

DIVERSIFICATION IS OUR STRENGTH

Pharmaceutical giant Zydus Cadila finds growth by constantly looking at new markets – whether geographic or by product type, and even in services



Ahmedabad-based pharmaceutical company Zydus Cadila (Zydus hereafter) has come a long way in the last five decades. From humble beginnings in 1952, this \$510 million (about Rs 24 billion) pharmaceutical company has now grown to become a fully integrated, global healthcare provider, with strengths across the pharmaceutical value chain. Its areas of core competence include formulations, active pharmaceutical ingredients (APIs), cosmeceuticals, women's healthcare and animal healthcare products. And quietly steering the group's fortunes is the technocrat entrepreneur, Mr. Pankaj R Patel, the chairman and managing director of Zydus.

How can Zydus have grown so quickly? During Pankaj Patel's 15 years at the helm of Zydus, the company has seen different growth phases. At its beginnings, in the 1950s, Zydus was one of the few Indian pharma companies to answer the call for increased self-reliance, and began developing drugs that met specific Indian needs, for example to fight pernicious anaemia. Some other early drugs

were inspired from Western products. In the 1970s Zydus also diversified into health-related products, for example cosmeceuticals. During this phase the group grew to become the second largest company in the Indian pharmaceutical sector.

In a later phase, after the company split in 1995, Zydus moved aggressively into research, and started testing and developing innovations. Some of these innovations were 'simply' in the manufacturing of drugs. Other, more complex, innovations were in the development of new drugs, and new active pharmaceutical ingredients (APIs). The other strategic move was geographical spread. Patel summarises, "When we restructured in 1995, our focus was growth and we have not let this momentum slacken over the years. We continue to be nimble and fleet-footed with towering aspirations." (See box on company profile.)

In India, Zydus has improved its ranking to become the fifth largest pharmaceutical company with a market share of 3.7% in March 2008. The company has achieved wide therapy coverage through three multi-therapy

INTRODUCING ZYDUS CADILA

Diversification is one of Zydus' strong cards. It has successful product lines across many geographies. A quick profile

Zydus Cadila was founded in 1952 by the late Ramanbhai B. Patel, a first-generation entrepreneur. After over forty years of operation, in 1995, the group split into two parts - Cadila Healthcare and Cadila Pharmaceuticals Ltd. Cadila Healthcare, under the aegis of the Zydus group, is headed by Mr. Pankaj R. Patel, the Chairman and Managing Director of the group, while Cadila Pharmaceuticals is being led by Mr. Indravadan A. Modi. Zydus Cadila went public in 2000. And from a turnover of Rs 2.5 billion in FY1995, the group's turnover soared to Rs 23.3 billion in FY2008.

Zydus Cadila is listed on the country's premier stock exchanges, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). According to ORG ratings, Cadila is the country's fifth largest company in the formulations segment. It is the leader in the cardiovascular, gastrointestinal and women's healthcare segments and is well placed in other therapeutic segments such as respiratory and pain management.

Besides a significant presence in India in both formulations and API, Zydus Cadila has operations in more than 50 countries with a strong research pipeline and eight state-of-the-art vertically integrated manufacturing facilities for APIs and formulations, spread across Gujarat, Maharashtra, Goa, Himachal Pradesh and Sikkim. It is present in the regulated markets of US, Europe, Japan, Latin America and South Africa, besides other emerging markets.

In its domestic market, Zydus has diversified beyond pharmaceuticals; it also produces consumer products sold in supermarkets and specialized retail outlets, including Sugar Free (sugar substitute for the health and wellness conscious consumers), Nutralite and Ever Yuth (skincare range).

Zydus Cadila is supported by a team of over 9,500 people worldwide, comprising professionals, research scientists, medical advisors and workers. ■

divisions and eleven specialty divisions with a total workforce of more than 9,000 people. Zydus is a leader in the cardio-vascular, gastrointestinal and women's healthcare segments, and owns 16 brands among the top 300 pharmaceutical brands in India.

Background

India's pharmaceutical market is still marked by its many years of self-reliance. Although India is a large consumer of drugs in volume, because of the prevalence of so-called 'generics', the market remains small in value - when compared to the USA or EU markets, for example. India is also unusual in its fractioned production: there are about 20,000 pharmaceutical manufacturers! In 2006, according to IMS research and McKinsey, India consumed about

1.3% of the world's \$680 billion pharmaceuticals. India's pharma companies are growing almost twice as fast as their worldwide brethren, at about 15% year-on-year.

Buoyed by its research and development (R&D) skills, coupled with low-cost production facilities, India's pharma industry has made a mark in the global marketplace, especially in the generics segment. Generics can be defined as less-expensive substitutes for costlier patented drugs, and can be developed at a fraction of the cost of the originals once the original patents expire. Generic drug makers do need to innovate as well: they must adopt a manufacturing process that is different from the process used by the original patent-holder.

Key financial data

(All figures in Rs millions, except EPS in Rs)

	FY2003	FY2004	FY2005	FY2006	FY2007
Revenues	12,773	13,051	15,078	18,747	23,638
Net profit	1,331	1,215	1,524	2,338	2,576
R&D expenditure	865	1,058	1,167	1,610	1,585
Net worth	5,211	5,856	6,989	8,655	10,622
Earnings/share	10.60	9.67	12.13	18.62	20.50

Source: Company reports

Pankaj Patel recognises this cost benefit: "Despite heavy capital requirements, our labour cost differential provides significant economic benefit to prompt a shift to rapidly developing economies like India. Moreover, the pharma-specific skills and capabilities that India has, translate into a considerable competitive advantage for us," he explains.

Strength in Strategy

"Our strategic vision looks at how we grow. This forms the basis of our quantifiable targets and then we go all out to achieve them," claims Pankaj Patel. And it appears the emphasis on strategic thinking has paid off: "I think we have been quite successful at this. In 1995 we said we would be a Rs 100 billion company by FY2001 and we achieved this. In 2004 we said we would cross \$400 million in sales by FY2007 and we achieved this too. Our next goal is cross the \$ 1bn mark by 2010. We call this our 'Healthy Billion' objective. So the process of forecasting the future growth, resetting the vision and achieving the goals set is a continuous process at Zydus."

Strategy has been the company's 'crystal ball' to examine future prospects, and gauge its tactics, and predict – if possible – market trends down the road. Reminisces Patel, "When we first forayed into therapy management in 1997, we already foresaw a major shift towards chronic care therapies for treating cardiovascular diseases, diabetes and other lifestyle disorders. Today chronic care therapies contribute 57% to our domestic branded formulations sales while acute care therapies contribute 27%."

Traditionally, sales of Indian pharma companies have been dominated by the acute segments, which account for over 75 per cent of the market. But chronic ailments arising out of the changing lifestyle are now taking over. Thus, cardiovascular diseases and diabetes have grown at a fast clip in the country in the last three years. According to market research company ORG IMS, in 2007 the chronic ailments segment grew by 21% compared to 11% for the acute segment. With its focus on lifestyle-related ailments, Zydus is expected to benefit significantly

Sharpening focus

The shift in its product mix – from acute to chronic therapies – has also been accompanied by a shift in geographic horizons. Zydus has multiple initiatives to increase its global sales through direct investment and acquisitions. The activities in the USA, France and Brasil have started yielding fruit. The company now has established front-end marketing capabilities in these countries and 26 other semi-regulated markets, either through direct investment or licensing/marketing agreements. The result is that exports now contribute 37% of revenues, up from 16% three years ago.

Another strategic 're-alignment' occurred with the consumer products division being demerged into Carnation Nutra Analogue Foods Ltd, a listed entity that the group had acquired in 2006. Patel elaborates, "It is simply a grouping of the same line of businesses into a single entity to optimise the strengths of our consumer business, which can now

be more effectively leveraged". Carnation continues to be a listed entity of Cadila Healthcare Ltd. The consumer products business of the group caters to the growing segment of health and fitness consumers through its portfolio of product offerings - Sugar Free, the low calorie sweetener, Nutralite, the premium table spread and EverYuth, a speciality skincare range.

Research & Development

Developing pharmaceuticals is not for those with short attention spans. The success of pharma companies depends on the long gestation investments in R&D that may or may not give positive results. So one key tenet of the strategy devised by Patel has been identifying a platform for sustained growth, which in turn should ensure long-term growth and therefore value creation.

Research and Development (R&D) is the core strength of any pharmaceutical company, and Zydus is no exception to the rule – it spends nearly 8% of its turnover on research. And so, Zydus has built up a huge team of more than 900 research professionals driving its various R&D initiatives. About 350 scientists are involved in the New Chemical Entity (NCE) research programme at the Zydus Research Centre, the group's state-of-the-art R&D centre. This team of scientists has already made significant progress on the NCE research and has six Investigational New Drugs (INDs) in various stages of clinical trials.

Marketing

In India, the marketing and sale of pharmaceutical products is conducted in a

different manner compared to more developed markets. Mr. Patel drives this point home: "India continues to be a prescription-driven market whereas in countries like the US the model is a different one with the pharmacists being able to dispense medicines and taking the call on substituting prescription drugs with generics."

"The important channels for Zydus' domestic marketing are doctors and retailers and this is the same for all Indian pharma companies," he adds. The group is in touch with over 3,00,000 members of the medical fraternity which includes physicians, specialists and super specialists and over 2,00,000 retailers.

Through strategic thinking and in-depth background market research, Zydus has also expanded into new, lucrative fields – sometimes niches – such as women's healthcare and animal healthcare. This expanded canvas of operations should provide Zydus with that much more revenue and growth opportunities.



"We are now the leading player in the women's healthcare and gastrointestinal segments, and are amongst the top players in cardiovasculars, respiratory, pain management, anti-infectives and other therapy areas," beams a satisfied Pankaj Patel.

Growth drivers

Patel has identified four main avenues for Zydus' growth in the next years. "Firstly, we will be creating value by building portfolios in the high-growth and high-margin niche segments

such as cardiovasculars, gastrointestinal, oncology, CNS, etc."

Secondly, Zydus is intent on developing 'difficult to develop' generics which include slow release, controlled-release and bio-generic products. The 375 dedicated scientists working within Zydus are busy preparing the ANDA filings, since each filing requires up to one-and-a-half years for proper completion.

"Next, as a competitive advantage, we are keen to continue leveraging 'first to

market' strengths," explains Patel. This is where tight planning is of the essence. As soon as a new drug receives approval – no matter where in the world – the proper quantity of the new product has to be shipped off, in order to take advantage of the 180-day exclusivity period for marketing new generic drugs. In the US, Zydus has several first day launches to its credit, for example Venlafaxine Hydrochloride Tablets, Meloxicam, Simvastatin – testimony to the streamlined infrastructure and speed-to-market capabilities. Not surprisingly then, Zydus Pharmaceuticals USA Inc. has been adjudged the fastest growing generic company in the US for the second consecutive year by IMS, the Canadian market research company.

"Lastly, Zydus Cadila wants to create a robust research pipeline and we are well on our way to achieving this," explains Patel. This is easier said than

done. After the Cadila split in 1995, Pankaj Patel had to rebuild Zydus' development capabilities from scratch. Yet now – barely 13 years later – Zydus has a world-class R&D centre with top scientists. Zydus' early stage R&D pipeline, which involves New Molecules Entities (NME) and New Drug Delivery Systems (NDDS), is providing the needed innovations. (See separate box.)

Explaining this leg of Zydus' strategy, Pankaj Patel says, "Our expertise and our differentiated approach to growth give us the confidence to stand apart in a competitive market. Our strengths in terms of a best-in-class product portfolio, vertically integrated operations and market specific approaches are the pillars of our differentiated strategy. We provide end-to-end solutions across the pharmaceutical value chain from research and development to manufacturing to distribution and marketing."

In order to capitalise on its strong manufacturing

Key players in the pharmaceuticals branch in India						
	Zydus Cadila	Lupin	Piramal	Biocon	Dr Reddy's	Ranbaxy
FOUNDED	1954	1972	1988	1978	1984	1961
REVENUE 2007	23,638	20,717	3,971	1,054	65,095	74,256
NET PROFIT 2007	2,576	3,086	344	464	9,327	7,775
NET WORTH	5,211	8,733	n.a.	10,686	39,973	25,390

Notes: All financials in Rs millions Net worth as at October 2008 Source: Company reports, GO Analysis

capabilities, Zydus has formed joint ventures with global companies such as Nycomed and Hospira. Zydus-Nycomed, set up in 1999 to manufacture key starting materials for the production of Pantoprazole at the state-of-the-art plant at Navi Mumbai, is also the key sourcing base for Nycomed's global API supplies. Zydus-Hospira manufactures generic injectable cytotoxic drugs for export.

Zydus has also used the merger and acquisition (M&A) route to foster growth. Thus, between 1995 and 2008, it completed eleven deals. Some of the major companies Zydus

bought were merged with itself to give it size. Other acquisitions – especially in foreign lands – were left independent, in order to preserve their local character and management.

Future plans

But how can Indian pharmaceutical companies hope to grow in the future since even the biggest companies do not possess the financial muscle to conduct multi-billion dollar drug research spread over many years? Patel explains, "We will continue to consolidate our leadership positions in the Indian pharma market even as we make headway in the global generics space. In the medium- to long-term our focus will be on gaining market share, revenue growth and profitability. This will be driven by our R&D capabilities, cost-competitive manufacturing and expanding geographic reach."

Zydus has come a long way. But Patel is ever eager to move further. "Going ahead, we have set ourselves the goal of achieving \$3 billion by FY2015 and become a research-driven company by FY2020. At Zydus, the process of forecasting the future growth, resetting the vision and achieving the goals set is a continuous process," concluded Pankaj Patel as he got ready for another set of meetings for the day. ■

ZYDUS PRESENTS IT NEW MOLECULAR ENTITIES

Zydus Cadila currently has 6 molecules in various stages of clinical trials. These new molecular entities (NMEs) are critical components of a pharmaceutical company's so-called 'pipeline': the new products that are expected a few months or years down the road, once testing is successfully completed. The number of NMEs that a pharmaceutical company has under study is also an indication of the health and creativity of its R&D department.

Zydus' NMEs are the following:

- ZYH1, for treating dyslipidemia (cholesterol-related problems) has successfully passed Phase I clinical trials, and is in Phase II clinical trials;
- ZYH2, the novel agent for treating diabetes is undergoing Phase I trials;
- ZY11, the anti-inflammatory and pain management compound has also successfully completed Phase I clinical trials and is in Phase II clinical trials;
- ZYO1, a novel drug candidate for treating obesity and related disorders and
- ZYH7, a novel drug candidate for treating dyslipidemia and metabolic disorders are in Phase 1 clinical trials.

Last but not least, Zydus has recently filed an IND for ZYT1 a novel, anti-dyslipidemic agent which may provide an alternative to statins or be an add-on to statin therapy. ■

Zydus Cadila at a glance

