Interview with Kamal K. Sharma, Managing Director, Lupin Pharmaceuticals Inc.

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Lupin Pharmaceuticals Inc.

Two weeks ago, Lupin announced its annual results, portraying 6 years of sustained growth and a net profit up by 27%. How pleased were you with this performance, and were you expecting such strong results?

We were pleased, but not very pleased. We thought that we could have done much better. In a way, Lupin did not live up to the growth trend it had been following in the previous years.

One of the factors limiting the strong results to some extent, has been the fact that we did not launch as many products in the US market, because of delays in the FDA approval process. While Lupin did get some approvals, the ones that went through were not really those that we were hoping to obtain. As part of a portfolio approach, there are different types of products, including the so-called â??leadersâ?• and â??fillersâ?•. Getting an approval for a filler is good, but not great. As 35% of our revenues come from the US, these delays have obviously had an impact.
A second aspect is the sluggishness in one of the brands we have acquired for our branded portfolio, called Antara. By any financial parameters, it was a very sound financial deal. Nevertheless, the acquisition required a new focus on primary healthcare, which is different from our traditional focus on pediatrics. As a consequence, it took some time and resources to train our salesforce accordingly. This factor also added to some amount of pressure on our profits. The good news now is that prescriptions of Antara are growing.

In Japan, a market that accounts for roughly 14% of our sales, the government imposes average price cuts of 12 to 12,5% every 2 years. This particular year, the price cut amounted to 15,5%. The good news, however, is that Lupin still grew 13% in spite of this measure.

As a result, we were not as excited about these results as we could have been. Yet, we move on and will continuously keep investing in further research. Regardless of the growth momentum, we keep investing 8 to 8,5% in R&D. We will keep developing novel processes through the years. When we started in the US market 6 to 7 years ago, we did so with only 5 products. Today, we have filed for 148 products, of which 48 have already been approved. On average, 20 to 25 new products filing per year constitutes a good run rate. Likewise for Europe, we have 91 products in the pipeline, of which 44 have been approved. Thus, in terms of preparedness for our future growth, I now see Lupin in a much stronger position.

In addition to doing generics, we are also looking at specialties. We are currently pursuing 2 such specialties, which are oral contraceptives and ophthalmics. Going forward, we are also working in the areas of dermatology and asthma.

Since 2007 onwards, Lupin has also started to prepare itself for the emergence of biologicals. We already started building our pipeline of products to address this growing market.

In general, I see 3 factors as an incumbent part of any companyâ??s strategy to succeed. The first is technology, which is the source of your products, and innovative processes to execute the conversion from raw materials to finished goods. The second is the operational processes, such as manufacturing, quality compliance and supply chain management. The third and last element is people, because they are at the heart of the organization. With all this in place, Lupin is set to remain very buoyant in the future.

The US market, as you demonstrated, can indeed be challenging. Despite the aggressive environment, you have managed to enter the top 5 of generic companies there. What lessons have you learnt from this market?

While I am not sure whether we have learnt certain lessons there, the US market has allowed us to set certain benchmarks. The market dynamics keep changing so rapidly, that the learning of yesterday fast become stale. You certainly can leverage on some learning in the relationships you establish and how you conduct yourself, but in terms of products, promotional strategies, pricing strategies, dealing with competitive pressure, etc. you have to keep learning continuously.

There are 3 things that Lupin did very effectively in the US, that brought the company to such a leading position in the market. First of all, we have learned to master the art of cost control. Rather than leveraging lower costs as an advantageous entry strategy, our philosophy was to manage costs so that we could manage our destiny. In a free market situation, you should always be the first to get in and the last to get out.
The second thing we have done successfully has been supply chain management. It is not for nothing that 14 out of 30 products are number 1 in the market. Moreover, including these 14, 24 of our products are in the top 3. In the USA, there is no compromise on quality or price, it is the service that makes you stand out in the pack.

Third and last, we have successfully managed to create a differentiation for Lupin in the market. We are already differentiated because of the fact that we are the only branded player in the US, unlike all of our peers. When we deployed our branded strategy in January 2005, many people thought we were crazy. However, we had realized quite early that the generic business eventually becomes a zero-sum game, if it is not supported by an additional profitable business.

In terms of geographic impact, 68% of Lupin revenues now come from these international markets, while an additional 32% is being generated in India. How do you see this ratio evolving in the future?

I see 3 of our markets remaining the top markets for some years into the future. For at least 3 to 5 years, these markets are US, India and Japan. If I were to restrict to these markets alone, the ratio could be considered as 75/25. This is only in relative terms, as India remains a very dominant market for Lupin, and an important piece of our growth journey.

Because of increasingly higher incomes in India, the number of people that can afford healthcare has been increasing steadily. Notwithstanding Indiaâ??s cost of healthcare being only one fifth or one sixth of the US, the proportion of â??havesâ?• and â??have notsâ?• has drastically changed already.

More importantly, India has historically been important for Lupin because of our traditional focus on anti-infectives. It was not easy to transform ourselves into a lifestyle company. Nevertheless, the exponential growth of the lifestyle segment made it crucial for us to tap into this niche. A great job was done there, as this segment now accounts for roughly two thirds of our Indian business.

When we met Dr. Gupta in 2006 however, Lupin was ranked 6th in terms of domestic sales in India. Today, it ranks 8th. How do you explain this?

What happened is that, over the course of time, a lot of mergers and acquisitions have happened. Many small companies have joined hands together. While we are roughly 8th in certain IMS rankings, we do rank 5th or 6th for those rankings were the merged entities are being kept separate.

Having said that, the market clearly remains very fragmented. Six years ago, the market share of Lupin was 2.3%. Today, Lupinâ??s market share in India is 3%. Upto 2006, the Indian market has grown in single digits. Thereafter, this growth rate increased to 10 to 12% in the following years. While the market has grown substantially, we have also increased our market share.

On another note, you have been on an acquisition spree too, either through equity stakes or full acquisitions. Lupin was the first Indian pharmaceutical company to acquire a business in Japan for example. Why has this external growth been such an important aspect of your growth strategy?

It is a natural corollary for any growing company. First and foremost, if your country gives the freedom to foreign investors to come and participate in economic wealth creation, why should you not have the capability to go & do so in other countries?
Most significantly, in spite of all our efforts in the Indian market, you need to remain aware of the fact that India still captures only 1,5 to 2% of the worldâ??s pharmaceutical markets. With 98% of the market share outside of India, you have to ask yourself â??how to growâ?•, and â??how to grow rapidlyâ?•. In that pursuit, you have to prepare yourself to partake in advanced geographies, where you can be part of a larger pie.
For Japan in particular, our reasons to be present were both economically and emotionally driven. When we started looking at internationalizing Lupin in 2003, the company went through a creative transformation. An unfortunate fact for us, in that sense, was that we were the last entrant in the US. Therefore, we took the strategic decision to be an early mover in Japan, as the second largest pharmaceutical market in the world at that time. However, it was easier said than done, all the way from the cultural aspects to regulatory requirements to the way the Japanese viewed product quality.

Our response to this challenge was to start engaging in strategic alliances, and we started to develop products for our Japanese partners. By doing so, we learnt a lot about the regulatory environment, the quality standards, the manufacturing technology, the cultural disposition, and so on. With some of these partners, such as Kyowa, we worked together for almost 3,5 years. During that process, the R&D teams, the top management teams, the manufacturing teams, etc. all exchanged a lot of information and built strong relationships. We were therefore very happy to continue and also convert that relationship into an even closer cooperation through an acquisition later on. With the same management, we have been able to improve the margins with about 9 to 10%. We have grown every year too, with 21% in the first year, 14% in the second year and 13% this year. In a way, this is a great manifestation of the relationship that Lupin has built with the Japanese team.
Over the years, I have learnt that if you acquire an asset, you are best off when you can make sure that, apart from economic sense, you also take on good quality management. For me, that is a key driver when acquiring a business.

What priorities have you set yourself to enhance the innovative character of the company?

First, we need to infuse a lot more specialization into our R&D. Innovation does not only take place in the laboratories, but also in the workplace. We have been building capabilities and competencies within our people, along with a culture of freedom that empowers people to take decisions to create and innovate.

A lot of programs have been put in place to nurture this culture, such as programs for scientists to obtain their PhD while working here, an MBA program at one of the top schools in India, etc. These are just some examples, as we have over 20 programs and over 2,000 people participating in various initiatives. I will never say one day that we have achieved an innovative culture, but rather consider this desire as a journey.

Apart from the restructuring of discovery R&D and development of people within the company, we have also worked hard to reduce the attrition rates. There is huge demand on the same quality manpower in India. While it is still too much, we have already managed to reduce our attrition rate from 34% in the past to 20% today. Our current goal is to reduce this figure further to 10%. Some of the aforementioned education programs are clearly contributing to reach this goal. One of our experiments has been to recruit people who have finished 12th grade in school, while we continue to fund their 3 extra years of education, in collaboration with one of the Open Universities.
The last, yet biggest challenge, is quality and compliance. Every month we have a quality council, led by our chairman Dr. Gupta, where we take on the various challenges in this field.

Last time, in 2006, Dr. Gupta told us his ambition was to turn Lupin into a USD 1 bn company. Where do you see Lupin in 5 years from now?

The ambition is to be a min. USD 3 bn to USD 3,5 bn revenue company by then.

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