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News / Story reproduced with thanks:- **World Street Journal**

2nd UPDATE: Dr Reddy's 1Q Net Profit Falls 14%, Misses Estimates

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Of DOW JONES NEWSWIRES

Direct link to the News/Story:-

<http://online.wsj.com/article/BT-CO-20100722-712364.html>

BANGALORE (Dow Jones)--Indian drug maker Dr. Reddy's Laboratories Ltd. (500124.BY) Thursday reported a steeper-than-expected 14% drop in first-quarter consolidated net profit, dragged mainly by lower sales in the North American market.

Profit for the April-June quarter slipped to INR2.10 billion from INR2.44 billion a year earlier, said the Mumbai- and New York-listed company. Consolidated sales fell 7.5% to INR16.83 billion from INR18.19 billion.

The numbers conform to International Financial Reporting Standards.

The average of estimates in a Dow Jones Newswires poll of 15 analysts was for a net profit of INR2.31 billion on sales of INR17.98 billion.

The company's shares closed down 1.7% at INR1,380.60 due to the lower-than-expected results. In comparison, the Bombay Stock Exchange's benchmark Sensex gained 0.8%.

In the year-earlier quarter, Dr. Reddy benefited from exclusive U.S. sales of sumatriptan succinate, a generic version of GlaxoSmithKline PLC's anti-migraine drug Imitrex. It said total sales rose 4% in the first quarter after excluding sumatriptan sales.

Aarthisundari Jayakumar, a pharmaceutical analyst at Alchemy Share & Stock Brokers, said the company couldn't offset the loss of exclusivity on sumatriptan sales from other generic drugs in the U.S.

The company's U.S. drug portfolio includes limited-competition products such as a generic version of Novartis AG's hypertension drug Lotrel and a copycat of AstraZeneca PLC's Prilosec for treating stomach ulcers and heartburn.

Moreover, litigation in the U.S. and a delay in getting regulatory approvals meant that Dr. Reddy's has been unable to launch other limited-competition products such as a generic version of Sanofi-Aventis SA's Allegra-D 24-hour tablets for treating allergy and a generic version of GlaxoSmithKline's antithrombotic drug Arixtra.

North America is Dr. Reddy's biggest market and contributed almost 30% of its overall sales in the first quarter. Revenue from the North American market slumped 35% to INR3.90 billion.

Chief Financial Officer Umang Vohra said a voluntary recall of some products last year and slower-than-expected ramp-up in some recently launched drugs weighed on the U.S. business. But he expects sales in the market to pick up pace in the second half of this fiscal year.

Vohra said the company expects regulatory approval in the U.S. for selling generic Arixtra as well as resolution of the legal issues related to generic Allegra-D 24 toward the end of 2010.

The company plans to launch 8-10 products in the U.S. this fiscal year, of which three-four drugs are expected to have limited competition, he told Dow Jones Newswires.

Dr. Reddy's revenue from Europe fell 8% to INR1.94 billion, primarily on account of a 18% drop in revenue from Germany.

The German operations have been a drag as drug prices there have fallen after healthcare insurance providers switched to a tender-based model for the supply of generic drugs.

Alchemy analyst Jayakumar said the Russian and Indian markets offset some of the pressures in the U.S. and Germany.

As a result, the company's gross margin slipped just three percentage points from a year earlier to 53%, despite the absence of a favorable mix of high-margin sales from sumatriptan, she added.

Dr. Reddy's said revenue from its global generics business, which contributed about 71% of quarterly revenue, decreased 8.5% from a year earlier to INR11.92 billion.

Excluding sumatriptan succinate sales, revenue from its global generics business rose 9% in the just-ended quarter.

Generic-drug sales grew 16% in India and about 35% in Russia.

The company said revenue from the pharmaceutical services and active ingredients segment, which contributed 27% of the total revenue for the quarter, fell 7.6% to INR4.50 billion.

The company said also that it received an upfront payment \$4 million from GlaxoSmithKline for transferring the sales rights for nine of its products in Brazil to the U.K.-based company.

Finance chief Vohra said the company will receive another \$9 million from GlaxoSmithKline as and when more products from its Brazil drug pipeline achieve specified milestones.

The two companies have a pact for the supply of generic drugs.