

Interview: Mehul Shah, Managing Director, Encube Ethicals, India

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[Contract Manufacturing](#), [Encube Ethicals](#)

The managing director of Encube Ethicals discusses contract manufacturing in India today, growing competition from China, and partnering with the world's leading multinational pharma companies.



Mr Dilip Shah from the Indian Pharmaceutical Alliance told us that the main strength of India is manufacturing, so of course, contract manufacturing as well. To which extent do you think that contract manufacturing is going to drive the growth of the Indian industry and is this sustainable?

The Indian pharmaceutical industry is regularly growing at 15 % per annum, where as CRAMS are leaping over at almost 40% per annum according to me. India has been a generics/branded generics player, and it always ends up in a volume game and global supply. Over years, the Indian industry has developed expertise in manufacturing quality products consistently in large volumes, but we still lack the definitive edge to innovate with technology and business processes.

That is where contract manufacturing is transforming how we run the Industry here. Technology transfers, knowledge sharing and resource exchange are making us constantly gain new expertise in not only manufacturing, but also business processes. With every quarter, our standards are raised to the next level, and it wouldn't be long before we set the bar for others to follow.

This transfer of knowledge is making the whole pharmaceutical industry more suave and confident of its abilities to make it on the grand stage, not only in manufacturing, but areas of marketing, logistics and very soon, research.

So, no I do not think that a saturation point will be reached in the next 10-15 years. This will depend on investment, entrepreneurs, logistics, government infrastructures!

India is very strong in formulations where there is added value but less in API (as opposed to China). Our advantage is also that we speak English.

Speaking of China, it is obviously very strong in API and not so strong in formulations. However, it is catching up very fast. How long do you think it will take them to actually become competitive in terms of formulation and what do you think will be India's comparative advantage at that point?

Their major barrier is flexibility. They are very good in mass scale production and reducing costs on large volumes. But we are much more flexible: we do less volume but are flexible to more variables.

Mr Hamid of CIPLA believes that contract manufacturing is not ambitious enough, India should rather focus on generics. What do you think of this?

I think he says that because he represents a big company, they have reached a stage and muscle power by which they can tie up with many MNCs and can distribute anywhere in the world. But for companies like us do not have the muscle power to do this. Therefore, we need to focus on our strengths which is contract manufacturing.

There is no challenging the Indian pharma bandwagon currently. The Indian domestic market is ripening, while the CRAMS are going to be in the sunshine for at least the next decade.

India now provides good infrastructure, skilled labour, state of the art technology and more importantly understands quality along with the obvious cost advantage. Pharmaceutical giants in the West are in strange waters with the patent cliff and medicine affordability issues in most countries.

Expiring patents will take away almost one third of their revenues, while new research will not add to it sufficiently. To maintain growth, and a health bottom line, the only solution is to reduce costs of manufacturing and selling. This is and will create a resounding boom in the outsourcing market world over. Encube, along with the whole Indian domestic industry is poised to take the opportunity to partner with these giants.

You started the company in 1995 and started production in 1998. This was still very early to do CRAMS, and obviously, the vision of India has changed. Do you think that this is the momentum for the “Made in India” brand or do you think there is still some progress to be made?

In 1999, I went to do a presentation in Singapore and I sensed the skepticism and suspicion. Things have definitely changed. Most multinationals are coming to India and tying up with local companies. According to a recent ICRA report, the Indian Contract manufacturing segment will grow at a globally high 41.4 per cent CAGR during fiscal years 2010-12; in contrast, worldwide, the outsourcing market is expected to grow at a far lower 12.6 per cent CAGR.

This speaks a lot about what medicines the world will be consuming in the next few years.

Indian companies have come a long way in understanding quality. We have made it a habit to see our customers as not the immediate client, but the end patient who needs the medicine expecting standard quality, adequate supply and affordable price. We constantly strive to meet these end customer needs, and now “Made in India” is accepted worldwide as standard. We are working towards making it the “gold standard”.

Indian IT Industry has also helped in getting the trust of the global customer with “Made In India”.

Here is a concrete example: the ex-CEO of Galderma (the largest derma company worldwide) has retired and formed a JV with us in Paris. He loves India so much that that he named it Goapharm! This proves that there is absolutely no more suspicion on the “Made in India” brand.

Encube is partnering with top notch pharmaceutical companies (GSK, Galderma, Sanofi!). How did this happen?

By sharing hard work and focus.

Dermatology is what we stand for. It is our only passion and focus. Most of the major dermatology companies (with dermatology portfolio) in the world like Galderma, Smith & Nephew, GSK, Sanofi Aventis, Bayer .. are already our partners.

There is constant interaction and exchange of ideas, knowledge and technology with our partners. Be it the major international players, or small domestic ones, we value them and work with them with the same zeal.

Our client engagement has been successful over the years, furthering our reputation as a complete service partner. Communication with all our clients is always the strength of our service.

Although we are not the most valued dermatology partner today, we sure are on our way to becoming one.

Please tell us about your manufacturing capabilities?

We have a plant in Goa. We also have about 45 000 m² of land (5000m² is under expansion and our current construction is of 15000m²). Our unit production last year was 92 million and we are targeting 110 million for this year. We are increasing our capacity to 150 million units. In two years, we plan to attain 200 million units.

2011 looks very exiting year for Encube. We have entered a new phase of exponential growth, adding more global customers, more SKU's, and more technology to our portfolio. We would be triggering USFDA inspection sometime at the end of this calendar year. All in all, most conservative estimate should make us maintain our 2010 growth rate for topline.

What are the key success factors and competitive advantages of Encube Ethical's business model ?

You would find 3 things that have kept us in good stead. Right people, right technology and right partners. Our business model is based on serving solutions, and not merely manufacturing our clients products. We have been fortunate in attracting some of the most talented people in the Industry with a wealth of experience. Most of our department heads and executives have been with us for the better part of the decade, and some have been here right from the start. These have been the pillars of this organization right through.

Another success factor has been our relationships with partners, both customers and suppliers. People often fail to realise the importance of having the right kind of suppliers, who would go the extra mile for you and your client.

But most importantly, the factor that has made us thrive in this highly competitive environment is our timely investment in Technology. Having ERP solution from SAP to bringing European made packaging lines (e.g. Norden - Sweden) to building a fully automated Warehouse has increased our efficiency tremendously and brought us on par, or probably better than our foreign counterparts in terms of technology.

Our full scale R & D comprising formulation & analytical development with trained scientists have provided tremendous value addition to our customers, this step of having full scale R & D from 2006 have transformed our company from only contract manufacturing to formulation research based contract manufacturing company. We have successfully developed and registered few of the generic as well as OTC products in regulated markets with in-house CTD dossier compilation in very short period of time.

Over a period of time we have got size (capacities more than 150 MIO units with more than 5000 Tons of bulk Mfg) scalability & technology. We are one of the largest and exclusive contract manufacturer of Topical Pharma (Derm products) products in Asia.

I would say our competitive advantage lies in our ability to provide wholesome solutions i.e. from Concept to Creation, thus even at times we are not very competitive still as we provide time bound complete solution to our clients we WIN over others. Our job is to let the client concentrate on their business development functions as we take care till the product is brought to the market.

For successful CRAMS business for longer period of time, remain focused consistently, remain niche, remain competitive, follow standard principles of continuous improvement/innovation to bring value and satisfy all the major needs of customer. Most importantly create, train, maintain and grow motivated team players who are true elements of success. For doing so Management must follow â??Commerce with Conscious.â??

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