MIRAE ASSET Sharekhan

Dr Reddys Laboratories Ltd

India and Europe outperform, helps negate price erosion in USA

Reco/View: **HOLD**	CMP: **Rs. 1,217**	Price Target: **Rs. 1,316**

Dr.Reddy's

STOCK UPDATE

Result Update - Q3FY2026

SECTOR

Pharmaceuticals

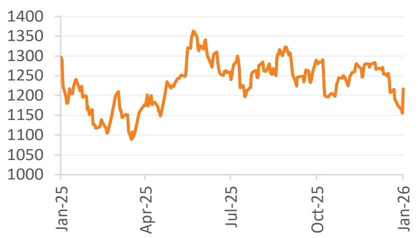
COMPANY DETAILS	
Market cap:	Rs. 1,01,582 cr
52-week high/low:	Rs. 1,378/1,026
NSE volume: (No of shares)	16.5 lakh
BSE code:	500124
NSE code:	DRREDDY
Free float: (No of shares)	61.2 cr

Source: NSE, BSE, Mirae Asset Sharekhan Research

SHAREHOLDING (%)	
Promoters	26.6
FII	22.3
DII	30.4
Others	20.6

Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE CHART



Source: NSE, BSE, Mirae Asset Sharekhan Research

PRICE PERFORMANCE

(%)	1m	3m	6m	12m
Absolute	-7.7	4.6	3.5	-6.1
Relative to Sensex	-8.6	-0.2	5.1	-13.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Quick Snapshot

- Domestic business outperformed IPM with innovation franchises, new launches, and the Stugeron acquisition contributing 17-18% of organic growth; while the innovative portfolio fetched 10-15% of sales.
- Europe biz helped offset impact of pricing pressure from US.
- US business is a near term drag, leading to lower gross margins of ~55% in the coming quarters.
- We expect the new launches to become more EPS accretive over the next 6-8 quarters. We value the stock at 18.5x on FY28E EPS of Rs. 71.2, and retain our Hold rating with a PT of Rs. 1,316.

Result overview

Modest revenue growth, broad-based ex US

- Consolidated revenue stood at Rs. 8,727 crore, up 4.4% y-o-y and roughly flat q-o-q, with 9MFY26 revenue up 8% y-o-y to Rs. 26,077 crore. Growth was driven by India, Europe and the emerging markets, while North America saw a declined due to lower Lenalidomide sales and generic price erosion. The management is optimistic of growth in Europe and India.

Margins fall despite healthy absolute profit

- EBITDA at Rs. 2,049 crore (23.5% margin), while better in absolute terms, is actually below the 27% margin in Q3FY25, on account of gross margin compression to 53.6%. This was on account of a change in the product mix (lower high-margin Lenalidomide), pricing pressure in the US and one-time costs (including Indian labour code-related provisions) as key drivers, implying near-term profitability headwinds even as operating scale remains strong. Profit after tax fell 14% y-o-y to INR 1,210 crores with diluted EPS at Rs. 14.52.

Strong India and EM momentum

- Consolidated revenue growth stayed modest at about 4–5% y-o-y, despite double digit growth in India and emerging markets, capping overall topline momentum.
- India business revenue stood at ~Rs. 1,600 crore, up 19% y-o-y and 2% q-o-q, supported by innovation franchises, new brand launches, price hikes, higher volumes and the Stugeron portfolio. Emerging markets delivered Rs.1,896 crore, up 32% y-o-y and 15% q-o-q, showing robust traction in branded generics and new launches, which partially offsets US pressure and improves geographic diversification.
- North America market's revenue declined high single digits y-o-y as the Lenalidomide (Revlimid) wind down and ongoing generic price erosion more than offset contributions from new launches.
- US generics had been a key high margin profit driver; as Lenalidomide and some other profitable products tapered, the mix shifted toward relatively lower margin geographies and products. An adverse mix, combined with price pressure in the US, dragged gross margin to ~53–54%, while EBITDA margin declined 300–400 bps y-o-y, even though absolute profit stayed healthy.

Our Call

The impact of Lenalidomide on the gross margins are significant in the near term and the company would look towards new launches and increased geographic diversification to offset the same. Current major launches are expected from H2FY27E and beyond and expect significant EPS improvements from the FY28E onwards. We value the stock at 18.5x, on FY28E EPS of 71.2, and retain our Hold rating with a PT of Rs. 1,316.

Valuation Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Revenue	27,916.4	32,553.5	34,849.6	36,667.7	39,152.1
EBITDA	7,838.7	8,626.0	8,224.5	8,030.2	8,691.8
Margin (%)	28.1%	26.5%	23.6%	21.9%	22.2%
PAT	5,563.2	5,703.5	5,572.9	5,462.7	5,912.2
RoE	21.6	18.4	15.4	13.3	12.8
RoCE	23.7	20.7	16.7	15.0	14.7

Source: Company; Mirae Asset Sharekhan estimates

Concall Highlights

Guidance and expected launch periods:

- Combined gross margins for Global Generics and PSA are expected to be at 50-55% post-Lenalidomide arrangement ending Q4.
- Current focus is on Semaglutide with launch expected in India by March, in Canada between Feb and May and Brazil/Turkey in July.
- Biosimilars - Abatacept in US by end of 2026, and Europe by 2027, Denosumab biosimilar already launched in Germany (December 2025), with UK/Europe rollouts underway
- R&D spends expected at 7-8% of sales.

Regional performance:

- **North America:** It was impacted by Lenalidomide decline and pricing
- Europe generics business - 4% y-o-y growth to $140 million, driven by NRT (8% CC growth, EBITDA >25%) and 10 new generics.
- **Russia:** 21% y-o-y CC growth amid macro challenges.
- **PSAI:** Down 5% y-o-y to $92 million; 31 DMF filings.

Results Rs cr

Particulars	Q3FY26	Q3FY25	Y-o-Y (%)	Q2FY26	Q-o-Q (%)
Revenue	8727	8359	4%	8805	-1%
EBITDA	2049	2298	-11%	2351	-13%
Adjusted net profit	1190	1404	-15%	1427	-17%
Adjusted EPS (Rs)	14.52	16.94	-14%	17.25	-16%
			bps		**bps**
EBITDA margin (%)	23%	27%	-401.25	27%	-322.19
NPM(%)	14%	17%	-316.04	16%	-257.09

Source: Company; Mirae Asset Sharekhan Research

Additional Data

Top 9 shareholders

Sr. No.	Holder Name	Holding (%)
1	Prasad G V	13.04
2	LIC	11.79
3	GVP Family Trust	11.51
4	VSD Family Trust	9.06
5	ICICI Prudential	4.54
6	Kallam Satish Reddy	4.52
7	Blackrock Inc	2.8
8	Vangaurd Grp	2.71
9	Nippon Life India asset Management Ltd.	2.32

Source: Bloomberg

Key management personnel

Name	Designation
Venketeshwar Prasad	Chairman & Managing Director
Satish Reddy	Co- Chairman
Erez Israele	CEO
M. V. Narasimham	CFO

Source: Company Website

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