

News monitored for: Dr. Reddys

THE ECONOMIC TIMES

ET INTERVIEW



No Indian pharma firm is tier-1: Dr Reddy's CEO

DR REDDY'S LABORATORIES' vice-chairman and CEO, GV Prasad, talks about the strengths and weaknesses of the domestic pharma industry, the challenges facing DRL, its \$3-billion target and the government's thoughts on FDI in pharma, in a candid conversation with **ET**. An industry veteran, Prasad is probably as qualified to talk about M&As as Ajay Piramal and the Ranbaxy brothers in the domestic pharma industry.

News monitored for: Dr. Reddys

THE ECONOMIC TIMES

G V Prasad, vice-chairman and CEO of Dr Reddy's Laboratories, is not new to the business of M&A. He is probably as qualified to talk about it as Ajay Piramal and the Ranbaxy brothers in the domestic pharma industry. In 1985, a pharma company he co-founded, Benzex, was taken over by Dr Reddy's, which also took over Cheminor Drugs, when Prasad was the CEO and MD, in 2001.

Since taking charge at the helm of Dr Reddy's, Prasad has engineered Indian pharma's biggest cross-border acquisition, the buyout of Germany's Betapharm. The deal went awry and DRL had to write off ₹1,400 crore and posted a loss of ₹520 crore in 2008-09, but Prasad believes that his company has learnt some important lessons. In a chat with the ET's G Sreekala & R Sriram, Prasad talks about the strengths and weaknesses of the domestic pharma industry, the reason behind their inability to top the performance of overseas drug giants, and their lack of success in innovation. Excerpts:

Indian companies have dominated the generic pharma space and there has been talk of them doing innovative products. But no Indian company has been able to crack the barrier. Why do you think that's the case?

In generics, Indian companies are becoming significant as you can see from the market shares. But no Indian company is really a Tier 1 player in the world. By Tier 1 players, I mean Sandoz, Mylan Merck, Actavis and of course, Teva. Teva is way ahead and like China in terms of market. Teva is a different class by itself. Sandoz is a little behind there followed by Mylan Merck.

The reason I think is maturity. Especially, maturity in globalisation. Also, not being as aggressive in the M&A space like these companies. If you look at the history of Teva, it has grown largely by acquisition. Sandoz has done some bold acquisitions. Mylan became a global company as a result of acquisitions. Acquisitions have played a key role. I think for acquisitions to be a strategy it will take us a little more time.

Indian companies need to have mature global capabilities. And then, they have to acquire the capability of buying a company and clearly driving a lot of synergy out of that. To create value out of an acquisition through your synergies, I think Indian companies still have not reached that level. May be that's the next wave for us.

To be honest, I think we are not that significant as far as innovation goes. Indian companies have done some bits and pieces here and there. But right now nothing to write home about. I think it will take us another decade to make a presence there. APIs we have conquered. In generics, we are on the way to become a significant player, if not the leaders. Innovation is probably the third horizon that will happen sometimes later. That's about India.

Is there a need for complete mindset change or a cultural change or is it the need for DRL and other companies to create different organisations from the ground level?

It's a very valid question. Frankly, we are grappling with this issue. I am not sure whether a new organisation should be built. But I can talk about some of the problems of running innovation in a traditional business like ours. One, this business runs on efficiency. Which means you have to be focused on reducing cost. Remove risk as much as possible,



ble, make the supply chain very efficient. You are really running an engine lean and mean. This is for commodity generics. For branded generics, it is similar but you have added salesforce. But the dynamics are similar. Only the way you sell a product is different. You go to a doctor and build a relationship to get prescriptions. So, our basic value proposition is not innovation. The product is the same. It is about quality outcome and belief in prescriptions.

In innovation, the results are unpredictable. You are betting on something you are trying to imagine and define a space which is not filled by others. It requires a different mindset. It requires you to think of defining the problem you are trying to solve first. In all our businesses, our problem is defined, we are making an equivalent to A or B. It is an easy issue.

When you are innovating, you are saying

betes. Nobody has done that. These are the big problems out there, which requires deeper understanding of science. Indian companies don't have it here. We can do a Nano. But can we do a Maserati or a Lamborghini? It is a different kind of innovation. So, Nano was a good example of Indian innovation for an Indian need.

Is there an equivalent of the Nano in the pharma sector? I don't know. I would think of an engineered drug. That we have done already. How do we make an impact in unmet needs in diseases? Maybe we should start small. Maybe, we can try innovative ways of using the existing technologies, which can collectively address an unmet medical need effectively. These are all grand challenges. For an Indian company, to make an impact here will require focus and effort. And the percentages are against us. The understanding of human body is not that good. The biol-



If you want to cure diabetes, that's a problem worth tackling. To control your blood sugar, there are effective solutions today. To cure it, is holy grail. We don't have the depth of science, the understanding to cure diabetes. Nobody has done that. These are the big problems out there, which requires deeper understanding of science

there is A, there is B and C and let me make something useful which is new. Useful means better than A, B and C in some way. Today, understanding is good and the standard of care is good.

To really improve something is not trivial. You make smaller pills, so what? You make twice-a-day dosage into a once-a-day one, so what? It is just a matter of convenience. These are incremental innovations.

If you want to cure diabetes, that's a problem worth tackling. To control your blood sugar, there are effective solutions today. To cure it, is holy grail. We don't have the depth of science, the understanding to cure dia-

ogy is less understood and you have to do extensive clinical trials. You have to establish statistical significance and each of us are different. The coffee that you drink and the coffee that I drink work very differently in each of our bodies. Statistically, they may all cause some mood elevation or something but individual responses are very different.

So statistically, it is probabilistic and not deterministic. These are the difficulties of doing innovation anywhere and you are competing against companies who have huge budgets, huge functional skills and access to centres of innovation.

For one, Novartis, which used to be a

News monitored for: Dr. Reddys

THE ECONOMIC TIMES

Swiss company, set up their global research in Boston. They bought out an old chocolate factory and refurbished it into a swanky new set-up because they wanted to be in Massachusetts, be among the ecosystem to create innovation. Large biotechs are either on the East Coast of the US or on the West Coast. You don't find them anywhere else. They tend to be in the ecosystem of innovation. For innovation to succeed, it is not just enough to have the company's efforts. It is important to have an ecosystem, you need to have access to talent, access to capital and even access to patient capital. That's why it's a big challenge.

Over the last 1 to 1.5 years, India witnessed two significant corporate transactions in the pharma industry: the Ranbaxy-Daiichi deal and the Piramal-Abbott deal. This has given rise to a certain perception that big Indian companies cannot survive on their own and that foreign companies are likely to dominate, take over and the era which we have seen from 1999 is probably over. The government also seems to be thinking on similar lines because recently we have seen statements on capping FDI in the pharma sector. What is your take on that. And do you think DRL needs to go down that route? Do you think you will be strong enough to survive on your own?

Let me clarify a couple of things. First of all, I don't like the notion of we being an Indian company. The shareholding in our company is global. There are investors from the US, Europe, Asia and also from India. We have a large portion of our operations in India. We have significant global footprint. We have a manufacturing base in the US. We have manufacturing base in the UK, South America and a research centre in Cambridge. I don't want to qualify ourselves as an Indian player. Our India business is just 20% of our total business. The US will be in the range of half-a-billion if you consider all our businesses there. That's one part.

The other part is the reason behind the interest shown by international companies in India. The reason for the Ranbaxy deal was not clear to me as it was for Piramal. Maybe the rationale was specific to the Japanese company. But it is not a trend. I am not seeing the hunger for such deals for companies across the board. In the case of Ranbaxy, the Japanese saw that as a vehicle to get into the generic business globally, of which India is a significant part. Ranbaxy had a good positioning in the Indian market. In the case of Abbott taking over Piramal, it was clearly an Indian play and that's the interest I see across companies - getting strongly into India as a market or some of the emerging high growth market. That's the trend all MNCs are talking about. They want to be the top three players in emerging markets. In the case of Ranbaxy, Daiichi acquired a company which has a strong presence in India. But they had a lot of other things also. I don't see the same level of appetite in the other parts of their businesses as it is in India. So, if you acquire DRL, you get 20% of what you want and 80% of what you don't want. This is one rationale I would say is why I wouldn't be bought out.

What about the government's thinking on this issue?

I think the government has its own reasons. India is a peculiar market. A market where there is huge unmet needs for medicines.

But the government doesn't fund it. India has been fortunate to allow its entrepreneurs to launch products under the patent regime and let competition drive the prices down. The government would like to believe it is price control which is driving prices down, whereas it is not. Prices are down to reasonable amount that lot of people can afford medicines. Indian prices are among the lowest in the world in spite of being very profitable for the industry. It's a great situation to be in. The Indian govern-



We can do a Nano. But can we do a Maserati or a Lamborghini? It is a different kind of innovation. So, Nano was a good example of Indian innovation for an Indian need. Is there an equivalent of the Nano in the pharma sector? I don't know

ment should encourage that and not put unnecessary controls. They should encourage competition. They should encourage more of that rather than saying we will control this and that. Even pricing I don't think has happened because of govt control. It is because of competition.

No conversation about DRL is complete without some reference to Betapharm. Now that some years have gone by and you have also said that it will form a very small part of your revenues...

That's not very important. Size remains the same for us. But we are very happy about our performance in Betapharm today. We have done a number of things. The leadership of Betapharm has done some very interesting stuff under very difficult circumstances and they have turned the company around. They have restructured the organisation to suit the tender model. They have aggressively bid and won tenders. They are getting a signifi-



I don't like the notion of we being an Indian company. The shareholding in our company is global. There are investors from the US, Europe, Asia and India. We have significant global footprint. We have a manufacturing base in the US, UK

cant part of their revenues from non-tenders also. In future they are going to look at more innovative ways of building the business. As of today, I'm very satisfied with Betapharm. They are coming back to profitability. They are delivering growth.

Given the trouble that had happened, do you think in hindsight (its always hindsight) you paid too high a price or was it a mistake to pay that price at that time?

Every acquisition, this question is asked: is the price too high or too low? The price you pay on a given day for an acquisition is a function of many things. When we bid for Betapharm, it was the fourth-largest generic company in Germany. It was very profitable. The market look solid. And it was a competitive situation. The second highest bidder was probably Ranbaxy. And the pricing was not

very far apart. The question of pricing come up because of these circumstances, the contraction, the loss in revenues and the unique circumstances we faced from our supply chain. Our entire supply chain was controlled by our competitor and supplier Sandoz. And at that point, we faced extreme difficulties with them.

This threw a spanner in the works. Considering most things which went wrong. If I had all this hindsight we wouldn't have bid for it. But we didn't have this hindsight when you make an acquisition.

Maybe we wouldn't have paid such high price or we wouldn't have gone there so aggressively. We have learnt some lessons and I think we are putting those lessons to work. Next time we do an acquisition, we will look at the asset much more carefully. We will look at synergies much more carefully. We try to achieve synergies faster. We have proved that it can happen. We did it in longer period than we would have liked. But Betapharm is turning around and proving to be a good company and hopefully it will deliver value in the next few years.

Lets' talk about your \$3-billion target. Satish Reddy just said its directional one. That's a very broad term.

What he means is it will be couple of \$100 million this way or that way. What he meant was if it can be \$2.7 billion, \$3.2 billion or \$3.1 billion. That's the range. We are not going to give a precise \$3-billion mark, that's what he meant to say. That's what he meant by directional.

How confident are you of getting there?

We are confident. I believe our internal estimates show that we have the possibility and ability to get there. But it is stretched. Of course, it is stretched. If you have to double in two years or three years, it is stretched. But you know we see that as our challenge and we are doing our best to achieve it.

What are your biggest challenges in getting there?

Scale. We are serving all these global markets. We have an unprecedented number of launches over the next two years. We have huge volumes and doing all this on such large scale is something that we have never done before. So, to that extent it is an execution challenge. The other challenge is that there are things beyond our control.

Do think there is scope for consolidation in the Indian pharma industry? The industry, despite its \$20-billion size, is fragmented.

I think there is. But what shape it will take, I don't know. Right now, I think the big deals have got visibility - inbound and outbound. But I think at some point, consolidation will be important because the costs of managing a large sales force will become difficult and can put pressure on margins.

It is often said that Indian promoters do not like to do consolidation deals with other Indian promoters.

Yes, I guess so, I think that is changing. Old entrepreneurs, the previous generation used to think of their companies as their babies. I think today people are more focused on value.

To read the full interview, log on to www.economicstimes.com