

June 04, 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	500.00	1200.00	[ICRA]AA+ (Stable); reaffirmed/ assigned
Total	500.00	1200.00	

*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. These metrics are expected to be sustained over the near-to-medium term, aided by broad-based growth across key geographies with a strong pipeline of new product launches. DRL's revenue from operations grew to Rs. 28,011.1 crore in FY2024 (the third consecutive year of 13-15% YoY growth), while the operating profit margins (OPM) also expanded by ~180 basis points in FY2024 over FY2023. This was supported by an improvement in the performance of its generics business in North America owing to increased revenue contribution from new product launches, including the volume limited launch of Lenalidomide¹ capsules, as well as a steady performance across other key markets. Its OPM is expected to remain rangebound near the historical levels in the near-to-medium term despite some volatility on account of a change in the product mix, which would depend on new product launches and competition in key existing products.

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 active pharmaceutical ingredients (APIs). Moreover, it has a strong pipeline of generic products in developed markets across the globe, supported by strong R&D capabilities with an increasing focus towards biosimilars and injectables that are expected to drive its growth over the medium-to-long term.

The operations, however, remain exposed to regulatory risks including scrutiny by regulatory agencies like the US FDA², US SEC³ and US DoJ⁴. While regulatory issues with the USFDA can impact DRL's ability to maintain a healthy portfolio, especially in the US, comfort can be drawn from the successful outcomes of the US FDA inspections at its manufacturing facilities in FY2024 as DRL has no major outstanding issues with the US FDA. However, in May 2024, the company was issued a Form 483 with two minor observations by the US FDA for its formulations manufacturing facility located in Duvvada, Visakhapatnam and the company is working towards resolving the same. Moreover, there have been no material adverse developments 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 as well as other ongoing litigations and investigations.

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.

¹ Generic version of Revlimid (used in oncology therapy)

² United States Food and Drug Administration

³ United States Securities and Exchange Commission

⁴ United States Department of Justice

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 branded formulations business across India and emerging markets as well as in the generics business across developed markets in North America and Europe. Its key markets include North America (accounted for 47% of DRL's revenues in FY2024), India (17%), Europe (7%) and emerging markets (17%). The North American business has witnessed a healthy revenue growth over FY2023 and FY2024, supported by new product launches. 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 healthy 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 pharmaceutical services and active ingredients (PSAI) business of DRL generated 11% of its FY2024 revenues. The API business, in addition to external partners, also 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 has a robust R&D set-up focused on complex and differentiated formulations/injectables, first-to-file (FTF) products and biosimilar compounds. Its R&D spend stood at 8.2% in FY2024, slightly higher than the previous fiscal. This is due to higher product filings and DRL's efforts to develop a healthy pipeline of complex products across its key markets. Aurigene Oncology Limited, a subsidiary of DRL, is involved in discovery and clinical development of novel and best-in-class therapies to treat cancer and inflammatory diseases.

Healthy financial profile, characterised by robust credit metrics and strong liquidity – In line with FY2023, DRL reported a steady revenue growth and strong internal accrual generation in FY2024. This coupled with relatively lower debt levels continued to result in a net cash position and a strong liquidity position for DRL. Its leverage and coverage indicators also continued to remain robust in FY2024 with an interest coverage of 46.4 times, total debt/OPBDITA of 0.3 times and total outside liabilities/tangible net worth of 0.3 times. DRL continued to make some small and mid-sized investments/acquisitions in FY2024, however, these have largely been funded through internal accruals. 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 risks of scrutiny by various regulatory agencies including the US FDA, US SEC and US DoJ. While DRL has successfully resolved all its past regulatory non-compliances from the US FDA, its ability to continue to maintain a healthy launch momentum in the US and other key geographies remains dependent on successful closure of any future inspection by such regulatory agencies. 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 FTFs) and increased focus on complex generics mitigate the impact to an extent for DRL. Going forward, the company's ability to continue to launch new products in the US market and ramp up its specialty/complex generics product portfolio remain key drivers for growth of the US 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 transition 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 healthy generation of cash flow from operations, consolidated cash, cash equivalents and liquid investments of ~Rs. 6,133 crore and sizeable cushion in the form of undrawn working capital limits of ~Rs. 4,200 crore (on a standalone basis) as on March 31, 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. 1,000-1,500 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 Rating Methodology for Entities in the Pharmaceutical Industry
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 to 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 CIS⁵ 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	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 04, 2024	Sep 28, 2023	Jul 28, 2022	Jul 29, 2021
1 Fund-based / non-fund based Limits	Long term	1200.00	--	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

⁵ 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
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
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
<u>Associate</u>		
O2 Renewable Energy IX Private Limited (wef November 10, 2023)	26.0%	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>		
Chemnor 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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