

In Good Health

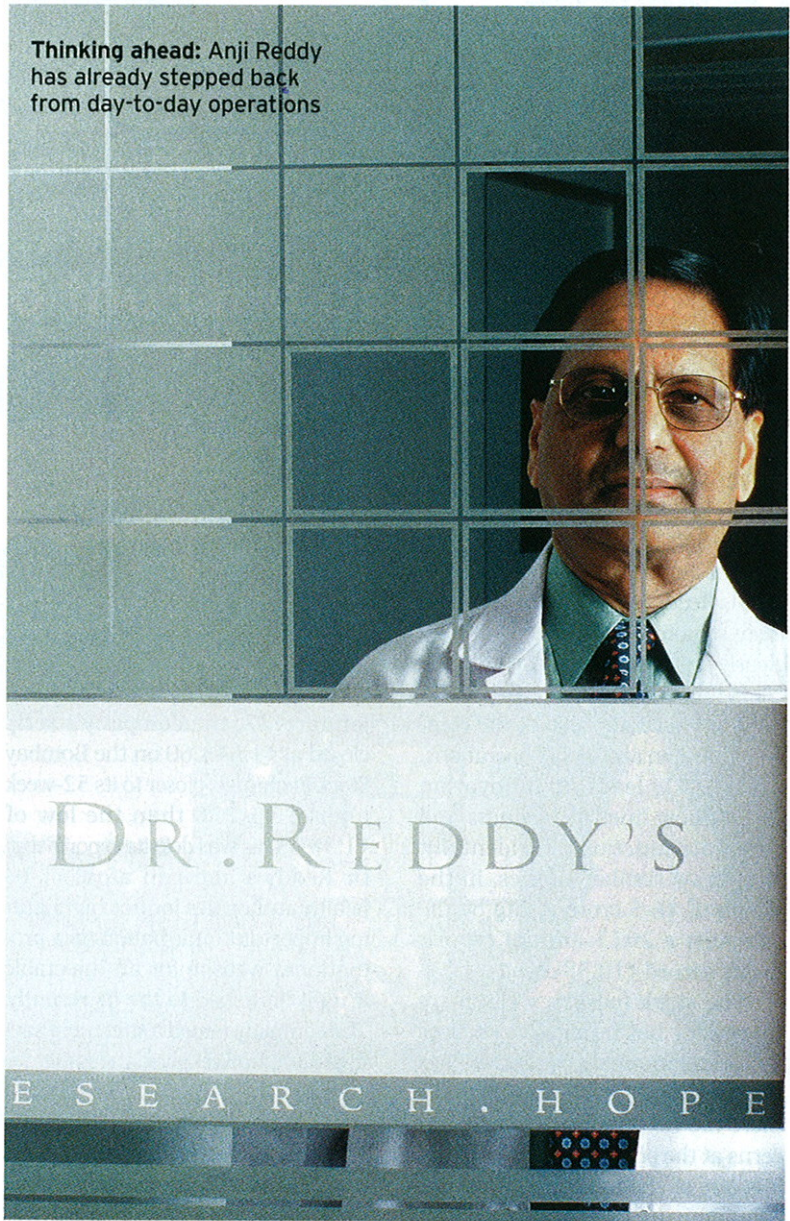
Anji Reddy may be unwell. But with a succession plan in place, no one is worried about the future of the company he founded. By E. KUMAR SHARMA

Last quarter, Kallam Anji Reddy transferred a 0.35 per cent stake in Dr Reddy's Laboratories to a family-owned entity. The value of the stake was insignificant – around ₹90 crore in a company with a market cap of around ₹28,000 crore. It was a routine transaction, except for one little detail: Reddy is no longer a direct shareholder in the company he founded. The 0.35 per cent stake was the last of his holding. Not that things have changed in any way. He owns 40 per cent of the family entity, Dr Reddy's Holdings, which owns around 24 per cent of the pharma leader. So he is still pretty much the company's largest promoter-shareholder, albeit indirectly.

While the share transfer was a minor transaction, it could, perhaps, indicate that Reddy is getting his affairs in order. Back in 2008, when *BT* did a feature on his philanthropy, he said his dream was to transfer all or a part of his stake to a foundation he planned to set up. The scientist entrepreneur-turned-philanthropist's dream is to provide people with quality healthcare for everything from the common cold to cancer.

But there are question marks over Reddy's own health. Those who know him, say he has been looking a little frail. "He is not in the best of health right now," one of them stated. *BT* has not been able to confirm the extent of his ill-health despite several attempts to reach

Thinking ahead: Anji Reddy has already stepped back from day-to-day operations



Who Owns Dr Reddy's

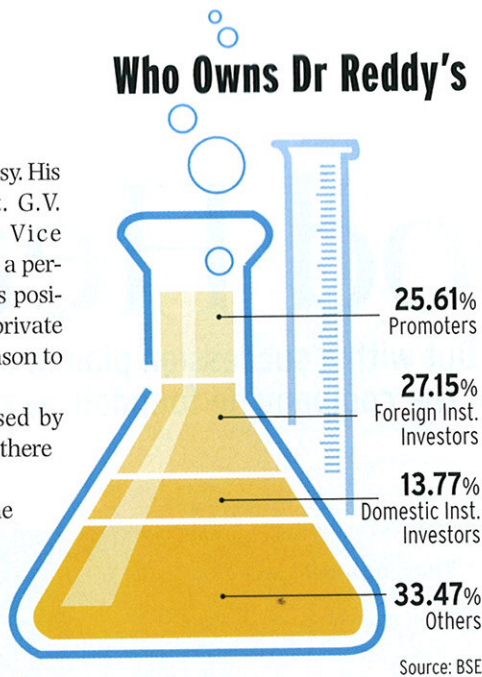
Reddy. His office said he was busy. His family would not comment. G.V. Prasad, the company's Vice Chairman and CEO, said, "It is a personal matter." The company's position seems to be that it is a private matter with no compelling reason to be in the public domain.

But the concern expressed by those who know him suggests there could be cause for worry.

Normally, the health of the Founder-Chairman, who still wields considerable control and influence over a company, would be a matter of much concern for its stakeholders. After all, Dr Reddy's is India's largest pharma company by revenue (after Ranbaxy, now part of Japan's Daiichi Sankyo). It is also listed on the New York Stock Exchange. But it has been common knowledge for a while now that Reddy is no longer involved in the day-to-day operations of the company. Over the last three years, that responsibility has been taken over by Prasad, who is also his son-in-law, and K. Satish Reddy, the Managing director and Chief Operating Officer, who is Reddy's son. A clear management structure is in place, with roles clearly divided between them.

While Satish, 44, is the operations and revenue head of the company's Indian and global operations, Prasad, 51, leads its innovation efforts, new lines of business and corporate functions. Incidentally, both draw similar salaries, in the region of ₹6.5 crore, going by the company's 2011 annual report. Reddy earned ₹10.58 crore.

The stock market, well aware that Reddy has taken a backseat as far as operations are concerned, has factored in the change. Analysts say there are no promoter-related concerns at the pharma major and that it is one of the most professionally-run companies in the country. On



Source: BSE

- Anji Reddy is no longer a direct shareholder in Dr Reddy's Laboratories
- The promoter family's stake is largely vested in a holding company
- Analysts say Dr Reddy's has a strong pipeline of generic drugs in the US

January 27, the company's scrip closed at ₹1,643.60 on the Bombay Stock Exchange, closer to its 52-week high of ₹1,716 than the low of ₹1,387. This was despite reports that Dr Reddy's had run afoul of US health authorities for not highlighting important information on a promotional website for an injectable drug it launched in the US recently. The company issued a statement saying that it had resolved the issue.

Reddy set up the company in 1984, with a capital of ₹25 lakh. In 1993, he pioneered Indian pharma's journey into drug discovery, setting up a research facility in what was

once his farmhouse. In the early days, the company made good progress in this space and built a healthy pipeline of potential molecules with promise. It even got outlicensing deals with some Big Pharma companies and also received milestone payments. Despite the promising start, though, the company is yet to launch a new drug, something Reddy always dreamt of.

Today, Dr Reddy's has become more prudent with research spends. The focus has shifted to research on difficult-to-make generic drugs, which have a higher likelihood of success upon launch. But this is something Reddy has left to the company's young management. Analysts believe the company today has an impressive pipeline of limited-competition products for the US market, the world's largest, which accounts for about 35 per cent of its revenues.

"We are overweight on the company and see it posting strong growth in the next two to three quarters," says Girish Bakhru, an analyst at HSBC Securities and Capital Markets. In a January 9 report, the securities house said Dr Reddy's was its preferred pick in the sector. It believes the company's US generics pipeline is underestimated. Other brokerage houses such as Motilal Oswal and IIFL, too, have a positive outlook on the company.

With the company in good hands, Reddy's focus in recent years has been on his other great passion: philanthropy. He devoted much of his time and resources to a range of development issues, ranging from mid-day meals for schoolchildren to ensuring safe drinking water across the country. Perhaps, those efforts will get a greater impetus now. ♦

ADDITIONAL REPORTING BY
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