

Interview with Murtaza Khorakiwala, Managing Director, Wockhardt

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You joined Wockhardt in 2000; you became a member of the board in 2006, and were appointed managing director in 2009. The Indian industry has undergone many changes in the last 11 years; how have you seen Wockhardt evolve alongside the industry?

The Indian pharmaceutical industry really started taking off post-liberalization, around 1991-92. That is when there was also a key change in the thinking and mindset of Wockhardt. If we look at the pre-liberalization period, approximately 10% of our business was concentrated outside India. Today, 75% of our business is outside the country. So over the last 10-15 years, one of the major transformations in the company has been the globalization of our operations.

A second significant development was our foray into biotechnology. That is also something that we started investing in, in the early 1990s. Today, we are one of the leaders in the biosimilar space—both in India, and in some of the emerging markets where we are present.

The third thing that we started at that time was our New Chemical Entity drug-discovery program. While it has taken quite a long time to reach this point, we now have two products that are entering Phase I of clinical trials in the U.S. this year. We hope that we can unlock some value from those molecules.

Despite achieving \$1Bn in turnover last year, the company has been in a precarious financial position for several years, and has had to undergo corporate debt restructuring, divest certain

assets, and lower is cost structure. Since then, it appears that Wockhardt has recovered very strongly in the last quarter, with high sales across its target markets. What did it take to turn the company around?

It has been quite a challenging time. We are very happy that now we have turned the corner, and have good things to look forward to!

We had to sell a couple of businesses; we had to restructure the internal working of the organization; we had to optimize our resources and improve efficiencies. And, as you mentioned, we had to undergo a corporate debt restructuring process. But I think that, after two tough years, there are some positives that have come out. One positive is that, despite the difficulty of this period, we realized that the people in the organization have faith in the leadership of the company. In spite of our setbacks, they stood by the company, and showed 110% dedication and commitment.

They stood with us because of the professional working culture that we have at the organization—that is very fair, very transparent, very professional, and committed to growth. People like working here, and many have worked here for quite a long time. They felt that, no matter the difficulties, there was a future for the company. It is truly because of our people, that we can look forward to good times ahead.

Do you think that you have made fundamental changes in the company, and that you are back on the path to growth for good?

Yes. One of the things that we instituted last year was a vision for 2012: “More and more with less and less.” We focused on efficiency; we focused on optimization; we focused on asking the questions, “Why do we need to spend so much money? Why do we need to add additional resources? Why cannot we do it in a way where we obtain the same output with less investment and resources?” For example, we used technology in a big way, to automate various activities—whether it is IT technology, or technology for manufacturing.

While we are on a growth trajectory, we do not want to lose sight of the efficiencies that we have gained in the last years, and we want to maintain them going forward. In a way, from a cost-competitiveness point of view, we have actually become more cost-competitive than we were earlier!

Wockhardt embodies the new Indian pharma business model: it is fundamentally one of the largest generics players in the world, but it is tentatively innovating as well, and working on novel anti-

infectives for emerging markets. How do you balance the need for short-term investment and flexibility as a generics player, with the major, long-term investments needed for innovation?

At the end of the day, it all depends on your cash flow. If you have the cash, it is easy to balance. If you lack resources, then it becomes more difficult.

But at Wockhardt, even during the difficult time of these last two years, we did not cut our expenditure on research and development. We implemented a lot of operational efficiencies—but we maintained our investment in research. We believe that the only future of the company is the through the products that we develop. In fact, one of the objects of our efficiency improvements was to make certain that we did not have to reduce our investment in the future.

So, we have the generic business, which is a more short-term business; we have a biotech business that is more medium-term; and then we have drug discovery, which is more long term.

As you just mentioned, a key business for Wockhardt is in biotech. When we spoke with your father in 2006, he mentioned that Wockhardt was a biotech pioneer in the Indian market. Five years later, what place does biotech have in the Indian pharma model, and what role does Wockhardt play?

Biotech is a product that becomes increasingly important for the future. There is a rising prevalence of serious diseases like cancer, neurological and immunologic disorders that cannot be effectively treated with normal chemical drugs, and must be treated with biologically-developed products. The science of biotechnology is only going to grow.

Biotech is highly complex; it is highly difficult. In fact, it is even more resource-intensive than chemical research. India can be a good base for manufacturing, and for biosimilars, but in terms of innovation, I do not see India playing a major role in innovative biotech research. Wockhardt is also not in the biotech innovation space: we are more in the biosimilar space. Biosimilar development is extremely challenging in of itself, so if we are able to successfully do that, we are very happy!

Wockhardt is not only an Indian biotech pioneer; it is a pioneer in terms of the way it runs its business. When just a few years ago, most Indian companies were staying on Indian soil and focusing on the domestic market or exporting, Wockhardt was out acquiring Western businesses! How has this helped you to evolve? Do you see the others' internationalization model changing?

You are right: we were the first Indian company to acquire a company in the UK. That was in 1999. Since then, we have bought six companies outside India, and a few in India. It has helped us grow enormously. Because of these acquisitions, we are now the largest Indian company in the UK, and the third largest generic company in the UK. We are the largest branded generic company in

Ireland, with our Pinewood business. So we have been able to acquire businesses, and integrate them well with our existing organization, and leverage the acquisitions to grow the company.

Just to give you an example, when we acquired our UK business, it had a revenue of 40Mn GBP. Today, it is more than 100Mn GBP. We have been very successful at turning it around and growing it.

Acquisitions have really facilitated the internationalization of our company, and we were the early leaders in this strategy within the Indian pharma industry. But a lot of other companies, over the last 10 years, have been pursuing this path if they want to grow. They now view it as a necessary strategy. The Indian pharma market represents only 1% of the global market—so if you want to evolve, you must go outside India. Either you do it organically, or you have to acquire companies. Acquisition—if you have the skill to acquire and integrate with your parent company and capture value—is perhaps an easier, and certainly a faster, way to do it.

Indian companies are mainly focused on regulated markets like Europe and the U.S. Wockhardt is no different, and draws over 60% of its revenue from those areas. But you are entering emerging markets, as well, and have subsidiaries ranging from Russia to Sri Lanka. What is the significance of emerging markets for the company?

Emerging markets are yet emerging within the company. Within the company, they have not yet become key markets. They have a lot of potential in the future, but somehow our focus in the U.S., Europe, and India has not allowed us to pay a lot of attention to emerging markets and develop them to their full potential. The U.S., Europe, and India still have a lot of opportunity, and we have yet a long way to go in those regions.

But again, in terms of the future, there are a lot of analytical reports that say that over the next ten years, the majority of growth will come from emerging markets. It is something that we will definitely develop as time moves along.

On the Indian market, Wockhardt remains a robust presence. Besides your independent interests, you are partnered with several large MNCs—Esai, Crawford Healthcare, etc.—and you market their products on Indian soil. The Indian association with MNCs has traditionally been a key strength, and, of course, as the market matures, such partnerships are only going to multiply. What is your view of the current relationship between Indian companies and their global counterparts?

I think there is competition, and collaboration, and both of these exist side by side—and indeed they must exist side by side. The Indian market is a large market, and you find a lot of foreign

companies who have very good products, but they do not know how to access it—so they have to tie up with locals who have that market access. That is the only way that, in turn, some Indian companies can differentiate themselves domestically: by getting innovative new products from outside the country, and launching them in India.

So partnership is the name of the game. There is only so much you can do by yourself, and there is so much more you can do if you have partners in different areas that may not be your core strengths. You can leverage the strengths of your partners.

One of the ways Indian companies are partnering more and more with MNCs is through CRAMS. This is a space that Wockhardt entered last year as well. What was the vision behind this decision?

CRAMS is a business opportunity, and a platform to enter into partnerships or gain customers, whereupon we can discuss further business opportunities. So if we have a relationship through manufacturing or research with a partner, and have a good experience, and cultivate our relationship over the course of a few years, it allows us to broaden the scope of the partnership. We can co-develop new drugs, we can enter into marketing partnerships, we can do clinical trials together, and etc.

We are not in the contract manufacturing kind of game that the rest of the industry is in. We are only looking at contract manufacturing in high-technology areas. We have a contract manufacturing facility in the UK, for example, where we are doing CMO activity for our partner Eli Lilly, and producing an innovative product sold on the US & European market. We are at the upper end of contract manufacturing; we are not looking at volume-based manufacturing, and business of that nature. There are many companies that engage in that in India, but from a value point of view, it does not interest us. The margins are low! We want to participate where the technology is difficult, and the value is higher, and where we can leverage our existing expertise to add value for our customer.

For example, we are very strong in injectables, and, obviously, we are strong in biotech. I would call these our unique capabilities, with regard to attracting partners. Similarly, we are strong in conducting complex research on drug delivery.

Do you have a final message to the international readers of Pharmaceutical Executive?

As we move into the future, we are adopting a new maxim in the company. We call it the “new Wockhardt.” We are looking at everything that we do in a new way, to capitalize on the opportunities that are available to us. That means questioning what we did before, and modifying and adapting ourselves, to become more competitive in the marketplace and to grow faster than

we did earlier.

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