

Rating: REDUCE | CMP: Rs1,157 | TP: Rs1,300

January 22, 2026

Q3FY26 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current	Previous		
	FY27E	FY28E	FY27E	FY28E
Rating	REDUCE	REDUCE		
Target Price	1,300	1,270		
Sales (Rs. m)	3,56,683	3,90,150	3,53,004	3,83,704
% Chng.	1.0	1.7		
EBITDA (Rs. m)	74,615	84,451	73,068	83,863
% Chng.	2.1	0.7		
EPS (Rs.)	53.9	61.9	53.1	61.7
% Chng.	1.6	0.3		

Key Financials - Consolidated

Y/e Mar	FY25	FY26E	FY27E	FY28E
Sales (Rs. bn)	326	344	357	390
EBITDA (Rs. bn)	86	80	75	84
Margin (%)	26.5	23.2	20.9	21.6
PAT (Rs. bn)	57	54	45	52
EPS (Rs.)	67.8	64.5	53.9	61.9
Gr. (%)	1.5	(4.8)	(16.5)	14.7
DPS (Rs.)	9.2	13.8	13.8	13.8
Yield (%)	0.8	1.2	1.2	1.2
RoE (%)	18.4	15.2	11.5	12.0
RoCE (%)	20.3	14.9	12.1	12.9
EV/Sales (x)	2.9	2.7	2.5	2.2
EV/EBITDA (x)	11.1	11.6	12.0	10.3
PE (x)	17.1	17.9	21.5	18.7
P/BV (x)	2.9	2.6	2.4	2.1

Key Data

	REDY.BO DRRD IN
52-W High / Low	Rs.1,380 / Rs.1,020
Sensex / Nifty	81,910 / 25,158
Market Cap	Rs.966bn/ \$ 10,532m
Shares Outstanding	835m
3M Avg. Daily Value	Rs.2165.67m

Shareholding Pattern (%)

Promoter's	26.64
Foreign	24.69
Domestic Institution	27.99
Public & Others	20.68
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.5)	(8.1)	(10.2)
Relative	(6.1)	(7.8)	(16.8)

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Timely launch of Sema across markets remain key

Quick Pointers:

- Hopeful of Sema launch in Canada before May 2026 assuming no new CRL.
- NRT portfolio OPM now above 25%, exceeding initial acquisition assumptions.

Dr. Reddy's (DRRD) Q3FY26 reported EBITDA was in line with our estimates. The base business margins and US sales ex of gRevlimid continued to remain weak. On positive side, domestic and Russia sales reported strong growth. We have scale up base business margins from the current level of 17-18% to ~21% in FY27E. Our FY27 and FY28E EPS broadly remain unchanged. DRRD have been investing cash flow from gRevlimid to build pipeline across peptides, biosimilars and GLP products; benefits of that may take some time. Further any delay in getting approval for Sema in Canada remains a key risk. At CMP, DRRD is trading at valuations of 21.5x P/E on FY27E and factors in recovery in base business margins. We maintain our 'Reduce' rating with TP of Rs1,300/share; valuing at 23x Sept 2027E EPS. Any big ticket ANDA approvals and sharp scale up in Semaglutide opportunity are key risks to our call.

- Revenue growth remains supported by domestic and Russia business:** DRRD's sales grew by 4% YoY at Rs 87.3bn vs our estimates of Rs 85.5bn. The beat was aided by higher Russia and India markets. The NRT business which is now in base registered Rs 7.5bn of revenues. US revenue came in at \$333mn (\$372mn in Q2FY26), in line with our estimate. Price erosion in gRevlimid led to such QoQ decline. Domestic business grew strongly by 19% YoY to Rs 16bn. Russia sales increased by 51% YoY to Rs 10.6bn aided by price increase, higher volumes from existing business and favorable forex. PSAI sales declined by 2% YoY. EU sales included revenues from acquired NRT portfolio.
- One off exps and lower gRevlimid sales impacted profitability:** DRRD reported EBIDTA of Rs 18.9bn, down 18% YoY. Adj for labor code impact (Rs1.2bn); EBIDTA was at Rs20bn; down 12% YoY. Adj margins for one off stood at 23%. GMs came in at 53.6%; down 104bps QoQ. The YoY was down due to pricing pressure in gRevlimid, lower PSAI margins and labor code one off. Segment wise PSAI margins came in at 17% (18% in Q2FY26) whereas generic margins were at 57.4% (59.1% in Q2FY26). Other expenses included Rs 1170mn of one-off expense related to new labor code. Adj for these other expenses were up 12% YoY. R&D expenses declined 8% YoY at Rs 6.1bn (7% of revenues). There were forex gain in Q3FY26 vs forex loss booked in Q3FY25. Resultant PAT stood at Rs 12bn; down 14% YoY
- Key concall takeaways: US business:** Revenue declined QoQ primarily due to lower Lenalidomide contribution and ongoing price erosion in base generics. Continued launch momentum with 6 new product launches during the quarter. gRevlimid contribution to taper off by Q4FY26. Management reiterated that base US business (ex-gRevlimid) continues to grow, but headline growth remains masked by Lenalidomide normalization.

- **Semaglutide: India** approval received, launch confirmed on 21st March 2026. **Canada:** Remain hopeful of approval expected anytime between Feb–May 2026 assuming no new CRL. Management preparing for launch readiness in Q4FY26 or early Q1FY27. **Other markets:** Key launches expected in Brazil and Turkey around July 2026. **Capacity:** Current cartridge capacity at 12 mn units, adequate for near-term.
- **Biosimilars: Denosumab:** EC and MHRA approvals received; launched in Germany, UK/other EU launches pending. USFDA CRL due to partner Alvotech's Reykjavik facility observations; timing uncertain, delay likely ≥ 6 months. **Rituximab:** One pending observation related to fill-finish line; response expected shortly. Likely re-inspection required, pushing US approval beyond next 6–12 months. No impact on gAbatacept as manufacturing lines are different. **gAbatacept:** US BLA for IV filed on schedule; approval expected towards end-CY26. Subcutaneous version targeted for early CY28. Europe filing planned July 2026, with expected launch around mid-2027. Addressable market: $\sim \$2\text{bn+}$ in Europe, limited competition at launch.
- **EU:** Growth driven by NRT acquisition and new launches. EBITDA margins now above 25%, exceeding initial acquisition assumptions. Launched 10 new products during the quarter. Commercialised Denosumab in the market.
- **India:** Traction from innovation portfolio ($\sim 10\text{-}15\%$ of India revenues). New brand launches, price hikes and volume growth were supported. 2 new brand launches during the quarter; Stugeron acquisition contributing incrementally. Management confident of mid-teens growth sustainability, driven by innovation-led strategy.
- **PSAI:** QoQ decline in Q3FY26 was on account of lower volume uptake in the API business. Margin pressure remained due to adverse product mix. Near-term outlook remains muted, with recovery dependent on CDMO scale-up and customer traction.
- **EM's and Russia:** Russia up 21% YoY (CC), aided by forex and new launches. EMs; QoQ growth was primarily on account of volume growth.
- **Others:** Net cash position of Rs 30.7bn. R&D investments to range between 7–8% of sales.

Exhibit 1: 3QFY26 Result Overview (Rs mn): EBIDTA in line, one off of Rs 1170mn

Y/e March	3QFY26	3QFY25	YoY gr. (%)	Q3FY26E	% Var	2QFY26	QoQ gr. (%)	9M FY26	9M FY25	YoY gr. (%)
Net Sales	87,268	83,586	4.4	85,494	2.1	88,051	(0.9)	260,771	2,40,475	8.4
COGS	40,462	34,534	17.2	39,327	2.9	39,911	1.4	117,198	97,310	20.4
% of Net Sales	46.4	41.3		46.0	0.8	45.3		44.9	40.5	
SGA	21,703	19,398	11.9	21,200	2.4	21,385	1.5	63,970	57,311	11.6
% of Net Sales	24.9	23.2		24.8	0.3	24.3		24.5	23.8	
R&D	6,149	6,658	(7.6)	6,500	(5.4)	6,202	(0.9)	18,595	20,122	(7.6)
% of Net Sales	7.0	8.0		7.6	(7.3)	7.0		7.1	8.4	
Total Expenditure	68,314	60,590	12.7	67,027	1.9	67,498	1.2	1,99,763	1,74,743	14.3
EBITDA	18,954	22,996	(17.6)	18,467	2.6	20,553	(7.8)	61,008	65,732	(7.2)
Margin (%)	21.7	27.5		21.6	0.6	23.3		23.4	27.3	
Depreciation & Amortisation	5,215	4,719	10.5	5,050	3.3	5,051	3.2	150,31	12,504	20.2
EBIT	13,739	18,277	(24.8)	13,417	2.4	15,502	(11.4)	45,977	53,228	(13.6)
Other Income	770	439	75.4	1,200	(35.8)	2,673	(71.2)	4182	1,893	120.9
Interest	(1,168)	20	(5,940.0)	(800)	46.0	(774)		(3,512)	(2,372)	48.1
PBT	15,677	18,696	(16.1)	15,417	1.7	18,949	(17.3)	53,671	57,493	(6.6)
Share of Profit of Equity	23	42		65	(64.6)	63		88	162	(45.7)
Extra Ord Items	271	(4)		-	#DIV/0!	662		933	925	0.9
Total Taxes	3,533	4,704	(24.9)	3,716	(4.9)	4,082	(13.4)	12,566	15,357	(18.2)
ETR (%)	22.5	25.2		24.1	(6.5)	21.5		23.4	26.7	(12.3)
Minority Interest	(202)	(95)		-	#DIV/0!	(104)		(388)	767	(150.6)
Reported PAT	12,098	14,133	(14.4)	11,766	2.8	14,372	(15.8)	40,648	40,606	0.1

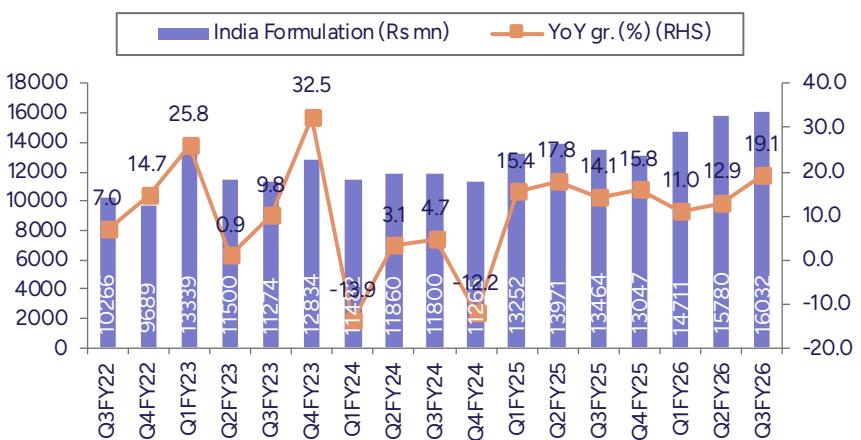
Source: Company, PL

Exhibit 2: Outperformance from India and Russia markets

Major Sources of Revenues	3QFY26	3QFY25	YoY gr. (%)	2QFY26	QoQ gr. (%)	9M FY26	9M FY25	YoY gr. (%)
PSAI (CPS & API)	8,018	8,219	(2.4)	9,450	(15.2)	25,649	24,283	5.6
% of Net Sales	9.2	9.8		10.7		9.8	10.1	
Branded Formulation	79,152	73,753	7.3	78,498	0.8	2,33,268	2,14,186	8.9
India	16,032	13,464	19.1	15,780	1.6	46,523	40,687	14.3
% of Net Sales	18.4	16.1		17.9		17.8	16.9	
International	63,120	60,289	4.7	62,718	0.6	1,86,745	1,73,499	7.6
% of Net Sales	72.3	72.1		71.2		71.6	72.1	
Russia & CIS	13,000	9,400	38.3	11,090	17.2	33,120	25,800	28.4
% of Net Sales	14.9	11.2		12.6		12.7	10.7	
Europe	14,476	12,096	19.7	13,762	5.2	40,982	23,131	77.2
% of Net Sales	16.6	14.5		15.6		15.7	9.6	
North America Generics	29,644	33,834	(12.4)	32,408	(8.5)	96,175	1,09,577	(12.2)
% of Net Sales	34.0	40.5		36.8		36.9	45.6	
Emerging Mkt Generics	6,000	4,959	21.0	5,458	9.9	16,468	14,991	9.9
% of Net Sales	6.9	5.9		6.2		6.3	6.2	
Innovative Prod	137	1,614	(91.5)	103	33.0	1,891	2,005	(5.7)
% of Net Sales	0.2	1.9		0.1		0.7	0.8	

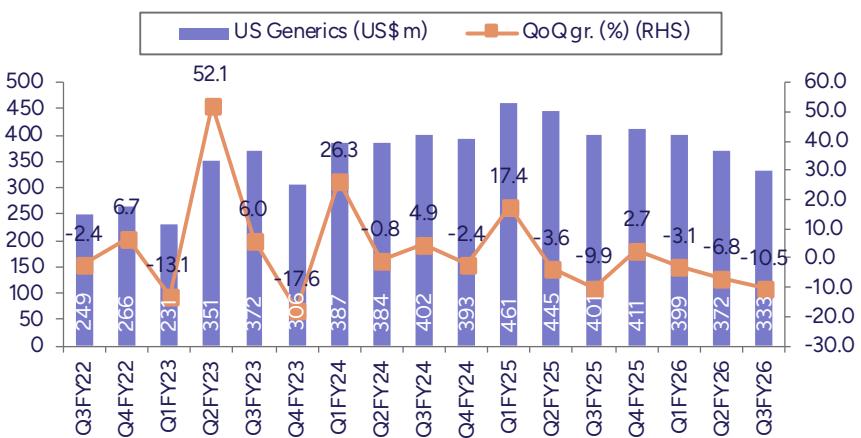
Source: Company, PL

Exhibit 3: Continued outperformance YoY



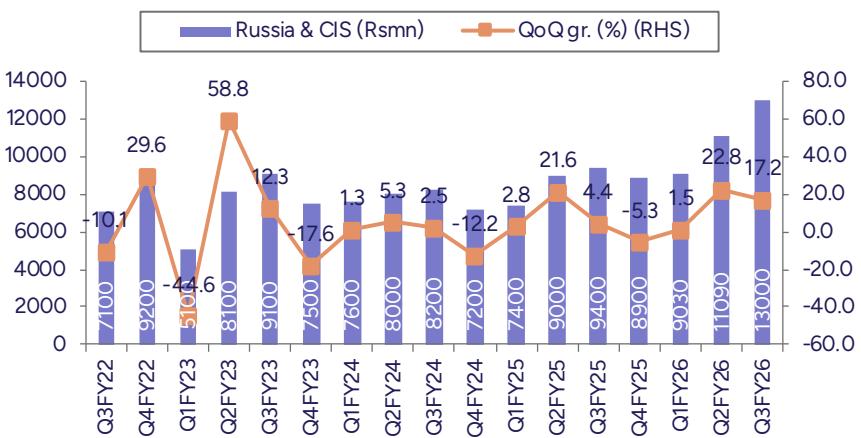
Source: Company, PL

Exhibit 4: Moderate performance QoQ due to gRevlimid



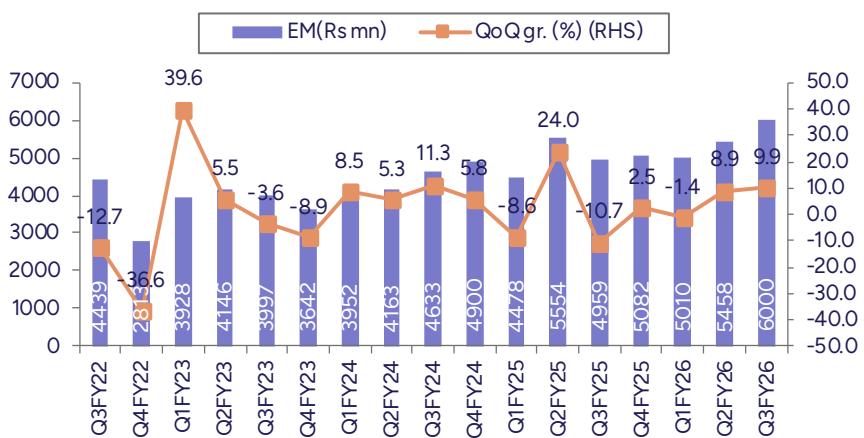
Source: Company, PL

Exhibit 5: Higher volumes & price increase led growth YoY



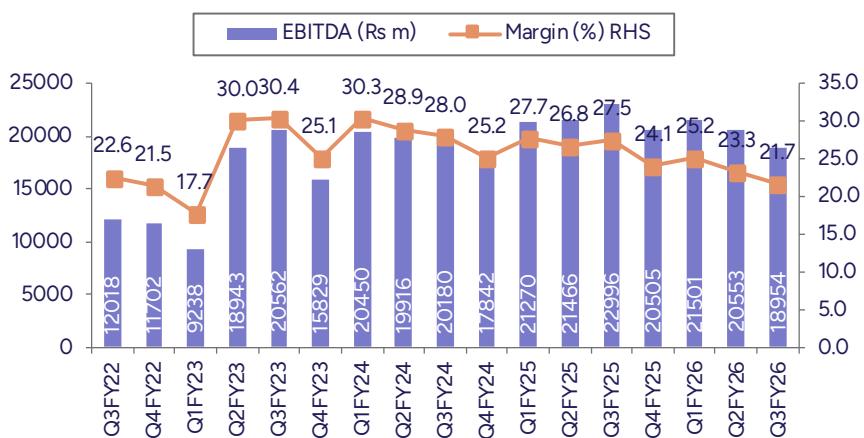
Source: Company, PL

Exhibit 6: New launches and forex aids growth



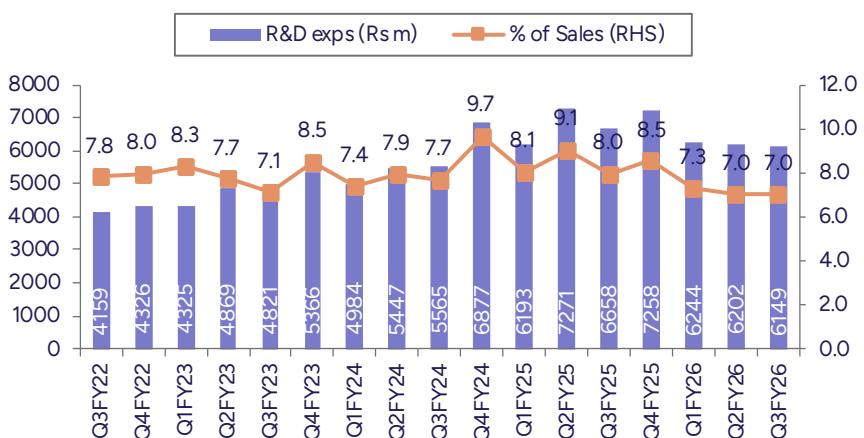
Source: Company, PL

Exhibit 7: One off and lower contribution from gRevlimid impacted



Source: Company, PL

Exhibit 8: Stable R&D spend QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Net Revenues	3,25,535	3,44,382	3,56,683	3,90,150
YoY gr. (%)	16.6	5.8	3.6	9.4
Cost of Goods Sold	1,35,107	1,55,700	1,67,889	1,81,832
Gross Profit	1,90,428	1,88,683	1,88,793	2,08,317
Margin (%)	58.5	54.8	52.9	53.4
Employee Cost	-	-	-	-
Other Expenses	27,380	25,190	27,709	30,479
EBITDA	86,236	79,971	74,615	84,451
YoY gr. (%)	10.0	(7.3)	(6.7)	13.2
Margin (%)	26.5	23.2	20.9	21.6
Depreciation and Amortization	17,058	20,223	21,637	23,217
EBIT	69,178	59,747	52,979	61,233
Margin (%)	21.3	17.3	14.9	15.7
Net Interest	(9,082)	(9,500)	(7,100)	(7,800)
Other Income	-	-	-	-
Profit Before Tax	78,260	69,247	60,079	69,033
Margin (%)	24.0	20.1	16.8	17.7
Total Tax	19,539	15,927	15,620	17,949
Effective tax rate (%)	25.0	23.0	26.0	26.0
Profit after tax	58,721	53,321	44,458	51,085
Minority interest	701	(300)	(300)	(300)
Share Profit from Associate	217	200	200	200
Adjusted PAT	56,544	53,821	44,958	51,585
YoY gr. (%)	1.5	(4.8)	(16.5)	14.7
Margin (%)	17.4	15.6	12.6	13.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	56,544	53,821	44,958	51,585
YoY gr. (%)	1.5	(4.8)	(16.5)	14.7
Margin (%)	17.4	15.6	12.6	13.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	56,544	53,821	44,958	51,585
Equity Shares O/s (m)	834	834	834	834
EPS (Rs)	67.8	64.5	53.9	61.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
Non-Current Assets				
Gross Block	3,63,693	3,73,093	3,82,115	3,93,747
Tangibles	2,08,808	2,30,808	2,52,808	2,77,808
Intangibles	1,54,885	1,42,285	1,29,306	1,15,939
Acc: Dep / Amortization	1,69,129	1,76,752	1,85,411	1,95,261
Tangibles	1,11,047	1,23,396	1,36,921	1,51,784
Intangibles	58,082	53,357	48,490	43,477
Net fixed assets	1,94,564	1,96,341	1,96,704	1,98,487
Goodwill	97,761	1,07,413	1,15,887	1,26,025
Non-Current Investments	15,202	19,822	19,822	19,822
Net Deferred tax assets	4,400	4,400	4,400	4,400
Other Non-Current Assets	972	972	972	972
Current Assets				
Investments	43,254	43,254	43,254	43,254
Inventories	71,085	76,529	79,263	86,700
Trade receivables	90,420	1,00,445	1,04,033	1,13,794
Cash & Bank Balance	14,654	42,744	74,983	1,02,207
Other Current Assets	32,520	34,146	35,853	37,646
Total Assets	4,74,481	5,26,063	5,66,694	6,14,692
Equity				
Equity Share Capital	834	834	834	834
Other Equity	3,32,554	3,74,865	4,08,314	4,48,390
Total Networth	3,33,388	3,75,699	4,09,148	4,49,224
Non-Current Liabilities				
Long Term borrowings	7,864	7,864	7,864	7,864
Provisions	-	-	-	-
Other non current liabilities	7,236	7,236	7,236	7,236
Current Liabilities				
ST Debt / Current of LT Debt	38,902	38,902	38,902	38,902
Trade payables	35,523	41,087	44,304	47,983
Other current liabilities	55,968	59,674	63,639	67,882
Total Equity & Liabilities	4,74,481	5,26,063	5,66,694	6,14,692

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY25	FY26E	FY27E	FY28E
PBT	95,318	89,471	81,715	92,251
Add. Depreciation	17,058	20,223	21,637	23,217
Add. Interest	9,082	9,500	7,100	7,800
Less Financial Other Income	-	-	-	-
Add. Other	(45,773)	(29,723)	(28,737)	(31,017)
Op. profit before WC changes	75,685	89,471	81,715	92,251
Net Changes-WC	(10,455)	(7,825)	(847)	(11,069)
Direct tax	(19,993)	(15,927)	(15,620)	(17,949)
Net cash from Op. activities	45,236	65,719	65,248	63,233
Capital expenditures	(87,494)	(26,620)	(22,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(87,494)	(26,620)	(22,000)	(25,000)
Issue of share cap. / premium	7,056	-	-	-
Debt changes	24,872	-	-	-
Dividend paid	(6,438)	(11,509)	(11,509)	(11,509)
Interest paid	-	-	-	-
Others	24,315	500	500	500
Net cash from Fin. activities	49,805	(11,009)	(11,009)	(11,009)
Net change in cash	7,547	28,090	32,239	27,224
Free Cash Flow	17,732	43,719	43,248	38,233

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY25	FY26E	FY27E	FY28E
Per Share(Rs)				
EPS	67.8	64.5	53.9	61.9
CEPS	88.3	88.8	79.8	89.7
BVPS	399.7	450.5	490.6	538.6
FCF	21.3	52.4	51.9	45.8
DPS	9.2	13.8	13.8	13.8
Return Ratio(%)				
RoCE	20.3	14.9	12.1	12.9
ROIC	16.6	13.6	11.8	13.0
RoE	18.4	15.2	11.5	12.0
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	141	144	142	143
Valuation(x)				
PER	17.1	17.9	21.5	18.7
P/B	2.9	2.6	2.4	2.1
P/CEPS	13.1	13.0	14.5	12.9
EV/EBITDA	11.1	11.6	12.0	10.3
EV/Sales	2.9	2.7	2.5	2.2
Dividend Yield (%)	0.8	1.2	1.2	1.2

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Net Revenue	85,060	85,452	88,051	87,268
YoY gr. (%)	20.1	11.4	9.8	4.4
Raw Material Expenses	37,797	36,825	39,911	40,462
Gross Profit	47,263	48,627	48,140	46,806
Margin (%)	55.6	56.9	54.7	53.6
EBITDA	20,505	21,501	20,553	18,954
YoY gr. (%)	14.9	1.1	(4.3)	(17.6)
Margin (%)	24.1	25.2	23.3	21.7
Depreciation / Depletion	4,555	4,765	5,051	5,215
EBIT	15,950	16,736	15,502	13,739
Margin (%)	18.8	19.6	17.6	15.7
Net Interest	(2,352)	(1,570)	(774)	(1,168)
Other Income	2,465	739	2,673	770
Profit before Tax	20,767	19,045	18,949	15,677
Margin (%)	24.4	22.3	21.5	18.0
Total Tax	4,181	4,951	4,082	3,533
Effective tax rate (%)	20.1	26.0	21.5	22.5
Profit after Tax	16,586	14,094	14,867	12,144
Minority interest	-	-	-	-
Share Profit from Associates	55	2	63	23
Adjusted PAT	15,873	14,096	14,268	11,896
YoY gr. (%)	21.4	1.3	6.4	(15.3)
Margin (%)	18.7	16.5	16.2	13.6
Extra Ord. Income / (Exp)	768	-	662	271
Reported PAT	16,641	14,096	14,930	12,167
YoY gr. (%)	29.0	1.2	4.1	(13.3)
Margin (%)	19.6	16.5	17.0	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,641	14,096	14,930	12,167
Avg. Shares O/s (m)	167	167	167	167
EPS (Rs)	19.2	17.1	17.3	14.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY25	FY26E	FY27E	FY28E
India Formulations	53,734	60,719	66,184	72,803
US formulations	1,45,163	1,22,054	1,06,925	1,10,780
Russia	26,000	34,956	38,451	42,296
PSAI	33,846	35,877	38,747	41,847

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-26	Reduce	1,270	1,243
2	26-Oct-25	Reduce	1,270	1,284
3	08-Oct-25	Reduce	1,270	1,249
4	24-Jul-25	Reduce	1,270	1,247
5	08-Jul-25	Reduce	1,225	1,311
6	12-May-25	Reduce	1,225	1,156
7	08-Apr-25	Reduce	1,335	1,088
8	24-Jan-25	Reduce	1,335	1,289

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ajanta Pharma	BUY	3,200	2,854
2	Apollo Hospitals Enterprise	BUY	8,600	7,087
3	Aster DM Healthcare	BUY	775	615
4	Aurobindo Pharma	BUY	1,300	1,235
5	Brigade Enterprises	BUY	1,045	843
6	Cipla	Accumulate	1,675	1,468
7	Divi's Laboratories	Accumulate	7,050	6,643
8	Dr. Reddy's Laboratories	Reduce	1,270	1,243
9	Eris Lifesciences	BUY	1,900	1,553
10	Fortis Healthcare	BUY	1,120	915
11	Global Health	BUY	1,375	1,238
12	HealthCare Global Enterprises	BUY	850	657
13	Indoco Remedies	Hold	325	225
14	Ipca Laboratories	BUY	1,600	1,514
15	J.B. Chemicals & Pharmaceuticals	BUY	2,300	1,927
16	Jupiter Life Line Hospitals	BUY	1,750	1,393
17	Krishna Institute of Medical Sciences	BUY	810	654
18	Lupin	BUY	2,400	2,214
19	Max Healthcare Institute	BUY	1,350	1,051
20	Narayana Hrudayalaya	BUY	2,100	1,901
21	Oberoi Realty	Accumulate	1,820	1,647
22	Prestige Estates Projects	BUY	1,880	1,500
23	Rainbow Children's Medicare	BUY	1,600	1,315
24	Sun Pharmaceutical Industries	BUY	1,875	1,783
25	Sunteck Realty	BUY	600	432
26	Torrent Pharmaceuticals	Accumulate	4,200	4,092
27	Zydus Lifesciences	Accumulate	1,020	928

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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