

## Dr Reddy's Limited

Conference takeaways: Generics pipeline remains strong; Germany to become more competitive - ALERT

We recently hosted the management of Dr Reddy's as part of our India Conference 2008. Key takeaways from the various investor meetings are as follows:

- **Generics pipeline remains strong; CIS business robust:** Dr Reddy's reiterated a strong growth pipeline in the US as demonstrated by the ANDA pipeline. The company had 66 ANDAs waiting approval from the US FDA as of October 2008. The company maintained that the CIS business remains robust with receivables under control from that particular region.
- **AOK tender results expected some time in November end; market to become more competitive:** The company expects the AOK tender results to come out some time in November end. The AOK tender addresses around 60 molecules and approximately 40% of the German market. While management remains hopeful of some wins in the AOK tender, the company expects price competition to remain severe in Germany. The company did not give any guidance for Betapharm profitability for next year.
- **US FDA: Is it becoming more stringent?** A common query among investors put to various pharma companies presenting in the conference was if the US FDA was becoming more stringent/conservative in its product approval/plant inspection process (after plants of both Ranbaxy and Sun Pharma had been issued warning letters). Dr Reddy's management highlighted that approvals from the US FDA were getting delayed driven primarily by capacity issues at the FDA.
- **Domestic growth to pick up in 2H:** Management indicated that domestic market growth had been impacted in 1H FY09 because of 1) raw material issues from China; and 2) delays in new product launches. With these headwinds expected to ease in 2H FY09E, domestic growth should pick up.
- **We maintain our OW rating on the stock with a Sep-09 price target of Rs650** with the base business valued at 17x FY10E core EPS and the Para IV and the NCE pipeline valued at Rs20 and Rs30, respectively. Key risks include continued deterioration in Germany, a sharp slowdown in branded generics, and large acquisitions.

See page 2 for analyst certification and important disclosures, including non-US analyst disclosures.

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## Overweight

REDY.BO, DRRD IN

Price: Rs405.65

05 November 2008

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### Pharmaceuticals

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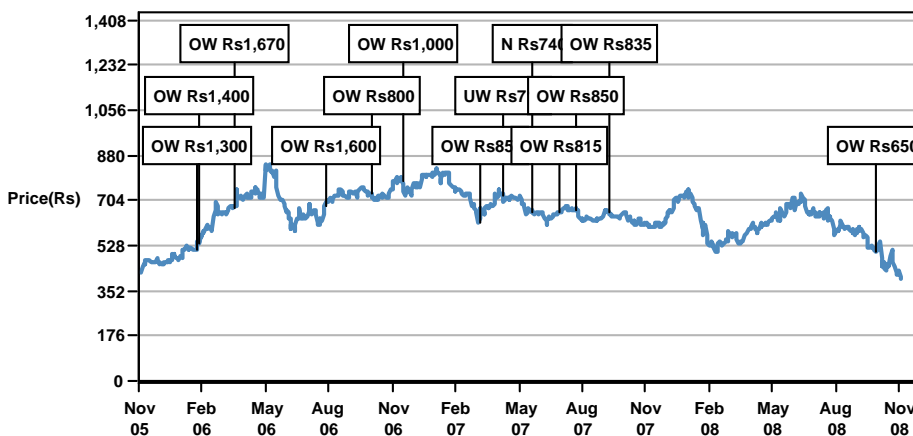
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**Dr Reddy's Limited (REDY.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
24-Jan-06	OW	514.82	1300.00
28-Jan-06	OW	536.70	1400.00
18-Mar-06	OW	674.08	1670.00
28-Jul-06	OW	683.65	1600.00
04-Oct-06	OW	727.20	800.00
16-Nov-06	OW	779.50	1000.00
07-Mar-07	OW	620.80	850.00
11-Apr-07	UW	719.90	710.00
21-May-07	N	658.35	740.00
01-Jul-07	OW	660.80	815.00
23-Jul-07	OW	668.25	850.00
10-Sep-07	OW	659.55	835.00
29-Sep-08	OW	502.70	650.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.  
 Break in coverage Mar 03, 2004 - Oct 06, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.  
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