Interview: Satish Reddy, Managing Director and Chief Operating Officer, Dr Reddy’s Laboratories



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Looking back at the company’s recent challenges, we see a very tough 2009, largely due to the Betapharm acquisition and the subsequent changes in German regulations. How do you explain the situation there and what measures did you take to turn the situation around?

Germany, and in particular the Betapharm acquisition, was indeed the key issue affecting our results that year. The change in regulations had a severe impact on the German market, which in turn affected Dr. Reddy’s. Since the issue at stake concerned a change in regulations, there is of course not much we could do to prevent this from happening.

Some of the steps we have taken to turn around the situation was to increase our focus on cost control. As Dr. Reddy’s kept aggressively investing into new markets while expanding its field force in branded generics markets such as India and Russia, the costs outgrew the company’s growth over time. While sales figures grew at a reasonable rate, they did no longer justify the subsequent increase in costs. This, together with the global financial crisis, required us to tighten our belts.

In terms of preparing for the market, we first wanted to play out our strong competitive advantage as a vertically integrated player in Germany. As a result, our strategy was to bring back as many products as possible to India. Today, roughly 60% of the products you currently see in Germany have moved back to India.

A second measure taken was to downsize the entire organization in Germany, where the immense field force was practically reduced to zero. The somewhat 85 people we now have based there are a result of our plan to make the organization much leaner than before.

We then set ourselves a clear objective of being at least successful in the tenders for those products we had vertically integrated. As a result, small tenders started coming in which drove up results again by 2010.

Can you please elaborate on the results for 2010 – a year in which Dr. Reddy's was the best performer in the stock exchange?

In 2010, there was a clear turnaround at a global level, of which the cost reduction strategy was only one driver of the better results. A second driver was the product launches in the USA. We spent a lot of effort on penetrating this market with products for which limited competition exists. The advantage of such products is that they have higher margins and thus, a longer life in the US market. Two other drivers were sales in India, which is also back on the growth track, as well as Russia, where Dr. Reddy's is one of the fastest growing international companies.

Five years ago, Dr. Reddy's was among the top 10 companies in terms of domestic sales in India. In the latest OPPI ranking, we see you have now taken the 13th place. How do you explain this drop?

I would not fully go by these rankings, as they do not capture certain aspects such as oncology and some hospital sales. The internal figures that companies are communicating externally are a good basis for comparison. In that sense, our growth rate seems to be very much on track.

Looking at what happened over the last years, a factor of change has been the consolidation of the industry. This was one factor that may have affected such ranking. In addition to that, it can be said that our performance was not that good during this period of time. Compared to other companies that were very aggressive on launching new products, we would probably rank among the lowest, due to our focus on brand building instead.

To get back on track in India specifically, we took a number of measures. The first thing we did was the launch of new products. It is not just about the number of products of course, but also about their quality and contribution to sales. The product launches in the last 18 months alone, are now contributing 4 to 5 percent of total sales, which is a healthy situation. Other measures we worked on was the refocusing on our product portfolio as well as better time management for product launches.

Apart from the portfolio, we also worked on our field force deployment. While numbers do not tell the entire story, it is worth mentioning that we increased headcount in India from 1,500 to 3,000. We realized that our strength as a company was towards general physicians and consulting physicians. We therefore decided to expand the field force for the mass kind of therapies. In a second step, we worked on matching the division's field force with the right capabilities to achieve a larger share of voice in the market. This is also starting to pay off.

Thirdly, we have also worked on our distribution network. We streamlined the availability of our products in the market and at the same time improved the working capital of our distributors. Moreover, this supply chain initiativemade the manufacturing chain much simpler.

These three initiatives are started to show results. Yet, there are other companies that are still growing faster than us.

How do you see this in the coming years? Do you see Dr. Reddy's growing faster than these other companies?

This is a clear target for Dr. Reddy's for next year. Several steps need to be taken of which some are already work-in-progress, such as the field force deployment. There are also other initiatives, such as an increased focus on the rural market. By this, I do not mean the villages, but at least the class 4 to class 6 towns. Next year we will see more sales coming from that division.

To what extent do you feel your domestic market knowledge can act as a competitive advantage to counter the increasing penetration of MNCs in India?

The entry of the MNCs in India is a total different story in itself. Companies which have come in with an aggressive acquisition such as Abbott differ from players such as GSK which have traditionally been strong in India. Merck then, has for example started with India-adjusted pricing as one of their differentiators, while increasing the fit between their range of products and the needs of the Indian market. These stories are different than what Indian players are trying to do.

Indian players are traditionally very strong in particular areas. They have extremely large brands that are still continuing to grow. In addition to that, they have a wide distribution network compared to the MNCs. I think, because they are so competitive, they are here to stay.

Do you feel threatened by the MNCs?

Not really. Of course, MNCs will come in and any consolidation that will happen, will go through them. When it comes to having a deep understanding of the market and knowing which new areas

to tap, I think Indian companies are as competitive as any other company out there. We are focused on tomorrow's opportunities, not on the threat of the MNCs. The only threat of MNCs is that they have a pipeline of innovative products, but there is still time for that to play out.

Even in Brazil for example, MNCs only managed to take approximately 10 percent of the market in the ten years following the implementation of the 1992/1993 patent law. The new patent law in India has only started in 2005, so we still have a long way to go before we see the dent these innovative products will make.

When we spoke to your CEO Mr. Prasad a few years ago, he already showed his enthusiasm for the company's incremental innovation skills, such as the Polypill. How do you see the company's current pipeline today?

There is a more organized structure within the company now, with a Proprietary Products Division that deals with high-end innovation, the NCEs and incremental innovation.

What will happen in this space is more targeted development. One space, for example, is the further development of one set of dermatology products for the US market, which we have acquired from US-based Trigenesis in 2004.

Even in the development of products down the line, which is close to eight products, a significant portion of them are biosimilars. With Reditux, Dr. Reddy's was the first company to develop and launch a biosimilar monoclonal antibody. This product alone already generates roughly USD 10 million. Biosimilars are an important differentiator for Dr. Reddy's and will give us another competitive advantage as we move forward.

International biosimilar markets have not really taken off yet as a result of lacking regulatory frameworks. When do you expect this niche to really open up?

As far as biosimilars are concerned, our strategy is clearly to focus on the emerging markets. Our advantage is that we can launch in India, take reasonable market share, and then go on into other emerging markets where the products have not been patented for historical reasons.

These can be countries in the Latin American region and the Middle East for example. In short, there is a number of countries where we can launch, so our objective in the short run is to scale up. In terms of numbers, the biosimilars currently generate roughly USD 25 million, a figure we aim to multiply by four in the next three to four years.

Having launched in these countries, the real benefit will obviously be to proceed with launches into developing markets. We will start off with the EU, where dialogue is now taking place among the regulatory authorities. The way things are going now, we should be there as soon as this market opens up and as soon it is made clear what is being required.

As mentioned before, the company already shifted its focus back to the domestic market. How do you see the sales balance domestic / international evolving over the years?
This balance will largely remain the same, in the sense that the opportunity on the international front is much greater. The reasons for this are mainly the size of the US market, the patent cliff, our own pipeline that is kicking in, and so on. The opportunities in India are mainly in the formulations market. Yet, even this will not tilt the balance. Russia, for example, still has higher growth rates for us than India.

While in the past you mainly entered foreign markets on your own, you have now entered into an alliance with GSK to address your emerging markets. How do you explain this move?

When we revised the company strategy and business model three to four years ago, we noticed that the company was spread out over several parts of the globe, with a presence in over 30 emerging countries. You would also see that these different countries received different levels of investment. Investing in these markets eventually started driving up our costs and increased the complexity of our operations, particularly because we were also serving very small nations generating lower ROI.

This idea behind the subsequent shift in strategy was to reduce focus to a few markets instead. The basis for that was that if we already had a basis and some leadership in the market, we should keep our presence. By that definition, none of those 30 markets would apply anymore. Even markets such as Brazil, Turkey or Mexico did not qualify, because of a strong presence of local companies. In the end, we only chose to be present in roughly 10 countries, where again at least 5 countries would receive a disproportionate level of attention. At the top of this list are the USA, India, Russia and Germany, followed by countries such as Venezuela.

The GSK proposal came at the right time since we did not want a presence in these other markets. The strength of the agreement lies in the fact that it is a revenue-sharing deal, which seems to work out well. Moreover, we are also develop products together (differentiated formulations), which increases our share of revenue. GSK’s strong commitment to the branded generics business as well as their experience in India were additional factors that tempted us into this collaboration.

Ranbaxy and Piramal already sold off their business. Is such scenario a threat for you?

It always depends on the intentions of the promoters and what direction they want to take the company in. Both companies had different reasons to sell off, and it is very clear that this is different from Dr. Reddy's.

Some have quoted that these sales resulted from exploding investment opportunities in other sectors like real estate and finance, implying that the growth phase for the domestic pharmaceutical industry was over. Do you think they did not see the potential?

From basic facts and figures, it is clear that there is potential here. This even applies to the potential you can see within the pharmaceutical industry itself. While Dr. Reddy's started off as a bulk manufacturer, the company now evolved along the value chain into new areas including discovery. Even if we see the current businesses in each of the markets where we unfolded our strategy, significant amount of work remains to be done. So what is the reason for us to quit, when we can clearly see there is value to be created? There is not one reason why we should think of selling off.

You have been elected the best employer in the market. In your view, what led to this achievement?

Since the beginning, the culture of the company has been very scientific-oriented. There is a lot of respect for the individual and a lot of freedom is given to our people. More importantly, there should also be some amount of pride when you work for a company. When we speak of affordability and innovation, this is what all of us at Dr. Reddy's are about, through our actions that we have shown in the past and will continue to show today. Innovation is everywhere.

You are the second generation managing the family business. On a personal note, are we seeing a different management style?

The CEO Mr. Prasad and myself came in at a time when the company was undergoing its transition from being a bulk manufacturer into today's business that includes drug discovery. At that time, it was all about the front-end of formulations, a very marketing and sales oriented approach that relied on our technical strength. This strength is still important and brought us into the area of discovery where we are today.

My mandate was to build up the formulation side of the business in the emerging markets. Mr. Prasad's mandate was to look at the regulatory markets. From 1993 onwards, we kept building up

the business. For the USA for example, we started with a six bedroom house in New Jersey and eventually built up a USD 10m in 1996 and commercial returns from 2000 onwards. Clearly, the challenges, the landscape and the returns were different, so obviously the style of management changes too.

What is on the top of your agenda today?

The immediate priority is to work towards our USD 3 bn target. Today, it is all about execution to reach that target. On a slightly longer horizon, it is all about the value creation aspect of the business. The plan to create value beyond 2013 is to unfold value from the biosimilar strategy, from the proprietary products, and maybe at a later stage from the NCEs. Even then, it is all about how we scale up and execute to the best affordability to meet all these targets. This is not an easy task as we have grown into a huge organization with over 13,000 people spread out all over the world. In guiding this global workforce, it will also remain a priority to build leadership within the company to take Dr. Reddy's to the next level.

I think this is the time for the Indian pharmaceutical industry, both in terms of domestic and international opportunities. Indian companies stand a very good chance to compete aggressively and take market share.

More than the Chinese companies?

Any day!

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