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INTERVIEWS**

India Pharmaceutical

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Mr. GV Prasad - Dr. Reddy's Laboratories - CEO

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You have been the architect of the company's global generic strategy it seems you have done a very good job, today you have the mission of making Reddy's a discovery led global pharmaceutical company, what will be the hurdles to make this happen?

If you look at the global generics business itself, the great challenge is achieving critical mass. Today, our major markets are not the ones we have invested in. We have made considerable investments in the USA and Europe, and neither of these markets has reached significant volumes. Putting these markets together we have to build a 1 billion USD business and then we will reach our objective. This will take a few more years. Moreover, pricing environment in generics has become quite nasty, at least in the USA and in the UK. Hence, to a certain extent, we need to find products, which will be less competitive in the market, like niche products or ones that have IP and technology barriers. Putting all these together should take Reddy's to achieve critical mass. Another challenge will be to establish strong presence in all the key markets. Dr Reddy has presence in the USA, UK and Germany but not in the rest of Europe or in Canada. We will need to expand our geographical presence. Regarding our move to innovation, the challenges are multi fold. First of all, cost of innovation is very high and it has to be funded from a business where the margins are low, in other words the generics business. That's a big challenge from a financial point of view. The second challenge is that the skills required to take a drug from discovery to the market is quite demanding. We have good and prolific discovery teams, but we need to build downstream skills in development, clinical trials, global registration and marketing. This is a gap we have. These gaps, the financial as well as the drug development, registration and marketing strategy, we will have to build through partnerships. The big challenge is to find the right collaborator to achieve our strategic vision of becoming a discovery led global pharmaceutical company and at the same time continue our journey of building our generic business to a critical mass.

How much can Dr. Reddy rely on the local market to nurture its growth?

30 % of our revenues come from our domestic market, so it's still a very important market for us. However, following our new acquisitions, this number might drop down to 20 % .India is still an important market since even at 20% it will represent 1/5 of our business. Future growth will definitely come from our overseas expansion. The Indian market is growing between 10 to 12 % and we can grow higher than that. India's market size is limited, and the opportunities are also going to be limited going forward because with the amendment of the patent law. We will not be able to launch products under patent.

Betapahrm is the biggest deal ever in the story of an Indian pharmaceutical industry, what does this represent to Dr Reddy's? Several outsiders assure that Dr Reddy's has overpaid the Betapharm acquisition, what is your assessment in this statement? Why did Dr Reddy's decide to bet so much in this deal?

Building a global generic business and increasing geographical expansion are key priorities for us. We were not represented in Germany, the second largest generic market of the world, so it is important for us to have presence there. Building it organically will be very tough or almost impossible. Inorganic growth was the right

option. If we have paid less or more is a question of debate, and on who perceives it, but as Dr Reddy's we are quite comfortable and happy about this acquisition.

Which will be the challenges to merge the company with the mother company?

It is not a big challenge because we don't yet have any presence in Germany. Basically it is a built-on acquisition and there is no rationalization required. What we have to integrate is finance and governance, IT systems, reporting into corporate, pipeline and the regulatory process. Down the road, we will like to integrate manufacturing, but we have time to do that.

In a long term how might Betapharm help to penetrate other European markets?

Today it will help in the German market as all its sales come from this market, but eventually we could use that platform to expand to other markets with some of the products they have and with other product we are developing. Betapharm in the future could help us to introduce a variety of generic products and build a presence in the European markets where we are not yet represented.

In the past 4 years Reddy's has been actively building its inorganic growth, are we going to see a pause in this regard, or it will be a trend that should carry on for the next two years?

We are open for opportunities that will accelerate our strategy.

It seem that the USA market is getting overcrowded by Indian players in fact as you mentioned «There is a huge gold rush into" the U.S but is getting hard to get the gold. Additionally, the price pressure and the presence of international giants like Sandoz and Teva are considerably slowing down the performance of the Indian generic pharmaceutical companies in this market. Despite these barriers, and the hamper of the company in the USA market, which is your outlook for Reddy's in the USA market and your opportunities to figure in the top ten companies in this country?

Teva, Sandoz, and now Watson are leading companies in this market. The rest of the companies, which enjoy similar competitive advantages such as vertical integration based in low cost economies, are far behind. Still there is opportunity for us in terms of growth. But price pressure will continue to be an issue because the large number of new entrances into the market creates a very competitive dynamic. I think pricing pressure is here to stay and it will give us a tough time for some more years. During the Gold Rush, it wasn't the people who went for the Gold who made money. The people who sold them tents, clothing and everything else made the money. Similarly, in the "gold rush" for generics, the companies, which are making money, are the companies that are doing the bio equivalence studies etc...

Dr Reddy's is in the top three in India. When are we going to see Dr Reddy's in the top 10 in the USA and as a global generics player?

In the next five years you will see Dr Reddy's as one of the leading global players.

Dr Reddy's has been quite active in R&D, an example that has attracted enthusiasm and controversy is the Polypill (today in clinical trail), for cardiovascular diseases. Why did Dr Reddy's get so involved in this project, what is your interest in this project? What are you expectations of this pill?

We see this as something which places us upstream. It is not innovation per se but it is incremental innovation. It is also market focus innovation in the sense that the polypill will respond to the needs of the vast majority of cardiovascular patients in a specific market place, the developing world. The developing world cannot afford expensive medication and multiple pill regimes. There is a real need for this product, and we will be able to provide it. A company like Dr Reddy's with deep skills in API, in formulation, and in marketing is combining its expertise in this area to solve a significant problem in the developing world. It is not only a business opportunity; it is a breakthrough to make an impact on society. We are very excited about this project.

At which markets will you be looking at to introduce it and what will be the strategy to market it?

The first launch will be in India and then we will expand to other developing countries. Furthermore, we will see how we can partner with the developing countries. For example we foresee opportunities in the USA with the segment of the population which doesn't have health coverage, and have a great need for this product.

Is not the same to be a generic player and an innovator, what makes you think that Dr Reddy's will be able to reverse the trend and for the first time ever in history we will see a generic becoming an innovator?

We do not think we can, we are actually doing it! We have a successful generic business; we have a portfolio of innovative products, we are building partnerships to develop these products, and it will happen! It is not something that we are just thinking about, we are actually taking action, executing. We are very confident that we will succeed.

Dr Reddy's is moving very fast in acquisitions, strategies, pipeline, etc.. How will you keep the pace?

By executing well and focusing on our strategy, that is very clear. Our focus is to improve the level of execution of excellence and to get our institution to very high levels and do better than anybody else out there.

In three words what makes Dr Reddy's such a respectable company?

Entrepreneurship, innovation and a global outlook.

What is your vision for the company?

Our vision is to become a discovery-led global pharmaceutical company.

Mr. Prasad which is the best lesson this work has given you?

The biggest thing in the pharmaceutical business is unpredictability. If you persist you will succeed. You have to be directionally convinced that you are in the right track, you can't predict what is going to happen tomorrow, but if you continue in the path you initially thought, you will certainly succeed. For instance, in the past three years we went through difficulties in terms of performance, but we persisted, and today you can see our success



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