

Special: The Private Equity/Venture Capital Boom

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That's how much India Inc lost because of the Mumbai rains. Poor urban infrastructure is making the price of doing business in Indian cities too high.

RS 20,000 Crore Down The Drain

**i-flex: Citi
Bails Out**

**The Return of
Trade Unionism**

**Mukesh Ambani
Consolidates**

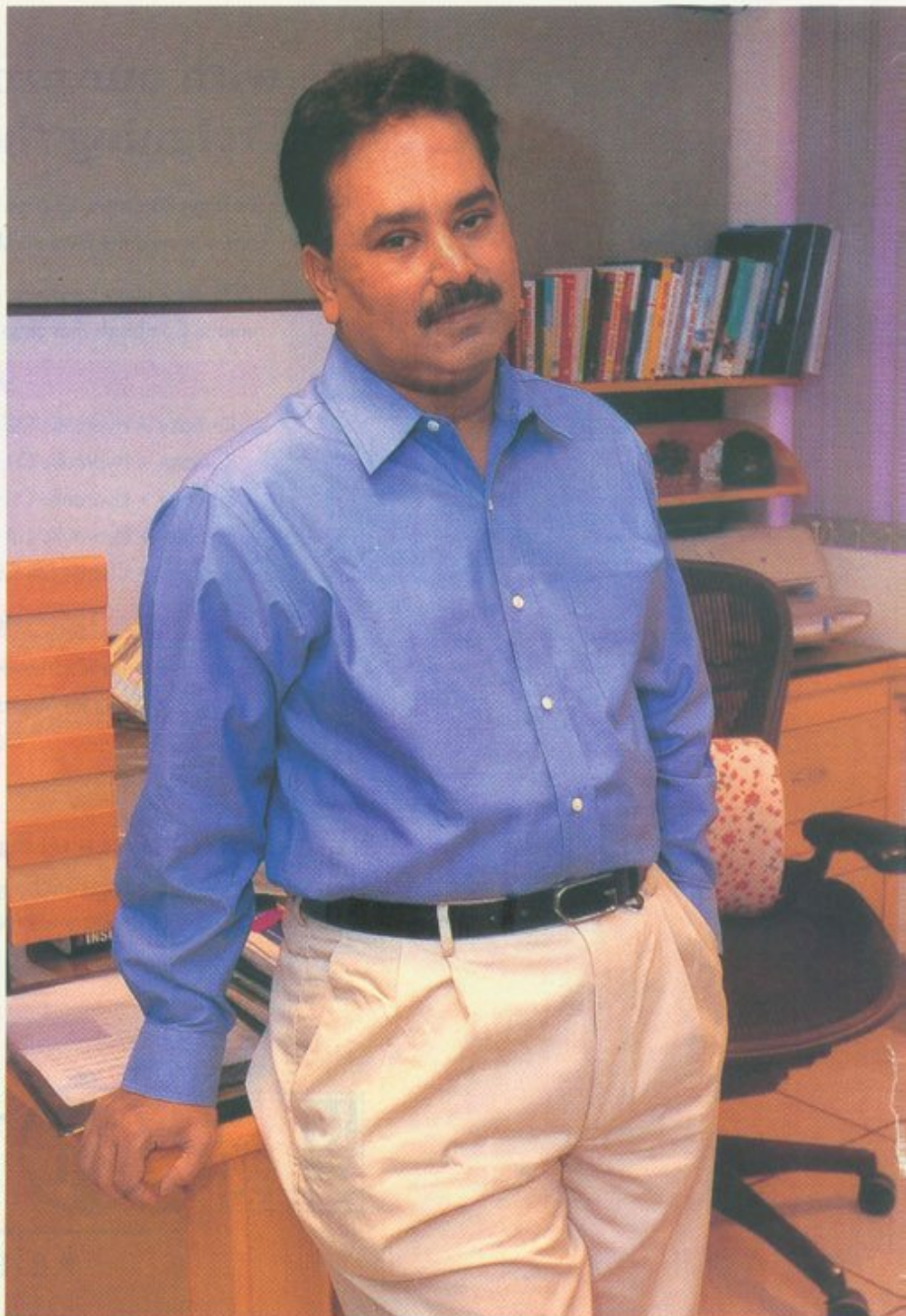
Riding Out Of

Things are looking up at Dr Reddy's Labs. First quarter profits are up and the stock has gained some of the lost ground. Finally, the worst may be behind the pharma major.

BY E. KUMAR SHARMA

EVERY DARK CLOUD, THEY say, has a silver lining. And at the Hyderabad-based Dr Reddy's Labs, the first set of good news is beginning to streak through a dense cloud of concerns that hung over the company for more than a year now. First, there was news of the Indian pharma major losing a legal battle for amlodipine maleate, indicated in the treatment of hypertension and angina, thus dashing its hopes of tapping a potential opportunity to rake in over \$200 million (Rs 17,600 crore) in peak sales from the drug and in the process be able to launch its first speciality drug;

PHOTOGRAPHS BY A PRABHAKAR RAO



Dr Reddy's Prasad: Happy with the upturn, but hopes to achieve more

The Trough

this was followed by the company losing ground in some of its key products in the US generics market, and then came the announcement from Novo Nordisk that it was discontinuing trials of an insulin sensitiser molecule licensed to it by Dr Reddy's. Impact of it all? In just 10 months last year, the Dr Reddy's stock dropped to Rs 700—half of its year-beginning price.

So, the company's results for the first quarter of this year brought cheer both to its Executive Vice Chairman and CEO G.V. Prasad and Dalal Street analysts. Consolidated net profits jumped 87 per cent to Rs 30.69 crore, and net sales 15 per cent to Rs 538 crore. Not surprisingly, the next day, the stock was up 7 per cent from Rs 766 to Rs 822, before closing at Rs 803. Prasad, understandably, is a bit relaxed. Does this mark the beginning of Dr Reddy's return to the good

old days? Prasad is loath to stick his neck out that far. "We have not done anything fundamentally different in this quarter," he says. The upturn, he says, is an outcome of two factors: Internal improvements and external factors.

On the Mend

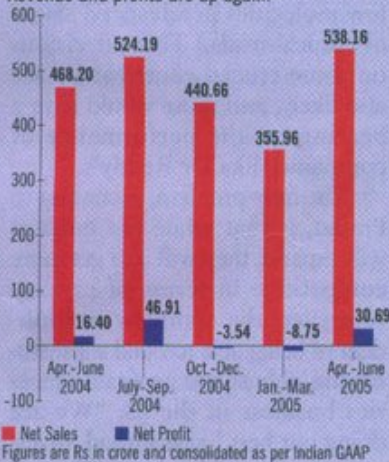
There's no doubt that things are finally beginning to look up. DRL's revenues from branded finished dosages in India grew by 19 per cent to Rs 141.7 crore, simply because the trade (distributors) got over its fear of the value added tax (VAT) and went to business as usual. In other words, sale that hadn't been made in the last quarter of 2004-05, got done in the first quarter. Fortunately for the company, a surprise surge in orders for branded formulations came in from Russia, pushing sales up 47 per cent to

Rs 75.4 crore. While analysts attribute it to some seasonal purchases, Prasad says the rise in sales were aided by the trade in Russia making advance purchases, as the products (especially its lead brands like omeprazole and ciprofloxacin) were coming in for a re-registration cycle in that country.

Not all the gain, though, is due to external factors. Internally, the company has been working to improve productivity and cut costs. In March this year, it struck a landmark deal with ICICI Venture to raise \$56 million (Rs 246.4 crore) to fund the cost of launching generics in the US market. That apart, there has been a conscious effort to drive revenues in key markets. In his speech to the shareholders at the company's annual general meeting, founder-Chairman K. Anji Reddy spoke of how serious efforts were being made to build a business

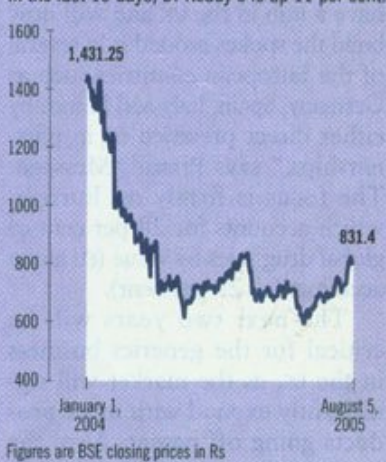
Looking Better

Revenue and profits are up again.



The Stock's Recovering

In the last 15 days, Dr Reddy's is up 11 per cent.



The search is on: The company hopes to launch a new chemical entity soon



Founder-Chairman K. Anji Reddy: Still committed to funding basic research

model that was research-driven yet low-risk. "I am confident that the closure of the kind of deal we have in mind for financing and mitigating the risk of development of new molecules will be path breaking, and perhaps not just in India," he said. It is believed that Dr Reddy's may adopt a similar model for funding basic research.

The biggest worry remains, though: North America, which accounts for almost half of the global drug industry by value. "We still have challenges and the North American market has still underperformed," admits Prasad. That's not unique to Dr Reddy's. Ranbaxy Laboratories, India's biggest pharma company and which derives more than half of its revenues from markets abroad, took a hit to the bottom line too last quarter. Net profit fell from Rs 195.8 crore to Rs 101.3 crore. Ranbaxy's CEO & Managing Director, Brian Tempest, attributed a large part of the drop to the US markets. "The company remained affected by the US market environment witnessing competitive pressures," he said in a release.

That apart, Ranbaxy's quina-
pril generic antihypertensive drug

remained off the market following a court case by Pfizer. Then, its R&D expenses doubled to \$26 million (Rs 1,14.4 crore) due to increased investment in bio-studies for generic filings.

Fortunately for Dr Reddy's, the European market is picking up. But then, the problem, as analysts point out, is that Europe is a highly fragmented market and, therefore, a mixed bag. Some markets like the UK and France are easier to enter and thus more competitive than, say, Germany. Also, infrastructure needs to be built in each of these countries, adding to overheads. "We have a hub in the UK and will now build the spokes around it in several of the European countries such as Germany, Spain, Italy and France by either direct presence or in partnerships," says Prasad. Message: The focus is firmly on Europe, which accounts for 28 per cent of global drug sales by value (EU alone accounts for 25 per cent).

The next two years will be critical for the generics business in the US, as the market will significantly expand with more products going off patent. Also, the company has promised to launch

Concerns Remain...

- Next quarter results will show if the upturn is sustainable
- Decisions on impending litigations (among others, one on anti-emetic Ondansetron (read: Zofran) and another on clopidogrel (read: Plavix) could impact both performances
- Dr Reddy's scale-up in generics may not show in the US generics market until 2007

...But There is Potential Upside too

- The Deal with ICICI Venture for sharing cost of generic drug launches in the US would take some pressure off the bottom line
- A similar deal may happen in the case of drug discovery
- Any victory in the impending litigations will boost investor sentiment

its first wholly-developed drug in 2008-09. Therefore, investors will keenly watch development on that front. (The company has quite a few molecules in advanced stages of clinical trials.) Then, decisions on some crucial court battles are also likely, and those would have a bearing on the performance of companies like Dr Reddy's.

The only problem, according to Prasad, is that while the markets will expand, they will also get more competitive in terms of pricing. However, the company is confident of being able to build a self-sustaining, robust and profitable generics business in the US. "We are doing our best," says Prasad. Investors expect nothing less. **BT**

