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Dr Reddy's to rake in from patent expiry

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Dr Reddy's Laboratories may be the biggest beneficiary among Indian generic-drug makers as \$157 billion of medicines including Eli Lilly & Co's Zyprexa lose patent protection within five years, HDFC Securities said.

Dr Reddy's has 73 applications awaiting approval with the US Food and Drug Administration, said S Rajan, a Dr Reddy's spokesman. If approved, the Hyderabad-based company will be able to supply generic versions of medications that generated about \$90 billion in US sales in 2008, said Ranjit Kapadia, an analyst at HDFC in Mumbai.

Drugmakers are racing to develop cheaper alternatives to branded medicines to meet demand from governments in developed markets seeking to cut healthcare costs and to tap growth in emerging nations. Dr Reddy's is in an attractive position to negotiate higher prices with US drug stores because it has a wide range of products covering diseases from diabetes to Alzheimer's, Kapadia said.

"The larger the basket, the better is the company's negotiating power," Kapadia said in a telephone interview on June 17. Dr Reddy's "has a huge pipeline, so it has got better power," said the analyst, who rates the stock "hold."

Patents for at least 91 drugs, with combined annual revenue of \$157 billion in 2008, will expire from 2010 to 2015, according to a report from HDFC on June 17. These include Merck & Co's top-selling Singulair for treating asthma and Pfizer Inc's Lipitor cholesterol pill, HDFC said.

US revenue at Indian pharmaceutical companies will rise more than 20% annually over the next five years, helped by drug patent expiries and greater use of generics, according to India Infoline. President Barack Obama's overhaul of the US healthcare system will extend insurance to 47 million Americans, most of whom "would be covered under low-end policies -- an ideal market for generics," Infoline said.

Indian drugmakers, which account for about 9% of the US generics industry, can expect "significant market share gains" as they seek approval for more medicines and expand their product range, Bino Pathiparampil, a Mumbai-based analyst at Infoline, wrote in a report on Monday. Annual sales of new generics would be worth about \$10 billion, 29% more than the current market size.

The brokerage identified Dr Reddy's and Sun Pharmaceutical Industries as its top picks. "We believe these two will have more earnings upsides that are yet to be priced into the stocks," the report said. Dr Reddy's is the second-biggest Indian drugmaker by revenue after Ranbaxy Laboratories.

