

The Branching Out Of Glaxo

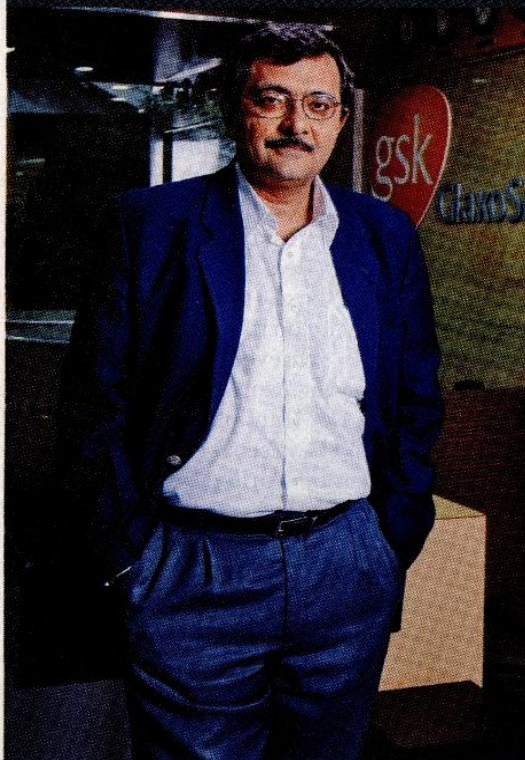
Winner: GlaxoSmithKline
Pharmaceuticals

Total score: 5,100

MD: Hasit Joshipura



The company created multiple channels of growth and registered impressive rise in revenues and profits



SUBHARATA DAS

IF Hasit Joshipura, managing director of Mumbai's GlaxoSmithKline Pharmaceuticals (GSK), looks like the cat that got the cream, he has reason. Net sales grew 13 per cent to Rs 1,870 crore in calendar 2009, more than double the growth rate in 2008, a trend that was maintained in the first nine months of 2010. Operating profit margin was at 35 per cent of net sales in 2009 and improved slightly this year. Shares are up 49 per cent since January 2010 on the Bombay Stock Exchange (BSE), outperforming the BSE Healthcare Index (37 per cent) and the Sensex (16 per cent). The other good news is that GSK has topped the pharmaceutical sector in *BW's* survey of India's Most Respected Companies.

Behind this performance is GSK's attempt to create multiple channels of growth. "For a long time we were trailing the market in terms of growth; now we are growing in line. The next step is to grow faster," says Joshipura. As all major foreign drug makers turn to emerging markets such as India, the 86-year-old subsidiary of British drug maker GSK Plc is being called upon to prove its mettle.

GSK's products such as cough syrups, painkillers and antibiotics have lately been unleashed on a whole new set of markets beyond metros, which includes regions with a population of under 15,000. Calpol, a drug that reduces fever in babies, is now the largest-prescribed brand in India, while de-worming drug Zentel and first-aid antibiotic Neosporin have gained market share. GSK has also capitalised on the growing awareness and spend on childhood vaccines among the middle class. Contribution of vaccines to GSK's turnover has doubled in three years to 14 per cent in 2009. The company is now getting into more specialised therapy areas with Tykerb, its first cancer drug — and the first on which it holds a patent in India — for breast cancer. Or Benitec, an anti-hypertensive in-licensed from Japanese drug maker Daiichi Sankyo. Three more patented cancer drug launches — two of these in the next eight months — are on the anvil.

PHARMA

RESPONDENT SPEAK



GlaxoSmithKline believes in innovation and ethics. It is a well known global company with good managerial skills

With innovation and quality products, the company has won the trust of the customers. It has been a major player in the market

The company is trusted throughout the country for the brand image that it has created over the years through its product offerings



No 2: Ranbaxy Laboratories

Headed by Arun Sawhney, MD, the company has won respect in spite of its quality problems with the US FDA



No 3: Dr. Reddy's Laboratories

G.V. Prasad, vice-chairman and CEO is investing in biosimilars and differentiated products

As MNCs are now ready to launch any product that has a strategic fit so long as it is not covered by a patent in India, GSK, too, is launching such branded generics drugs not discovered by its parent to broaden its offerings. Sometime back it launched Esblanem, its brand of AstraZeneca's antibiotic meropenem on a par with the brand leader. It is given for hospital-contracted infections. Esblanem debuted at number 25 and rose to No. 5 brand of meropenem.

The accent is on pushing volumes. "You can only grow your business sustainably in India on the basis of increase in doctor prescriptions," says Joshipura. If that means dropping prices, so be it. For instance, Tykerb launched at a 25 per cent discount to the global price. Recently, GSK cut prices further. It also pared prices of Cervarix, its cervical cancer vaccine "to improve access", says Joshipura. It has also launched in smaller markets knowing that productivity is "half of that in the cities. But that's okay, we are ready to invest", he says.

In 2000, Glaxo Plc merged with compatriot SmithKline Beecham to become GSK. With SmithKline, Glaxo added the vaccines business, and power brands such as antibiotic Augmentin, which touched a benchmark of Rs 100 crore in sales in 2006. The merger resulted in a restructuring effort that saw GSK take a fine toothcomb through its operations shedding high-cost manufacturing facilities, non-core businesses such as animal health, and pedalling down on unprofitable brands even if it meant putting profitability over growth. GSK bettered its own past growth but was upstaged by Ranbaxy and Cipla. It slipped two places to number three by market share.

Going forward, no doubt the company wants its mantle back. "After the merger the focus was to pull out costs, now it is to grow the topline," says Joshipura. Pharma analysts believe GSK's growth momentum is sustainable, though they have a 'sell' or 'reduce' rating on the stock owing to rich valuations. "The company is likely to maintain strong sales growth driven by a ramp-up in sales of products launched in the first

quarter of this year, new launches, and a ramp-up in the base business," said Mumbai brokerage Kotak Securities in an April report. A number of new products such as from Stiefel Laboratories, a cosmetic dermatology business acquired by parent firm GSK Plc globally, have formed part of GSK's dermatology division. The company also wants to strike more licensing deals. However, its performance pales in comparison with Indian companies. For instance, according to ORG-IMS, in 2009 Piramal Healthcare grew 25 per cent, while Mankind Pharma grew 28 per cent. An industry executive believes that GSK needs to strengthen its presence in key therapy areas such as cardiovascular, respiratory and central nervous system. "If it has to outperform the market, it has to be present in these high growth areas," he says.

GSK is evaluating the launch of branded generics in some of these areas. It also needs to beef up its field force like other leading Indian players. Even as it moves to expand its footprint, the landscape around it is being altered by mergers and acquisitions. In 2010, GSK slipped to number four by market share as US's Abbott acquired Piramal's prescription drug unit for Rs 17,000 crore and shot up nine places to number three. Pfizer, a subsidiary of the US drug company, has moved up to No. 8 after a merger with Wyeth. The combined Indian operations grew 21 per cent in 2009.

Joshipura says that only an acquisition can bring about a step-change for GSK. Valuations of Indian generics companies are at an all-time high. According to Vadodara's MP Advisors, Japan's Daiichi Sankyo paid an enterprise value to earnings before interest, tax, depreciation, and amortisation (Ebitda) multiple of 39.6 times for Ranbaxy, while Abbott's deal with Piramal was valued at 27.6 times Ebitda. However, Andrew Witty, CEO of GSK Plc, has said he will "not pay 37 times earnings for an Indian company" or "get drawn into bidding frenzies".

A lot will depend on what climbs down first — GSK or valuations.

Gauri Kamath

Sectorwise Most

Rank	Company	Total score	Innova-tiveness	Depth & quality of top management	Financial performance and returns	Ethics and trans-parency	Quality of products and services	People prac-tices/ Talent management	Global competi-tiveness
PHARMA & HEALTHCARE									
1	GlaxoSmithKline Pharmaceuticals	5,100.0	737.2	751.2	667.4	734.9	755.8	704.7	748.8
2	Ranbaxy Laboratories	5,088.4	716.3	737.2	704.7	702.3	748.8	711.6	767.4
3	Dr. Reddy's Laboratories	4,672.1	676.7	681.4	634.9	669.8	683.7	653.5	672.1
4	Cipla	4,669.8	665.1	651.2	655.8	660.5	686.0	637.2	714.0
5	Wockhardt	4,144.2	604.7	607.0	574.4	574.4	602.3	581.4	600.0
6	Sun Pharmaceutical Industries	4,141.9	611.6	597.7	583.7	555.8	609.3	569.8	614.0
7	Cadila Healthcare	4,111.6	607.0	600.0	555.8	574.4	600.0	567.4	607.0
8	Apollo Hospitals Enterprise	4,095.3	607.0	586.0	555.8	565.1	618.6	579.1	583.7
9	Piramal Healthcare	3,816.3	555.8	562.8	514.0	525.6	548.8	541.9	567.4
10	Lupin	3,653.5	525.6	534.9	488.4	527.9	537.2	507.0	532.6
11	Torrent Pharmaceuticals	3,493.0	497.7	518.6	481.4	481.4	507.0	488.4	518.6
12	Orchid Chemicals & Pharmaceuticals	3,244.2	465.1	476.7	432.6	460.5	486.0	458.1	465.1
13	Ipca Laboratories	3,097.7	448.8	439.5	409.3	448.8	474.4	439.5	437.2
14	Aurobindo Pharma	3,074.4	414.0	427.9	437.2	432.6	453.5	420.9	488.4
15	Divis Laboratories	2,688.4	386.0	386.0	365.1	369.8	395.3	383.7	402.3

The sectoral tally is based on Phase I of the survey and, hence, there is a difference between the scores here and those in the Top 25