

Dr Reddy's Limited

Rabeprazole setback adds to negative sentiment - ALERT

A US district court has ruled against Teva and Dr. Reddy's on their patent challenge on rabeprazole (Eisai's Aciphex, brand sales \$1.2bn). The court has ruled that Teva and DRL failed to prove by clear and convincing evidence that Eisai's patent no. '552 is unenforceable due to inequitable conduct. Teva will appeal this and the earlier adverse ruling based on its obviousness argument.

Impact

- The market had been building up expectations on a Teva's launch given that the judge had previously made favorable comments for generics in this case while rendering his decision on summary judgment in Oct '06. Moreover, a court docket also suggested that Teva could launch "at risk". Teva and DRL are shared first to file on the molecule and it was believed that DRL could share launch (after getting approval) and even supply the API to Teva. Hence this decision could have a negative sentiment on DRL's stock price, in our view.
- While we had built in Rs30/share from rabeprazole for DRL, based on Teva's previous intention to launch at-risk, we have been cautious on this case, as it is difficult to prove inequitable conduct. Having said this, we note that DRL could still book some rabeprazole API revenues from previous supplies to Teva.
- We believe this news, along with the ongoing concerns on Germany, will prove to be a drag on DRL's stock price in the near-term.

Underweight

Rs683.45

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Pharmaceuticals

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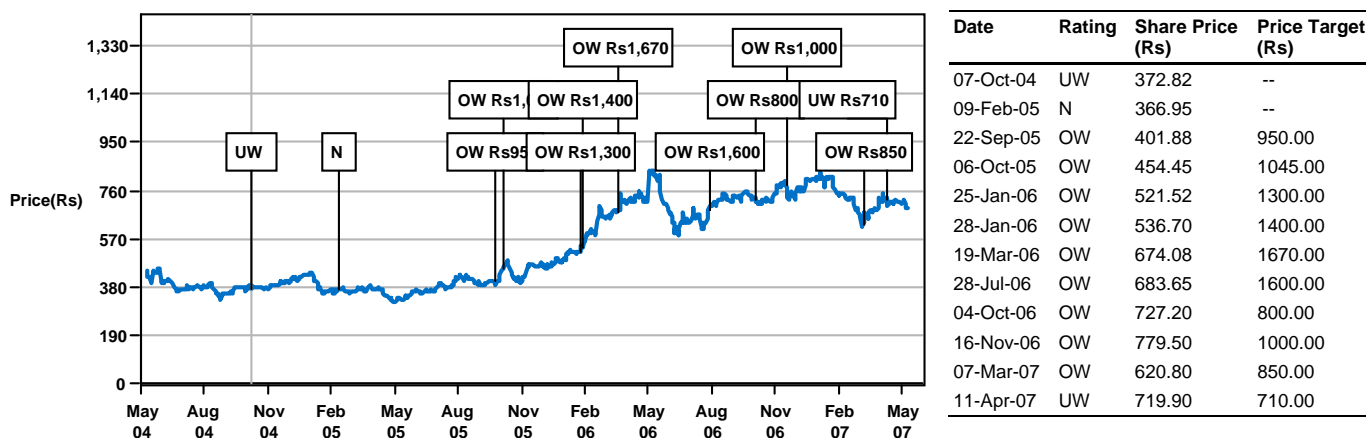
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Dr Reddy's Limited (REDY.BO) Price Chart



Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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