INSTITUTIONAL RESEARCH

Dr Reddy's Laboratories

Semaglutide API issue to impact FY27 earnings

Dr Reddy's Labs (DRRD) to face 3-4 months delay in supplies for Semaglutide in key markets as its Semaglutide API found out to be out of specification due to impurity issues detected during scale-up process. DRRD is investigating the root cause and taking appropriate measures to ensure product quality. The company does not see impact on the following: (1) existing channel inventories, (2) regulatory filings in global markets, and (3) tablet form in India (have alternate API supplier). DRRD expects to address the issue over the next 3-4 months and hopes to resume supplies from Oct/Nov-26 and it has trimmed its FY27 supply targets to 6-7mn pens from 12mn pens earlier. Considering delays in Semaglutide supplies, we have cut our FY27 estimates for Semaglutide sales to ~USD 105 mn (Canada + India) from ~USD 150mn earlier and accordingly we have cut our EPS for FY27E/28E by 5/1% and revised our TP of INR 1,250 (22x FY28E EPS). REDUCE stays.

- **What happened in DRRD's Semaglutide product:** Certain batches of DRRD's Semaglutide were found to be out of specification due to an issue associated with API used in the product. While the company is investigating the root cause, the initial feedback was – an issue arises during scale-up of API manufacturing process and reaction equipment, which was largely related to degradation and led to impurity. DRRD is taking appropriate measures to ensure product quality.
- **Expected timeline on Semaglutide:** DRRD expects to complete root cause analysis in the next 1-2 weeks. This will be followed by validation of three manufacturing batches by Sep-26. DRRD is looking for changes in process and certain equipment reaction parameters to address the impurities and out-of-specification issues. It expects supply resumption by Oct/Nov-26 subject to validation process. It is not looking to enrol external consultants and will take help of in-house team to address the issue.
- **Impact on Semaglutide business:** The new batches that were produced during Semaglutide API scale-up will have an impact. Torrent Pharma – one of DRRD's B2B partner has initiated voluntary recall as a precautionary measure for select batches of Semalix injection disposable pens. Sandoz is another partner with B2B arrangement for APIs. Moreover, the company may write off certain inventories that were supplied in recent months to Onesource Specialties.
- **Certain part of the Semaglutide business will not be impacted:** DRRD does not see an impact on existing channel inventories, regulatory filings in global markets, and tablet dosing in India (have alternate API supplier). After validation, it expects Semaglutide supplies to start without regulatory clearance.
- **Other highlights:** DRRD remains optimistic on overall market demand despite possibility of increasing competition in near term. While Apotex has already launched in Canada and can have advantage to gain market share, Sandoz (API is link to DRRD) approval/ launch and DRRD re-launch to be around same time. DRRD to qualify the alternate Semaglutide supplies as a de-risk strategy.
- **Cut in annual supply targets:** DRRD is expected to halt supplies for 3-4 months (Q2FY27). Assuming supply resumption from late Oct-26/ Nov-26, DRRD has trimmed its supply targets to 6-7mn pens from earlier 12mn pens in FY27E. Considering delayed in Semaglutide supplies, we have cut our FY27 estimates for Semaglutide sales to ~USD 105 mn (Canada + India) from ~USD 150mn earlier.

Financial Summary

YE March (INR bn)	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
US sales (USD mn)	1,265	1,559	1,699	1,333	1,059	1,120	1,150
Net Sales	247	280	326	337	350	380	412
EBITDA	64	79	87	71	68	81	91
APAT	38	54	57	43	42	47	55
Diluted EPS (INR)	45.0	65.1	67.9	51.9	50.0	56.8	65.3
P/E (x)	27.7	19.1	18.3	24.0	24.9	21.9	19.1
EV / EBITDA (x)	15.4	12.6	11.8	14.8	15.2	12.8	11.2
RoCE (%)	26	26	23	14	11	12	13

Source: Company, HSIE Research

REDUCE

CMP *(as on 10 Jul 2026)*	INR 1,244
Target Price	INR 1,250
NIFTY	24,207

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1260	INR 1250
	FY27E	FY28E
EPS %	(5.2)	(0.8)

KEY STOCK DATA	
Bloomberg code	DRRD IN
No. of Shares (mn)	835
MCap (INR bn) / ($ mn)	1,039/10,887
6m avg traded value (INR mn)	2,910
52 Week high / low	INR 1,415/1,148

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.0	2.8	(1.4)
Relative (%)	1.0	10.0	5.3

SHAREHOLDING PATTERN (%)

	Dec-25	Mar-26
Promoters	26.64	26.63
FIs & Local MFs	30.44	30.72
FPIs	33.2	33.08
Public & Others	9.72	9.57
Pledged Shares	-	-

Source : BSE

Mehul Sheth
mehul.sheth@hdfcsec.com
+91-22-6171-7349

Financials (Consolidated)

Profit & loss (INR mn)

March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Net sales	**214,391**	**245,879**	**279,164**	**325,535**	**335,933**	**349,087**	**379,091**	**410,761**
Other operating income	1,061	818	947	904	1,069	1,111	1,206	1,307
Total operating income	**215,452**	**246,697**	**280,111**	**326,439**	**337,002**	**350,198**	**380,297**	**412,068**
Cost of goods sold	(74,422)	(76,577)	(82,087)	(99,799)	(122,392)	(133,776)	(141,851)	(151,229)
Gross profit	141,030	170,120	198,024	226,640	214,610	216,422	238,446	260,839
Gross margin (%)	65	69	71	69	64	62	63	63
Total operating expenses	(94,049)	(105,931)	(118,690)	(139,476)	(143,492)	(148,134)	(157,823)	(169,772)
EBITDA	**46,981**	**64,189**	**79,334**	**87,164**	**71,118**	**68,289**	**80,623**	**91,067**
EBITDA margin (%)	21.8	26.0	28.3	26.7	21.1	19.5	21.2	22.1
Depreciation	(11,652)	(12,502)	(14,700)	(17,037)	(20,588)	(22,421)	(24,044)	(25,635)
EBIT	**35,329**	**51,687**	**64,634**	**70,127**	**50,530**	**45,867**	**56,579**	**65,432**
Net interest	(958)	(1,428)	(1,711)	(2,829)	(3,738)	(3,287)	(2,910)	(2,341)
Other income	4,844	10,555	8,943	10,973	10,294	10,993	8,933	8,987
Profit before tax	**29,911**	**60,115**	**71,863**	**76,578**	**53,533**	**53,573**	**62,601**	**72,077**
Total taxation	(8,789)	(15,412)	(16,231)	(19,543)	(12,351)	(12,353)	(15,685)	(18,054)
Tax rate (%)	29	26	23	26	23	23	25	25
Profit after tax	21,122	44,703	55,632	57,035	41,182	41,220	46,917	54,023
Minorities	0	0	0	701	(384)	(380)	(380)	(380)
Profit/ Loss associate co(s)	703	370	147	217	134	135	137	138
Adjusted net profit	**24,707**	**37,547**	**54,389**	**56,681**	**43,338**	**41,736**	**47,434**	**54,541**
Adj. PAT margin (%)	12	15	19	17	13	12	13	13
Net non-recurring items	(2,882)	7,526	1,390	(130)	(1,378)	0	0	0
Reported net profit	**21,825**	**45,073**	**55,779**	**56,551**	**41,960**	**41,736**	**47,434**	**54,541**

Balance sheet (INR mn)

March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Paid-up capital	832	833	834	834	835	835	835	835
Reserves & surplus	191,292	232,028	281,714	334,662	378,080	412,720	453,039	500,490
Net worth	192,124	232,861	282,548	339,274	382,309	416,569	456,508	503,579
Borrowing	33,845	13,472	20,020	46,766	77,341	68,485	60,631	48,778
Other non-current liabilities	7,125	4,935	6,322	19,520	23,263	23,583	24,057	24,547
Total liabilities	**297,469**	**322,851**	**388,638**	**494,266**	**581,234**	**604,966**	**641,001**	**680,737**
Gross fixed assets	192,388	215,006	239,773	318,318	381,699	405,899	433,399	460,399
Less: Depreciation	(116,646)	(128,289)	(141,018)	(149,193)	(175,863)	(198,284)	(222,328)	(247,964)
Net fixed assets	75,742	86,717	98,755	169,125	205,836	207,615	211,071	212,435
Add: Capital WIP	12,934	10,301	14,193	24,656	14,602	14,602	14,602	14,602
Total fixed assets	88,676	97,018	112,948	193,781	220,438	222,217	225,673	227,037
Total Investment	26,159	49,858	49,305	40,511	52,848	53,415	54,039	54,726
Inventory	50,884	48,670	63,552	71,085	76,534	80,635	87,566	94,881
Debtors	66,818	72,485	80,298	90,420	101,234	106,659	115,826	125,503
Cash & bank	24,192	17,302	17,277	24,602	33,487	34,636	34,577	35,731
Loans & advances	1,906	1,232	169	557	155	161	175	190
Current liabilities	64,375	71,583	79,748	88,706	98,321	96,329	99,806	103,834
Total current assets	157,704	159,759	204,003	216,874	263,560	276,284	296,994	320,071
Net current assets	93,329	88,176	124,255	128,168	165,239	179,955	197,188	216,238
Other non-current assets	19,457	10,742	16,881	29,961	29,591	38,254	49,498	64,106
Total assets	**297,469**	**322,851**	**388,638**	**494,266**	**581,234**	**604,966**	**641,001**	**680,737**

Source: Company, HSIE Research

Cash flow (INR mn)

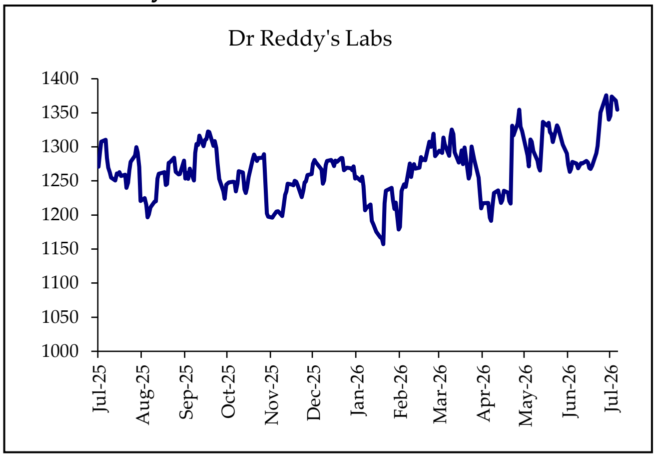
March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Profit before tax	29,911	60,115	71,863	76,578	53,533	53,573	62,601	72,077
Depreciation & Amortization	(11,652)	(12,502)	(14,700)	(17,037)	(20,588)	(22,421)	(24,044)	(25,635)
Chg in working capital	(18,407)	(7,855)	(20,182)	(29,989)	(11,246)	6,112	1,370	3,836
CF from operations	**28,108**	**58,875**	**45,433**	**46,428**	**56,737**	**62,183**	**66,445**	**76,987**
Capital expenditure	(19,375)	(18,866)	(27,435)	(87,494)	(41,557)	(24,200)	(27,500)	(27,000)
CF from investing	**(26,387)**	**(41,373)**	**(40,283)**	**(58,077)**	**(65,493)**	**(12,640)**	**(17,943)**	**(17,327)**
Equity raised/ (repaid)	334	368	805	(1,196)	397	0	0	0
Debt raised/ (repaid)	2,735	(20,397)	4,346	23,196	18,994	(8,856)	(7,854)	(11,853)
Dividend paid	(4,146)	(4,979)	(6,648)	(6,662)	(6,659)	(7,095)	(7,115)	(7,090)
CF from financing	**(2,422)**	**(26,861)**	**(3,763)**	**18,911**	**8,290**	**(15,951)**	**(14,970)**	**(18,943)**
Net chg in cash	(701)	(9,359)	1,387	7,262	(466)	33,593	33,532	40,717

Key ratios

March	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
OPERATIONAL								
FDEPS (INR)	29.6	45.0	65.1	67.9	51.9	50.0	56.8	65.3
CEPS (INR)	40.1	69.0	84.4	88.1	74.9	76.8	85.6	96.0
DPS (INR)	5.0	6.0	8.0	8.0	8.0	8.5	8.5	8.5
Dividend payout ratio (%)	19.0	11.0	11.9	11.8	15.9	17.0	15.0	13.0
GROWTH								
Net sales (%)	13.0	14.7	13.5	16.6	3.2	3.9	8.6	8.4
EBITDA (%)	3.3	36.6	23.6	9.9	(18.4)	(4.0)	18.1	13.0
Adj net profit (%)	(3.4)	52.0	44.9	4.2	(23.5)	(3.7)	13.7	15.0
FDEPS (%)	(3.4)	52.0	44.9	4.2	(23.5)	(3.7)	13.7	15.0
PERFORMANCE								
RoE (%)	13.4	17.7	21.1	18.3	12.1	10.5	10.9	11.4
RoCE (%)	18.1	25.7	26.3	22.7	13.7	11.5	12.5	13.3
EFFICIENCY								
Asset turnover (x)	1.2	1.2	1.2	1.2	1.0	0.9	0.9	0.9
Sales/ total assets (x)	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6
Working capital/ sales (x)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Receivable days	114	108	105	101	110	112	112	112
Inventory days	110	97	116	108	105	104	107	108
Payable days	49	45	48	40	42	41	42	43
FINANCIAL STABILITY								
Total debt/ equity (x)	0.2	0.1	0.1	0.2	0.2	0.2	0.1	0.1
Net debt/ equity (x)	(0.1)	(0.2)	(0.2)	(0.0)	0.0	(0.0)	(0.0)	(0.1)
Current ratio (x)	2.4	2.2	2.6	2.4	2.7	2.9	3.0	3.1
Interest cover (x)	36.9	36.2	37.8	24.8	13.5	14.0	19.4	27.9
VALUATION								
PE (x)	42.1	27.7	19.1	18.3	24.0	24.9	21.9	19.1
EV/ EBITDA (x)	21.9	15.4	12.6	11.8	14.8	15.2	12.8	11.2
EV/ Net sales (x)	4.8	4.0	3.6	3.2	3.1	3.0	2.7	2.5
PB (x)	5.4	4.5	3.7	3.1	2.7	2.5	2.3	2.1
Dividend yield (%)	0.4	0.5	0.6	0.6	0.6	0.7	0.7	0.7
Free cash flow yield (%)	0.8	3.8	1.7	(3.9)	1.5	3.7	3.7	4.8

Source: Company, HSIE Research

Price History



Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400
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HDFC Securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com