

The Challenges of Going Global

Ranbaxy Laboratories, India's largest pharmaceutical company, has taken on global majors as it seeks to dominate the generics market. **N Chandra Mohan** reports on the company's strategy to make it to the world's big five in the business

Seven years after Dr Parvinder Singh, the founder of Ranbaxy Laboratories passed away, his scions have quietly re-asserted control on the family firm, after letting professionals run it in the interregnum. A mid-January announcement made by the company, stated that Dr Brian Tempest, until recently chairman, would continue to stay on as chief mentor and vice-chairman. And Parvinder's eldest son Malvinder Singh would take charge as CEO and MD. The change of guard was one more reason for interest to remain high in the country's largest pharmaceutical company.

Naturally, the big question is where will

THE CHANGE OF GUARD: New CEO & MD Malvinder Singh (left) with Dr. Brian Tempest

Malvinder take Ranbaxy? Will he carry forward his father's vision or have one of his own? Malvinder himself answers that by stating that Ranbaxy has realised pretty much of what his father had envisioned. Dr Singh wanted it to become a research-based international pharmaceutical company with revenues of \$1 billion and the development of a new chemical entity. Ranbaxy's international drive was kicked off during his lifetime itself and the company now serves customers in 125 countries with manufacturing facilities in nine countries.

With sales of \$1.2 billion in 2005, the company earns 80 per cent of its revenues outside India. By supplying cheaper versions of patented AIDS drugs, companies like Ranbaxy have forced global giants making these drugs to slash prices. This giant, whose business is making cheaper

knock-offs or generic versions and flooding the world market after the patents expire, now aims to hit \$2 billion in sales in 2007 and \$5 billion by 2012. It also wants to become one of the top five generic companies. Towards this end, Ranbaxy is pursuing a 'handful' of acquisition opportunities in US and elsewhere, as Malvinder informed Reuters during the recent World Economic Forum Annual Meeting at Davos in January 2006.

To realise sales of \$5 billion, having a major presence in the US is imperative. Ranbaxy entered the US way back in 1995 and has targeted this market to account for half its revenues — an objective that is close at hand with \$350 million revenues in 2005. Branded drugs worth \$55 billion are expected to go off patent in the US alone by 2010, which can boost Ranbaxy's exports manifold. Obviously,

the US remains a "key priority", felt its new MD and CEO, who significantly added, "we need to gain critical size through acquisitions", in his media interactions at Davos.

Ranbaxy's assault on the US market, however, is far from easy. One of the most daring legal challenges in recent times was its challenge of US drug major Pfizer's patents on a drug that reduces cholesterol — marketed as Lipitor — that has annual sales of \$12 billion. Pfizer has a monopoly on this drug at least until 2009 but Ranbaxy wanted this protection overturned so that it could launch a generic version. In December 2005, however, the US District Court ruled against the Indian MNC. The company will certainly appeal as its challenge holds out the prospect of earning \$800 million from the generic version.

Its US ambitions also were pressured by



STRIVING TO ACHIEVE SUPERSTAR STATUS IN THE GLOBAL GENERICS BUSINESS: Technicians at work in a Ranbaxy laboratory

"WE ARE OPEN TO ACQUISITIONS"



Malvinder Mohan Singh, the new CEO & MD of Ranbaxy Laboratories, spoke at length to N Chandra Mohan on his company's plans for the future. Excerpts:

On the Lipitor judgement's significance:

Lipitor's largest market is America, our most important market. The US currently accounts for 35-40 per cent of our global sales at present. We have a strong and robust intellectual property rights case. In the US market, the successful generic challenge to Lipitor will have exclusivity for 180 days. This system is an incentive to generic companies to

challenge patents. It will open significant opportunities for Ranbaxy to produce an affordable product for the people.

On Ranbaxy's growth engines:

Besides the US, the other growth engines are the European Union. Our basic focus is to strengthen our front-end business in the US, Japan and EU. We have a long-term strategy that we are working on for the Japanese market – the second largest pharmaceuticals market in the world that has a low generics penetration. We have increased our stake from 10 per cent to 50 per cent in joint venture with Nippon Chemphar Co Ltd.

On his father's vision of a research-based international pharmaceuticals company:

We have already realised that vision. We are research-based as our R&D expenditures are in the region of \$100 million. We are international as we have ground operations in 46 countries and manufacturing operations in seven, besides catering to customers in 125 countries. And we are 100 per cent in pharmaceuticals. Ranbaxy seeks a leadership position in all its key markets.

On looking out for big-ticket acquisitions:

We are open to big-ticket acquisitions. We are looking at prospective candidates. The question is what will it present us? Size? Technology? Distribution or reach? Ranbaxy is already among the top 10 leading generic companies in the world. If we are to soon improve our position to the top 5, such an acquisition is definitely part of our plans.

the continuing price erosion in the intensely competitive generics market where some drugs sell for five per cent of the price of their branded counterparts. Ranbaxy's US sales plunged by 22 per cent and impacted on Ranbaxy's global sales that remained flat at \$1.2 billion while net profits dropped by 62 per cent to \$154 million in 2005. This erosion is bound to force

the company to diversify sales to Europe and Japan that is the world's second largest pharmaceuticals market.

These developments triggered a free fall in its scrip in Indian bourses by over 60 per cent in 2005. For a sense of perspective in end-January 2006, the scrip was trading on the National Stock Exchange at Rs 393.20 (approximately \$8.7) per share. In

contrast, in January 2005, its average monthly price was as high as Rs 1,120.30. The Ranbaxy scrip lagged behind the boom in India's benchmark indices in a big way. The re-assertion of family control over the company after a gap of seven years occurred under these circumstances.

Back to Dr Singh's vision, it is not so well known that he often expressed his preference for greater professionalisation in running Ranbaxy. Although the promoter family controls more than 32 per cent shares, he stonewalled demands to induct his sons onto the board, as he believed they had to earn that right through merit. Dr D S Brar was his chosen successor to take forward what he had in mind for the company, and the latter was MD and CEO of Ranbaxy till he abruptly quit in December 2003.

This drive for professionalism continued with Tempest succeeding Brar as MD and CEO. This was also when Malvinder entered the board, besides being promoted as president (pharmaceuticals). No assessment of Brar's (and Tempest's as well) tenure as Ranbaxy's CEO would be complete without taking into account their role in the internationalisation of Ranbaxy.

Dr Singh had the overarching vision but Brar implemented it, including the pioneering decision to set up shop in China in the 1990s. It was Brar who stated that Ranbaxy's strategy would be dictated by its US strategy.

Malvinder clearly has a tough act to follow. But to be fair to him, there is simply no *a priori* basis to infer that he is not up to the job. Or that he would not carry forward Dr Singh's vision. The real issue is what best serves Ranbaxy's interests as a company. In this regard, there is a tension between two regimes in the history of Ranbaxy – between the *ancien regime* represented by the founder Dr Bhai Mohan Singh, Dr Parvinder Singh's father, and the modern one inspired by Dr Singh and his chosen successors like Brar. Both are alive 'n kicking in their own ways despite the demise of Dr Singh.

Ranbaxy's future clearly depends on which of these regimes the young promoter will align with. As is well known, Dr Singh in his lifetime had to fight many

On the Web

Ranbaxy Laboratories: www.ranbaxy.com

MOVING UP THE VALUE CURVE



INDIA'S pharmaceutical giants like Ranbaxy Laboratories Ltd, Reddy's Laboratories and Wockhardt, among others, are making moves to secure a bigger global presence, especially in markets like the US. Having developed a capability to reverse-engineer patented drugs, because the previous patents law in India protected only processes not products, they have trained their sights on the global generics market. The strategy is simple enough: Wait patiently for drugs to go off patent and then flood the world market with cheaper generic versions. Ranbaxy's revenues from the US generic business thus are expected to rise to \$1.2 billion by 2008.

In the generics business, margins are wafer-thin due to competitive conditions

in the developed markets. They improve with branded generics and keep improving as one moves up the value chain to finally making patented drugs. Despite such constraints, however, Ranbaxy is moving up the value curve: from bulk drugs and intermediates to generics and conventional dosage forms. Then on to value-added and branded generics and later to new drug delivery systems. Moving up such a curve improves the bottomline as margins on bulk substances and intermediates do not exceed 10 per cent but go up to 100 per cent or more for new drug discoveries.

The last-mentioned is the Holy Grail for Big Pharma but Ranbaxy does not have resources to produce new drug discoveries pegged at \$800 million per drug. There is no choice but to plough more resources into R&D and form strategic alliances with MNCs. Ranbaxy has had earlier alliances with Eli Lilly and its current development of an anti-malarial drug, Rbx11160, could be an exemplar for the future as the financial risk was absorbed by a Geneva-based non-profit organisation, Medicines for Malaria Venture.

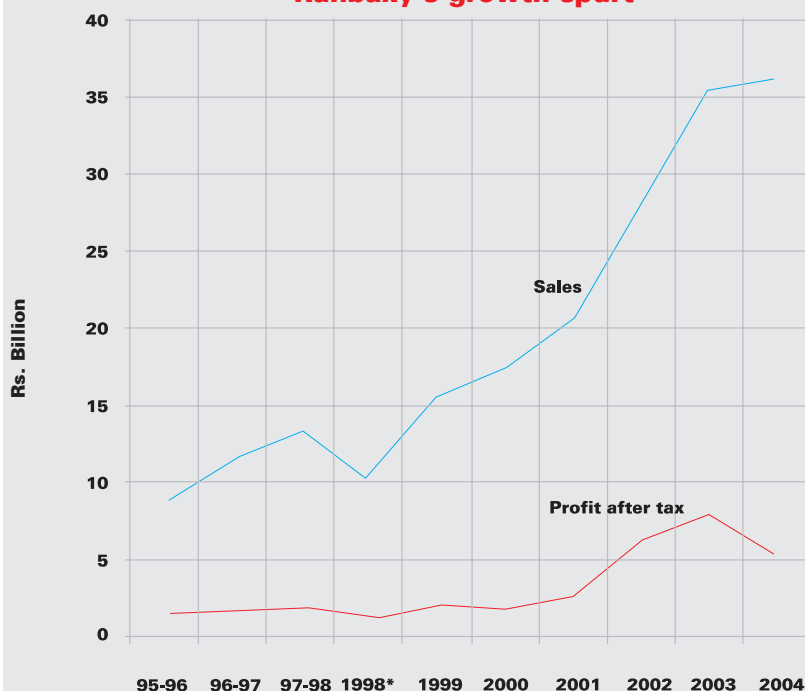
boardroom battles to exorcise his father's influence, including adapting to the brave new world of product patents and transforming Ranbaxy into a research-based international company. The *ancien regime* was content with reverse-engineering patented drugs while Dr Singh realised that this was no more possible as India one day would be a signatory to WTO's trade-related intellectual property rights (TRIPS) agreement.

To his credit, Malvinder so far has chosen to take forward his father's vision as the biggest challenges lie ahead for Ranbaxy. Coping with the transition to a products patent regime effective from January 1, 2005 is not going to be easy. To survive, it would have to plough resources into R&D, patent its molecules and develop novel drug delivery systems which lead to proprietary 'platform technologies'. Ranbaxy arguably is in a better position to meet these challenges as it is already one of the top 10 generic companies in the world and has a war chest of \$150 to \$250 million for acquisitions to fortify its presence abroad and become one of the world's top five generic companies.

To become a truly research-based company, however, Ranbaxy must move up the value curve (see box) and take a crack at evolving its own drugs that can one day be patented. Admittedly, that task looks onerous as global drug majors invest hundreds of millions to produce a drug while the total R&D resources at the command of Ranbaxy are no more than \$100 million at best. There is, therefore, no escape from forging joint ventures and alliances with global majors to participate in drug development. At present, the company has an alliance with GlaxoSmithKline for developing new drugs.

"We plan to go in for more alliances for expanding our new drug development programmes and are already in talks with a few multinational companies," admitted the new CEO and MD of Ranbaxy. All eyes will therefore be on the success of its first foray into developing an original anti-malarial drug, which is currently in Phase 2 trials and could be approved by 2008. When Malvinder successfully implements Dr Singh's vision for a new chemical entity, perhaps then the decks will be truly cleared for the young scion to evolve an overarching vision of his own for Ranbaxy.

Ranbaxy's growth spurt



* 9 months Apr-Dec. Indexation based on annualised figures for 9 months ended 31.12.98 \$1=Rs45 approximately

Source: Annual reports