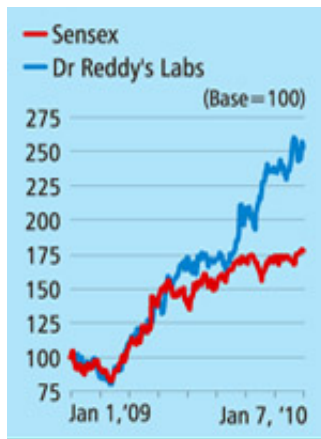


Dr Reddy's: New molecule hopes

Vishal Chhabria and Ram Prasad Sahu / Mumbai January 8, 2010, 0:32 IST



While the results of the clinical trials on the company's new molecule, Balaglitazone, are positive, a lot needs to be done.

The Dr Reddy's stock surged about 4 per cent since the start of the week on announcements of encouraging Phase III trials of an anti-diabetic drug and tie-up for manufacturing obesity management drug, Orlistat. On Monday, Dr Reddy's and its research partner, Rheoscience (a subsidiary of Nordic Bioscience A/S), announced that the initial trials of phase III stage of its anti-diabetic compound, Balaglitazone is effective in reduction of HbA1C.

The announcement is significant given that this is the first Indian molecule to reach this stage, and also due to the huge market size. However, it is early to take a call on what the gains will be for Dr Reddy's. The HbA1c test is carried out to test blood sugar levels. The results (of test carried out on 409 patients) indicate that while Dr Reddy's compound is better tolerated than competing drug Pioglitazone, both drugs are as effective.

The company will have to prove the superiority of its molecule over Pioglitazone, a \$3 billion drug launched a decade ago in trials, if it is to have a chance of commercial launch which is estimated to be at least two years from now.

The data will now be submitted to the European and US regulatory authorities and the company will take a call on the next set of trials. Since further trials will involve a larger number of patients and hence higher costs, it is not surprising that Dr Reddy's is looking out for a third research partner to share the cost and take the molecule to the last stage.

What's more important is that unless the molecule clears all tests successfully, it will not result in monetary gains for the stakeholders. Also for Dr Reddy's, a lot is expected from this molecule as the company's other four new chemical entities (NCEs) are still in the first phase of clinical trials.

The second announcement of Dr Reddy's is a tie-up with Indian biotechnology company Transgene Biotek to manufacture and market Orlistat, an obesity management drug. The market size for obesity management drugs accounts for \$2 billion worldwide with pancreatic lipase inhibitors such as Orlistat contributing to about half of this.

Dr Reddy's product could be one of the first generic in the category (the patent expired over six months ago) to be marketed in the US. The drug is currently sold in the US market by GlaxoSmithkline Pharma (GSK) and Roche Pharma.

Analysts say, the company's sales for 2009-10 are likely to cross the Rs 7,000 crore mark helped by strong North American sales, including the one-off exclusivity on Sumatriptan, alliance with GSK to sell generics in emerging markets and FDA approval for over the counter drug, Omeprazole.

However, pricing pressures in the German market and the lack of product-specific triggers in the US is an area of concern. At Rs 1,185, the stock is trading 21 times its 2010-11 estimated earnings per share of Rs 57, leaving little scope for further gains.