

RESEARCH**DR REDDY'S LABS | TARGET: Rs 1,427 | +12% | HOLD**

Healthy Q2; margins post gRevlimid LOE to remain wary

SUMMARY**DR REDDY'S LABS**

- Revenue/EBITDA earnings above our and street estimates. APAT ~46% above estimates. Estimates adjusted for JV and impairment cost
- Second consecutive quarter of high teens growth in the domestic business, driven by base business and Sanofi's vaccine business
- Post gRevlimid going off patent core margins to fall, hence maintain HOLD and ascribe 21x PE on Sep'26 rollover to arrive at Rs 1,427 TP

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HOLD
 TP: Rs 1,427 | ▲ 12%

DR REDDY'S LABS

Pharmaceuticals

06 November 2024

Healthy Q2; margins post gRevlimid LOE to remain wary

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Healthy numbers on an adjusted basis: DRRD delivered above our and consensus estimates on revenue/EBITDA, while sales grew by 16.5% (5% above our estimates) and EBITDA by 8% YoY (5% above our estimates) driven by the performance of the India and North America businesses. However, there was a one-time expense of Rs 924mn towards the impairment of gNuvaring and Rs 7.3bn towards additional investments on the nutraceutical business, adjusting against them PAT grew by 34% YoY to Rs 19.8bn (46% above our estimate).

Restructuring of domestic business is yielding results: DRRD’s India sales grew by 18% YoY to Rs 13.9bn. This was primarily driven by the newly-acquired vaccine portfolio from Sanofi. Apart from the vaccine portfolio, DRRD’s base business grew almost double digits. We expect the India business’s healthy momentum to continue in the base business and vaccine portfolio.

North America sales driven by gRevlimid: DRRD’s North America sales grew by 18% YoY to Rs 37.2bn primarily driven from gRevlimid. We expect gRevlimid’s sales to contribute significantly even in H2FY25. DRRD increased its R&D spend to 9% of sales for Q2 through which management expects meaningful new products to be launched from FY26.

End-to-end provider of GLP-1 products: DRRD aims to participate in GLP-1 products by manufacturing both API and formulations in-house. Management aims to be one of the initial players in all markets and to participate in 14-15 products over a decade through in-house capabilities.

Retain HOLD: We remain wary of fluctuating core margins, slowdown in North America business post gRevlimid going off patent in CY26 and the lack of new product launches in the US region. Also, the current investments in the nutraceutical business and JV in Nestle are at a nascent stage and would take many years to scale up, hence we maintain our HOLD rating. However, we ascribe a P/E of 21x, and roll forward our valuations to Sep’26, with new TP of Rs 1,427 (from Rs 1,180).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DRRD IN/Rs 1,272
Market cap	US\$ 12.6bn
Free float	73%
3M ADV	US\$ 7.4mn
52wk high/low	Rs 1,421/Rs 1,057
Promoter/FPI/DII	27%/27%/23%

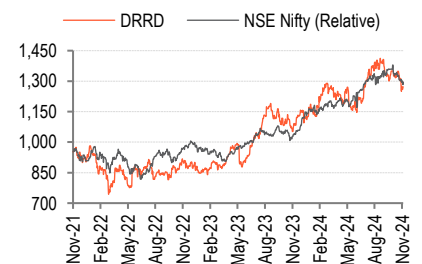
Source: NSE | Price as of 5 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	279,164	305,052	333,165
EBITDA (Rs mn)	78,377	89,990	90,788
Adj. net profit (Rs mn)	55,684	56,885	58,702
Adj. EPS (Rs)	66.8	68.2	70.4
Consensus EPS (Rs)	66.8	68.3	70.6
Adj. ROAE (%)	22.5	19.2	16.7
Adj. P/E (x)	19.1	18.7	18.1
EV/EBITDA (x)	13.1	11.2	10.7
Adj. EPS growth (%)	21.5	2.2	3.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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