

# Investors bet Sun Pharma can restore Ranbaxy to health

April 13 2014, by Penelope Macrae

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On the surface, Sun Pharma's \$3.2-billion purchase of Indian generics rival Ranbaxy, which is in deep trouble with US regulators over safety lapses, may not look like a great deal.

But Sun Pharmaceutical Industries' shares rocketed on last week's announcement it was buying Ranbaxy from Japanese drugmaker Daiichi Sankyo, which struggled unsuccessfully to resolve the Indian company's regulatory woes after its 2008 \$4.6-billion acquisition.

Investors gave the thumbs-up, banking on Sun's history of nursing ailing companies back to health and the new clout it will gain in the fast-growing global generics market.

"It's a risk, but well-calculated and backed by Sun's track record of turning around troubled assets," D.G. Shah, secretary general of industry group Indian Pharmaceutical Alliance, told AFP.

Sun, with its decades of experience in formulating knock-off drugs that have brought it alliances with US giants such as Merck, "is like a white knight to bail out Ranbaxy from the FDA mess", Shah said.

New Delhi-based Ranbaxy is unable to export drugs to its key US market from all four of its Indian manufacturing plants due to bans imposed by the US Food and Drug Administration (FDA) over quality problems.

Mumbai-based Sun, founded three decades ago by tycoon Dilip

Shanghvi, a billionaire with a shrewd reputation, says it is aware of the "magnitude" of Ranbaxy's regulatory woes.

But for Sun, pluses far outweigh minuses because the purchase will give it a broader range of drugs in its medicine cabinet, a robust drug pipeline and a wider geographical reach, analysts say.

With the acquisition, Sun will be the world's fifth-largest generics pharmaceutical company and nearly double its annual sales to \$4.2 billion.

The merged company will have operations in 65 companies and 47 plants across five continents.

Also crucially it will become the biggest Indian drugmaker by sales in the United States and the largest domestically with a 9.2 percent market share, compared with Abbott Laboratories' 6.5 percent, Mumbai's Angel Broking said.

### **'A good, cheap buy by Sun'**

That difference represents a "huge gap in the highly fragmented Indian pharmaceutical market" where demand is accelerating, said Angel Broking analyst Sarabjit Kour Nangra.

Sun will also get much larger revenues from beyond India and the United States, especially from emerging markets such as Russia and Brazil.

"In high-growth emerging markets which are 50 percent of Ranbaxy's sales, it provides a strong platform which is highly complementary to Sun Pharma's strengths," said Angel's Nangra.

Industry observers said Shanghvi would have done his homework on

Ranbaxy and not overpaid.

"It's absolutely a distress sale by Daiichi and a good, cheap buy by Sun," the former India managing director of US pharma giant Pfizer, Kewal Handa, told India's CNBC.

While Sun may have got a bargain, Japan's Daiichi Sankyo, which bought Ranbaxy to escape a saturating home market, is smarting from heavy losses from its Indian foray.

Daiichi paid \$4.6 billion for the Indian company and then took a \$3.8-billion writedown over Ranbaxy's quality issues. Last year, Ranbaxy paid a \$500-million US fine for falsifying drug safety records.

Unable to clean up Ranbaxy amid what some analysts termed "cultural issues" reflecting a clash of Indian and Japanese work cultures and geographic distance, Daiichi exited.

Daiichi president Joji Nakayama conceded the company lost money, but told Japanese reporters, "We've learnt a lot of things and got lots of ideas".

Daiichi, which gets a nine percent stake in the merged company, will also have "a partnership with a world-leading generic pharmaceutical firm," Nakayama said.

But analysts said Daiichi's small exposure would not make a big difference to its fortunes.

Shanghvi said Sun had shown its ability to integrate 16 acquisitions, including recently Taro Pharmaceutical Industries.

With its 2010 Taro purchase, Sun boosted Taro's profitability from

"underperforming" to "consistent growth", Shanghvi said.

Sun's first priority with Ranbaxy, Shanghvi said, will be complying with FDA norms at the Indian plants. With Sun's experience in meeting FDA requirements, it can "guide" Ranbaxy staff.

"They want to be on the winning team, they just need the opportunity (and) direction," Shanghvi said.

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