Everyone Wants a Strong Onshore Market

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Ramkrishna: At the moment, it is something which is actively under consideration but no final decision on which way to go has yet been taken.

There is a proposal to bring in speed breakers for algorithm trading. Would you like to comment on that?
Ramkrishna: If you see the international experience, everyone is trying to cope with the changes in technology, cope with the changes in the business architecture, new players who are coming in. We are not unique in India. Germany has a discussion paper, Australia has a discussion paper, IOSCO has been discussing. It is only fair that regulators will keep bringing this up as an agenda for discussion to see what more they need to strengthen the markets. I want to reiterate that India has always been very anticipative in regulatory framework, especially in this area.

But you will be impacted the most if this happens...
Ramkrishna: But it will always be a consultative process. So it is a call between what is important, whether it will secure the concerns that we have, or are there different ways of doing it, because there is no one single way by which all markets have implemented. Many markets have not done very much; one or two markets have experimented with a few things. So one has to see what is the evidence that is available, having done all that have they gained something out of it? That is what will play out in terms of the final decisions.

What will be the impact of GIFT on domestic markets? Will domestic volumes shift to finance centre?
Ramkrishna: See, when they started the GIFT City and when RBI is asked about offshore markets, what I understand of the regulatory pitch here is that we want to bring offshore markets onshore. It has to be able to compete equitably and equally with the Singapores and the Dubais of the world. I don't think the idea is to try and move onshore businesses offshore. That can never be the regulatory goal because everyone wants a strong onshore market. So you have a strong domestic market already, a lot of your domestic market is your domestic institutions, retail, prop houses here. That business isn't going away anywhere but the foreign business can be an additive which is what you want to see come into the Gift.

IMF Urges China to Tackle High Corp Debt

BEIJING : The International Monetary Fund's No. 2 official urged China to take immediate steps to tackle rising corporate debt or risk "dangerous detours" during the country's transition to a consumption-oriented economy. "Corporate debt remains a serious – and growing – problem that must be addressed immediately and with a commitment to serious reforms," David Lipton, the IMF's first deputy MD, said on Saturday in Shenzhen, China. – Bloomberg

ET EXCLUSIVE Q&A

GV PRASAD
Chief Executive, Dr Reddy's Labs

In Next 3-4 Years, We'll Have Biosimilars in EMs

Dr Reddy's Labs announced over the weekend the acquisition of a portfolio of eight products in the US from Teva for $350 million. In an interview with **Vikas Dandekar**, the Hyderabad-based drugmaker's chief executive, GV Prasad, said the company will bring in some interesting deals in proprietary product areas where the capital leverage is high. Edited excerpts:

The branded versions of the ANDAs acquired have sales close to $3.5 billion. How much are you expecting at their peak points?
We are not sharing that level of granularity but it is a portfolio of products and some of these are relatively different dose forms. A subset of this is complex (products) and could be limited competition products. The US FTC (Federal Trade Commission) is not worried about products where there are multiple ANDAs (Abbreviated New Drug Application); they are worried about products where competition can have an impact.

There were tight conditions for bidders to qualify for the FTC-mandated divestiture exercise?
The FTC looks for the anti-competitive impact as an effect of the merger (of Teva and Allergan). So, the products where there are overlaps and which result in material diminution of competition, they ask the companies to divest. I cannot talk about the specifics of the deal as this is a condition of the FTC.

How much time will it take for clearances for this deal from the US?
We don't know the exact details but it should not be more than two months.

FOCUS ON R&D

M&A is not the driver of growth at DRL. It is really the R&D. We will bring in some interesting deals in proprietary product areas where we feel that the capital leverage is high

The deal took some time to come through. Why was there a delay?
In one round we did not succeed. Then we had issues related to the warning letters for our manufacturing sites and we did not have the management bandwidth at that time. This time, it had gone very rapidly. We were very quick in reacting and fortunately our board was supportive of the deal.

Any timelines that you can share on the commercial launches of the ANDAs?
It starts from 2018 and I think 2019 should be the peak year, and that kind of bridges some of our growth challenges. We liked the deal because it helps us with the near-term growth.

Was it tough to get the deal at a reasonable value?
We have not been very successful in many cases because we have been outbid. We felt this was a comfortable number ($350 million) and beyond


COMPNAY PHOTO

GROWTH PROSPECTS

In the next three to four years, we will have biosimilars in EMs, as some registrations and tenders may come through

INDIA DEALS IN THE MAKING?

We are open (to deals in India) but valuations and opportunities have to be there... India is becoming a big challenge after the price cuts

this it would not make sense. We could close the deal in the timeframe that Teva had wanted. I do not know if it was a low-value deal, that is for the time to tell.

This deal comes after a very long gap. Are you opening up on acquisitions from here on?
We have been bidding for deals that are highly competitive. But the valuations are never matching up. We have been active in the market on several small to mid-sized deals. As I have always maintained, M&A is not the driver of growth at Dr Reddy's. It is really the R&D. We will bring in some interesting deals in proprietary product areas where we feel that the capital leverage is high, of course, there is an increase in the R&D spend, but there is some unique value that we add to it.

Dr Reddy's is deploying more reserves on developing a proprietary business and capabilities. Where are these headed?
Proprietary products that we have are all niche at this stage and this deal (for complex generics) is not to be confused with that. I would put proprietary products to about $50 million size assets (annually), if they do well. From there we have done a series of transactions that will graduate the business to about $100 million plus or even larger size. I cannot share specific numbers, but over a period of five to seven years, we would want to build this into a driver of growth for Dr Reddy's. We are building more intelligently based on opportunities, not just multiply with deals.

What is the next inflection point for Dr. Reddy's? Is it 2020?
In the next three to four years, we will have biosimilars in emerging markets, as some registrations and tenders may come through. Then we will see some globalisation of the portfolio. In the run up to 2020, we will have progress with the US (FDA) issues and we are hard at working at it. Those issues have come as a shock to us but they have also strengthened us in some ways. The first intention is listing of this, and with that, hopefully, some approvals will come from H2 (of the financial year). By 2020 timeframe, we will hopefully see our company looking at adjusting the business model towards proprietary drugs and patient centricity.


FILE PHOTO

Apart from the base generics business in the US, Dr Reddy's is growing on two legs – complex medicines and proprietary drugs. Will you, at some point, look at separating the two?
I don't know whether I will buy into that. A lot of companies are saying we need to manage the innovative side separate from generics, but as of the next five years, I am not looking at that. But beyond that our business model will change and I think all the medicines will come together and there will be services and digital health to follow that. So I am not committed to a path of separating this as of today.

In your recent presentation to investors, you have shown a leaning towards product ideation and device integration, as well as packaging development. How do these augur for the firm?
For example, Zembrace (injection for migraine), on the surface it does not look like a product that has a great innovation and it is just about halving the dose. But as one delves into the layers, the device is very simple to use. We have a product that gives a rapid release of the dose, as compared to a tablet. In the future, we will see the industry developing products that are really advanced, like wearable devices, use of connectivity related gadgets, cloud and all of these opportunities for more innovation in medicines that are more targeted and more useful to patients. My senior guys are working on that kind of thinking. We want to make our company patient-centric and our journey is moving now from medicines to health. These are early days. I am very sure that the traditional business model will not continue as it is today.

Any India deals after the UCB portfolio acquisition?
We are open but valuations and opportunities have to be there. We are not desperate. But India is becoming a big challenge after the price cuts.

Out of the Box

Being Overweight on Obesity ETF


ANIRBAN BORA

MICHAEL P REGAN

Like a fat kid doing a cannonball at the swim club, Janus Capital is trying to make a big splash in the world of exchange-traded funds with a product aimed to profit from one of America's most popular pastimes: being obese.

Another ETF is aimed at another pastime that's growing in popularity whether we like it or not: getting old. And yet another targets some other perennial favorite pastimes: trying to get fit and eat healthy.

It's easy to imagine the slapping sounds of high-fives when Janus executives conjured up these ticker symbols: SLIM, for the Obesity ETF; OLD, for the Long-Term Care ETF; FITS, for the Health and Fitness ETF; and ORG, for the Organics ETF. Each started trading on Thursday, representing the fund manager's second set of original equity ETF offerings after entering the space in 2014 with the purchase of VelocityShares.

Janus has made it clear it has no plans to compete with the Vanguards and BlackRocks of the world by offering regular market-cap weighted index funds. And that makes sense because those ships sailed long ago, and there's no point trying to chase them in a dinghy. Even the smart-beta space is crowded for those seeking a better mousetrap, so that leaves thematic ETFs like these latest ones as a logical spot to try to carve out a niche. Do they sound gimmicky? Perhaps. But...

"Thematic ETFs are all gimicky by name, but the fact is there are large amounts of investors who like to invest in things they understand or trends they are participating in as consumers," said Eric Balchunas, senior ETF analyst for Bloomberg.

That certainly makes sense if you're like me and participating in these particular trends by getting fatter and older by the day.

Yet if you're thinking of going overweight on obesity – or maybe a seasonal fitness trade around New Year's perhaps? – it's worth noting that these funds do fall short when it comes to one of the key attributes that make ETFs attractive: diversification. Some concentration risk is understandable in an ETF focused on a single theme like this. However, the top holdings in these particular ETFs appear, well, downright obese.

Insulin maker Novo Nordisk and dialysis-systems company Fresenius make up about 39% of the Obesity ETF.

About 41% of the Long-Term Care ETF is made up of Ventas and Welltower, two real-estate investment trusts that focus on senior housing.

Less heavy, but still noticable, concentrations exist in the top holdings of the Health and Fitness ETF...

Janus's Health and Fitness ETF gives a heavy weight to Nike.

Whole Foods makes up almost a quarter of Janus's new Organics ETF. Concentration risks aside, you have to hand it to Janus for creating some ETFs that are, at the very least, interesting conversation pieces that won't make the layman's eyes glaze over like they do during a zesty discussion of smart beta. It's just worth noting that when putting your eggs in baskets like these, be aware that some eggs are a lot bigger than others. —Bloomberg

ET in the Classroom

Regulating Commodity Prices

Some States have imposed stock limits on pulses and edible oils, and Sebi has raised margins to trade chana futures to almost 50% on longs in a bid to tame intense speculation. But none of these moves have helped. **ET** tells you why.


ANIRBAN BORA

1. Why stock limits on traders, stockists, etc, and reducing trader leverage won't always help curb price rise?

According to economists and the trade, stock limits in a period of crop shortage could actually be counterproductive over the long run. Stock limits place curbs on the amount of stocks entities can hold and therefore, when more supplies are required to cool off prices, a trader might be actually incentivised to keep holding his existing stock and supply only when prices rise further.

2. What happened in chana futures?

The chana near month futures that trade at a discount to spot price hit a record high of ₹7048 per quintal on Friday because of lower than expected production, according to the government's third advance estimates for 2015-16.

3. What did the regulator do ?

In the run up to the high, the regulator directed NCDEX to impose a 25% margin in cash on longs (Bulls) in the contract. However, when this was imposed on Fri the contract still hit a record as the market expects a genuine shortage.

4. Why does this not work always?

A player long the commodity will pay the extra margin on the premise of impending shortage and still earn mark to market profit. A seller while paying lower margin will lose out on mark to market loss. The gain the buyers make are used as part margin to keep raising bets on the long side.

5. What is the solution?

Ensure that supplies increase by way of contracting higher imports timely, crack down on hoarders, etc. Sometimes even stock holding llimits are imposed on wholesalers and traders so that the stocked goods hit markets and cool off prices. But again, in times of genuine shortage a trader might still hold on to lower stocks and wait for prices to rise before releasing the same in the market.

6. Is banning futures a solution?

Not really, because futures markets reflect anticipations of price basis arrivals, production estimates, etc. Tur and urad futures were banned in 2007-08 but that did not prevent prices from soaring in the retail markets to ₹200 a kilo. The best bet, as stated aforesaid, is to take timely action, for the govt to contract much in advance and build stocks like in wheat and rice for distribution to the poor.

TEXT: **Ram Sahgal**

Stock Queries | G Chokkalingam
Founder, Equinomics Research and Advisory

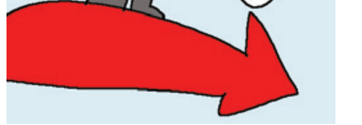
Every week, an expert selected by ET answers queries from our readers on equity stocks

I own 500 Gati shares at ₹240; 300 ONGC at ₹390; 250 Coal India at ₹360; 300 BHEL at ₹235; 30 United Spirits at ₹3,500. What are the prospects over 1 year? – MANISH KUMAR
Sell GATI around ₹170 and hold ONGC and Coal India. Sell United Spirits now as gradually state policies are becoming adverse to the liquor companies and also lower cane production is likely to increase alcohol prices going forward. Sell BHEL, if it recovers anywhere around 10-15% as receivables and inventories together accounting for about 90% of annual sales and they continue to give major concerns on the stock.

I am holding 450 shares of Kothari products at ₹255, 500 shares of Zicom at ₹139, 1,000 shares of Kopran at ₹60, 8,000 shares of LML at ₹8.25 and 600 Shares of HCL Tech at ₹840 and 3,000 shares of Next Media at ₹22.50. Please advise me about the prospect of these companies. – RAJESH CHHEDA
Please hold Kothari products and HCL Tech as stocks have corrected substantially and trade at attractive PE multiples. Operating loss in the March 2016 quarter and balance sheet do not give comfort on Zicom – sum of its inventories, receivables and short-term loans & advances accounting for over ₹1,100 crore is almost equal to annual consolidated sales. Auditors have also pointed out that "net capital deficit" of 2 subsidiaries increasing to ₹164 crore in FY16 from mere ₹5 crore in the previous fiscl. Hence, sell Zicom, if the current uptrend in the stock price continues for few more days.

Sell Kopran, if it recovers close to your cost as its valuation is highly stretched, and also LML as its huge accumulated loss, large equity base and operating loss make it unattractive. Sell Next Media as its valuation is also a little stretched.

I had purchased 50 shares each of Future Retail & Future Retail (DVR) at ₹126 and ₹106 per share. Now the retail business of this company is taken over by Bharti Retail and one share of Bharti Retail will be given to the share holders of Future Retail for every one share. What should I do with shares of Future Retail and its DVR as the prices have come down drastically.– NARENDRA POTDAR
Please hold both normal and DVR of Future Enterprises (new name), trusting the media statements of the management. It claims that the potential from value unlocking from its various investments is worth ₹10,000 crore. Even if it realizes half of this claim, it would be still worth ₹65 per share (which is over 2.5 times current market price), after netting out the outstanding debt.



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