Net income margin	17.4	16.9	12.9	13.4

Price Performance

Source: FactSet. Price as of 9 May 2025 close.

Income Statement (Rs mn)

	3/25	3/26E	3/27E	3/28E
Total revenue	324,269.0	356,983.0	361,608.4	405,912.9
Cost of goods sold	(135,107.0)	(147,486.2)	(160,011.7)	(178,601.7)
SG&A	(20,467.9)	(24,972.5)	(28,669.8)	(31,921.8)
R&D	(27,380.0)	(30,343.6)	(28,928.7)	(32,473.0)
Other operating inc./exp.)	—	—	—	—
EBITDA	85,514.1	93,738.0	78,513.4	90,921.7
Depreciation & amortization	(17,041.0)	(17,181.3)	(18,080.4)	(19,280.9)
EBIT	68,473.1	76,556.7	60,433.0	71,640.9
Net interest inc./exp.)	4,941.0	4,211.1	4,167.5	4,167.5
Income/(loss) from associates	—	—	—	—
Pre-tax profit	76,784.0	82,552.7	66,408.5	77,837.9
Provision for taxes	(19,538.0)	(20,638.2)	(16,602.1)	(19,459.5)
Minority interest	(701.0)	(1,500.0)	(3,000.0)	(4,000.0)
Preferred dividends	—	—	—	—
Net inc. (pre-exceptionals)	56,545.0	60,414.5	46,806.3	54,378.4
Post-tax exceptionals	741.1	—	—	—
Net inc. (post-exceptionals)	57,286.1	60,414.5	46,806.3	54,378.4
EPS (basic, pre-exception) (Rs)	67.97	72.63	56.27	65.37
EPS (diluted, pre-exception) (Rs)	67.84	72.48	56.15	65.24
EPS (basic, post-exception) (Rs)	68.87	72.63	56.27	65.37
EPS (diluted, post-exception) (Rs)	68.73	72.48	56.15	65.24
DPS (Rs)	14.90	15.72	12.18	14.15
Div. payout ratio (%)	21.9	21.6	21.6	21.6

Balance Sheet (Rs mn)

	3/25	3/26E	3/27E	3/28E
Cash & cash equivalents	57,909.0	83,258.1	111,860.6	154,844.9
Accounts receivable	90,420.0	99,542.1	100,831.8	113,185.8
Inventory	71,085.0	77,598.2	84,188.3	93,969.2
Other current assets	30,767.0	30,767.0	30,767.0	30,767.0
Total current assets	250,181.0	291,165.4	327,647.7	392,767.0
Net PP&E	96,978.0	120,810.1	124,057.9	126,525.3
Net intangibles	109,942.0	103,928.5	102,220.4	95,472.1
Total investments	37,165.0	37,165.0	37,165.0	37,165.0
Other long-term assets	0.0	0.0	0.0	0.0
Total assets	494,266.0	553,069.1	591,091.0	651,929.3
Accounts payable	26,478.0	29,149.2	29,526.9	33,144.6
Short-term debt	38,045.0	38,045.0	38,045.0	38,045.0
Short-term lease liabilities	—	—	—	—
Other current liabilities	65,815.0	72,454.8	73,393.6	82,385.8
Total current liabilities	130,338.0	139,649.0	140,965.5	153,575.4
Long-term debt	3,800.0	3,800.0	3,800.0	3,800.0
Long-term lease liabilities	4,064.0	4,064.0	4,064.0	4,064.0
Other long-term liabilities	16,790.0	16,790.0	16,790.0	16,790.0
Total long-term liabilities	24,654.0	24,654.0	24,654.0	24,654.0
Total liabilities	154,992.0	164,303.0	165,619.5	178,229.4
Preferred shares	—	—	—	—
Total common equity	335,496.0	383,488.0	417,193.5	461,422.0
Minority interest	3,778.0	5,278.0	8,278.0	12,278.0
Total liabilities & equity	494,266.0	553,069.1	591,091.0	651,929.3
Net debt, adjusted	(16,064.0)	(41,413.1)	(70,015.6)	(112,999.9)

Cash Flow (Rs mn)

	3/25	3/26E	3/27E	3/28E
Net income	76,784.0	82,552.7	66,408.5	77,837.9
D&A add-back	17,037.0	17,181.3	18,080.4	19,280.9
Minority interest add-back	—	—	—	—
Net (inc)/dec working capital	(22,696.0)	(12,964.0)	(7,502.2)	(18,517.2)
Other operating cash flow	(24,708.0)	(18,209.5)	(19,830.8)	(14,634.7)
Cash flow from operations	46,417.0	68,560.5	57,155.9	63,966.8
Capital expenditures	(27,504.0)	(35,000.0)	(15,000.0)	(15,000.0)
Acquisitions	(6,894.0)	—	(4,620.0)	—
Divestitures	8,300.0	—	—	—
Others	(24,923.0)	—	—	—
Cash flow from investing	(51,021.0)	(35,000.0)	(19,620.0)	(15,000.0)
Repayment of lease liabilities	—	—	—	—
Dividends paid (common & pref)	(6,662.0)	(12,422.5)	(13,100.9)	(10,150.0)
Inc/(dec) in debt	24,490.0	—	—	—
Other financing cash flows	(5,973.0)	4,211.1	4,167.5	4,167.5
Cash flow from financing	11,855.0	(8,211.4)	(8,933.4)	(5,982.5)
Total cash flow	7,251.0	25,349.1	28,602.5	42,984.3
Free cash flow	18,913.0	33,560.5	42,155.9	48,966.8

Source: Company data, Goldman Sachs Research estimates.

patent expiry) onward. The company expects this to be a meaningful opportunity (US\$1.8bn TAM and 10mn pens with peak volume penetration potential of ~4-5x) given the current competitive dynamics (3-4 potential competitors currently) in the region.

Status on biosimilars foray: DRRD has secured marketing authorisation for Rituximab in UK, while Denosumab has been filed in US and Europe via their partner Alvotech. The company has partnered with Shanghai Henlius Biotech to commercialize Daratumumab in the U.S. and Europe. Significant uptick in the R&D spend has been directed towards complex generics and biosimilars.

India business growth uplifted by Sanofi tie-up: India business grew ~16% yoy, primarily driven by Sanofi vaccine in-licensing deal, ramp-up of new launches (1 new launch in the quarter) as well as price hikes partially offset by lower volumes. Ex-Sanofi, growth came in the mid-single digit range (~6%), impacted by lower volumes in certain brands in Cardiac and GI therapy areas. DRRD believes that both the therapies should come back to growth path in FY26 as corrective actions have been taken by the company. It expects India business to grow in the mid-teens range in FY26.

Europe business remains healthy: Europe business (ex-NRT) grew ~21% yoy driven by strong results in Germany (+26% yoy) and UK (+43% yoy) on the back of ramp-up in new launches (~10 new launches) and momentum in the base business partially offset by price erosion. NRT portfolio contributed Rs6bn in revenue and Rs0.9bn in pre-tax profit during the quarter.

Exhibit 2: DRRD 4Q results came below our estimates

Rs mn unless stated	4Q24	3Q25	4Q25	4Q25E	vs GSe	yoy gr	qoq gr
Sales	70,830	82,320	85,060	85,243	0%	20%	3%
Cost of goods sold	(29,347)	(34,534)	(37,797)	(34,736)	9%	29%	9%
CoGS as a % of sales	41.4%	42.0%	44.4%	40.8%	369 bps	300 bps	248 bps
Gross profit	41,483	47,786	47,263	50,506	-6%	14%	-1%
GP as a % of sales	58.6%	58.0%	55.6%	59.3%	-369 bps	-300 bps	-248 bps
Employee expenses	(12,836)	(13,665)	(14,006)	(13,639)	3%	9%	2%
Employee exp as a % of sales	18.1%	16.6%	16.5%	16.0%	47 bps	-166 bps	-13 bps
R&D	(6,877)	(6,658)	(7,258)	(7,246)	0%	6%	9%
R&D as a % of sales	9.7%	8.1%	8.5%	8.5%	3 bps	-118 bps	44 bps
SG&A (ex-Wages, R&D)	(3,928)	(5,738)	(5,502)	(5,541)	-1%	40%	-4%
SG&A as a % of sales	5.5%	7.0%	6.5%	6.5%	-3 bps	92 bps	-50 bps
Adj. EBITDA	17,842	21,725	20,497	24,081	-15%	15%	-6%
Adjusted EBITDA margin	25.2%	26.4%	24.1%	28.3%	-415 bps	-109 bps	-229 bps
Adjusted EBITDA yoy growth	35.3%	7.7%	14.9%	35.0%			
Depreciation and amortisation	(3,712)	(4,714)	(4,547)	(4,262)	7%	22%	-4%
D&A as a % of sales	5.2%	5.7%	5.3%	5.0%	35 bps	10 bps	-38 bps
Other (expense) / income	656	439	2,465	639	286%	276%	462%
Other op exp as a % of sales	0.9%	0.5%	2.9%	0.8%	215 bps	197 bps	236 bps
EBIT	14,959	18,720	17,647	20,458	-14%	18%	-6%
EBIT margin	21.1%	22.7%	20.7%	24.0%	-325 bps	-37 bps	-199 bps
EBIT yoy growth	53.6%	8.4%	18.0%	36.8%			
Adj. PBT	15,843	17,472	20,822	21,181	-2%	31%	19%
Taxes	(2,946)	(4,704)	(4,181)	(5,189)	-19%	42%	-11%
% of Profits	18.6%	26.9%	20.1%	24.5%	-442 bps	148 bps	-684 bps
Adj Net Income	12,940	13,181	16,515	15,491	7%	28%	25%
Net Margin	18.5%	17.2%	18.7%	18.2%	57 bps	29 bps	157 bps
Split by segment / geography							
Generics	61,190	73,752	75,364	76,116	-1%	23%	2%
India GRx	11,265	13,464	13,047	12,955	1%	16%	-3%
North America GRx	32,626	33,834	35,586	38,272	-7%	9%	5%
Russia & Other CIS GRx	7,191	9,458	8,981	8,054	12%	25%	-5%
Europe GRx	5,208	6,047	6,779	5,625	21%	30%	12%
Haleon GRx	-	6,049	5,971	5,968	0%	NA	-1%
Rest of World GRx	4,900	4,900	5,000	5,243	-5%	2%	2%
PSAI	8,219	8,219	9,563	8,630	11%	16%	16%
Proprietary products	1,420	348	132	497	-73%	-91%	-62%

Source: Company data, Goldman Sachs Global Investment Research

Valuation and risks: We raise our FY26E-28E EPS estimates by up to 4% to factor in the Q4 numbers, slightly higher growth in the North America business and updated

business outlook. Consequently, our SOTP-based TP changes to Rs1,200 (from Rs1,175 earlier), implying a target P/E of ~21.5x on Q5-Q8 EPS estimates. Maintain Neutral on limited upside potential. **Key risks:** Litigation around key pipeline opportunities; deferral of FDA approval on key molecules; intensity of US market pricing pressure, USFDA GMP compliance.

Price Target Risks and Methodology - Dr. Reddy's Laboratories

We are Neutral rated on Dr. Reddy's with a SOTP-based 12-m TP of Rs1,200, implying a company level P/E of ~21.5x on Q5-Q8 EPS estimates. Key risks include - Upside: faster-than-expected commercialisation of key pipeline assets; Downside: litigation delays around key product launch opportunities, deferral of FDA approvals on key molecules like Copaxone, intensity of US market pricing pressure, USFDA GMP compliance.

Disclosure Appendix

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Quantum

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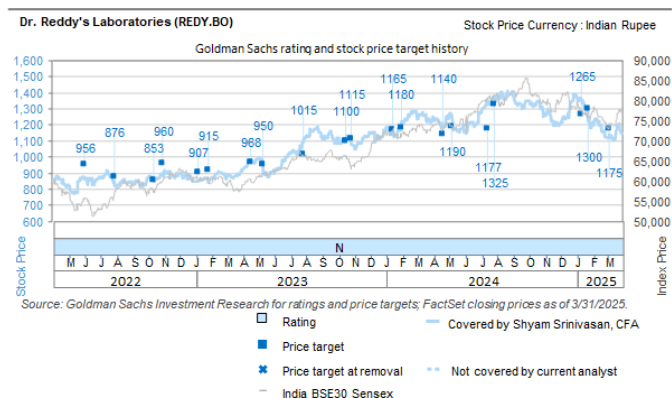
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