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Dr Reddy's plans multi-pronged strategy to build Russian business

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Dr Reddy's Laboratories appears set for a significant scale-up in Russia, including plans for a joint venture manufacturing facility, a prescription and OTx (prescription plus switch over-the-counter) thrust and a new in-licensing pact with Novartis deepening its engagement with one of its core international markets.

Dr Reddy's, which entered the Russian market in 1992, has reported robust year-on-year growth there - more than 20% each year since 2006-07 - and is the largest Indian pharmaceutical company in the country. It now appears set to shift gears to propel growth against the backdrop of the Russian government's commitment to modernise the national pharmaceutical industry by the end of decade.

Dr Reddy's president, global generics, Abhijit Mukherjee, told *Scrip* that the company plans to set up a manufacturing facility with its Russian partner R-Pharm, starting with formulations and packaging and with the active pharmaceutical ingredients coming from India. The first product from the unit could still be a couple of years away, however.

Dr Reddy's also expects the alliance to manufacture small-molecule oncology products, which are high value and included in the priority molecules announced by the government, Mr Mukherjee said. Such local manufacture is expected to facilitate potential savings, estimated to be in the region of $200 million to begin with, for the Russian economy, among other benefits.

Dr Reddy's had in 2010 entered into a licensing, technology transfer, manufacturing and marketing agreement with R-Pharm, a collaboration that was centred around high-technology and works on a profit-sharing model. R-Pharm had then said the deal marked a change of approach, from just importing finished products to deep integration in technology, manufacturing, marketing and knowledge-sharing between the partners.

With Russia unveiling measures to implement its Pharma-2020 strategy, several foreign firms, including GSK and Pfizer, have announced manufacturing plans, marking a significant shift in outlook. Such investments were previously considered somewhat risky amid administrative barriers and unclear regulations assuming various interpretations and corruption.

Pharma-2020 envisages increasing domestic pharmaceutical output six-fold, from Rb127 billion ($4.5 billion) in 2010 to Rb765 billion by the end of the decade, and raising the market share of medicines made in Russia from the current 22% to 50%, among other targets (scripintelligence.com, 28 June 2011).

Last year, India's Aurobindo Pharma and Russia's Diod formed a joint venture to manufacture and sell generic drugs in Russia, Belarus and Kazakhstan, with Aurobindo claiming that its project, once implemented, would facilitate "substantial savings" in government procurement of socially significant drugs and reduce budgetary expenses (scripintelligence.com, 8 September 2011).

in-licensing

Dr Reddy's is also enhancing activity in the in-licensing segment, which Mr Mukherjee described as a "live and active" area, and in the prescription space in Russia, while continuing to build on its OTx strategy, which is seen as an engine of growth there.

An in-licensing pact with Novartis which covers an antiviral and pain management products, has been finalised, while an existing alliance with Cipla for its OTC and prescription range in Russia and the Ukraine is "going well". But the indications are that another alliance with the UK-based supplements firm, Vitabiotics, hasn't made much headway in view of the inadequate product fit.

Dr Reddy's had earlier announced an agreement with Vitabiotics covering Russia and select CIS countries, under which it had exclusive marketing rights to Vitabiotics' Jointace (for joint health) and Dietrim (for weight management).

"Substantial" emphasis, though, will continue to be placed on the prescription portfolio, with new introductions and line extensions in the pain, gastrointestinal and other segments planned.

Mr Mukherjee said that Dr Reddy's does not expect the percentage of the OTC portfolio, which accounts for 30% of the overall Russian business, to go up drastically. "I won't look at a scenario where it is 50% and this [the current 30%] is a healthy ratio to maintain," he added.

Instead, the Indian firm appears more upbeat on its OTx strategy, which Mr Mukherjee termed as a "better, more efficient" one, coming with a lower cost of entry. "Apart from Rx, our strategy largely would be OTx products, which are allowed to switch and were earlier detailed," he explained.

Dr Reddy's reported revenues of Rs3.3 billion in Russia and other CIS markets in the third quarter of 2011-12, compared with Rs2.9 billion in the same period of the previous fiscal year, though Russian revenue growth was largely driven by rupee depreciation. The OTC portfolio grew by 24% over the previous year, while secondary sales growth at 23% continued to outperform industry growth of 19% in Russia. The company's key brands in Russia include Omez (omeprazole) and Ketorol (ketorolac).

Mr Mukherjee added that initiatives such as "leadership changes and an increased focus" were planned to spur growth in the CIS, to match or exceed the firm's Russian growth, albeit over a smaller base.