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GV PRASAD/DR. REDDY'S LABORATORIES LTD

We are stepping up investments in complex specialty generics

BY ARCHANA SHUKLA & EKTA BATRA
CNBC-TV18

The bulk drug business is affecting the margins and only when this business turns around in the next 2-3 quarters will margins expand, said G.V. Prasad, chairman and chief executive of **Dr. Reddy's Laboratories Ltd**. "We hope that in FY15 we will get the business back to its historical trajectory," Prasad said in an interview. Edited excerpts:

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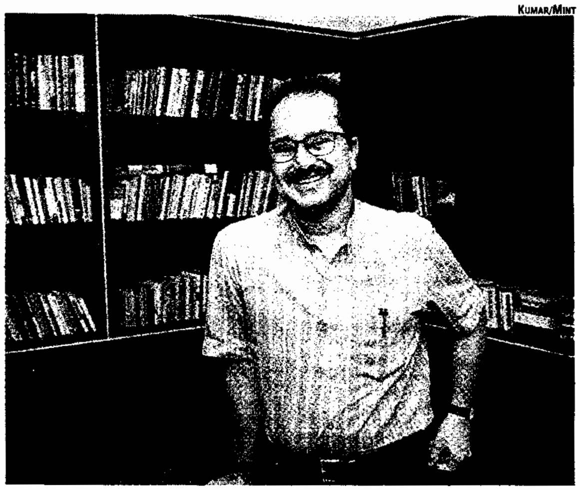

Growth sectors: *Prasad says Dr. Reddy's global generics business grew significantly to cover up for the drop in the pharmaceutical services and active ingredients business.*

INTERVIEW

One of the disappointments this quarter has been the revenue growth which hasn't been as robust as what was estimated and one of the reasons was the pharmaceutical services and active ingredients (PSAI) which was down 35%. What was the reason for the PSAI actually falling over 30% this quarter and can we expect it to recover in the coming quarters?

Firstly, the PSAI business has been on a decline in the full year. This has been due to a number of issues, primarily driven around execution on new products as well as customer profile mix changes and has been a disappointment for us this year.

We are focusing on turning the business around and in the next two-three quarters we should get back to our historic levels of performance. The good news is that inspite of this decline we have maintained profits and the global generics business grew significantly to cover up for this drop in the PSAI business.

India stands out as a complete outperformer this quarter with an 18% growth which is much above what the industry has also done this quarter. What worked for you in the India business this time around and what trajectory we can expect in FY15?

For the last few quarters, we have been steadily turning around the India operations through changing the product profiles, looking at our sales force management, territory realignment and also starting up new initiatives such as institutional sales. So, these initiatives have started to deliver though I can't confirm based on one quarter's performance whether this is a trend but we are certainly satisfied with our performance and are optimistic about our performance in the India market today.

Europe has not been doing that well for you, even this quarter it was down 3%. What are the continuing challenges in that market and how do you see this going forward?

In the Europe business model, we have the transition from commodity tender business to specialty focused. We are much more focused on the bottomline. In reality, the actual business is more profitable now than it was last year. So, this is the period of readjusting the business model, focusing on value rather than top-line. We are seeing a decline in the topline but actually the bottomline is improving steadily, though it is not that significant for the overall business level.

What would your guidance be on the margins? Where do you then see the margins stabilizing in the coming quarters?

The underlying businesses, the global generics business is doing reasonably well. There is actually a margin expansion inspite of increased R&D (research and development). The business which is affecting the margins is the API business. Only when we turn it around in the next 2-3 quarters will we see margins improving at the company level and we believe we can do that. In fact, we hope that in FY15 we will get the business back to its historical trajectory.

Expenses have gone up substantially this time around. Is that a continuing trend especially in the R&D side?

We have guided the R&D between 10-11% next year. This is because of a combination of factors. We are stepping up our investments in complex specialty generics which require clinical trials for getting approvals. The other two areas where we are increasing our expenditure are bio-similar development for the regulated markets and proprietary products for the US market. Therefore, over 60% of the R&D budget is going towards generics and API and that has also expanded. The rest accounts for our investments in clinical development, in bio-similar's and proprietary products.

What really triggered the change and the role reversals at the senior management level and how will the roles now be defined?

There are three role changes. Firstly, I am giving up the role of the chairmanship and taking on the full time executive role which was always there but I am giving up the chairmanship of the board. The board of Dr Reddy's decided to separate the roles of chairman and CEO. Consequent to that, Satish Reddy has become the chairman and he will focus on management of the board and the board processes including corporate governance. He will also handle government relations and external relationships and will finally be the custodian of the corporate brand...I will be responsible for running of company both at strategy level and execution. The third change we made was to promote Abhijit Mukherjee to the role of chief operating officer and he will be responsible for the two major businesses which account for over 90% of our business today. Between him and me, we will be responsible for executive leadership.

Company