

July 05, 2024

## Dr. Reddy's Laboratories Limited: Update on Material Event

### Summary of rating outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based/ non-fund based limits	1200.00	1200.00	[ICRA]AA+ (Stable); outstanding
<b>Total</b>	<b>1,200.00</b>	<b>1,200.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

### Material event

Dr. Reddy's Laboratories Limited (DRL), has informed the Bombay Stock Exchange on June 26, 2024 that its wholly-owned subsidiary, Dr. Reddy's Laboratories SA, Switzerland has entered into a definitive agreement with Haleon plc and its associate companies (Haleon Group) to acquire Nicotinell and related brands through acquisition of all the quotas of Northstar Switzerland SARL (Northstar Switzerland), incorporated in Switzerland and owned by the Haleon Group with step-down subsidiaries in the United Kingdom (UK) and Sweden. The intellectual property, business contracts, dossiers and other assets related to the portfolio being acquired will stay with Northstar Switzerland and/or its wholly owned step-down subsidiaries, North Star OpCo Limited and North Star Sweden AB (which will have a branch in Norway called North Star Sweden Branch NUF), to be incorporated in England and Wales, and Sweden, respectively. Consequently, the said companies will be step-down wholly-owned subsidiaries of DRL. The transaction is expected to be closed by early Q4 CY2024 and the company will pay an upfront cash consideration of GBP 458 million and additional performance-based contingent cash payments of up to GBP 42 million in CY2025 and CY2026.

### Impact of material event

The acquisition will enable DRL to gain access to well-established global over-the-counter (OTC) brands. ICRA also notes that the transaction will be funded completely through internal accruals/surplus liquidity available, given the company's strong liquidity position and healthy cash flow generation. Moreover, the acquired brands are expected to increase DRL's global OTC business, while sustaining its healthy operating margins. Thus, this event is unlikely to have any adverse material impact on DRL's credit profile. Nonetheless the company's ability to successfully integrate the acquired brands and achieve the desired scale-up will be monitored.

Please refer to the following link for the previous detailed rationale that captures the Key rating drivers and their description, Liquidity position and Rating sensitivities: [Click here](#)

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Pharmaceutical Industry</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of DRL. As on March 31, 2024, the company had 50 subsidiaries and step-down subsidiaries, one associate, two joint ventures and two other consolidating entities (where the company

does not have any equity interest but has significant influence or control over them) that are enlisted in Annexure-II.

## About the company

DRL was incorporated by its Promoter and Founder Chairman, Late Dr. K. Anji Reddy, as a private limited company on February 24, 1984. The company was subsequently converted into a public limited on December 6, 1985, and was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in August 1986, as well as on the New York Stock Exchange (NYSE) on April 11, 2001. As on March 31, 2024, the promoters and the promoter Group held a 26.65% stake in the company.

DRL offers a portfolio of pharmaceutical products and services, including generics, APIs, custom pharmaceutical services, biosimilars and differentiated formulations. It has three divisions — global generics (accounted for 88% of revenues in FY2024), PSAl (11%) and others (1%). The major therapeutic areas of focus for the company include central nervous system, gastro-intestinal, oncology, cardiovascular and pain management, with the US, India, West Europe, Russia and the CIS<sup>1</sup> nations being its major markets.

DRL has nine API manufacturing facilities, of which six are in India, one in Mexico, one in the US and one in the UK. It also has 13 formulations manufacturing facilities in India, and one each in the US and China. In addition, the company has one biologics facility in India and eight technology development and R&D centres in India and overseas.

## Key financial indicators (audited)

DRL - Consolidated	FY2023	FY2024
Operating income	24,669.7	28011.1
PAT	4,470.3	5563.2
OPBDIT/OI	26.5%	28.3%
PAT/OI	18.1%	19.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.2	0.3
Interest coverage (times)	45.8	46.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA's calculation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)		Chronology of rating history for the past 3 years		
			Date & rating in FY2025		Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			July 05, 2024	Jun 04, 2024	Sep 28, 2023	Jul 28, 2022	Jul 29, 2021
<b>Fund-based / non-fund based Limits</b>	Long term	1200.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

<sup>1</sup> Commonwealth of Independent States

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term, fund-based / non fund based limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/ non-fund based limits	NA	NA	NA	1200.00	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	DRL's Ownership	Consolidation Approach
<b>Subsidiaries</b>		
Aurigene Discovery Technologies (Malaysia) Sdn. Bhd, Malaysia	100.0%	Full Consolidation
Aurigene Oncology Limited (formerly, Aurigene Discovery Technologies Limited)	100.0%	Full Consolidation
Aurigene Pharmaceutical Services Limited, India	100.0%	Full Consolidation
Beta Institut gemeinnützige GmbH, Germany	100.0%	Full Consolidation
Betapharm Arzneimittel GmbH, Germany	100.0%	Full Consolidation
Cheminor Investments Limited, India	100.0%	Full Consolidation
Chiretech Technology Limited, UK (under liquidation)	100.0%	Full Consolidation
Dr Reddy's Laboratories LLP, Kazakhstan	100.0%	Full Consolidation
Dr. Reddy's (Thailand) Limited, Thailand	100.0%	Full Consolidation
Dr. Reddy's (Beijing) Pharmaceutical Co. Limited	100.0%	Full Consolidation
Dr. Reddy's Bio-sciences Limited, India	100.0%	Full Consolidation
Dr. Reddy's Formulations Limited, India	100.0%	Full Consolidation
Dr. Reddy's Farmaceutica Do Brasil Ltda., Brazil	100.0%	Full Consolidation
Dr. Reddy's Laboratories (Australia) Pty. Limited, Australia	100.0%	Full Consolidation
Dr. Reddy's Laboratories (EU) Limited, UKF	100.0%	Full Consolidation
Dr. Reddy's Laboratories (Proprietary) Limited, South Africa	100.0%	Full Consolidation
Dr. Reddy's Laboratories (UK) Limited, UK	100.0%	Full Consolidation
Dr. Reddy's Laboratories Canada, Inc., Canada	100.0%	Full Consolidation
Dr. Reddy's Laboratories Inc., USA	100.0%	Full Consolidation
Dr. Reddy's Laboratories LLC, Ukraine	100.0%	Full Consolidation
Dr. Reddy's Laboratories Malaysia Sdn. Bhd., Malaysia	100.0%	Full Consolidation
Dr. Reddy's Laboratories New York, LLC	100.0%	Full Consolidation
Dr. Reddy's New Zealand Limited, New Zealand	100.0%	Full Consolidation
Dr. Reddy's Philippines Inc., Philippines	100.0%	Full Consolidation
Dr. Reddy's Research and Development B.V.	100.0%	Full Consolidation
Dr. Reddy's SRL, Italy	100.0%	Full Consolidation
Dr. Reddy's Laboratories Chile SPA., Chile	100.0%	Full Consolidation
Dr. Reddy's Laboratories Japan KK, Japan	100.0%	Full Consolidation
Dr. Reddy's Laboratories Louisiana LLC, USA	100.0%	Full Consolidation
Dr. Reddy's Laboratories Romania S.R.L., Romania	100.0%	Full Consolidation
Dr. Reddy's Laboratories SA, Switzerland	100.0%	Full Consolidation
Dr. Reddy's Laboratories SAS, Colombia	100.0%	Full Consolidation
Dr. Reddy's Laboratories Taiwan Limited, Taiwan	100.0%	Full Consolidation
Dr. Reddy's Venezuela, C.A., Venezuela	100.0%	Full Consolidation
Dr. Reddy's Laboratories LLC, Russia	100.0%	Full Consolidation
DRL Impex Limited, India	100.0%	Full Consolidation

Company Name	DRL's Ownership	Consolidation Approach
Idea2Enterprises (India) Private Limited, India	100.0%	Full Consolidation
Imperial Credit Private Limited, India	100.0%	Full Consolidation
Industrias Quimicas Falcon de Mexico, S.A.de C.V, Mexico	100.0%	Full Consolidation
Lacock Holdings Limited, Cyprus	100.0%	Full Consolidation
Promius Pharma LLC, USA	100.0%	Full Consolidation
Reddy Holding GmbH, Germany	100.0%	Full Consolidation
Reddy Netherlands B.V., Netherlands	100.0%	Full Consolidation
Reddy Pharma Iberia SAU, Spain	100.0%	Full Consolidation
Reddy Pharma Italia S.R.L, Italy	100.0%	Full Consolidation
Reddy Pharma SAS, France	100.0%	Full Consolidation
Svaas Wellness Limited	100.0%	Full Consolidation
Nimbus Health GmbH (from 24 February 2022)	100.0%	Full Consolidation
Dr. reddy's Laboratories Jamaica Limited (wef September 25, 2023)	100.0%	Full Consolidation
Dr. Reddy's Nutraceuticals Limited (wef March 14, 2024)	100.0%	Full Consolidation
<b>Associate</b>		
O2 Renewable Energy IX Private Limited (wef November 10, 2023)	26.0%	Equity Method
<b>Joint Ventures</b>		
DRES Energy Private Limited	26.0%	Equity Method
Kunshan Rotam Reddy Pharmaceutical Company Limited	51.3%	Equity Method
<b>Other Consolidating Entities*</b>		
Cheminor Employees Welfare Trust	-	Full Consolidation
Dr. Reddy's Research Foundation	-	Full Consolidation

\*The company does not have any equity interests in these entities, but has significant influence or control over it

Source: DRL Q4FY2024 quarterly results

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