Niche Play

E. Kumar Sharma January 10, 2018

At a time when stock prices of most big players in the pharmaceutical industry have plummeted sharply on the bourses, Hyderabad-based Natco Pharma stands out - the ₹2,078-crore company has stood its ground despite ups and downs. Consider this: in the past three years, Sun Pharma, the biggest Indian pharma company, has seen its share price tumble from ₹827.2 to ₹578.8, taking its market cap down from ₹171,316.3 crore to ₹138,860 crore. Lupin's story is similar - its share price fell from ₹1,429.7 to ₹899.2 and market cap slipped from ₹64,223.8 crore to ₹40,644.1 crore.

Analysts often refer to how most companies are currently trading at less than 50 per cent of their peak share prices two years ago. However, Natco saw its share price move up from ₹299.5 to ₹998.9 - closer to the 52-week high of ₹1,080. One could argue that Natco's US business had a low base, unlike the other Indian players, but that it grew dramatically since then is what made the difference. Natco Pharma's prolific run led the jury to unanimously choose Chowdary V. Nannapaneni as the best CEO in two categories - pharma and healthcare and small companies.

So, what did Natco do right in this period? Analysts say it is Natco's ability to pick its battles and capitalise on the opportunities, steered by a nimble leadership structure that ensures quick decision-making. Nannapaneni, Chairman and Managing Director, believes that the company's strategy of identifying niche opportunities has paid off. He credits his team - led by his son, the over-six-ft-tall Rajeev Nannapaneni, who is the vice chairman and CEO of the company - for doing things right. Both analysts and industry folk see Rajeev, 40, as a professional with a sharp ability to spot opportunities and adept at keeping a pulse on the happenings within the sector.

Natco's product launches in the US and India had a big impact on its growth. One was the launch of the first generic version of Tamiflu (Oseltamivir oral capsules), used to treat influenza, for which Natco tied up with marketing partner Alvogen in the US. In India, it was among the first to launch the hepatitis C basket of products - the drug and its combinations - last year under a licensing agreement with Gilead Sciences. The launch of the generic version of Teva's drug Copaxone for multiple sclerosis in the US, with its partner Mylan, in the second half of 2017 was another major move.

Typically, Natco's strategy has been to work with a partner in markets like the US. The partners handle litigation costs and marketing and share the revenues in return.

Alvogen, Mylan, Breckenridge Pharmaceuticals, Dr Reddy's and Lupin are among its many partners. G.V. Prasad, Co-chairman and CEO of Dr Reddy's, says, "Natco is a smart company. It has been a partner and competitor. We can live with that."

Selective Strategy

Explaining the strategy for success in the past two to three years, Rajeev says, "We never go after scale or volume or multiple filings for marketing products in the US. The strategy has always been to do limited number of things, but all niche or hard-to-do generics." The company tries to either be the first in the market or launch a product that is linked to a tricky patent litigation or have a product that is based on tough chemistry and, therefore, hard to replicate. "Tamiflu is a case of patent litigation, hepatitis C was about technology and Copaxone generic is peptide chemistry with its very difficult characterisation challenges."

The Copaxone generic demonstrated its chemistry skills - the API (active pharmaceutical ingredient) going into the drug is made by Natco. The drug is in two formats, 20 mg and 40 mg. For 20 mg, Natco makes both the API and the formulation, and for the 40 mg, it makes the API.

Analysts rate Natco's chemistry capabilities as noteworthy. Even in oncology, a key therapy area for the company, the focus has been more on chemistry than biotech. It has 350 employees in the R&D team out of the total 4,600 employees, up 30 per cent from about two years ago. It has raised ₹915 crore from qualified institutional investors (QIPs), most of which will be used on complex generics for the US market, which has a longer gestation period, and on Indian branded generics. In terms of therapeutic segments, the focus is on three areas - oncology, peptide chemistry-based therapy areas like drugs to deal with multiple sclerosis, applications in oncology and diabetes, and drugs for cardiology and diabetology. The QIP incidentally has brought promoter holding down from over 51 per cent to a little over 48 per cent.

How did the three product launches impact the company financially? "Three financial years ago, we were a ₹800-odd-crore company and became a ₹2,100-crore (total consolidated revenues) company in two financial years - the more-than-doubling of revenues can be largely attributed to these developments and our focus on doing a limited number of things," says Rajeev.

The company is also investing in hiring bright brains from outside the company - it has hired people from Mylan and Dr Reddy's - and also nurturing and promoting those in-house. Of the 10-member core team, seven have been with the company for 15-20 years.

Revenue Split

The company earns an equal amount of revenue - about 40 per cent - from the US and India, though the senior management admits there are avenues to grow the business further in India. "Two years ago, about 70 per cent of the resources were used for the US market and a bulk of the rest for India. Now it is 50:50."

The US market poses multiple challenges, the biggest being consolidation of customers. "This has led to price erosion in a lot of products, and unless you have a unique generic in the US, it has become very difficult to sell there. Plus, filings by Indian companies continue, leading to more competition. All of this is unlikely to change dramatically in the coming years, so it makes sense to focus on India," Rajeev says, quickly adding, "You should still do US because you cannot ignore the world's largest generic market, but you need to choose the battles you want to fight."

In India, the market is fairly competitive and that's the real challenge; but because it is a branded generic market, one needs to make smart products to be more financially stable. Pricing issues, in terms of price controls, and regulatory challenges are other hassles. But Natco is bullish on the India opportunity. "In hindsight, I think the industry, including us, made a mistake. We should have done more products in India than we actually did. We all ended up overdoing US and undervaluing India. This needs correction. India offers a lot of potential - it is a growing economy and the purchasing power is rising each day." Ask him on the approaches then for this market and he says it could include patent challenges and perhaps also options like seeking revocation of compulsory licences.

Journey So Far

It has not been a smooth ride for Natco. Nannapaneni was just 36 when, in 1981, he chose to return to India after working in the US in various pharmaceutical companies. He founded Natco with a small loan that he managed to secure and with support from family. But it was not until 2003 - 22 years since its founding - that Natco got global attention when it launched Veenat, the generic version of Swiss multinational Novartis AG's anti-cancer drug Glivec (or Gleevec, as it is referred to in the US) in India at one-tenth the cost of the listed price, and later in 2013 when it beat Novartis in its patent protection battle for the drug.

"Let the product be big and the rest will fall in place," says Nannapaneni, who takes fitness seriously and is up everyday at 4 am and in office at 8.40 am. He says it is pointless if the focus is only on making the company big. While he is around to mentor and guide, it is Rajeev who is seen as driving Natco's operations.

In the next one year, Natco will build on its strategy to launch more niche products in the US linked to patents and regulatory approvals. In India, Natco harbours hopes of moving up in the pecking order. From among the top 25 today, it wants to break into the top 20 in the next three years. "We have a good portfolio in India which has the potential to double in the next three years. Last year, we did about ₹880 crore in revenues in the domestic market, largely on account of the hepatitis C portfolio. We are hoping to double this in the next three years or earn about ₹1,500 crore," says Rajeev.

@EKumarSharma

Print Close

URL for this article :
/magazine/from-the-mag/vc-nannapaneni-natco-pharma-ceo-best-ceo-business-today-survey-pharmaceutical-industry-hyderabad-based/story/267691.html