Interview with Smitesh Shah, Chairman & Managing Director, Calyx Chemicals and Pharmaceuticals Limited

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You founded Calyx in 1979 with a three-person team. At the time, you were just 21 years old! What was the vision behind the creation of the company?

Essentially, the vision was to become a specialized API player, which could cater to both the Indian market and the international market. The pharmaceuticals field is certainly interesting, because of the many challenges it offers. And, at the same time that you are running a business, you are contributing to the improvement of people's health, and thereby contributing to a social cause. These factors drew me to the industry, coupled with the fact that it happened to be my father's industry. He was in the finished formulations field, so the API business was a backward integration piece that fit in well. That is how we came into existence, and have grown from there onwards.

When Calyx started out, you had a very focused strategy, with the production of the anti-TB drug Pyrazinamide (in which you remain the world leader). Since then, you have only relatively recently diversified into several other medicinal areas. How did the business evolve?

I think that this is a matter of the history and evolution of our industry at large. In the 1990s, everyone was talking about core competency: if you were good at something, you better have focused on being good at it, and become an international player by utilizing that strength. That is what we did, and that is how we became the largest player, and remain the largest player, in one of the world's main anti-TB products.

From there onwards, every chair has four legs. You cannot stand on just one particular product, so you look at how you can diversify. At the same time, you want synergy in the product path that you are looking at. That is why, in the year 2000, we started selectively spreading our focus.

Since you have diversified, the company has enjoyed fantastic growth. You have had a CAGR growth rate of 41% over the last five years. In a 2010 interview, you said that in order to encourage this growth, the company required working capital and in May of 2010, the company announced its plans for an IPO. What is the status of this offering, and why have you decided on this financing method?

We are waiting for conducive market conditions. We should release the IPO within the next 12 months.

The company has been around for 31 years, and it is time for us to take this route. Every company that grows past a certain point should make a public offering. It is also the fact that our employees are given stock options, and they need to be able to see the value; they need to unlock value from what they have put into the organization.

The IPO aims to raise over 100 Crores. How will you utilize these funds?

We will use them for expansions in our manufacturing lines. We have land allocated next to our existing facility, and we plan to add capacity in order to meet growing customer demand for our products. At the same time, we have a robust development pipeline, and we will need the capacity to manufacture those products as they are developed. Our expansion will help us to evolve both our API business, and the contract manufacturing side of our CRAMS business.

We find that India is now becoming the quality-manufacturing base of the world. Hence we are seeing a lot of interest in our products.

Calyx was one of the first to enter the CRAMS sphere, and has been there since 2001. While many Indian companies now are rushing to offer CRAMS, Calyx already works with three or four of the top 10 MNC innovators in the world on a constant basis. How did you attract this client base?

At the end of the day, just as we need them, they need us. You cannot forget the fact that quality speaks. Also, to look at it from their perspective, they need to outsource. They do not want to bother about less significant things like manufacturing; for them, the most important thing is innovation. The money is not in manufacturing; it is in drug discovery. And drug discovery cannot be outsourced, because they need to keep the IP for themselves. So that is their need perspective.

How have we managed to secure their partnership?

We are a very friendly company to work with; we are very professional compared to our peers; and a lot of empowerment is given to our people to perform. We have a highly-qualified team who are experienced specialists with domain-specific knowledge of this business. Our company is built on trust, and a sense of, “You take the responsibility, and it is all yours.”

Whatever we do, we believe in quality, and we believe in safety. Safety is very important for this organization. Safety of its people, material, and machinery. We also believe that when our people go home at the end of the day, we need to do everything necessary to bring them back to work the next day. Unless you have a culture of safety, and unless you have a good work environment, -it is difficult to succeed.

From the outset, your company has invested in state-of-the-art facilities, and differentiated itself on the Indian market by emphasizing quality. Now, quality standards are stressed across India; but when the company was first beginning operations, and many Indian companies were, at the time, cutting costs and foregoing quality, did you have trouble competing?

I would not say so. The foundation of the way that we operate has come from the quality demands of our customers. The first time that we built a relationship with a U.S. customer, it was that customer who came to our backyard, and sat with us and I am proud to say that it was that customer who taught us how to institute quality systems. This is how we were able to receive FDA accreditation. It is about finding the symbiosis between the customer and ourselves: we have always had customers that would not have employed our services if we had cut corners and produced inferior products.

Companies do not do business with companies; people do business with people. I think that we have given faith to our customers, and that is how were able to always compete, and how we were able to grow our business without cutting a lot of corners.

Your main business is in the manufacture of APIs, an area where China is very rapidly growing, and overtaking India. Do you view the Chinese as a challenge, or as a collaborator?

I think they keep us on our toes, which is very important. We do realize that we are very different from them. We used to have an office in Shanghai, because we wanted to understand the local culture. At the same time, we wanted to be very close to our competition! That office was a matter of market intelligence.

How are we going to cope with them?

I do not think that we have to. I think it is going to be India-China, not either-or. Worldwide, companies will want to invest in both countries.

We have no time to worry about Chinese competition. We have a domestic market that is growing exponentially! That is where our focus is. There is so much traction within our own country.

What is the importance of the domestic market to an export-driven company like Calyx?

40% of your business should be domestic, no matter where you are based. The domestic market will never steer you wrong. The politics come as no surprise; financial issues are mitigated; there are no currency issues; etc. All those risks are gone!

Speaking of the domestic market, you have said in the past that the government here is extremely proactive with regard to the pharmaceutical industry. What is the government doing to stimulate this industry in India?

I happen to be the chairman of the pharmaceutical export promotion council—Pharmexcil, so I interact with the government extensively, and can say that the government is thinking about matters like how to reduce transaction costs, support India branding, trying to open warehousing offices worldwide, conducting studies regarding how to double exports in the next two or three years, etc. The point is that the government is truly keen on the pharma sector! They see pharma as an industry that is really going places. I think that after the IT industry, the government believes the pharma industry is going to make a name for the country all across the globe.

So there is a lot of positivity within the government. And they believe that this industry is not one that will grow exponentially overnight. It will take time, and there is an incubation period. It will finally bloom.

The government understands the business very well, and with their support, we will be very successful.

When you started the company as a young man, did you ever think that it would grow to become everything it is today? Did you have the modern Calyx in mind when you started the company?

No, I do not think I had our current numbers in mind. It is not the numbers that are important for us, but rather it is important to be driven; to be an R&D-based company, and a company that believes in innovation; and to be a company that believes in building intellectual property. We have come a long way towards these goals. I am very proud to say that we are manned by excellent people, all across. One thing that I am satisfied with in life is with the Team Calyx. Not just the

people who work in the labs, but also the people who work in the factories, who work on the shop floor. They have been with us for the last 20 years, and I am very, very proud to be working with them.

You recently hired 140 new people. What attracted them to work here?

At the end of the day, what are people looking for? There is a monetary reward, but it is also a matter of whether the company has the right vision, the right strategy, and whether it follows up on its talk. It is a matter of whether the top management is very serious about where they plan to take the organization. Secondly, does the company provide the right work environment? And last, does it have the tools to deliver the goods?

All of these are a combination. It is not that other companies cannot offer them the same. But for those who are interested in our line of work, we are probably one of the top three R&D-based pure-play API companies in the country aggressively hiring people for our facility.

Is there a final message that you have for our readers?

I think the most vital message to get across is that, whenever anybody thinks of pharma, they should think India. Believe in Indians—they have a lot of entrepreneurial skills.

What you must keep in mind is that we run our companies in a professional manner, and we are all going to be listed over some period of time. The difference between the West and India is that in India, every company is managed by an owner—there is a promoter stake, that is not very prevalent in Europe and the U.S. This affects the risk profiles of our companies, and their growth patterns—but this is changing very rapidly.

We have a lot to learn, and I cannot say that we have reached the point that we want to reach. But one day you will find molecules being discovered in India. Give us another 3-5 years.

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