India's Sun Pharma buys troubled rival Ranbaxy for $3.2 bn (Update)

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India's third-biggest drugs company Sun Pharma announced Monday a $3.2-billion deal to buy larger domestic rival Ranbaxy from Daiichi Sankyo, ending the Japanese company's costly run as owner.

Despite Ranbaxy's huge US safety regulatory problems, Sun Pharmaceutical Industries said the transaction offered "tremendous growth opportunities" thanks to Ranbaxy's "significant presence" in the US market as well as in India and other high-growth emerging markets.

"Sun Pharma and Ranbaxy will have a diverse, highly complementary portfolio of specialty and generic products," Sun Pharma managing director Dilip Shanghvi, who founded the company in 1983, said.

But the immediate winner from the deal, analysts said, was Daiichi which extricates itself from its troubled ownership of Ranbaxy while striking a strategic partnership with Sun Pharma.

Daiichi Sankyo's shares were up 3.3 percent at 1,813 yen in Monday's trade.

Daiichi bought New Delhi-based Ranbaxy, India's biggest drug firm by sales, in 2008 for $4.6 billion, believing its dominance in cheap generic medicines would boost the Japanese firm's revenues.

But the Indian company created a huge drain on Daiichi's finances after US regulators slapped import bans on Ranbaxy drugs over quality concerns, and a year after its purchase, the Japanese company announced a $3.84-billion loss on the deal.

"There's no doubt the biggest beneficiary of this (latest) deal is Daiichi," Surya Patra, pharmaceutical analyst at Mumbai's PhillipCapital, told AFP.

The Japanese company will hold about 9.0 percent of the new firm and have a right to nominate one director to Sun Pharma's board under the deal, which involves purchase of $3.2-billion in Ranbaxy shares and the assumption of $800 million in debt which Sun said made the total transaction worth $4 billion.

The agreement would create India's largest drugs manufacturer and the fifth-biggest worldwide by sales while Ranbaxy shareholders will get a nearly 20 percent premium to the average 30-day share price.

Daiichi's President Joji Nakayama acknowledged that his company came out a loser financially, but added that "we've learnt a lot of things and got lots of ideas".

"Today, we have a partnership with a world-leading generic pharmaceutical firm," he told reporters in Tokyo.

"And we're aiming to achieve a great result that will overwhelm our past investment."

US safety concerns

India, known as "pharmacy to the world" because of its vast generics market, supplies medicines to more than 200 countries and is the second-largest US drugs supplier after Canada.

Ranbaxy's shares were down nearly five percent at 437.65 rupees in afternoon trade. Sun Pharma stock was up 1.36 percent at 479.65 rupees as the company said the deal would give it access to Ranbaxy's pipeline of generic drugs and vast Indian rural distribution network.

Sun, based in financial hub Mumbai, said it expected the deal to close by the end of 2014, pending regulatory approvals.

The purchase comes just months after the US Food and Drug Administration (FDA) slapped an import ban on Ranbaxy's fourth plant in India for failing to meet "good manufacturing practices" after bans on the other three.

Sun Pharma, some of whose products the FDA also banned last month over safety concerns, said it intended to work hard to get the banned Ranbaxy facilities re-certified as safe.

"The first focus will be on compliance," managing director Shanghvi told analysts in a conference call, referring to the FDA quality demands.

Ranbaxy last year pleaded guilty in the United States to charges of making adulterated drugs and agreed to a record $500-million settlement, after a whistle-blowing employee revealed a "complicated trail of falsified records and dangerous manufacturing practices".

Aditya Khemka, pharmaceutical analyst at Ambit Capital in Mumbai, said the deal looked attractive despite Ranbaxy's regulatory troubles.

"We need to now see what savings and incremental revenues Sun Pharma can generate from Ranbaxy," he said. Sun said the acquisition was expected to add to its cash earnings per share in the first full year.

Ranbaxy's net loss narrowed to 1.59 billion rupees ($25.6 million) for the quarter ended December 2013 from a 4.92-billion-rupee loss a year earlier, thanks to rising sales in key markets and currency gains.

The combined entity will have operations in 65 countries, 47 manufacturing facilities across five continents and annual revenues of $4.2 billion.