December 27, 2024

Dr. Reddy's Laboratories Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - fund-based/ non-fund based limits	1,200.00	2,000.00	[ICRA]AA+ (Stable); reaffirmed/ assigned for enhanced amount
Total	**1,200.00**	**2,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Dr. Reddy's Laboratories Limited (DRL) factors in its established position as one of the leading Indian pharmaceutical companies and its healthy financial profile, characterised by strong internal accrual generation, comfortable capital structure, robust credit metrics and strong liquidity. DRL's revenue from operations grew to Rs. 15,734.3 crore in H1 FY2025 with a 15.2% YoY growth. This is the fourth consecutive year when DRL's revenues have grown at more than 13%. While the OPM[1] reduced slightly to 27.5% in H1 FY2025 from 28.3% in FY2024, this was attributable to the one-time buying costs related to DRL's acquisition of NRT[2] brands from Haleon plc and its associate companies (Haleon Group). DRL's OPM continues to be supported by a favourable product mix, strong performance in NAG[3] business led by volume limited sales of Lenalidomide[4] capsules and other new product launches and steady performance across other key markets.

DRL's business remains well diversified across geographies like North America, India, Europe and other emerging markets, and it has an integrated presence across the value chain with backward integration into APIs[5]. Moreover, it has a strong pipeline of generic products in developed markets across the globe, supported by strong research and development (R&D) capabilities with an increasing focus towards biosimilars and injectables, that are expected to drive its growth and profitability over the medium-to-long term.

ICRA notes the completion of DRL's acquisition of NRT brands from the Haleon Group with 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. The acquisition will enable DRL to gain access to established global OTC[6] brands and the brands are expected to support growth in DRL's global OTC business, while sustaining its healthy operating margins. Despite the acquisition, DRL continues to maintain a strong liquidity profile, supported by robust cash flow generation and a healthy level of cash, cash equivalents, liquid investments and undrawn line of credit. After the acquisition, which was funded by internal accruals, DRL's total debt (including lease liabilities) increased to Rs. 4,854.1 crore as on September 30, 2024 from Rs. 2,002.0 crore as on March 31, 2024, primarily due to higher borrowings to fund working capital requirements. However, its financial profile continues to remain healthy with robust capitalisation and coverage metrics.

[1] *Operating profit margins*

[2] *Nicotine Replacement Therapy*

[3] *North America Generics*

[4] *Generic version of Revlimid (used in oncology therapy)*

[5] *Active Pharmaceutical Ingredients*

[6] *Over the counter*

DRL's operations, however, remain exposed to regulatory risks including scrutiny by regulatory agencies like the US FDA[7], US SEC[8] and US DoJ[9]. While regulatory issues with the US FDA can impact DRL's ability to maintain a healthy portfolio, especially in the US, comfort can be drawn from the successful outcome of the US FDA inspections at its manufacturing facilities in FY2024 and H1 FY2025 as DRL has no major outstanding issues with the US FDA. The company has two outstanding form 483s issued by the US FDA to its manufacturing facilities at Srikakulam, Andhra Pradesh (having 3 observations) and Bollaram, Telangana (having 7 observations) and is working towards resolving the same. Moreover, there have been no material adverse development across the key issues including the ongoing industrywide investigation by the anti-trust division of the US DoJ on price fixing and price collusion allegations, the antitrust litigations regarding the launch of gRevlimid or the ongoing investigation by the SEC and DoJ about the alleged violation of the anti-corruption laws.

The Stable outlook on the rating reflects ICRA's opinion that the company will maintain its healthy credit profile and strong liquidity position, supported by strong cash accrual generation, with an established market position in key markets and a diverse product mix.

Key rating drivers and their description

Credit strengths

Well diversified geographical reach, strong presence in key generic markets globally – DRL has an established presence in the generics business across North America and Europe as well as in the branded generics markets across India and other emerging markets. Its key markets include North America (accounted for 48% of DRL's revenues in H1 FY2025), India (17%), Europe (7%) and emerging markets (17%). The NAG business has been witnessing a healthy double-digit revenue growth since FY2023 on account of new product launches and volume gains in the base business. DRL continues to focus on limited competition drugs with a particular focus on injectables and biosimilars, which are likely to support its performance in the region. It is also expected to continue a heathy growth momentum across some other key geographies, supported by a robust pipeline of new launches and focus on developing its core business.

Integrated presence across value chain with backward integration into APIs – The PSAI[10] business of DRL generated 10% of its H1 FY2025 revenues. The API business, in addition to external partners, supplies to DRL's own generic business. This backward integration presents a significant cost advantage to DRL and supports its overall margin profile. Moreover, DRL remains focused on enhancing the level of backward integration further, which is expected to support its margins.

Strong R&D capabilities supporting development of strong generic product pipeline in key markets – DRL continues to spend up to 8-9% of its revenues on R&D. The R&D spend stood at 8.2% and 8.6% of revenues in FY2024 and H1 FY2025, respectively. DRL's efforts in R&D are focused on developing complex and differentiated formulations/injectables, first-to-file products and biosimilar compounds. As of September 30, 2024, DRL had 80 filings pending approval with the US FDA, which includes 75 ANDAs[11] and five NDAs[12] filed under section 505(b)(2). Out of these 75 ANDA filings, 44 are Paragraph IV filings and DRL believes that it is the first to file with respect to 22 of these filings.

Healthy financial profile, characterised by robust credit metrics and strong liquidity – Despite some increase in the working capital utilisation post the acquisition for NRT brands from Haleon for GBP 458 million, DRL has been able to maintain a healthy credit profile, marked by robust leverage and coverage indicators with an interest coverage of 31.9 times in H1 FY2025 and total debt/OPBDITA of 0.6 times and total outside liabilities/tangible net worth of 0.4 times as on September 30, 2024.

---

[7] *United States Food and Drug Administration*

[8] *United States Securities and Exchange Commission*

[9] *United States Department of Justice*

[10] *Pharmaceutical Services and Active Ingredients*

[11] *Abbreviated New Drug Applications*

[12] *New Drug Applications*

Moreover, DRL is expected to maintain its healthy financial profile, underpinned by strong accrual generation, low leverage levels and strong liquidity position.

Credit challenges

Ongoing investigations, pending resolution of product litigations as well as exposure to regulatory risks – Like its peers, DRL's operations continue to remain exposed to the risks of scrutiny by various regulatory agencies including the USFDA, US SEC and US DoJ. DRL's ability to maintain a healthy launch momentum in the US and other key geographies remain dependent on successful closure of the outstanding observations and any future inspection by such regulatory agencies. However, comfort can be drawn from its successful track record of regulatory inspections in recent years. Besides, DRL is yet to resolve the ongoing industry-wide investigation by the anti-trust division of the US DoJ on price fixing and price collusion allegations. Further, there are ongoing investigations with respect to allegation of violation of anti-corruption laws in the US and other product and patent related matters. Like many of its peers, the company has also been named as a defendant in antitrust suits regarding the settlement of patent litigations of Revlimid. The outcomes of these matters are unascertainable at the moment and would be monitored on a case-to-case basis.

Base US pharmaceutical generics business remains competitive; regular product introductions expected to mitigate risk to an extent – The US generic market has remained competitive with continued pricing pressure across various product categories, impacting the performance of Indian pharmaceutical companies present in this segment. However, regular product launches (including first to file products) and increased focus on complex generics mitigate the impact to an extent for DRL. DRL launched lenalidomide in the US in September 2022 and the product has since been a key revenue driver for its NAG portfolio. However, the patent of Revlimid is set to expire in January 2026, which would increase the competition in the market, and may impact the revenues of DRL's NAG business. Thus, the company's ability to continue to launch new products in the US and ramp up its specialty/complex generics product portfolio would remain key for the continued growth of its revenues from the NAG business.

Environmental and social risks

Environmental considerations – DRL does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations related to breach of waste and pollution norms, which can increase the operating and new capacity instalment costs. This may also require capital investments to upgrade its effluent treatment infrastructure to reduce the carbon footprint and waste generation. However, DRL has been constantly making efforts to minimise the impact of environmental risks on its operations. It has set various targets as a part of its ESG framework, to be achieved by 2030, which include transitioning to 100% renewable power, achieving carbon neutrality in scope 1 and 2 emissions, and reducing scope 3 emissions by 12.5%.

Social considerations – DRL faces high industry-wide social risks related to product safety and its associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards.

Liquidity position: Strong

DRL's liquidity position remains **strong**, supported by a healthy generation of cash flow from operations. It had cash, cash equivalents and liquid investments of Rs. 5,093.1 crore and sizeable cushion in the form of undrawn lines of credit of Rs. 3.300 crore (at a standalone level) as on September 30, 2024. The cash flow generation of the company is also expected to remain strong over the near-to-medium term, supported by revenue growth across major geographies. DRL is likely to incur an annual capex of Rs. 1,500-2,000 crore (excluding that towards any inorganic expansion), which is expected to be funded by internal accruals.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a substantial growth in DRL's revenues and profitability, leading to a sustained improvement in return indicators and further strengthening of its financial risk profile.

Negative factors – The rating may be downgraded if there is weakening in the company's revenues and profitability due to lower-than-anticipated performance in key markets, and/or increase in debt levels on account of inorganic investments, leading to an increase in net debt/ OPBDIT to above 1.0 times on a sustained basis. Any adverse outcome of the ongoing litigations/ lawsuits/ investigations would remain an event risk, and the impact of the same on the company's business, credit profile and liquidity position would be monitored on a case-to-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of DRL. As on September 30, 2024, the company had 53 subsidiaries and step-down subsidiaries, two associates, two joint ventures and three 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 September 30, 2024, the promoters and the promoter Group held a 26.64% 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), PSAI (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[13] 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	H1 FY2025
Operating income	24,669.7	28,011.1	15,734.3
PAT	4,470.3	5,563.3	2,722.3
OPBDIT/OI	26.5%	28.3%	27.5%
PAT/OI	18.1%	19.9%	17.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.4
Total debt/OPBDIT (times)	0.2	0.3	0.6

[13] *Commonwealth of Independent States*

Interest coverage (times)	45.8	46.4	31.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)						Chronology of rating history for the past 3 years					
FY2025						FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	27-DEC-2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-others-fund based/ non fund based	Long Term	2,000.0	**[ICRA]AA+ (Stable)**	04-JUN-2024	[ICRA]AA+ (Stable)	28-SEP-2023	[ICRA]AA+ (Stable)	28-JUL-2022	[ICRA]AA+ (Stable)	29-JUL-2021	[ICRA]AA+ (Stable)
				05-JUL-2024	[ICRA]AA+ (Stable)	-	-	-	-	-	-

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	2,000.00	[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
Subsidiaries		
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
Chirotech 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

Company Name	DRL's Ownership	Consolidation Approach
DRL Impex Limited, India	100.0%	Full Consolidation
Idea2Enterprises (India) Private Limited, India	100.0%	Full Consolidation
Imperial Owners and Land Possessions Private Limited (Formerly, 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 and Nestle Health Science Limited (Formerly, Dr. Reddy's Nutraceuticals Limited) (wef March 14, 2024)	51.0%	Full Consolidation
Northstar Switzerland SARL	100.0%	Full Consolidation
North Star OpCo Limited	100.0%	Full Consolidation
North Star Sweden AB	100.0%	Full Consolidation
<u>Associates</u>		
O2 Renewable Energy IX Private Limited (wef November 10, 2023)	26.0%	Equity Method
Clean Renewable Energy KK 2A Private Limited	27.0%	Equity Method
<u>Joint Ventures</u>		
DRES Energy Private Limited	26.0%	Equity Method
Kunshan Rotam Reddy Pharmaceutical Company Limited	51.3%	Equity Method
<u>Other Consolidating Entities*</u>		
Cheminor Employees Welfare Trust	-	Full Consolidation
Dr. Reddy's Research Foundation	-	Full Consolidation
Dr. Reddy's Employees ESOS Trust	-	Full Consolidation

**The company does not have any equity interests in these entities, but has significant influence or control over it*
Source: DRL Q2FY2025 quarterly results

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 40 4547 4829
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches