More pain for Japan's Daiichi hit by Ranbaxy fraud

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Daiichi Sankyo believed it had scored a coup in 2008 when it outbid rivals to buy Indian generics giant Ranbaxy for $4.6 billion but its foray into the high-growth copycat drugs arena has brought the Japanese drugmaker only pain.

Last month, Ranbaxy pleaded guilty to US charges of selling adulterated antibiotic, acne, epilepsy and other drugs and agreed to a record $500-million fine, and since then the bad news has kept on flowing.

In a new blow at the end of the week, Apollo Pharmacy, India's biggest branded drug retail network with more than 1,500 outlets, issued a "cautionary advisory" against drugs made by Ranbaxy.

A Ranbaxy spokesman insisted all its products in India and globally were "safe and efficacious" and that it was addressing Apollo's concerns.

The Apollo advisory came days after an outspoken Indian Supreme Court lawyer filed a public interest suit in the country's top court seeking cancellation of Ranbaxy's licence.

"It is not a tale of cutting corners or lax manufacturing practices but one of outright fraud" and a "heinous crime", the suit filed by lawyer Manohar Lal Sharma said. The Supreme Court said it would hear the case this week, though no day has been set.

"There has been a continuous flow of negative news" about Ranbaxy, Sarabjit Kour Nangra, pharmaceutical vice president at Mumbai's Angel Broking, told AFP.

Daiichi's Ranbaxy purchase was part of a calculated strategy that the Indian company's dominance in generic medicines and developing markets would help the Japanese firm grow sales as Daiichi's drugs came off patent.

The Japanese firm, whose share price and earnings have taken a beating over the acquisition, paid a more than 30 percent premium for the shares of the Indian company.

Even though the purchase gave Daiichi far greater global reach, the price paid by the Japanese firm raised analysts' eyebrows at the time as Ranbaxy was already under the scrutiny of US regulators.

Some analysts have suggested Daiichi may have been overeager to diversify to increase its global sales when it snapped up Ranbaxy.

The US fraud, uncovered over eight years, was exposed by a whistle-blowing ex-employee who said Ranbaxy created "a complicated trail of falsified records and dangerous manufacturing practices".

India's drug regulator—the Drugs Controller General of India—is already examining legal documents filed in the United States to see whether Ranbaxy violated any Indian safety norms and has said it will complete its preliminary findings in a month.

On top of quality issues, Daiichi is at loggerheads with Ranbaxy's former Indian owners, the billionaire brothers Malvinder and Shivinder Singh. Daiichi has alleged the Singhs hid information about the US regulatory inquiries at the time of the purchase and says it is exploring "legal remedies".

The Singhs have rejected the allegations as "baseless".

The scandal has cast a cloud over drugs produced by other firms in India, known as the "pharmacy to the world" for making lifesaving generic versions of medicines for poor nations that cost a fraction of brand names.

Americans, in particular, are saying the fraud highlights the lack of knowledge of what goes on inside foreign drug plants.

In the face of the negative publicity, on Monday the Indian government felt obliged to issue a statement defending its $14.6-billion worth of annual generic exports as "safe "and "tightly regulated". It invited importers to visit Indian plants to "satisfy themselves of the quality of production".

Daiichi has said Ranbaxy now is a changed company since the fraud was detected in its "management, culture, operations and compliance" with regulations.

But others say damage could be longer term and more far-reaching.

"Ranbaxy-like episodes will not only set back the fortunes of the export industry but also give a handle to multinational pharmaceutical companies—no angels themselves—in their endeavour to push their patented, branded drugs" The Hindu said in a weekend editorial.

Ranbaxy's shares are trading at around half the 737 rupees Daiichi paid and analysts do not see any immediate chance of a recovery.

"I don't see any reasons why Ranbaxy (shares) should be going up in a hurry," Mehraboon Irani, analyst at Mumbai investment house Nirmal Bang Securities, told CNBC-18.