

Interview with Azhar Mohammed, Managing Director, Dr Reddy's Laboratories Australia

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Dr. Reddy's entered Australia under your leadership. Would you outline the key milestones & achievements?

Our first product was available to us for commercialization in Jan 2010 and since then we have grown rapidly on several parameters , about 1000 community pharmacies buy Dr.Reddy's products directly , we also work closely with pharmacy chains and through them all the 5100 pharmacies are touched by our products, this perhaps is the most gratifying milestone for us . Apart from that we have built and continue to build a strong portfolio of products , we currently have 45 SKU's commercialized and 45 more with TGA under approval. Our net annual revenues this calendar year 2012 is around 15 Mn we clearly are the fastest organically growing generic company in Australia. However the most significant achievement for us has been to build a strong nationwide team to work with community pharmacies and pharmacy chains to continuously explore opportunities to improve our value offering to them.

Last April indeed we saw the biggest round of price cuts in PBS history, especially targeting generics through price disclosure mechanism – where do price reductions & profitability meet?

There is no denying that there has been an aggressive cut on generics pricing, and this has put pressure on the profitability of the pharmacies, It is in the interest of all – pharmaceutical companies, consumers and the governments that pharmacies operate in a sustainable environment, In order to meet this objective I am very clear that only companies that are vertically

integrated and are able to execute global economics of scale can sustainably partner with pharmacies, all others would in my view need to relook at their cost structures, I am quite clear that complicated supply structures and business models based on outsourced manufacturing will not be sustainable in this market any more. In this context Dr Reddy's is better positioned, we started as an API manufacturer and today is a global finished dosage manufacturer and has an integrated value chain that it brings to this region.

An article in the Herald Time announced that three out of four Australians want a price discount to encourage them to use generic medicines, and of those surveyed, 33 per cent agreed that the party that saves them money by introducing a discount on generic medicines 'will win my vote'. How would you rate the government's commitment to fostering the right environment for generics?

Unless there is an incentive for a consumer, it is very difficult for generics penetration to improve in a sustainable way. Currently the pharmacist holds the key. At this point he is incentivized, because he can actually choose and promote a generic. Having said that, in some molecules even now the generics penetration has reached a rather high peak, but that is because of the pharmacist's effort. It is a fact that in general compared to other markets generic penetration has been slow in Australia it is about 30 % in volume terms which is much lower than most European markets where it ranges from 40 to 60 depending on the country.

The issue I have is that the government is trying to increase generic penetration through a price reduction mechanism which in a low volume market may adversely affect the viability of generics and restrict the number of players in the market . As we have seen in New Zealand, even in situations where there is a competitive scenario- in non-tender products – generic penetration is extremely high in some cases 100 percent as the originator has actually exited the market and very few generic players can operate . In the long run this may not be beneficial.

As a start-up Dr. Reddy's is launching a steady stream of new products in Australia. What is the strategy behind the product launches?

We initially started by leveraging our global product assets registered or commercialized in US or Europe. Now we are also increasingly looking at Australia centric products if there is a compelling market need for them. We have a strong pipeline of products under registration in Australia and will be available in the market very soon and further strengthen our offering to the pharmacies and consumers.

The key behind the success of the top generics manufacturers in Australia seems the ability to bring a generic equivalent on the market on the day a patent expires. Would you agree? What is Dr. Reddy's key differentiating factor?

I do not think that having the generic substitute ready on day one is the single most important issue anymore, because on that first day it is not just you but also six of your competitors that are also launching their product.

The critical success factor in my view is whether you can engage the pharmacies on a sustainable basis by providing value to the pharmacies in these challenging times . In the older days the manufacturer would have a full portfolio and the pharmacy would go with that portfolio without a rigorous review of the individual product prices because he did not face the economic pressure to de-bundle his purchases, Now, with today's price pressure the pharmacist is willing to take a detailed look at individual price offerings and willing to switch to where he can maximize his value on an ongoing basis not just because they took the product on the first day of launch from a company.

It is all about pharmacy centricity, the key for our success lies in this which to us means consistent engagement with the pharmacists across a range of products and services to improve their profitability in these rather challenging times.

What is the significance of the Australian market within Dr. Reddy's global portfolio?

In order to serve the markets more effectively and live our purpose of providing affordable and innovative medicines to the people we touch Dr. Reddy's corporate management a couple of years back reviewed our presence in all our geographies and identified focus markets . As a part of this exercise Australia was identified as a key new market for the company, ranking very high in terms of the potential and profitability.

Where will you have taken the Dr. Reddy's operations in Australia four years from now, when we meet again for the next edition of our report?

We have set ourselves up for a very high growth trajectory and I am confident that as we continue to become increasingly relevant to the pharmacies we will be a significant player in the market. The team that we have in place is committed to ensure that Dr Reddy's Australia is among the top 5 Generic companies in the next 4 to 5 years.

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