The company has differentiated itself by focusing on internal processes and staying away from costly acquisitions. Now, it has other plans to fend off the competition.

**Dr Reddy’s prescription to stay ahead of the generic pack**

The revenues of Hyderabad-based generic drug maker, Dr Reddy’s Laboratories, is expected to surpass those of Ranbaxy Laboratories, the largest Indian generic drug company, and now a subsidiary of Japan’s Daiichi Sankyo, sometime next year. Barclays Equity Research projects Dr Reddy’s revenues for FY14 at ~12,663 crore, slightly higher than Ranbaxy’s (at ~12,615 crore).

This would be big news for any company battling it out in a challenging industry. However, the generic-drug business is more than just that. It’s a fiercely competitive business, driven by volumes and characterised by constantly falling prices and, therefore, steep margins. As a result, product differentiation is minimal, and the only way to drive sales is by lowering prices — which, ironically, threatens the very survival of the business.

**Tooth and nail**

Generic companies are doing everything in their power to gain a competitive edge. For example, Sun Pharma recently appointed ex-Teva CEO Israel Makov as its chairman, because of his ability to leverage his global expertise to drive growth and tap new markets. Acquisitions and alliances with major players offer a key to driving sales. Sun’s acquisition of Tarco, for instance, expanded the company’s product portfolio to 144 in the US, besides adding 23 abbreviated new drug applications (ANDAs) to its pipeline; it also provided access to therapeutic areas, like dermatology.

Curiously, Dr Reddy’s has done little of both, and that has been its biggest differentiator from the other generic biggies. Says Rajdoot, V Prasad of Barclays Research, “One cannot compare the importance of the tags to first and second. But, it is very important for Dr Reddy’s to find new sources of revenues. Sun is already planning just that.”

Yet, Umang Vohra, executive vice-president and chief financial officer of Dr Reddy’s, says the company’s “defensive strategy” has served it well. “After Betapharm, we came down to the fact that you should make acquisitions that improve the capabilities within the organisation, as against buying a company in a market which increases your turnover. That is defensive,” he says. “Second, if you look at the chart of patent expiries, there was a huge amount of potential. In that scenario, we said we would focus more on executing well because there was enough opportunity in the market. When those opportunities begin to die, acquisitions would anyway be available,” he adds.

The four smaller acquisitions the company made after Betapharm, including the recent $40-million one of a dermatology brand in the US, were largely done with an intent of getting more capabilities. “After these baby steps, I think we have today reached a situation where we are more confident of an acquisition strategy going forward,” he says.

**Relying on Uncle Sam**

Much like other generic firms, Dr Reddy’s relies heavily on selling its drugs all over the world. Its global revenues grew 32 per cent last year to over ~7,000 crore in 2011-12, driven mainly by the US market, which saw 16 launches. This includes the first-to-file launches of Olanzapine and Ziprasidon, both antipsychotic drugs that had 180-day marketing exclusivity periods. Olanzapine alone had contributed ~300 million to its US revenues last year. Launches are critical to the company — a little more than 50 per cent of its US revenues come from new products.

The biggest concern articulated by analysts is that the patent cliff in the US is soon going to level off. The year 2012 was particularly exceptional in terms of small molecule patent expiries worth ~44 billion, of which Lipitor accounted for ~30 billion. But, Vohra feels the next four years still present ample opportunities — well over ~70 billion, pretty much the same as in the previous four. “Forget about the patent cliff, the opportunity there is still going to be enormous for companies like ours in the US,” he says.

There are no blockbuster drugs comparable to Atorvastatin (high cholesterol) and Clopidogrel Bisulfate (for heart attacks, strokes, and to treat peripheral vascular disease and claudication), both cornered a $6-billion generic opportunity each. But the company still sees a substantial upside from products like Escalotopram (for anxiety disorders) and Empaglizar (for stroke and duodenal ulcers), scheduled to be launched in the next two years. The company has also put more effort in expanding the over-the-counter (OTC) product portfolio, as this gives a wider reach, compared with prescription drugs.

**The road ahead**

Maintaining a competitive edge will not be easy for Dr Reddy’s. Its alliances — one with GSK for Latin America, with Merck Serono for co-developing and commercialising biosimilar compounds; and a joint venture with Fuji Film to design and develop generic drugs for the Japanese market — and biosimilars have a long way to go before making any meaningful contribution to the top line.

Also, the 180-day marketing exclusivity period is like a very short, exotic vacation that you will never take again. Once this period is over, competition brings down the price to 0-5 per cent of the innovator drug in the US market. The company plans to beat this price erosion by targeting complex generics, with sophisticated formulation processes, and by delayed actions and modified releases.

The company is also betting big on biosimilars, the generic equivalents of biopharmaceutical products, a class of proteins used in treating complex diseases like diabetes and cancer. It expects its biosimilars to start generating substantial revenues from 2017 onwards, coinciding with the patent expiries of the category in the US. Besides the therapeutic areas of gastro-intestinal, cardiovascular, diabetes, oncology and pain management, the company is actively pursuing the dermalology segment.

To survive the onslaught of the coming years, Dr Reddy’s needs to drive sales in emerging markets. “They will need to make acquisitions. But, they should stick to the US and Russia and not go anywhere else. They should keep away from Japan, because it is going to be a tough market. At best, they can think of Latin America, which is growing fast,” advises Barclays Prasad.

Not surprisingly, Vohra says Dr Reddy’s is already looking to increase its presence in Germany, the CIS countries, South Africa and Venezuela through the GSK partnership. Other strategies include diversifying into the OTC segment in some markets and working on cost models to save resources for funding the business of proprietary products. The company also intends to grow biosimilars, which currently account for 6% of its revenues. It plans to launch five biosimilars by 2016.

Vohra says, will now look at acquiring properties that have complex products. “We will look for brands in Russia’s OTC segment, possibly some brands in India also. We continue to look at opportunities even within the US. But they are strategic, not opportunistic.”