Dr. Reddy looks to the next level

Not content to copy others, firm seeks to develop its own drugs

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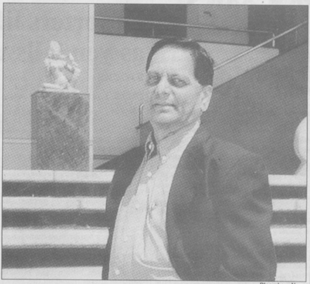

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Anji Reddy said his company should reach $1 billion in annual sales in five years.

HYDERABAD, India — As a chemistry student four decades ago, Anji Reddy would gaze at Pfizer Inc.'s pharmaceutical plant in Mumbai and tell his friends he hoped to build his own Pfizer someday.

Today, his company, Dr. Reddy's Laboratories Ltd., is challenging Pfizer and other rivals with cheaper versions of their best-selling medicines. The company's generic Prozac has curbed Eli Lilly & Co.'s sales. And plans to sell a version of Pfizer's hypertension drug Norvasc in the United States this year have fueled a 32 percent surge in Dr. Reddy's share price since November.

The company, the first Asian drugmaker to sell shares on the New York Stock Exchange, is trying to move beyond copycat pharmaceuticals to keep an edge over rivals. Threatened in America by even cheaper generics, Anji Reddy needs success in the more profitable, and riskier, market for original drugs to meet his goal of tripling annual sales by 2008.

"Five years from now, we should be a $1 billion company," Reddy said in an interview at his research foundation on the outskirts of the southern Indian city of Hyderabad, set on 15 acres of farmland where grapes, mangoes and vegetables grow. "I am confident we will see one of our new drugs in the market."

His company, the second-largest Indian drugmaker by market value, is developing eight diabetes, cancer and infection treatments. Reddy, 64, holds a Ph.D. from the National Chemical Laboratory. A farmer's son who began his career at a state-owned manufacturer of bulk pharmaceuticals, he expects at least one of those drugs to reach the market by 2008.

As chairman, he has earmarked 8 percent of Dr. Reddy's annual sales — which totaled 15.6 billion rupees ($326 million) in the year to March 2002 — for research and has a team of 250 scientists developing new drugs.

Dr. Reddy's also has 14 pending patent challenges in the United States against rivals such as Novartis AG and Sanofi-Synthelabo SA. If successful, the company will win six-month exclusive marketing rights to additional generic versions of their drugs.

Some investors say the strategy will pay off.

"Reddy's has taken higher levels of risk, and people who really understand the business will be long-term holders," said Sukumar Rajah, a fund manager at Templeton Asset Management (India). "We're very bullish on the long-term prospects."

Dr. Reddy's needs its own drugs to sustain profit growth as generics face tougher competition.

U.S. sales of its 40-milligram generic Prozac pills, priced about 60 percent below the original, dropped 72 percent to $7 million in the last three months of 2002 after Dr. Reddy's lost exclusive rights to sell the drug.

Developing new drugs is proving harder than copying rivals. Denmark's Novo Nordisk A/S suspended clinical trials on a diabetes drug Dr. Reddy's licensed to the company last year after it caused tumors in rats. In January, Switzerland's Novartis discontinued development of another diabetes treatment developed by Dr. Reddy's.

Those setbacks have eroded some investors' confidence, causing the company's shares to mark time last year, falling 0.2 percent, after they surged 46 percent in 2001.

"If we see a series of announcements of failures, their credibility takes a hit and negotiating power for licensing deals gets reduced," said Manish Kumar, who manages investments at Unit Trust of India. "Success in drug discovery is quite important for the company."

Dr. Reddy's has the advantage of low costs and a pool of scientists at home as it tries to grab sales from the biggest U.S. pharmaceuticals companies. It's not the only Indian drugmaker using that edge.

Ranbaxy Laboratories Ltd., the largest of India's more than 20,000 drugmakers, has made bigger inroads in the United States, where its version of GlaxoSmithKline PLC's antibiotic Ceftin has a 90 percent market share. Ranbaxy is the No. 9 generic drug seller in the U.S., the world's biggest market. It sells about 55 drugs there, compared with Dr. Reddy's eight.

In the race to develop original drugs, Dr. Reddy's is ahead of its biggest rival: It has eight treatments in the pipeline, compared with Ranbaxy's five. Dr. Reddy's has licensed three of its diabetes drugs to overseas companies such as Novartis AG, while Ranbaxy has two such agreements.

As Dr. Reddy's waits for its own drugs to hit the market, its growth depends on sales of copycat medicines in the United States., which generated 36 percent of its sales in its most recent financial year. Drugs with a combined $35 billion in sales lose or have lost patent protection in the United States between 2000 and 2005, opening their makers to competition from other versions.

Reddy's version of Pfizer's Norvasc, which has $3.6 billion in annual sales, may be its biggest earner this year, analysts said. Dr. Reddy's can start selling it when Pfizer's patent expires in August.

Because Dr. Reddy's hypertension treatment uses a slightly different formula from Norvasc, it's technically a new drug, not a generic copy. That means it may win an exclusive marketing period of as long as three years, compared with 180 days for the company's Prozac copy.

Dr. Reddy's is also expanding in the European market. It bought Britain's BMS Laboratories Ltd. and a subsidiary last year for $12.8 million and has said it plans to enter Germany, France, Italy and Spain. European sales make up about 7 percent of the company's total.