Interview: Dilip Surana – Managing Director, Micro Labs Ltd, India

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Dilip Surana of family-run Indian generics giant Micro Labs talks company performance, the evolution of the Indian pharma market, and strategy moving forward.

Last year Micro Labs moved up in the rankings. How satisfied are you with the company's performance in 2010?

The company performed satisfactorily last year, showing good growth in the domestic market. One of the company's major milestones from last year was the US FDA approval for Micro Labs' oral dosage form plant. This enabled the company to recently file for registration in the US with its oldest product. In addition to exports to the USA, Europe has also started to contribute a lot more to revenues. Exports have risen from 20% to 35% this year. Next year the figures should be more like 45%. Exports are therefore contributing more and more to company revenues.

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Another development from last year was the expansion of the company's manufacturing assets in India. Most notably, Micro Labs established an API unit. In terms of research and development, the company created facilities in Bombay and Bangalore. The company's infrastructure for exports is therefore now largely in place.

Industry expectations of the Indian formulations market are very positive. There is talk of a three-fold growth in the next 10 years. What is your view on how this market will evolve?

There is no doubt that the market is strong as a result of the building of hospitals and new healthcare programmes including increasing health awareness among the public. This accounts for growth in both curative and preventative medicines. Indeed, as affordability increases, prevention is growing in significance. Ten years ago nutriceuticals were not a significant segment but now, they are used extensively in society. People have evidently changed their daily habits and become more health conscious. The fact is that all companies are growing strongly and in double-digit growth. Micro Labs is similarly ready to capitalise on this growth. The company should be in the top 15 within the next 2 years.

You have switched from sourcing your APIs externally to producing them yourselves. What was the thinking behind this backwards integration?

The purpose of establishing the API unit was to become a fully-integrated pharma company which is useful especially when entering highly regulated markets. The rationale was both to guarantee supplies and bring down costs. The cost of using regulated APIs is around four times that of standard APIs used for the Indian market. This is mainly because of bureaucracy and paperwork. In some cases the APIs produced in India are above the standards of regulated APIs in terms of both quality and purity. However they cannot be sold without the required documentation. Therefore having its own API unit allows Micro Labs to guarantee supply of regulated APIs and focus on regulated markets.

Over the last few years the company has launched new products which it intends to develop into significant brands. This has created captive consumption for API molecules and therefore in-house manufacture makes sense. In 2003-05 Indian companies were largely introducing all the products entering the market. Their strategy was to introduce whatever products they could and only a few Indian companies were focusing on brand building. By comparison, the multinationals were all engaged in brand building. Consequently the basket of drugs was very big for Indian firms but the turnover for their products was small. After 2005 the pipeline began drying up and the new number of products became limited. Strategy therefore shifted to volume per se i.e on selling more of a particular product / brand.

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There is now a reversal of the previous situation between multinationals and Indian companies. The multinationals are now concentrated on maximising volumes and are diversifying into different areas to increase their volumes. This diversification extends to generics. Because access to new drugs has been reduced, Indian companies now have to focus on brand building. This has actually led to an increase in profitability. Previously Indian companies were making money on one brand and losing it on another. With brand building companies are able to achieve economies of scale. Because of the enhanced focus, Micro Labs is able to achieve this type of profitability and backwards integrate.

How have you adapted your sales strategy to take advantage of this changing dynamic?

The company has twelve marketing divisions which handle particular therapeutic areas. In 1980, Micro Labs was the first Indian company to initiate this concept of separating its sales force in this way. Now we observe that many companies have followed and many more are following suit.

Micro Labs has also adapted the way it manufactures. When the company started in 1990 it would never have considered outsourcing any manufacture. The belief was that the company could only maintain quality by manufacturing in-house. However, standards of contract manufacturers have increased significantly over the last two decades and they are able to produce for multinationals as well as Indian companies. The diversification and specialisation of contract manufacturers has allowed Micro Labs to increase the number of products outsourced to 30%.

For other companies sometimes as much as 80% of production is outsourced. This is a trend which is likely to continue. Companies now only have to focus on marketing and distribution of products. For Micro Labs to take a product from registration to manufacture takes around 7 ½ months. This is a difficult process. Contract manufacturers can utilise economies of scale by manufacturing the same types of product for various companies, which allows them to specialise in making a certain type of dosage form. Indian contract manufacturers are growing in both number and quality.

Can you briefly outline your strategy for exports?

We are looking at above 50% contribution from exports in the coming few years. In European and US markets it is currently just a numbers game and Micro Labs is selling generics drugs. In many countries of the former soviet bloc, Micro Labs is selling branded generics. However, the company has also identified countries in South-East Asia such as Thailand, Myanmar, and Philippines and to a small extent Malaysia where there is a market for its medicines. Similarly, there are various parts of Africa and Latin America where we are selling branded generics. Expanding the company’s international coverage means that sometime soon the revenues from international sales will automatically exceed those generated within India.

In January Micro Labs announced an investment in Sikkim and Goa manufacturing facilities. When are these due to be operational?

These will both be operational in the near future. In fact, Goa should be in operation in August 2011. It is a reasonably quick process to establish a plant in India and can take as little as 4 months but usually it takes 1 ½ to 2 years. By April 2012 Sikkim should also be beginning to manufacture. The Goa facilities are designed for US exports and Sikkim is for domestic production. We are shifting domestic production from Baddi to Sikkim and Baddi will be converted into an emissary plant manufacturing for exports.

In the past, Micro Labs has grown through acquisitions as did Wockhardt. Other companies have more looked into strategic alliances such as Dr. Reddy’s Laboratories with GSK. What will be your strategy in the new markets you are targeting?

In the countries Micro Labs is now entering, the strategy rests heavily on the company’s own promotion of branded generics. Indeed, we are not looking at distributor-dependent markets. Micro Labs is also examining certain markets such as China, Japan and Korea where it will not be able to penetrate on its own. In these markets, Micro Labs is looking for large partners who have expertise in registration, marketing and distribution. In such large markets the company is focusing on niche molecules where there are only one or two other competitors. This makes it more attractive for potential indigenous partners. In china economies of manufacturing are very attractive and at the same level as that of Indian products. Therefore it is very necessary to find a niche area.

How do you manage to retain your staff considering that so many Indian companies are performing well?

Micro Labs has cultivated a good working environment which has created loyalty among its staff. Furthermore, there is a financial incentive system in place for marketing. Not many companies in the industry have this type of system, where sales force receives incentives on their sales (starting with a basic slab) and moving upwards to 5% of sales. Therefore there is an entrepreneurial spirit to the company and employees enjoy the possibility of earning more depending on performance.

There is also a lot of scope for internal promotion within the company. When trying to fill a marketing or production position management will first look in-house.

You took over the company from your father. At what point will you be ready to hand the company over to someone else?

The company is currently run by me and my brother. My brother takes care of exports whilst I handle the domestic market. We have both given thought to the long-term prospect of the company. We are enjoying the business and want to carry on for the time being.
In fact, one of my daughters is 14 years old and she shares a strong desire & interest in our company's business. If ever she is sick and takes one of our medicines, when I come home, she tells me endless aspects I should change with the product and ways of marketing and packaging it better. Interestingly a lot has been done in India in terms of gender equality with women taking many key positions not just in this industry but in banking as well. Therefore there is not really a social barrier to my daughters obtaining this position within the company.

The long-term strategy consists in looking at partnerships and co-marketing rights for certain molecules with large companies. So far Micro Labs has relied on its internal molecules and this will be reliable for another 4-5 years. However, after this time we will be looking more to in-licensing.

At the moment the company is among the top 5 players in the diabetes sector. However, if several companies wish to enter the market they cannot all go to the number one company because there will be conflicting interests. Their products may be of secondary consideration because of other in-licensed products and because they are competing with the company's own brands. Therefore multinationals will prefer to use companies such as Micro Labs. There are segments such as cosmetics which are growing fast in India and this provides opportunities for the company. We also see growth in the OTC sector which is currently underdeveloped.

What would be your final message on behalf of Micro Labs to the readers of Pharmaceutical Executive?

Many international investors are looking closely at the BRIC countries: Brazil, Russia, India and China. My personal view is that of all the sectors in India, the pharmaceutical industry is one of the industries with the best prospects. As such, international and domestic pharmaceutical companies should work hard to develop the industry here.

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