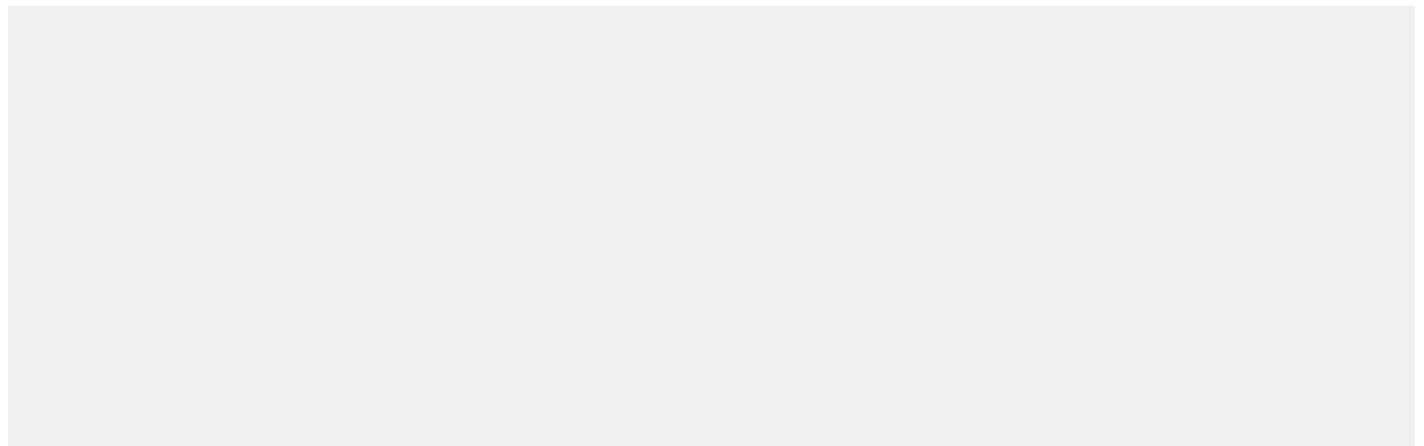


Interview with Rajeev Nannapaneni , Chief Operating Officer, Natco Pharma



07.06.2011

Tags: [NATCO Pharma](#)

Compared to 5 years ago, MNCs have increased their presence in India. Some even have become market leaders, particularly through acquisitions of domestic players. How is this redistributing the game for local players?

The Indian market structure is shaped in such way that no generic player gets big market shares. On a typical product, there would be 10 to 15 different generics, where the top 2 only do extremely well. Generally, those that are performing well, are the generics that have entered the market first, have an interesting price, and follow an aggressive marketing strategy. While India is not a low price market, it is crucial to be affordable here, because it is a payer's (non-reimbursement) market.

The domestic players that have sold out, such as Nicholas Piramal or Ranbaxy Laboratories, had already established their generic brands. The law of the Indian market is that revenue should be sustainable. In spite of competition, companies are generally still able to maintain rather decent prices. Many of the MNCs that have entered the Indian market have therefore bought out companies with such sustainable revenue streams.

How does Natco Pharma's focused strategy on oncology products fit in this market?

As a niche company, Natco Pharma indeed almost exclusively sells generics in oncology. In terms of affordability, therapeutic areas such as oncology are very particular in non-reimbursement

markets such as India, since innovative treatments easily amount to over USD 4,000 per month. There is no way that people can afford such therapies, not only in India but even in wealthier countries in the West. While the middle class in India has been growing, there is still an unequal distribution of wealth in the country. Therefore, the challenge in India today is: “How can we make modern new products enter the market?”.

While generics can be brought into the Indian market at 1/10 to 1/20 of the innovator price, a common criticism remains that, even at a monthly cost of roughly USD 200 for example, most Indians would still not be able to afford the therapy, considering the fact that many only earn a few dollars per day. However, because of India’s increasing wealth, many of the regional states have put health programs in place that cover medicines up to USD 200 per month. Since these states will never pay USD 4,000 per month per patient, in some life-saving situations, it is thus justified to bring lower priced generics to the market.

If it was not for India, I do not think there would be affordable generics in the world. Because of the competition Indians have experienced domestically, they have somewhat perfected the art of organic chemistry. Consequently, India has managed to create a tremendous amount of economies of scale, and can easily tap into a “practice” market of 1,25 billion people on its home turf. Additionally, Indian companies play a role as finished dosage or chemical suppliers internationally, and have contributed significantly, either directly or indirectly, to a reduction of healthcare expenditure worldwide.

Do you expect to see any effects as the insurance providers enter the Indian market?

None of the insurance policies in India cover the daily use of medicines. They only cover hospital visits. The prices of oncology products are so high that even insurance policies will have difficulties to cover them.

There are different steps that can be taken now. One example of where MNCs got it right, is MSD’s Januvia for diabetes. This product is sold in India for about a fourth of its price in the West. GSK is another nice example of a company that has adjusted its pricing to the Indian market. If MNCs make optimal use of differential pricing strategies, they stand a better chance in the market, as generic players will have a lesser incentive to compete on price. Generally, the MNCs that have adjusted their prices to the Indian market have been rather successful.

As more medicines enter the market at a lesser cost, market sizes will generally enlarge. While the total market value will remain the same, the larger patient base will result in a higher volume market. While the Rupee value of the MNC’s sales will likely remain the same with differential

pricing, the company will reach a much larger patient base. Yet, under the principle of monopolistic pricing, there is no incentive to drop the prices.

...except for the philanthropic one?

I do not see this as philanthropic reasoning, but rather consider it as doing good business. The market will eventually increase, while the company will additionally build up a lot of goodwill. At the end of the day, it is also a matter of public image. A lot of criticism the MCNs face today may henceforth be eliminated, especially in India where public pressure is tremendous.

While Natco Pharma is an oncology-focused niche company, as you mentioned, to what extent is having such focused business model a risky strategy?

While Natco Pharma indeed follows this niche strategy, we have also decided to expand our portfolio. Our entire strategy is based on working with complex niche products, where competition is limited. Unlike other players, Natco will generally focus on filing only 5 to 6 ANDAs that really fit the company's core strategy. Considering the fact that these filings also include other therapeutic areas now, other than oncology, you may indeed consider this as a way to derisk our strategy.

Over the years, Natco Pharma has also built partnerships with some of the big boys of the industry, such as Watson Pharmaceuticals, Lupin and Dr. Reddy's. How important are these partnerships for the company?

Natco's business model is entirely designed as an alliance model. We develop a hard-to-make niche product, and subsequently approach a partner to help out with the litigation and the marketing. We have been very lucky and successful in this sense, as the company has been able to build numerous strong alliances over a course of time.

Building such partnerships is related to the overall attractiveness of Natco Pharma as a company. In your view, what drives this attractiveness?

What Natco Pharma has, is strong technological capabilities. The company can develop any generic, and through such developments it is able to bring value to both parties. Further to that, we are very open-minded about sharing our profits.

As a second generation entrepreneur, the business environment is obviously different than when your father started in 1984. What skillset do you need to be successful today?

Different people have different strategies, and I believe that you should always reflect on the DNA of your company. You have to understand what you are good at. While there is a multitude of

opportunities, you have to make sure you are able to focus on just a few. The number of therapeutic segments, for example, is plentiful. In my view, it works well to focus on just a few areas, devote all your energy to that space, perform extremely well, and achieve early mover advantages where possible.

Where is the business heading now?

In terms of opportunities, there is of course India in domestic terms, and the USA on the international scene. My personal view is that pursuing the US offers growth opportunities in if you are able to bring a portfolio of niche products.

Another leg of our strategy is to be looking at other markets, including South America, Russia and South East Asia for example. Countries like Mexico, Brazil and Venezuela offer significant opportunities. In these markets too, Natco Pharma will be focusing on its oncology products. Rather than spreading our wings over a high number of the world's markets, we have chosen to select a small number of high growth markets of significant size. It is all a matter of priorities.

Do you have a final message for our readers?

Going forward, the biggest challenge will remain the public policy challenge. We need to find ways to reward innovation, while at the same time taking care of the needs of the general public. Both the MNCs as well as local Indian players need to address this challenge together.

I am a defendant of the fact that innovation needs to be rewarded, but we do also need to take into account the economic situation of countries such as India, where we need to address certain peculiarities that are inherent to the country. It will remain a very difficult debate.

Everyone knows that generics are here to stay, and you cannot serve all patients without having generics in your pipeline. In terms of volume, even 50 to 60% is driven by generics, a figure I expect to see going up to roughly 80% in the future.

[See more interviews](#)