

ONLY  
RS. 10

SPECIAL ISSUE

December 4, 2005  
www.business-today.com

**business today**  
for managing tomorrow

Pg. 260  
136-142

BT

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# The Long-Term Rx

If Indian pharma's frontline leaders are not looking good, consider it as a short-term bottomline blip. With smart partnerships, strong product pipelines and a tight control on costs, the future is definitely not bleak. SAHAD P.V. & E. KUMAR SHARMA

The MNCs of Indian pharma: Ranbaxy's Brian Tempest (left) and Sun Pharma's Dilip Sanghvi

**RANBAXY**  
RANK **11**

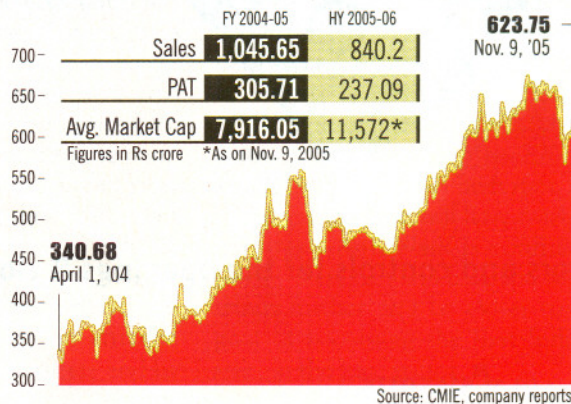
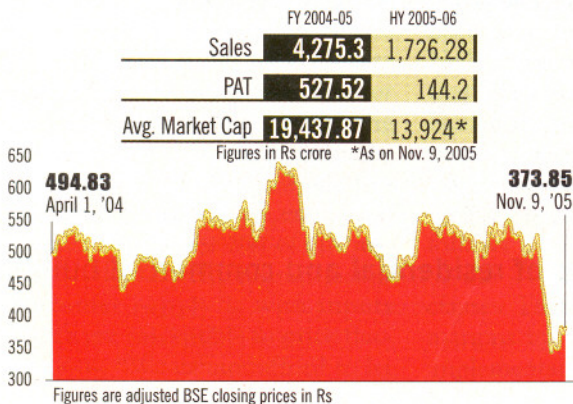
**RANBAXY'S FINANCIAL SNAPSHOT**

**SUN PHARMA**  
RANK **24**

**SUN'S FINANCIAL SNAPSHOT**

VIVAN MEHRA

UMESH GOSWAMI





**A**T THE END OF A LONG working day, Malvinder Mohan Singh, though tired, is looking happy. The President of the Rs 5,426-crore Ranbaxy Laboratories had arrived earlier that morning from the US after a week-long trip. Despite a long flight, his eyes straining from lack of sleep, Singh had driven straight to his office in Gurgaon's Sector 32. The 33-year-old scion of India's largest pharmaceutical company has been fielding calls from journalists and business partners the entire day. But

for a change, Singh has some positive news to share. The previous day, on November 9, Ranbaxy had won a process patent challenge in Norway against Pfizer's anti-cholesterol drug Lipitor. Although the Scandinavian nation is a small, \$50-million (Rs 225-crore)-a-year market (and growing at 8-10 per cent) for Lipitor, it's a big morale booster for Ranbaxy, as it received an adverse judgment in a UK court early last month (of course, Ranbaxy plans to appeal against the UK court's decision soon). But the Norway ruling (although partial,

as Pfizer has won its defence on the patent of the intermediate compound) is a confidence-enhancer since the mother of all judgments is expected in December—when a US court will announce its verdict on the Lipitor challenge for that market. The value of the anti-cholesterol drug in the US market is \$7 billion (Rs 31,500 crore), which is as big as India's domestic pharma industry. Singh says, "We are very confident of winning our challenges. We have a strong case."

Funnily enough, whichever way the decision goes, either party has

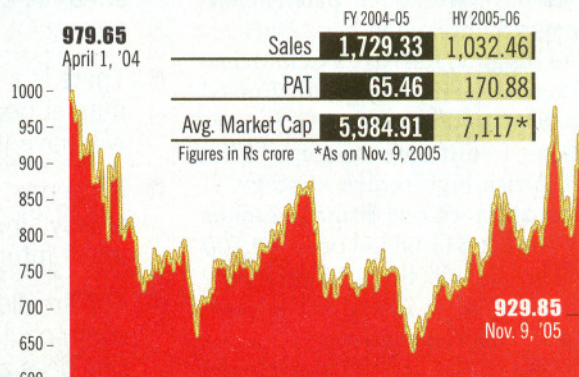
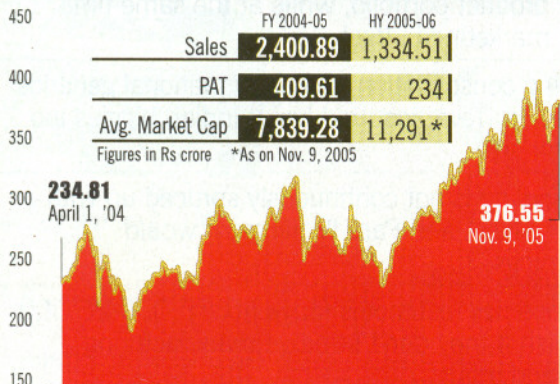
The global Indians: Cipla's Y.K. Hamied (left) and Dr Reddy's MD & COO Satish Reddy

**CIPLA**  
RANK **25**

**CIPLA'S FINANCIAL SNAPSHOT**

**DR. REDDY'S**  
RANK **42**

**DRL'S FINANCIAL SNAPSHOT**



Figures are adjusted BSE closing prices in Rs

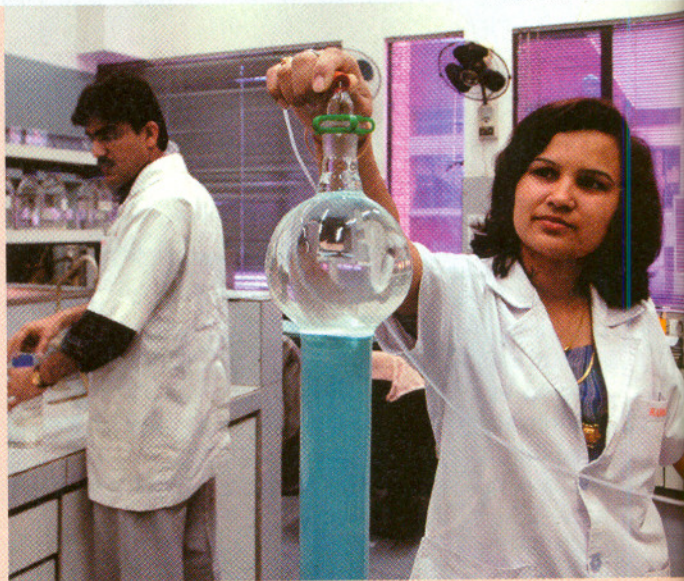
Source: CMIE, company reports



## Bottomline Saver

**T**HREE WEEKS AFTER DR REDDY'S LABORATORIES (DRL) FLOATED Perlecan Pharma in a unique deal with Citigroup Venture Capital and ICICI Venture, the company's Executive Vice President and Chief Financial Officer Vishar Subramanian Vasudevan gets a reward: a promotion to President and Chief Finance Officer. In a mail to employees, DRL Executive Vice Chairman and CEO G.V. Prasad talked of the innovative deals 'Vasu' had spearheaded. Besides giving shape to Perlecan, the country's first integrated drug development company to undertake research on new chemical entities (NCEs), Vasu was also instrumental in striking a deal with ICICI Venture to fund generics research early this year. These are clearly innovations in finance. And DRL needed them since heavy R&D spending had been taking its toll on the company, which was already been suffering from declining margins in the US market. "Perlecan provides a model to rapidly advance DRL's existing as well as future NCE assets through Phase-II trials and seek out-licensing, co-development or joint commercialisation opportunities," says Vasudevan.

So, is DRL setting an example for others in the industry who have been grappling with the cyclical fluctuations in the commoditised generics market or those who do not want to take on research risks all by themselves? Gujarat-based Torrent Pharmaceuticals is believed to be thinking of roping in a private equity or venture capital firm to share its R&D risks. The partnership will be aimed at guiding one of its lead molecules through the process of advanced development to a



**Ranbaxy R&D:** Not keen on partnerships yet

stage of clinical application. Taking the lead compounds to clinical trial stage involves studies on a global scale and is fraught with high costs and uncertainties. But not every pharma exec will concur with that. "It's a good model for anybody who has a bottom line problem," says the chairman of a leading pharma company. Ranbaxy Laboratories, despite a slip in its bottom line in the last few quarters, says it will not consider any such partnerships currently. "Partnerships have always been available. But we haven't felt the need yet," says Malvinder Singh, President (Pharmaceuticals). Then, at the end of the day, sharing risks mean sharing returns too.

of tapping a \$200-million (Rs 900-crore)-a-year opportunity; besides, the company was losing share in the generics market in the US. Then Novo Nordisk announced that it was discontinuing trials of an insulin sensitiser molecule, which was licensed to it by DRL. The result of all the bad news was that DRL's stock tanked to Rs 700—half its peak price in early 2004. However, that's changing as the company is taking a host of steps to drive revenues and cut costs (more on that later).

So which are the most valuable pharma companies in this year's *BT* 500? It is a mixed bag. For instance, Ranbaxy and DRL, which have a similar strategy of strong

R&D focus and the expensive policy of challenging patents, are significant losers. Ranbaxy, ranked 9 in 2004, is down to 11 this year. DRL tanked to 42 from 25 last year. One can see a similarity in what DRL went through last year and what Ranbaxy is going through currently. On the other hand, Sun Pharmaceuticals (which maintained the rank of 24) and Cipla (up to 23 from 25 last year), who do not follow the high-risk strategy of Ranbaxy and DRL, have benefitted.

What have helped Sun are its strong domestic business and its lower dependence on the price-sensitive American generics market (exports constitute only 40 per cent

of Sun's sales while they do 80 per cent of Ranbaxy's). In generics, Sun is maintaining a tight leash over costs. Says Dilip Sanghvi, Chairman, Sun Pharmaceuticals, "Ultimately, the generics business is all about costs." In Cipla's case, although domestic sales have remained flat, its core business of exporting formulations is doing well, and is growing at 15 per cent quarter-on-quarter. Cipla has also successfully struck partnerships with large US-based generic companies such as Watson, Ivax and Pentech Pharma for supplying formulations. Says Shahina Mukadam, Head (Research), IDBI Capital, "Cipla's model is low risk. It partners with litigators instead



of litigating itself.”

But DRL and Ranbaxy hope to turn around their fortunes through innovative deals, spruced-up product portfolios and smart acquisitions. In March this year, DRL struck a landmark deal with private equity firm ICICI Venture to raise \$56 million (Rs 252 crore), which will fund the cost of launching generics in the US market. Last month, in a deal that was first of its kind in Indian pharma, DRL teamed up with Citigroup Venture Capital and ICICI Venture to form Perlecan Pharma, which will fund the development of new chemical entities. The private equity investors will each put in \$22.5 million (Rs 101.25 crore) in Perlecan while DRL will contribute \$7.5 million (Rs 33.75 crore), and over time hold a majority stake of close to 75 per cent in the company. And on November 9, it acquired Roche's Active Pharmaceutical Ingredients business, in Mexico for \$59 million (Rs 265.5 crore), helping it emerge a leading player in the Custom Pharmaceutical Services (CPS) business and position itself as a partner of choice for innovator companies.

DRL's Executive VC and CEO G.V. Prasad says, “We have not altered the trajectory for the company, but we do recognise the shareholders' concerns in the short term.”

Ranbaxy is also affected badly by the short-term investor expectations, which Singh says “has no basis”. “Any upside from a win in the Lipitor challenge has not been factored into Ranbaxy's future earnings while expenses have been factored in the costs.” So a temporary legal setback has no impact on the fundamentals of the company. Concur Y.K. Hamied, Chairman, Cipla, “I am against quarterly, half-yearly, or even annual performance expectations. We are in the business of science.” But the price erosion in the US generics market is real and the key is how the

companies are planning to tackle it. “In the case of Ranbaxy,” says Brian Tempest, CEO, “the strategy is three-pronged—cut costs, have a strong product portfolio and

explore inorganic opportunities.” Ranbaxy has already got 111 products approved by the US Food and Drug Administration and 43 are awaiting approval, which will be



A PRAHAKAR RAO

## FAQ

### Are the companies in a sector where India has a long-term competitive advantage?

Low-cost manufacturing, world-class talent and well-developed R&D skills put the Indian pharma sector on par with that of the developed markets.

### Do the companies have what it takes to succeed in the long-term?

The sector has companies that have been in the business for the last 40 to 70 years (like Ranbaxy and Cipla) and have successfully transformed in tandem with changing market dynamics.

### Should you invest in the companies (sector)?

You should, depending on your risk appetite and investment horizon. The four companies that we have discussed are good medium- to long-term bets, and there are several others too that are worthy picks.

### DRL's dose: Can you see the big bucks?

the key to tap \$40 billion (Rs 1,80,000 crore) worth of drugs going off patent in the next three years. Besides, the company plans to raise \$1.5 billion (Rs 6,750 crore) through a combination of instruments like ADRS, GDRS and FCCBS, and another \$1.5 billion through debt. “This will be used to acquire quality assets in the US (or anywhere else).” DRL, which hived off its R&D risks to separate entities with the help of private equity investors, claims a pipeline of 50 ANDAs pending for approval. Among them, 26 are Para IV opportunities that give a 180-day exclusivity in marketing.

Indian pharma is clearly a mixed bag. The frontliners like Ranbaxy and DRL, who have bet big on R&D and risky patent challenges, are the long-term stories. Then there is Sun and Cipla who have less risky models with a healthy combination of domestic and export opportunities, followed by dozens of contract manufacturers like Dishman Pharma. Take your pick. ■