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Dr Reddy's move to exit some proprietary drugs has benefits

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Ujjval Jauhari

The firm may bag cash inflows of $40 million by selling the rights pertaining to the investigational cancer drug

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Dr Reddy's Laboratories' strategy to get out of select proprietary assets that have been a drag on its earnings seems to be giving the intended benefits. The pharmaceutical company recently announced the sale of its rights for anti-cancer agent E7777, a continuation of this strategy.

Holding on to the product would have [Close] front investments with gains accruing only later. By selling the rights pertaining to the investigational cancer drug, cash inflows of $40 million would accrue soon, upon completion of the deal. Further, one can expect two more milestone payments of $40 million and $70 million o[OPEN APP] approval and monetization of the cancer drug, say analysts.

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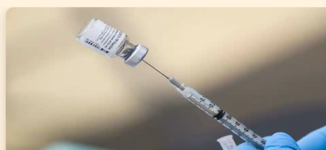
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"The deal further highlights the company's strategy of monetizing the development assets which help maintain self-sustainability of the investments in development of proprietary products," said analysts at Nomura Research.

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Healthy pickup

A robust domestic sales growth is supporting the overall earnings of Dr Reddy's Laboratories.

Revenue growth (in %)

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healthy pickup

The company has focused on keeping costs under control in the US market by concentrating only on niche products and those where competition is limited. This has helped the company increase its focus on the domestic market as well as plans to expand in China. As such, Russia and the CIS (Commonwealth of Independent States) region are strong contributors to emerging market sales for Dr Reddy's. Meanwhile, the US market continues to give trouble to Indian drugmakers and Dr Reddy's is no exception. Pricing pressures have meant that the market is volatile compared with others. For instance, gross margins had come under pressure due to price erosion for the company in the June quarter.

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Analysts at Antique Stock Broking Ltd point out that the US generics business will regain revenue growth momentum from H2FY22. They expect the India revenue growth to be around 13% CAGR for FY21-24 and 17% CAGR for overall emerging markets led by Russia and CIS regions. CAGR stands for compounded annual growth rate.

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Shares have outperformed the sector index in the past one month; Dr Reddy’s clocked a gain of 1.7% against 1.2% drop in the Nifty Pharma index. However, despite these gains, Dr Reddy’s trails the sector index for FY22 because of the disappointing earnings for the June quarter drove its shares down in July.

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