Result Update

Q2FY27

Dr Reddy's Laboratories Ltd

Buy

09 November 2026 | CMP*: ₹1,370/- | Sector – Pharmaceutical

Q2FY27 Performance

- The company reported a 1.5% YoY decline in revenue to ₹8,671crs in Q2FY27, while revenue grew 7% QoQ, supported by recovery in the underlying base business. The decline in reported revenue was mainly due to lower lenalidomide sales in North America. However, excluding lenalidomide, the company continued to deliver double-digit growth in its underlying business.
- Gross margin declined to 52.1% from 54.7% in Q2FY26, primarily due to lower lenalidomide sales and an unfavourable product mix. EBITDA declined 24% YoY to ₹1,783crs, with the margin contracting to 20.6% from 26.7% in Q2FY26. However, EBITDA margin improved from 12.5% in Q1FY27, supported by a recovery in gross margin, new product launches and a favourable business mix. Q1FY27 Margins was adversely impacted by a ₹240crs provision for inventory and other costs related to the semaglutide API issue. PAT declined 36% YoY to ₹925crs, mainly due to lower operating profitability and reduced other income. The ATR for Q2FY27 was higher primarily due to an adverse jurisdictional mix. On a sequential basis, EBITDA and PAT increased 77% and 110%, respectively, partly reflecting the low base in Q1FY27. Management expects gross margins to remain in the 50–55% range over the coming quarters and EBITDA margins to stay above 20%, with a long-term target of 25%.

Nifty	24,986
Sensex	80,999
Close* (₹)	1,370
M.CAP (₹ tn)	~1.13
52 Week H/L (₹)	1,415 / 1,101
NSE Code	DRREDDY
BSE Code	500124
Bloomberg Code	DRRD:IN

CMP is Close as on 08th November 2026

Shareholding	Mar-26	Jun-26	Sep-26
Promoter	26.60%	26.60%	26.60%
FII	21.10%	20.70%	20.30%
DII	42.70%	43.20%	43.00%
Public & Others	9.50%	9.60%	10.10%

Segment performance

- **North America:** Revenue declined 23% YoY and up by 13% to US$264 million, mainly due to lower lenalidomide sales. However, the underlying business continued to grow at a double-digit rate, supported by six new product launches, including the first-to-market launch of sugammadex injection. Management highlighted complex generics and the planned semaglutide relaunch as key growth drivers going forward.
- **India:** Revenue grew 17% YoY & 8% QoQ to ₹1,851crs, continuing to outperform the Indian Pharmaceutical Market (IPM). The company maintained strong growth momentum, with management expecting high double-digit growth and continued outperformance against the market.
- **Emerging Markets:** Revenue increased 24% YoY and 12% QoQ to ₹2,059crs, supported by new product launches and favourable currency movements. Region-wise, Russia grew 15% YoY and 12% QoQ, CISR grew 13% YoY and 21% QoQ, while ROW recorded strong growth of 44% YoY and 11% QoQ. The company launched 27 new products across various countries in Q2FY27. It also secured approval for generic semaglutide in eight emerging markets across Latin America, Africa and the Middle East, expanding its presence in these markets.
- **Europe:** Revenue declined 3% QoQ & flattish growth of 1% to ₹1393crs, mainly due to generic price erosion and changes in the NRT business model.
- **PSAI (API):** Revenue declined 12% YoY to ₹831crs, primarily due to lower API volume offtake.

Financials

(₹ crs)

Particulars	FY25	FY26	FY27E	FY28E
Revenue	32554	33593	36203	39294
Growth %		3%	8%	9%
EBITDA	8779	6897	5930	8037
EBITDA margins %	27%	21%	16%	20%
PAT	5630	4285	3168	4586
PAT margins %	17%	13%	9%	12%
EPS	67.5	51.4	38.0	55.0
ROE %	17%	11%	8%	10%
P/E Ratio	17.0	22.9	34.5	23.8
EV/EBITDA (x)	10.5	12.5	18.4	13.5
Debt/ Equity	0.14	0.19	0.17	0.15

Source: *Company, ShriramFS Research*

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
DRREDDY	2%	21%	41%
Nifty 50	-12%	19%	29%
Sensex	-13%	15%	24%

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- **CDMO Business**: Aurigene Pharmaceutical Services Limited (APSL) generated over US$100 million in revenue during the last 12 months. The business also secured long-term manufacturing and supply agreements with a leading global pharmaceutical company for the US, Europe, Canada and emerging markets. Management expects the CDMO business to grow two to three times over the next three to four years, supported by these agreements and increasing demand for outsourced development and manufacturing services.

Key Business & Pipeline Updates

- **Semaglutide:** The company expects to relaunch semaglutide in November 2026, subject to successful validation, following the resolution of API scale-up issues. The product has received approval in 10 countries across Latin America, Africa, the Middle East, Canada and India.
  - The API scale-up issue has been resolved and the required API has been shipped to the fill-and-finish partner. Validation of the finished product remains pending.
  - Management expressed confidence in the relaunch, supported by orders already received.
  - The company continues to target 6–7 million pens in the current year (FY27). The estimated run rate of 12–15 million pens over the 12 months from April 2027 remains tentative.
  - Generic semaglutide has been approved in 10 countries, while the regulatory process is continuing across a wider target of 89 markets.
  - Brazil launches are expected around the beginning of Q4, with other markets targeted for December 2026 or January 2027.
- **Abatacept (Biosimilar):** The US FDA's goal date for the intravenous (IV) biosimilar is December 22, 2026. The manufacturing facility inspection has been completed, and the company is preparing for launch. It has also secured India's first approval for an intravenous abatacept biosimilar.
- **Rituximab (Biosimilar):** Received US FDA approval. The product will be commercialised in the US through its partner, Fresenius Kabi.
- **Nivolumab (Biosimilar):** Launched in India, marking the company's entry into the country's biosimilar immuno-oncology market.
- **Complex Injectables:** Management indicated that several promising complex injectable products are lined up for launch in the second half of FY27.

Strategic Initiatives

- Dengue Vaccine: Partnered with Takeda to launch QDENGA, India's first CDSCO-approved dengue vaccine, in the private market in H1 2027.
- HIV Prevention: Expanded its collaboration with Gilead Sciences to provide access to investigational lenacapavir across 120 countries.
- Antibiotic Approval: Secured approval in Thailand for zoliflodacin, an antibiotic for the treatment of gonorrhoea, within six months of its US FDA approval.

Regulatory Updates

- Semaglutide Quality Issue: Certain batches of semaglutide were found to be out of specification due to an issue associated with the active pharmaceutical ingredient (API). The company is taking corrective measures to ensure product quality and resume supplies.
- Mirfield, UK – API Facility: Received a Voluntary Action Indicated (VAI) classification following a US FDA Good Manufacturing Practice (GMP) inspection conducted in September 2025 at its API manufacturing facility in Mirfield, United Kingdom.

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- Srikakulam, Andhra Pradesh – FTO-SEZ Process Unit-02: Received a Form 483 with three observations following a pre-approval inspection (PAI) and GMP inspection in July 2026. The company submitted its responses within the stipulated timeline.
- Bachupally, Hyderabad – FTO-3: Received a Form 483 with four observations following a GMP inspection at its formulations manufacturing facility in August 2026. Responses were submitted within the stipulated timeline.
- Mexico – API Facility: Received a Form 2953 with two observations following a records assessment under Section 704(a)(4) of the Federal Food, Drug, and Cosmetic Act, conducted between July and September 2026. Responses were submitted within the stipulated timeline.
- Novartis India Agreement: The distribution and promotion agreement for select brands in India was terminated following a change in Novartis India's controlling shareholding.

Concall highlights

- Management expects gross margins to remain in the 50–55% range over the next four quarters. Gross margin improved to 52.1% in Q2FY27 from 46.5% in Q1FY27, supported by new product launches and a favourable product mix. However, higher KSM, solvent and logistics costs impacted EBITDA margins by around 100 bps, with pressure expected to continue in Q3 and Q4, assuming no further geopolitical disruptions. The company remains confident of maintaining EBITDA margins above 20%, with a long-term target of 25%.
- **North America:** Management expects the business to sustain its current growth trajectory, supported by new product launches, semaglutide and complex generics. While increasing competition may lead to lower sales of certain products, the impact is expected to be partly offset by new launches.
- **India Business**: Management expects the India business to continue delivering high double-digit growth and outperform the Indian Pharmaceutical Market (IPM). The launch of GLP-1 products and other new products is supporting growth and strengthening the company's market position.
- Europe **and NRT**: this segment performance was impacted by generic price erosion and changes in the NRT operating model. Management expects Europe to return to growth, whereas the recovery is likely to remain modest in FY27. The NRT business is expected to grow in the high single-digit to double-digit range.
- **Biosimilars:**
  - The US FDA has approved the company's rituximab biosimilar, which will be commercialised in the US through its partner, Fresenius Kabi.
  - Abatacept IV has a US FDA goal date of December 22, 2026, and the company is preparing for launch, subject to regulatory approval. Management estimates a potential US market share of 15–25% for abatacept IV, assuming successful approval and launch. While sales can begin after approval, a meaningful ramp-up is expected to take around six months as formulary access and registrations progress. The filing for subcutaneous abatacept is expected around February–March 2027.
  - Pembroz and daratumumab are additional biosimilar opportunities that could support growth over the next five years.
- **CDMO and API Business:** Aurigene Pharmaceutical Services generated more than US$100 million in revenue over the last 12 months. Management expects the CDMO business to grow two to three times its current size over the next three to four years, driven by discovery and innovation-related work, clinical-stage projects and manufacturing contracts with large pharmaceutical companies. The API business remains weak due to lower demand for older products. However, the B2B finished-dose business is growing as customers increasingly prefer finished formulations over APIs.
- **R&D, Expenses and Capex:** R&D expenditure declined in Q2FY27 due to lower development spending on generics. Management expects R&D expenditure to normalise at 7–8% of revenue over the coming quarters. SG&A expenses are expected to remain broadly at current levels, supported by ongoing cost-control measures. For FY27, capex is expected to be around ₹1,600–1,700crs, slightly below the earlier guidance of ₹1,800crs.

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Valuation & Outlook

- We have revised our revenue, EBITDA and PAT estimates for FY27 and FY28. For FY27, we estimate revenue of ₹36,203crs, EBITDA of ₹5,930crs and PAT of ₹3,168crs, which are 1%, 17% and 30% lower, respectively, than our earlier estimates. For FY28, revenue and PAT estimates have been cut by 5% and 9% to ₹39,294crs and ₹4,586crs, respectively, while the EBITDA estimate has been raised by 3% to ₹8,037crs.
- FY27 is likely to be the second consecutive year of earnings decline, mainly due to increased competition in g-Revlimid, delays in semaglutide scale-up and weak API offtake. These factors are partly offset by niche products such as Bosutinib. The company is working to resume semaglutide supplies, with a relaunch expected in November 2026, subject to successful validation. The planned launch of abatacept IV, for which the US FDA goal date is December 22, 2026, is another key growth trigger, subject to regulatory approval. In addition, growth in India and Emerging Markets, new product launches and the expansion of the CDMO business are expected to support the company's medium- to long-term growth.
- We estimate revenue, EBITDA and PAT to grow at a CAGR of 8%, 8% and 3%, respectively, over FY26–FY28E. Margins are likely to remain under pressure in the near term due to higher input costs, pricing pressure and investments in semaglutide and biosimilars. However, the recovery in semaglutide sales, new product launches and the biosimilar pipeline should support earnings growth over the longer term. The stock is currently trading at 23.8x FY28E EPS and 14x FY28E EV/EBITDA. We remain positive on the company's medium-term growth prospects and **maintain our Buy rating.**

Consolidated Quarterly Performance

(₹ crs)

Particulars	Q2FY27	Q2FY26	YoY %	Q1FY27	QoQ %	1HFY27	1HFY26	YoY %
Revenue (net)	8,671	8,805	-2%	8,071	7%	16,741	17,350	-4%
Costs of Materials Consumed	4,150	3,991	4%	4,317	-4%	8,467	7,674	10%
% of Revenue	48%	45%		53%		51%	44%	
Gross Profit	4,520	4,814	-6%	3,754	20%	8,274	9,677	-14%
% Margin	52%	54.7%		47%		49%	56%	
Selling, General & Administrative expenses	2,808	2,644	6%	2,882	-3%	5,690	5,208	9%
Research & Development Expenses	524	620	-16%	577	-9%	1,100	1,245	-12%
Total Expenses	7,481	7,255	3%	7,775	-4%	15,257	14,127	8%
% of Revenue	86%	82%		96%		91%	81%	
EBITDA	1,783	2,351	-24%	1,008	77%	2,759	4,629	-40%
% Margin	21%	27%		12%		16%	27%	
EBIT	1,268	1,751	-28%	378	235%	1,647	3,499	-53%
EBT	1,235	1,829	-32%	552	124%	1,787	3,733	-52%
Total Tax Expense / (Credit)	314	408	-23%	118	167%	432	903	-52%
PAT	925	1,427	-35%	443	109%	1,368	2,828	-52%
% Margin	11%	16%		5%		8%	16%	
EPS - Reported	11.0	17.1		5.2		16	34	
EPS - Adjusted	11.0	17.1		5.2		16	34	

Source: Company, ShriramFS Research

(₹ crs)

Revenue by geographic	Q2FY27	Q2FY26	YoY %	Q1FY27	QoQ %	1HFY27	1HFY26	YoY %
Global Generic	7,793	7,850	-1%	7,199	8%	14,992	15,412	-3%
North America	2,489	3,240.8	-23%	2,205	13%	4,694	6,653	-29%
Europe	1,394	1,376.1	1%	1,444	-3%	2,838	2,651	7%
India	1,851	1,578.0	17%	1,718	8%	3,569	3,049	17%
Emerging markets	2,060	1,654.8	24%	1,833	12%	3,892	3,059	27%
PSAI	831	945.0	-12%	852	-2%	1,683	1,763	-5%
others	47	10.3	357%	19	144%	66	175	-62%
total	8,671	8,805	-2%	8,071	7%	16,741	17,350	-4%

Source: Company, ShriramFS Research

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Particulars	FY25	FY26	FY27E	FY28E
Revenue (net)	32,554	33,593	36,203	39,294
Cost of Goods Sold (COGS)	13,511	15,867	18,101	18,861
% of Revenue	42%	47%	50%	48%
Gross Profit	19,043	17726	18101	20433
% Margin	58%	53%	50%	52%
EBITDA	8,779	6,897	5,930	8,037
% Margin	27%	21%	16%	20%
EBIT	7,186	5055	4322	6254
EBT	7,679	5482	4223	6114
Tax Expense / (Credit)	1,954	1235	1056	1529
PAT (Reported)	5,630	4,285	3,168	4,586
EPS - Reported	67.5	51.4	38.0	55.0

Source: Company, ShriramFS Research

(₹ crs)

Balance sheet	FY25	FY26	FY27E	FY28E
Goodwill	1181	1289	1298	1298
Fixed Assets	9776	11593	12593	13593
Tangible assets & Right to use	9680	10506	10506	10506
Intangible Assets	481	0	0	0
Financial Assets	97	469	0	0
Capital WIP	0	0	0	0
Total Fixed Assets	21216	23857	24397	25397
Non current Investment	2890	1637	1637	1637
Net Deferred Tax	-1229	687	697	697
Current Assets				
Cash / Bank Balance	1465	1537	407	1043
Inventories	7109	7653	8431	8785
Receivables	9042	10122	10910	11842
Investment	4325	7245	7245	7245
Other Current Assets	3070	3641	4344	4715
Total CA	25011	30198	31337	33629
Current Liabilities				
Payables	3552	3341	3472	3617
Short term liabilities	3805	5914	5826	5826
LT borrowing current portion	86	600	233	233
provision	617	755	362	393
Other Current Liabilities	4980	6147	5430	3929
Total CL	13039	16757	15323	13999
Net working capital	11972	13441	16014	19630
Total Assets	34849	39621	42745	47361
Equity & Liabilities				
Equity Capital	83	84	84	84
Reserves & Surplus	33255	37623	40790	45376
Shareholders' Funds	33339	37706	40874	45460
Minority Interest	378	339	339	339
Long Term Borrowings	786	1220	1169	1169
lease liab	0	0	0	0
Provision	16	11	0	0
other non-current liab	330	344	362	393
Total Liabilities	34849	39621	42745	47361

Source: Company, ShriramFS Research

Key ratio	FY25	FY26	FY27E	FY28E
P/E Ratio	19.11	25.73	34.49	23.82
EV/Net sales (x)	3.33	3.22	3.01	2.76
EV/EBITDA (x)	11.78	14.10	18.39	13.49
Debt/equity	0.14	0.19	0.17	0.15
RoE (%)	17%	11%	8%	10%
RoCE (%)	21%	13%	10%	13%

Source: Company, ShriramFS Research

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Disclosure of Interest Statement: Dr Reddy's Laboratories Ltd. as on 09 November 2026

Name of the Security	Dr Reddy's Laboratories Ltd
Name of the analyst	Rupali Singh
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Shriram FS ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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