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## Is Suzlon Built To Last?

He's moving fast, but can **Tulsi Tanti** maintain the pace?



## The Hedge Fund Rush

There are some 40 India-dedicated hedge funds. Should we worry?

## The Reliance-Chevron Deal

Why the energy giant wants a piece of **Mukesh Ambani's** Reliance Petroleum



## The Lure Of Private Equity

There's no dearth of money, but where are the (cheap) deals?

## Dr Reddy's On The Mend

The worst seems to be behind the Hyderabad-based pharma major

# THE RACE TO \$10 BILLION

Who'll get there first: TCS, Infosys, or Wipro?

**Plus: The Future Of Indian IT**

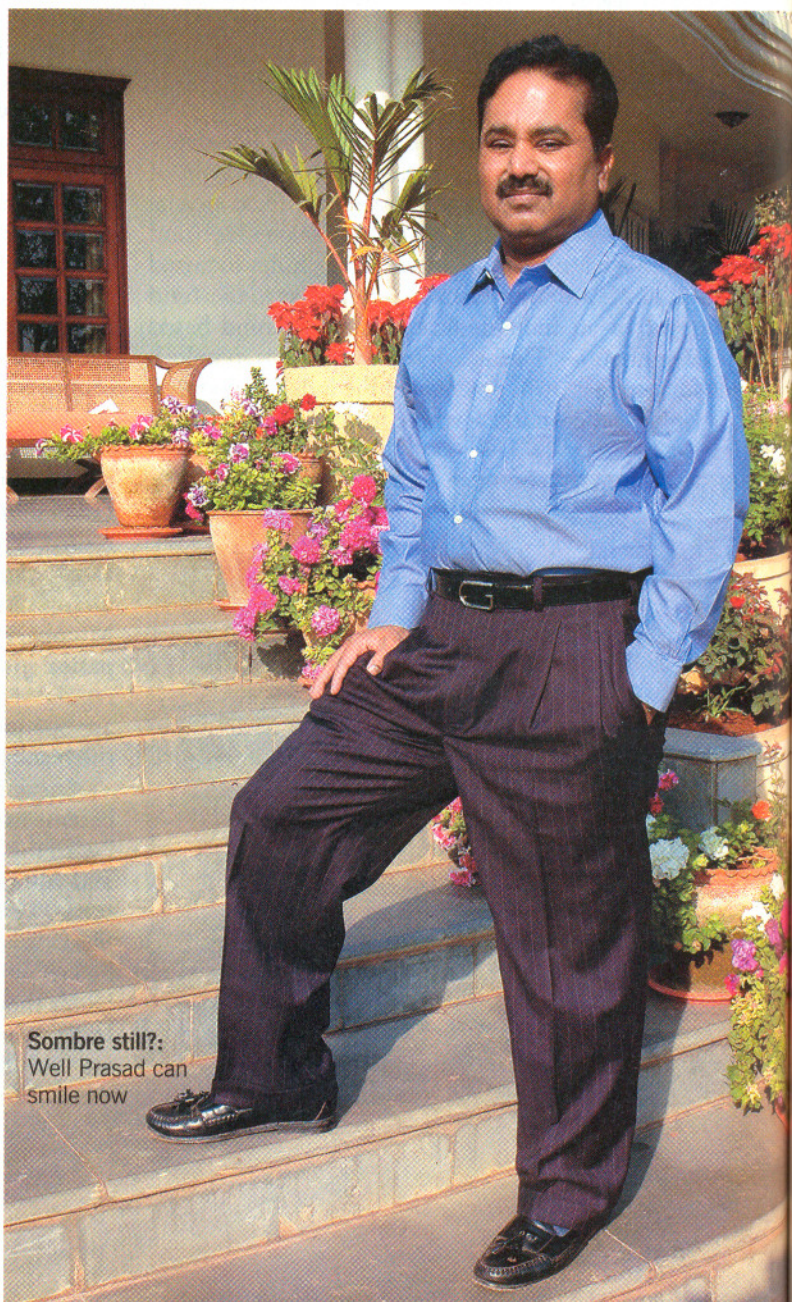
# Back In The Reckoning

Some smart derisking strategies, a pick up in international markets and better prospects in the US have boosted Dr Reddy's earnings and stock, making it the hot pharma stock that it once was. E. KUMAR SHARMA

IT IS NEITHER THE STRONGEST NOR the most intelligent of the species that survives, but the one most responsive to change." When Gunapati Venkateswara Prasad, Executive Vice Chairman and CEO of Dr Reddy's Labs, told this to shareholders at the company's annual general meeting in Hyderabad last July, many thought he was trying to make a bad situation look good. After all, the 22-year-old company had reported an unprecedented 77 per cent drop in net profits to Rs 65.46 crore and a smaller, but worrying nevertheless, 6 per cent fall in revenues.

Less than a year on, the 45-year-old Prasad feels vindicated. Consolidated total income for the first three quarters of 2005-06 is up about 20 per cent and net profits have more than trebled to Rs 185.25 crore (results for the full year are due end of May). And the stock, which went into a near free fall from Rs 1,399 in January 2004 to Rs 835.55 at the time of the AGM, is back up at Rs 1,461.85. "We went through some difficulties, (but) built our muscles and are healthier today," he says, sitting in his corner room office at the headquarters on Hyderabad's Ameerpet road.

Just what sort of muscles did Dr Reddy's build past year? To put it simply, it cut some flab weighing down the bottom line. In two novel deals (See *Turnaround Moves*), it took a lot of the



Sombre still?: Well Prasad can smile now

A. PRABHAKAR RAO

risks out of generic drug launches (called ANDAs for abbreviated new drug applications) and new drug development (NCEs, or new chemical entities). Prasad credits his President and CFO V.S. Vasudevan, for the innovative deals. When the search for potential partners in the US did not yield any results, "Vasu, who understood what the company's need was, structured a deal and we quickly closed it," says Prasad. Thanks to the deals, R&D costs in the first nine months of 2005-06 dropped to 9 per cent of sales compared to 12 per cent (and 14 per cent for full year) the same period the previous year.

The speed with which the company moved to address its cost issues was certainly one thing that impressed investors (that's one reason why its bigger rival Ranbaxy hasn't witnessed a similar bounce back in stock price; See *Delayed Rebound*). But they were more thrilled by the fact that it had found a way to cut costs without shortchanging growth. For, Dr Reddy's challenge really was to, on the one

hand, cut R&D costs but, on the other, do more R&D to fuel growth. Says an analyst who has tracked the company for some-time now: "It is a good hedging mechanism to ensure a steady business."

#### Business Looks Up

R&D cost cuts aren't the only reason why Dr Reddy's has bounced back. International markets, other than the US, have performed better than expected. Revenues in Russia increased 13 per cent and in Europe, by 16 per cent. Even in India, Dr Reddy's sales of branded formulations grew 21 per cent, increasing the country's contribution to sales from 35 per cent to 37 per cent.

Prasad, however, says that the most important step the company took was to acquire two businesses abroad. In November last year, it bought Roche's bulk drug facility in Mexico for \$59 million (Rs 265.5 crore), thereby acquiring a platform to build its custom pharmaceutical services (CPS) business, which involves offering a

## TURNAROUND MOVES

The two deals that impressed Dr Reddy's investors and shored up its financials.

● **The ICICI Venture Deal:** In March last year, Dr Reddy's signed a \$56-million (Rs 246.4 crore) deal with private equity investor ICICI Venture to fund the development and commercialisation of its generic drugs in the US in 2004-05 and 2005-06. In return, Dr Reddy's agreed to pay royalty on net sales for five years. The first of its kind in the industry, the deal made tremendous financial sense for Dr Reddy's, given that filing and getting approvals for ANDAs can cost as much as \$5 million (Rs 22.5 crore) a pop.

● **A JV for New Drugs:** Barely six months after its ANDA deal, Dr Reddy's announced another joint venture for the riskier new drug discovery business. Apart from ICICI Venture, Citigroup Venture Capital International came in as a partner in Perlecan Pharma, where the two financial investors brought in \$22.5 million (Rs 101.25 crore) each and Dr Reddy's \$7.5 million (Rs 33.75 crore), besides four new chemical entities (NCEs), or new drug candidates. Back then, two of them were in pre-clinical stages, the third was in phase one of clinical trials, while the fourth was set to enter phase two.

## THE DARK DAYS ARE BEHIND DR REDDY'S

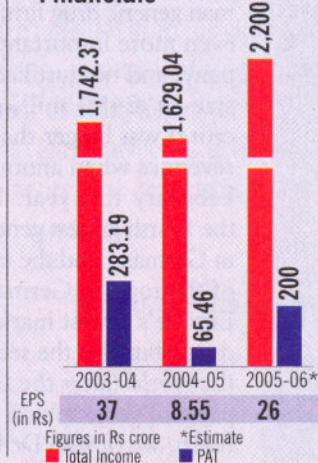
### The Stock Is Back Up...



Figures are closing prices in Rs on BSE

PINAKI PAUL

### ...Thanks To Improved Financials



Dr Reddy's Labs: Financial investors share the risks

# DR. REDDY'S



B. K. RAMESH

A. PRABHAKAR RAO

## NEW DRUG PROMISE

**A** BETTER AND SAFER DRUG FOR TYPE 2 (insulin deficiency) diabetes? That's what Dr Reddy's may deliver if its new drug candidate, code named DRF 2593, makes it through the final stages of tests. Currently, DRF 2593, which is a molecule called balaglitazone and represents a new generation in the class of glitazones historically used for treating (Type 2) diabetes, is in the last phase of a mandatory two-year carcinogenicity study. According to Dr Reddy's, balaglitazone is much more effective than currently available drugs in treating diabetes. In Phase II clinical trials, the company says, 20 mg of balaglitazone was comparable to the top dose, 45 mg, of pioglitazone (one of the two popular drugs), and also safer than the other drug, glitazones. Initially out-licensed to Novo Nordisk in 1997, DRF 2593 came back to Dr Reddy's in 2004, and is being currently developed in association with Denmark's Rheoscience. The drug is expected to enter Phase III trials by the end of this year. To market it, Dr Reddy's will have to find a global partner. Chairman Anji Reddy says, if successful, DRF 2593 will address a market that's Rs 22,500-crore big.

**Power duo:** MD & COO Satish Reddy's (left) focus is on cutting costs and improving efficiencies, while CFO V.S. Vasudevan is the dealmaker

range of services to innovator companies. "It's also the first time," points out Prasad, "that the company will have a really large manufacturing presence outside India." To be sure, Dr Reddy's has two other facilities—in China and the UK—but they are small compared to the Mexico unit, which gave the world the first synthetic steroids. "With this we have, in a sense, acquired a part of pharmaceutical history," says Chairman and founder, K. Anji Reddy.

The second acquisition, of German generic drug firm betapharm, is even more important for the company, and not just because the deal size of €480 million (Rs 2,640 crore) was bigger than Dr Reddy's revenues when announced in mid-February this year. Betapharm is the fourth largest generics company in Germany and the fastest growing of the top 10. Germany is not just Europe's largest market for generic drugs, but also the second largest in the world (after the US). "From the point of geographical and customer reach, we fit into Dr Reddy's like a piece in a jigsaw puzzle," says Dr

Wolfgang Niedermaier, the 54-year-old CEO of betapharm.

Most analysts agree that the €164-million (Rs 902 crore) betapharm, courted by Ranbaxy too, is crucial to Dr Reddy's future, but some others are sceptical of the price paid. Not only has the all-cash deal depleted the company's cash reserves but added \$300 million (Rs 1,350 crore) in debt. (The company won't reveal betapharm's profit figures, but Niedermaier says it is "quite profitable...and among the top earners" in Germany.) Prasad isn't too worried, though. "We are not much concerned about the debt as long as the performance is healthy," he says.

Unlike Ranbaxy, analysts say, there's more clarity about Dr Reddy's big-ticket opportunities. It has 49 ANDAs pending approval, of which 10 have tentative approvals. In all, 28 are para IV filings, or patent challenges, where profit margins could be higher. That apart, Dr Reddy's has signed a deal with Merck to manufacture and distribute two of the latter's drugs, Zocor (a cholesterol-lowering drug)