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Path to Internationalization: Dr. Reddy's Laboratories

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1. Dr. Reddy Labs: Introduction

Dr. Reddy's Laboratories is a global pharmaceutical company. It core area of business are: Pharmaceutical Services and Active Ingredients. It comprisesof Active Pharmaceuticals and Custom Pharmaceuticals businesses and Global generics including branded and unbranded generics; and Proprietary Products, which includes New Chemical Entities (NCEs), Differentiated Formulations, and Generic Biopharmaceuticals. Table 7.14 lists out some basic facts about the company

Table1: Dr. Reddy Labs – basic facts

Headquarters	Hyderabad, India
Public or Private	Public
Year of Establishment	1984
Revenues (2013-14)	$2.25 bn
Specialties	Pharmaceuticals, Specialty, Bigeneric, API, Generic Formulation

2. Synopsis of the company

Dr. Reddy's started its journey as a supplier to Indian drug manufacturers. Later It started exporting to some less-regulated markets. DRL did not made effort and time on setting up the manufacturing plant and taking approvals from various international bodies. This was a great decision that helped the company to grow in its initial years. By the early 1990s, after achieving success in the unregulated and less regulated markets, the company started focusing on regulated markets. Know the eye was on seeking approvals from various drug regulators in the pharmaceutical industry for the formulations and setting up of manufacturing plants.. This led their entry to various regulated markets like US and Europe.

In 2001 Reddy's issued its first public offering of $132.8 million American Depositary Receipts (ADR) listed on the New York Stock exchange. This helped Reddy to internationalize. Further the company started with international production and technology upgradation. By 2007, Dr. Reddy's was able to establish six FDA approved manufacturing units in India and two in the UK.

Reddy is very well known for its R&D. Company has invested heavily in building R&D labs. It is the only Indian company undertaking significant R&D in foreign countries. Dr. Reddy's has also established a research foundation focused and dedicated in the areas of new drug discovery.

3. Path to Internationalization

Reddy labs has always been a company which is very pro and active for international expansion. The specialized area of operations of DRL has always been the generic products. As a result, the company is able to create its space in international markets like USA and many more. The path chosen for international expansion is generally mergers and acquisition. Table 7.15 below lists out the internationalization history of the company.

Table 2: International Operations History - Dr. Reddy's Labs

Year	Modes of internationalization	Company Name	Country	Motivating Factor
1992	Joint venture	Biomed	Russia	Market Access
1993	Joint venture	-	Middle East	Created two formulations units
1994	Exports	-	Kazakhstan	Representative office was opened.
1994	Joint Venture	-	Uzbekistan	Representative office was opened.
1994	Subsidiary	Dr. Reddy's Laboratories Inc.	USA	Target USA generic market
1995	Exports	-	Belarus	Representative office was opened.
2000	Subsidiary	Reddy US Therapeutics Inc.	USA	discovery and design of novel therapeutics
2000	Marketing Alliance	Triomed	South Africa	begins its Generic business operation in South Africa
2000	Joint Venture	KunshanRotam Reddy Pharmaceutical Co., Ltd. (KRRP)	China	-
2002	acquisition	BMS Labs and its wholly owned subsidiary, Meridian UK	U.K.	To expand geographically and gain access to the European market.
2003	Joint venture	Par- Pharma Inc.	USA	to market hypertension products
2003	Subsidiary	-	Russia	pharmacy warehouse for better service on the territory of Russia
2004	Agreement	Eurodrug Labs	Netherlands	-

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Year	Modes of internationalization	Company Name	Country	Motivating Factor
2004	Agreement	Pharmaplan	South Africa	for hiring sales force after Triomed was acquired by Aspen
2004	Joint Venture	Venturepharm	South Africa	
2004	Acquisition	Trigenesis	USA	To access strategic assets in dermatology segment.
2005	Sales & Development Agreement	Rheoscience A/S,	Denmark	-
2006	acquisition	Betapharma	Germany	For the purpose of brand building
2006	Licensing Agreement	MERCK AG	Germany	-
2006	Licensing Agreement	Molteni	Italy	-
2006	R&D, Commercialization Agreement	Argenta Discovery Ltd.	U.K.	-
2007	Subsidiary	Dr. Reddy's Laboratories SA	Switzerland	provides custom pharmaceutical services for starting materials, intermediates, active ingredients, and finished dosage forms
2008	Acquisition	Affordable Healthcare Ltd.	New Zealand	gaining tenders from the New Zealand govt. body, Pharmac and supplying the pharmaceutical drugs for the prescription market
2009	Subsidiary	Dr. Reddy's Laboratories Australia Pty Ltd	Australia	launch of new Generics Medicine lines
2010	Subsidiary	Dr. Reddy's Laboratories (Pty) Ltd	South Africa	Joint Venture with Venturepharm became the wholly owned subsidiary
2010	Licensing Agreement	Cipla (Senade)	Russia	-
2010	Licensing Agreement	R-Pharm	Russia	Collaboration in the areas of high technology and knowledge sharing.
2011	Licensing Agreement	Novartis (Famvir)	Russia	

In 1992 Dr. Reddy enter into the joint venture with the Russia's biggest pharmaceuticals producer Biomed. This made DRL an early mover into the Russian market.But in 1995 the company had to pull out of its Moscow's branch due to some amid accusation of scandal.

Year 1993 was a year of joint venture in the Middle East creating two formulation units there. Further the the drugs from these units were converted into finished goods in Russia. In 1994, the target of Reddy was US generic market by building manufacturing facilities there.

By 1997, DRL took a next major step. The company entered the generics by filing an Abbreviated New Drug Application (ANDA) in the USA.From being an API and bulk drug supplier to regulated markets like the USA and the UK, and a branded formulations supplier in unregulated markets like India and Russia, Reddy's made the transition into generics.Another big achievement of the same year was that the company out-licensed a molecule for clinical trials to Novo Nordisk, a Danish pharmaceutical company. Further the Reddy became the third largest pharmaceutical company in India, after Ranbaxy and Glaxo (I) Ltd., after making an acquisition deal of American Remedies Ltd in 1999. This action of the company made its Indian manufacturing unit highly strong and with full spectrum of pharmaceutical products, which included bulk drugs, intermediates, finished dosages, chemical synthesis, diagnostics and biotechnology.

Dr. Reddy's Research Foundation, another segment of the company set up a lab named as Reddy US Therapeutics Inc. (RUSTI) in Atlanta USA. The main purpose of establishing this lab was the discovery and design of novel therapeutics. The lab aimsat the discovery of next-generation drugs using genomics and proteomics. With an aim of supplying Active pharmaceutical ingredients to the markets in America and Europe, the company merged with Cheminor Drug Limited (CDL). This merger also gave Reddy's entry into value added generics business in the regulated markets of APIs.

Reddy's started exploiting new strategies in bringing new drugs to the market at a faster pace. As a result, in 1999 it submitted an application for Omeprazole- the drug it had so successfully marketed in India. In December 2000, Reddy's had undertaken its first commercial launch of a generic product in the USA. And in 2001 its first product with market exclusivity was launched. In the same year another big achievement of DRL was to become the first non-Japanese pharmaceutical company from the Asia-Pacific region to obtain a New York Stock Exchange listing. Each of these achievements was path breaking for the Indian pharmaceutical industry.

In 2001 DRL launched the generic drug fluoxetine (a generic version of Eli Lilly and Company's Prozac). After this Reddy became the first Indian company to launch the generic drug, with 180-day market exclusivity in the USA. The successful launch of fluoxetine was followed by the launch of ibuprofen tablets 400, 600 and 800 mg in the US with its own brand name, in January 2003. Marketing Ibuprofen tablets with its own brand name was another significant step that made the company's position strong and sustainable in American market. This helped the company to build and create its own distribution network in the American market.

In 2002, Reddy started its operations in European market. The acquisition of BMS Laboratories and its wholly owned subsidiary, Meridian UK allowed Reddy's to expand geographically and gave company an opportunity to enter the European market. In 2003 Reddy also invested US$. 5.25 million in equity capital of Bio Sciences ltd. Auriegene Discovery Technologies, a contract research company was established as a fully owned subsidiary of Reddy's in 2002,

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to gain experience of drug discovery through contract research for other Pharma companies.

In March 2002, Dr. Reddy's acquired BMS Laboratories, Beverley, and it is wholly owned subsidiary Meridian Healthcare, for EUR 14.81 million. These companies deal in oral solids, liquids and packaging, with manufacturing facilities in London and Beverley in the UK. Recently, Dr. Reddy's entered into an R&D and commercialization agreement with Argenta Discovery Ltd., a private drug development company based in the UK, for the treatment of COPD.

Dr. Reddy's entered into a 10-year agreement with Rheoscience A/S of Denmark for the joint development and commercialization of Balaglitazone (DRF-2593), a molecule for the treatment of type-2 diabetes. Rheoscience holds this product's marketing rights for the European Union and China, while the rights for the US and the rest of the world will be held by Dr. Reddy's. Dr. Reddy's conducted clinical trials of its cardiovascular drug RUS 3108 in Belfast, Northern Ireland, in 2005.The trials were conducted to study the safety and the pharmacokinetic profiles of the drug, which is intended for the treatment of atherosclerosis, a major cause of cardiovascular disorders.

Dr. Reddy's entered into a marketing agreement with Eurodrug Laboratories, a pharmaceutical company based in Netherlands, for improving its product portfolio for respiratory diseases.

In 2004, Reddy's acquired Trigenesis Therapeutics Inc.; the US based private dermatology company. This acquisition gave Reddy's access to certain products and proprietary technologies in dermatology segment. Dr. Reddy's application strategy for generic business received a severe setback when Reddy's lost the patent challenge in case of Pfizer's drug Norvasc (amlodipine maleate). Amlodipine maleate, the generic version of Pfizer's Norvasc, is indicated for the treatment of hypertension and angina. The cost involved in patent litigation as well as the strategic reversal affected Reddy's plans to start specialty business in the US generic markets.

In March 2006, Dr. Reddy's acquired BetapharmArzneimittel GmbH from 3i for EUR 480 million. This is one of the largest-ever foreign acquisitions by an Indian pharmaceutical company. Betapharm is Germany's fourth-largest generics pharmaceuticals covering 3.5% market share including 150 active pharmaceutical ingredients. Reddy's has promoted India's first integrated drug development company PerlecanPharma Pvt. Ltd. together with ICICI ventures capital fund management company Ltd and Citigroup Venture Capital International growth partnership Mauritius Ltd. The combined entity will undertake clinical development and out-licensing of New Chemical Entity Assets.

Dr. Reddy's is presently licensed by Merck & Co. to sell an authorized generic version of the popular drug simvastatin (Zocor) in the USA. Since Dr. Reddy's has a license from Merck, it is not subject to the exclusivity period on generic simvastatin of 180 days from June 23, 2006, which is split between Ranbaxy Laboratories (also from India) and Teva Pharmaceutical Industries.

4. Analysis & Conclusion

Dr. Reddy's Labs has been a very aggressive player in the international acquisition space. Its initial success came through exports of generics which continue to be the growth drive to this date. Fig. 7.5 and 7.6 below show the plot of Reddy's export intensity vs R&D expenses and Total Assets respectively.

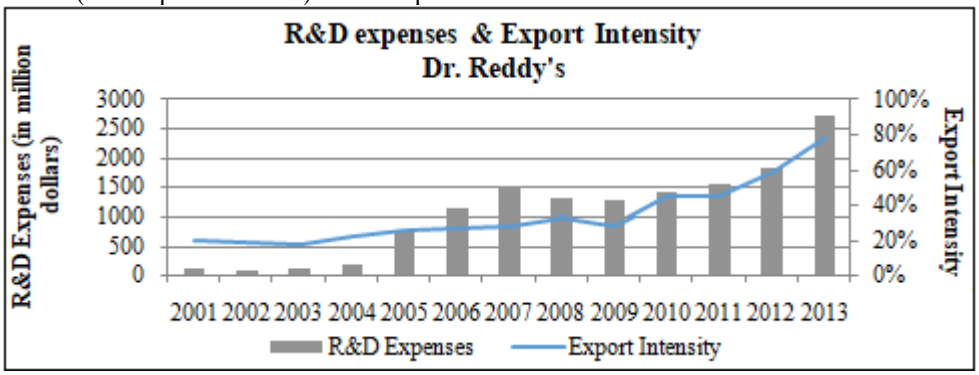

Figure 1: R&D expenses & Export Intensity – Dr. Reddy's

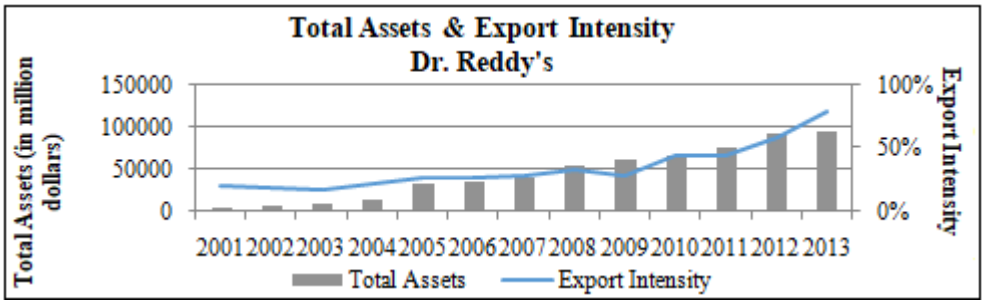

Figure 2: Total Assets & Export Intensity – Dr. Reddy's

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Reddy's successful growth into a fully integrated pharmaceutical company in less than a decade was founded on a successful and targeted program of inorganic growth and investments in process R&D. It had chosen a high risk-high gain strategy to growth by going into direct competition with existing patent holders.

A major challenge for Reddy's is to find ways to de-risk its overall strategy. One way may lie in managing the cash flows from the 'safer' API and formulations businesses. Another way may be to seek out more experienced partners for the R&D business or use acquisitions to boost R&D resources and revenues. It has chosen the global route and went on an acquiring spree.

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