



CMP - 6893

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About the Company

Dr. Reddy's Laboratories is a prominent Indian multinational pharmaceutical company headquartered in Hyderabad, Telangana. Established in 1984 by Dr. Kallam Anji Reddy, the company has grown into a global player in the pharmaceutical industry, known for its high-quality generic drugs, active pharmaceutical ingredients (APIs), and biotechnology products.

Recent Quarter & Segment Performance Highlights

- **Total Revenue:** Dr. Reddy's total revenue for Q1 FY25 was ₹7,672.7 crore, reflecting a year-on-year increase of 14% from ₹6,758 crore in Q1 FY24.
- **Net Profit:** The net profit for the quarter stood at ₹1,392 crore, which is a marginal decline of 0.9% compared to ₹1,405 crore in the same quarter last year.
- **EBITDA:** The EBITDA for the quarter was ₹2,160 crore, with an EBITDA margin of 28.2%, showing a slight increase from the previous quarter.
- **Global Generics:** Revenue from global generics increased by 15% year-on-year to ₹6,890 crore, driven by volume growth and new product launches, despite facing price erosion.
- **North America:** Revenue from North America rose significantly by 20% year-on-year to ₹3,850 crore, attributed to increased volumes and contributions from new launches.
- **India:** The Indian market saw revenue growth of 15% year-on-year, reaching ₹1,330 crore, bolstered by the launch of 13 new brands and exclusive rights to distribute certain vaccines.
- **Pharmaceutical Services and Active Ingredients:** This segment recorded a 14% year-on-year growth, reaching ₹770 crore, although it experienced a 7% decline compared to the previous quarter.

Management view and key highlights

- **Strategic Focus:** Co-Chairman and Managing Director G.V. Prasad highlighted the company's commitment to strengthening its core businesses and making strategic investments in areas like biologics and consumer healthcare.
- **R&D Investment:** R&D expenses accounted for 8.1% of revenues, with a focus on innovation and new product development to drive future growth.
- Management remains optimistic about future growth driven by strategic acquisitions, new product launches, and expanding into consumer healthcare, despite facing challenges such as pricing pressures and increased operational costs.



BUSINESS SEGMENTS

Global Generics

This segment focuses on the development and marketing of generic pharmaceuticals. Dr. Reddy's offers a wide range of generic formulations, including oral solids, injectables, and topical products. The company has a strong presence in regulated markets like the USA, Europe, and emerging markets, leveraging its expertise in complex generics and first-to-market opportunities.

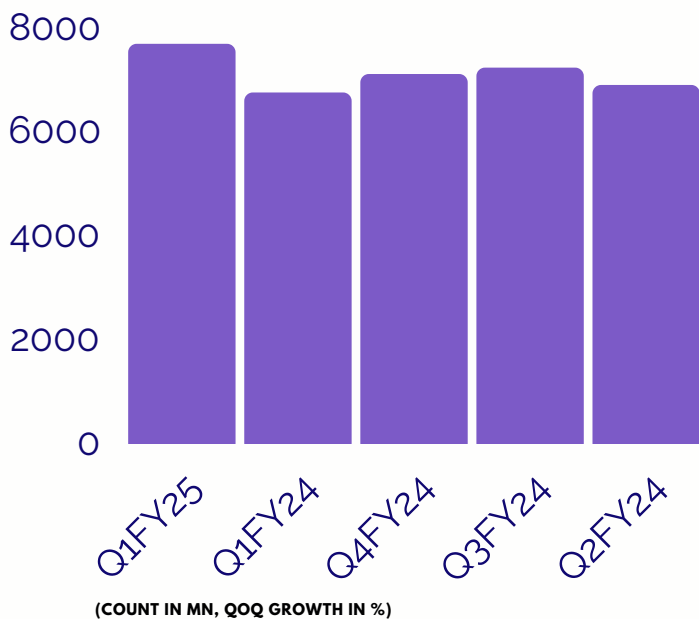
Pharmaceutical Services and Active Ingredients (PSAI):

Dr. Reddy's provides active pharmaceutical ingredients (APIs) and custom pharmaceutical services to other companies. This segment benefits from the company's extensive manufacturing capabilities and regulatory compliance, allowing it to serve a global clientele effectively.

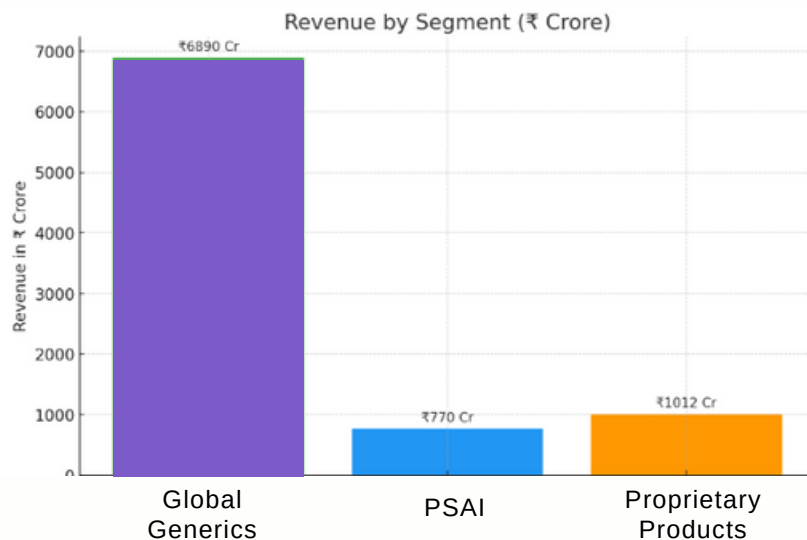
Proprietary Products

The company invests in research and development to create proprietary products, including biosimilars and differentiated formulations. This segment aims to address unmet medical needs and includes a focus on specialty areas such as oncology and dermatology.

REVENUE GROWTH



SEGMENT WISE REVENUE

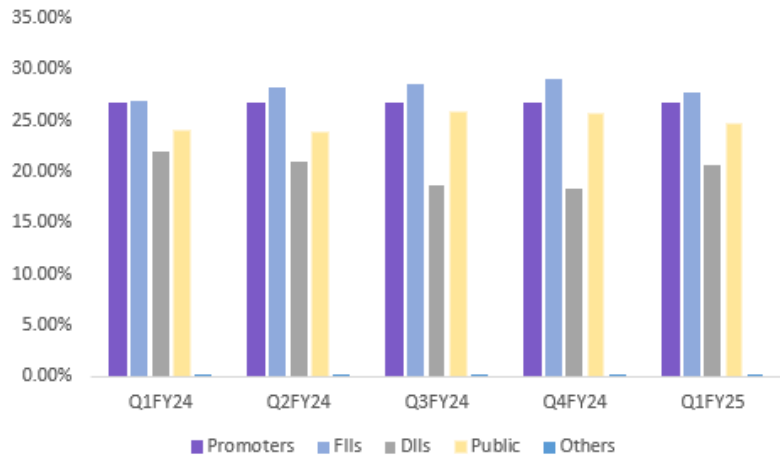


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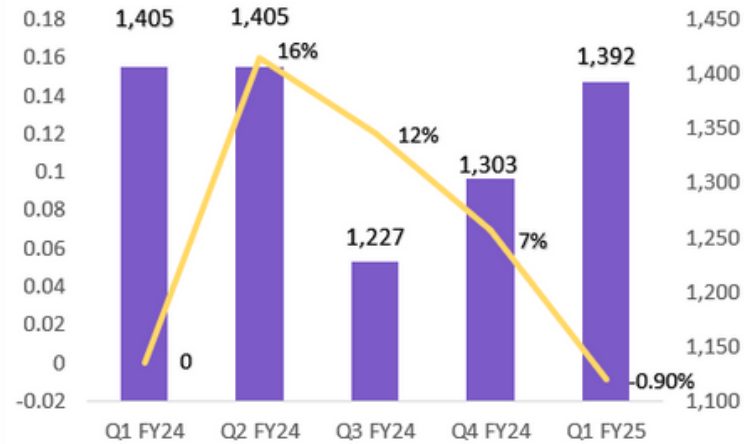
- **Global Generics:** ₹6,890 crore, accounting for a 15% year-on-year increase.
- **Pharmaceutical Services and Active Ingredients (PSAI):** ₹770 crore, with a 14% increase compared to the previous year.
- **Proprietary Products:** ₹1,012 crore, reflecting growth due to new product launches and market expansion.



SHAREHOLDING PATTERN

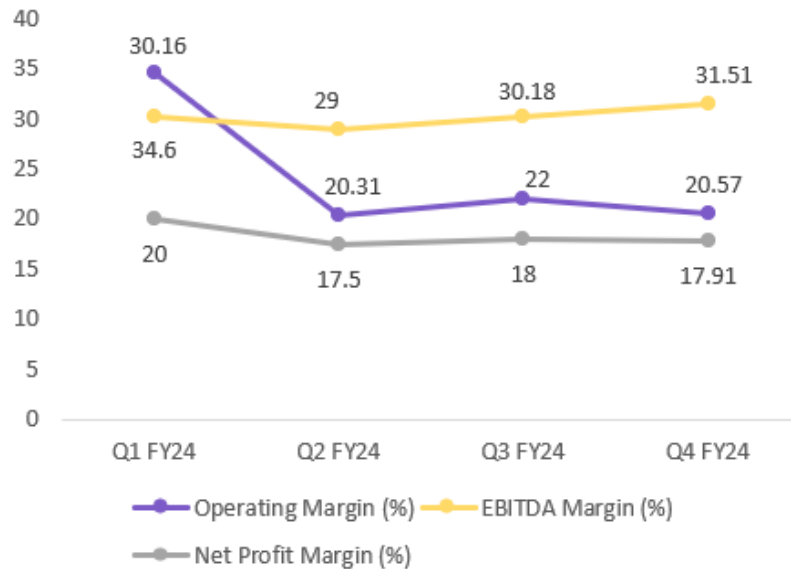


PAT & GROWTH

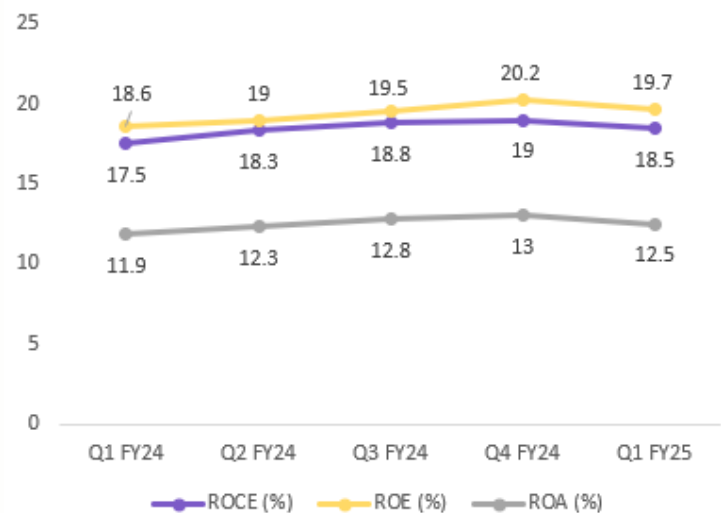


(COUNT IN MN, QOQ GROWTH IN %)

OPM, EBITDA & NP MARGINS



ROCE, ROE AND ROA



- **Operating Margin:** The operating margin has fluctuated, with a significant drop in Q1 FY24 compared to the previous quarter, but has shown recovery in subsequent quarters.
- **EBITDA Margin:** The EBITDA margin has remained relatively stable, with a peak in Q4 FY24 at 31.51%.
- **Net Profit Margin:** The net profit margin has also shown variability, peaking in Q1 FY24 but stabilizing in the following quarters.

- **ROCE:** The Return on Capital Employed has remained relatively stable, showing a slight increase from 17.5% in Q1 FY24 to 18.5% in Q1 FY25, indicating effective use of capital.
- **ROE:** The Return on Equity has shown a consistent upward trend, increasing from 18.6% in Q1 FY24 to 19.7% in Q1 FY25, reflecting improved profitability relative to shareholder equity.
- **ROA:** The Return on Assets has also improved, rising from 11.9% in Q1 FY24 to 12.5% in Q1 FY25, suggesting better asset utilization to generate profits.



Financial Statement - DR REDDY'S LABORATORIES LTD									
Years	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25 E	Mar-26 E	Mar-27 E	LTM
Income Statement									
Sales	₹ 17,517.0	₹ 19,047.5	₹ 21,545.2	₹ 24,669.7	₹ 28,011.1	₹ 30,812.2	₹ 33,739.4	₹ 36,775.9	₹ 28,949.3
Sales Growth	13.39%	8.74%	13.11%	14.50%	13.54%	10.00%	9.50%	9.00%	3.35%
COGS	₹ 10,705.6	₹ 11,612.8	₹ 13,332.8	₹ 14,531.7	₹ 15,874.2	₹ 16,946.7	₹ 18,556.7	₹ 21,330.0	₹ 20,956.8
COGS % Sales	61.12%	60.97%	61.88%	58.91%	56.67%	58.00%	58.00%	58.00%	72.39%
Gross Profit	₹ 6,811.40	₹ 7,434.70	₹ 8,212.40	₹ 10,138.00	₹ 12,136.90	₹ 13,865.49	₹ 15,182.72	₹ 15,445.88	₹ 7,992.50
Gross Margins	38.88%	39.03%	38.12%	41.09%	43.33%	45.00%	45.00%	42.00%	27.61%
Selling & General Expenses	₹ 4,334.30	₹ 3,560.60	₹ 4,444.70	₹ 3,667.90	₹ 4,203.80	₹ 5,700.26	₹ 6,241.78	₹ 6,803.54	
S&G Exp % Sales	24.74%	18.69%	20.63%	14.87%	15.01%	18.50%	18.50%	18.50%	0.00%
EBITDA	₹ 2,477.10	₹ 3,874.10	₹ 3,767.70	₹ 6,470.10	₹ 7,933.10	₹ 8,165.24	₹ 8,940.93	₹ 8,642.34	₹ 8,924.70
EBITDA Margins	14.14%	20.34%	17.49%	26.23%	28.32%	26.50%	26.50%	23.50%	30.83%
Interest	₹ 98.30	₹ 97.00	₹ 95.80	₹ 142.80	₹ 171.10	₹ 171.10	₹ 171.10	₹ 171.10	₹ 193.80
Interest % Sales	0.56%	0.51%	0.44%	0.58%	0.61%	0.56%	0.51%	0.47%	0.67%
Depreciation	₹ 1,163.10	₹ 1,228.80	₹ 1,165.20	₹ 1,250.20	₹ 1,470.00	₹ 1,470.00	₹ 1,470.00	₹ 1,470.00	₹ 1,497.30
Depreciation%Sales	6.64%	6.45%	5.41%	5.07%	5.25%	5.25%	5.25%	5.25%	5.17%
Earnings Before Tax	₹ 1,215.70	₹ 2,548.3	₹ 2,506.7	₹ 5,077.1	₹ 6,292.0	₹ 6,524.1	₹ 7,299.8	₹ 7,001.2	₹ 7,233.6
EBT % Sales	6.94%	13.38%	11.63%	20.58%	22.46%	21.17%	21.64%	19.04%	24.99%
Tax	(₹ 140.3)	₹ 931.9	₹ 878.9	₹ 1,541.2	₹ 1,623.1	₹ 1,623.1	₹ 1,623.1	₹ 1,623.1	₹ 1,668.3
Effective Tax Rate	-11.54%	36.57%	35.06%	30.36%	25.80%	25.80%	25.80%	25.80%	23.06%
Net Profit	₹ 1,356.0	₹ 1,616.4	₹ 1,627.8	₹ 3,535.9	₹ 4,668.9	₹ 4,901.0	₹ 5,676.7	₹ 5,378.1	₹ 5,565.3
Net Margins	7.74%	8.49%	7.56%	14.33%	16.67%	15.91%	16.83%	14.62%	19.22%
No of Equity Shares	16.62	16.63	16.64	16.65	16.68	16.68	16.68	16.68	16.68
Earnings per Share	₹ 81.59	₹ 97.20	₹ 97.82	₹ 212.37	₹ 279.91	₹ 293.83	₹ 340.33	₹ 322.43	₹ 333.65
EPS Growth %	-13.61%	19.13%	0.64%	117.09%	31.81%	4.97%	15.83%	-5.26%	19.20%

Financial Statements - Balance Sheet

Particulars	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Equity and Liabilities					
Share Capital	83.1 0.44%	83.2 0.39%	83.2 0.34%	83.3 0.33%	83.4 0.27%
Total Reserves	15,108.80 80.10%	16,900.50 79.07%	18,253.00 74.57%	20,390.90 80.36%	24,157.40 79.57%
Borrowings	19.3 0.10%	17.7 0.08%	19.7 0.08%	28.6 0.11%	49.5 0.16%
Other N/C liabilities	-528.8 -2.80%	-186.9 -0.87%	75.2 0.31%	432.3 1.70%	530.9 1.75%
Current liabilities	4,180.50 22.16%	4,560.30 21.33%	6,045.10 24.70%	4,439.70 17.50%	5,538.10 18.24%
Total Liabilities	18,862.90 100%	21,374.80 100%	24,476.20 100%	25,374.80 100%	30,359.30 100%
Assets					
Net Block	4,433.90 23.51%	5,844.30 27.34%	6,150.50 25.13%	7,195.30 28.36%	7,589.10 25.00%
Capital WIP	384.1 2.04%	877.1 4.10%	1186.4 4.85%	899.1 3.54%	1171.9 3.86%
Intangible WIP	27.7 0.15%	23.7 0.11%	13.9 0.06%	25.3 0.10%	39.1 0.13%
Investments	3,367.10 17.85%	3,392.20 15.87%	3,018.70 12.33%	3,248.60 12.80%	3,216.30 10.59%
Loans & Advances	542 2.87%	293.2 1.37%	409.8 1.67%	324.6 1.28%	507.2 1.67%
Other N/C Assets	1.4 0.01%	0.1 0.00%	202.6 0.83%	0 0.00%	33.4 0.11%
Current Assets	10,106.70 53.58%	10,944.20 51.20%	13,494.30 55.13%	13,681.90 53.92%	17,802.30 58.64%
Total Assets	18,862.90 100%	21,374.80 100%	24,476.20 100%	25,374.80 100%	30,359.30 100%



Financial Statements - Cash Flow Statement

Particulars	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Cash Flow Statements					
Profit from operations	2,775.80	3,056.20	2,223.80	3,866	5,791.30
Adjustment	681.8	273.3	845.1	1,045.80	602
Changes in Assets & Liabilities	-1,141.50	632.7	-1,241.40	923.7	-1,624.10
Tax Paid	-476.9	-448	-488.8	-782.7	-1,319.50
Cash from Operating Activities	1,839.20	3,514.20	1,338.70	5,052.80	3,449.70
Cash from Investing Activities	-1,689.20	-1,453.60	-1,990.10	-3,403.10	-3,428.70
Cash from Financing Activities	-224.1	-794.3	505.5	-2,696.90	68.1
Net Cash Flow	(₹ 74.1)	₹ 1,266.3	(₹ 145.9)	(₹ 1,047.2)	₹ 89.1

Financial ratios

Year ending March 31	2024	2023	2022	2021	2020
Profitability Ratios					
EBITDA Margin %	30%	30%	24%	25%	27%
Gross Margin %	59%	57%	53%	54%	54%
- Global Generics	63%	62%	58%	59%	57%
- PSAI	23%	16%	22%	29%	24%
Net Profit Margin (%)	19.9%	18.3%	11.0%	9.1%	11.2%
Return on Net Worth (%)	20%	20%	12%	10%	13%
Asset Productivity Ratios					
Fixed Asset Turnover	3.9	3.8	3.6	3.5	3.3
Total Assets Turnover	0.8	0.8	0.8	0.8	0.8
Working Capital Ratios					
Working Capital Days	219	182	214	188	188
Inventory Days	196	163	184	177	154
Debtors Days	103	103	108	91	100
Creditor Days	80	84	79	80	67
Gearing Ratios					
Net Debt/Equity	(0.23)	(0.21)	(0.08)	(0.04)	(0.03)
Interest Coverage	39.7	40.3	31.5	25.5	16.8
Current Ratio	2.6	2.4	1.9	1.8	1.8
Valuation Ratios					
Earnings per share (₹)	334.0	270.9	141.7	103.6	117.4
Book Value per share (₹)^	1,683	1,388	1,145	1,041	933
Dividend Payout	12%	15%	21%	24%	21%
Trailing Price/Earnings Ratio	18.4	17.1	30.3	43.6	26.6



WHAT SHOULD INVESTORS DO?

Dr. Reddy's is strategically positioned in the pharmaceutical market with a diverse portfolio that includes generics, biosimilars, and active pharmaceutical ingredients (APIs). This variety reduces exposure to market fluctuations. The management is focused on global expansion and strengthening its offerings in high-demand areas like oncology and neurology, which is expected to drive future revenue growth. Continued investment in R&D is prioritized to stay competitive as the industry advances with new technologies and regulatory changes.

While acknowledging ongoing pricing pressures in the generics market, the management is confident in sustaining growth through operational efficiencies and new product launches. The company also faces increased freight costs due to geopolitical issues in the Middle East, affecting operational expenses, though these costs are expected to stabilize.

Despite these challenges, Dr. Reddy's has maintained strong return ratios, with a year-over-year ROE of 26.6% and ROCE of 21.4%. Based on these factors, we upgrade our rating on Dr. Reddy's Laboratories Ltd. to ₹7,850 - ₹7,910.technicals levels



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