IJEMR – June 2014 - Vol 4 Issue 6 - Online - ISSN 2249–2585 Print - ISSN 2249-8672

Sun Pharma Acquisition of Ranbaxy: Will it be a game changer of Global Pharma Industry?

***Dr.R.Subramaniya Bharathy**
****Mr.S.B.Inayath Ahamed**

*Assistant Professor, Periyar Institute of Management Studies (PRIMS), Periyar University, Salem-636 011.
**Junior Research Fellow, Periyar Institute of Management Studies (PRIMS), Periyar University, Salem-636 011.

Snapshot of the Episode

The Ranbaxy controversy, which began seven years ago, has come to a disastrous end during the past few days. Not only did the firm plead guilty for selling adulterated drugs and paid penalty worth $500 mn, but also its majority stakeholder, Daiichi Sankyo, accused its former owners of concealing critical information concerning the US Department of Justice (DOJ) and US FDA investigations. Sun Pharma acquired the entire 63.4% share of Ranbaxy making the conglomerate world's fifth largest specialty generic pharma company.

Overview of Indian Pharmaceutical Industry

The Pharmaceutical industry in India is the world's third-largest in terms of volume. According to Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, the total turnover of India's pharmaceuticals industry between 2008 and September 2009 was US$21.04 billion. While the domestic market was worth US$12.26 billion. The industry holds a market share of $14 billion in the United States.

According to Brand India Equity Foundation, the Indian pharmaceutical market is likely to grow at a compound annual growth rate (CAGR) of 14-17 per cent in between 2012-16. India is now among the top five pharmaceutical emerging markets of the world.

Exports of pharmaceuticals products from India increased from US$6.23 billion in 2006–07 to US$8.7 billion in 2008–09 a combined annual growth rate of 21.25%. According to PricewaterhouseCoopers (PWC) in 2010, India joined among the league of top 10 global pharmaceuticals markets in terms of sales by 2020 with value reaching US$50 billion.

The government started to encourage the growth of drug manufacturing by Indian companies in the early 1960s, and with the Patents Act in 1970.However, economic liberalisation in 90s by the former Prime Minister P.V. Narasimha Rao and the then Finance Minister, Dr. Manmohan Singh enabled the industry to become what it is today. This patent act removed composition patents from food and drugs, and though it kept process patents, these were shortened to a period of five to seven years.

The lack of patent protection made the Indian market undesirable to the multinational companies that had dominated the market, and while they streamed out. Indian companies carved a niche in both the Indian and world markets with their expertise in reverse-engineering new processes for manufacturing drugs at low costs. Although some of the larger companies have taken baby steps towards drug innovation, the industry as a whole has been following this business model until the present.

India's biopharmaceutical industry clocked a 17 percent growth with revenues of Rs. 137 billion ($3 billion) in the 2009–10 financial year over the previous fiscal. Bio-pharma was the biggest contributor generating 60 percent of the industry's growth at Rs. 88.29 billion, followed by bio-services at Rs. 26.39 billion and bio-agri at Rs. 19.36 billion.In 2013, there were 4,655 pharmaceutical manufacturing plants in all of India, employing over 345 thousand workers.

Series of Events

❖ Ranbaxy Laboratories Limited is an Indian multinational pharmaceutical company that was incorporated in India in 1961.
❖ Ranbaxy Laboratories was started by two Indians Ranjit Singh and Gurbax Singh as a pharma distribution firm.
❖ The company's name was culled from the merging of their names. Before starting Ranbaxy, Gurbax Singh was employed with Japanese pharmaceutical company A. Shiniogi.
❖ In 1950, original promoters had to part with the company by offering it to a local moneylender Bhai Mohan Singh due to huge debts.
❖ In 1973, Ranbaxy Laboratories Ltd went public. In 1967 Bhai Mohan Singh's eldest son Dr. Parvinder Singh took charge and eventually became the managing director in 1982.
❖ Ranbaxy leveraged on a 1970-legistaltion change that allowed domestic manufacturers to produce low-cost, generic versions of patented drugs.
❖ In 1969, Ranbaxy introduced Calmpose, its first successful generic launch. Ranbaxy's active pharmaceutical ingredients (API) plant in Punjab received Food and Drug Administration (FDA) approval in 1980-81
❖ In 1989, Bhai Mohan Singh split his assets between his three sons. Two of his sons Manjit Singh and Anajit Singh were handed over Montari Industries and Max India respectively.
❖ In February 1993, Parvinder Singh took over as chairman and managing director, while Bhai Mohan Singh was made Chairman Emeritus. The patriarch dragged his son to court on charges of reneging on commitments.
❖ In 1999, Parvinder Singh passed away
❖ In 2001, Vidyut Investments, a subsidiary of the company was accused of funding stock market operator Ketan Parekh to ramp up Ranbaxy shares. In 2006, the patriarch finally regained control of the company. Malvinder Mohan Singh became MD and CEO before his grandfather Bhai Mohan Singh's death. His younger brother Shivinder Mohan Singh was inducted into the company's board. 2000 onwards the company was mired in several patent litigations that drained it financially.
❖ In 2008, the promoters sold 63.9 percent stake to Japan's No. 3 drugmaker Daiichi Sankyo for $4.2 billion. Malvinder Singh agreed to remain as CEO of Ranbaxy for five years following Daiichi Sankyo's takeover but left in 2009.
❖ In May 2013, Ranbaxy pleaded guilty to felony charges related to drug safety and agreed to pay $500 million in civil and criminal fines under a settlement with the US

Department of Justice. Daiichi accused the former shareholders of hiding information regarding US regulatory probes.

Sun Pharma Acquires Ranbaxy

In what is being described by a landmark deal in Indian pharma, Sun Pharma is to acquire Ranbaxy in an all stock $ 4 billion deal. It is to create world's 5th largest specialty generic pharma company, the number one pharma company in the US and in India. Within India, get a leadership position in 13 specialty segments and Daiichi Sankyo to become the second largest shareholder in Sun Pharma.

The two companies have entered into definitive agreements pursuant to which Sun Pharma will acquire 100 per cent of Ranbaxy in an all-stock transaction. Under these agreements, Ranbaxy shareholders will receive 0.8 share of Sun Pharma for each share of Ranbaxy. This exchange ratio represents an implied value of Rs Rs 457 for each Ranbaxy share, a premium of 18 per cent to Ranbaxy's 30-day volume-weighted average share price and a premium of 24.3 per cent to Ranbaxy's 60-day volume-weighted average share price, in each case, as of the close of business on April 4, 2014.

The combined entity will have operations in 65 countries, 47 manufacturing facilities across 5 continents, and a significant platform of specialty and generic products marketed globally, including 629 ANDAs. On a pro forma basis, the combined entity's revenues are estimated at US$ 4.2 billion with EBITDA of US$ 1.2 billion for the twelve month period ended December 31, 2013. The transaction value implies a revenue multiple of 2.2 based on 12 months ended December 31, 2013.

The Repercussions:

The following can be the changes as a result of the acquisition, which will create a huge wave in the Pharma Scenario.

1. A complete turnaround :

Sun Pharma has the ability to acquire distressed assets and turn them around. They have done this with Taro, with Caraco." From the point of view of what it means for the industry. The Indian domestic market they now become a leader as against Abbott till now.

Dilip Shanghvi, Managing Director of Sun Pharma believes Ranbaxy has a significant presence in the Indian pharma market and in the US where it offers a broad portfolio of ANDAs and first-to-file opportunities. In high-growth emerging markets, it provides a strong platform which is highly complementary to Sun Pharma's strengths. There are tremendous growth opportunities and are excited with the prospects to create lasting value for both our shareholders through a successful combination of our franchises.

2. Value to shareholders :

He strongly believes that this transaction will bring significant value to all Ranbaxy shareholders. Sun Pharma has a proven track record of creating significant long-term shareholder value and successfully integrating acquisitions into its growing portfolio of assets.

The proposed transaction has been unanimously approved by the Boards of Directors of Sun Pharma, Ranbaxy, and Ranbaxy's controlling shareholder, Daiichi Sankyo. Ranbaxy's board and Sun Pharma's board have recommended approval of the transaction to their respective shareholders.

3. Value addition and specialty products in new areas:

The combination, the Sun statement says, It will create a large specialty pharmaceutical company with strong capabilities in developing complex products and exploiting first to file opportunities. A combined Sun Pharma and Ranbaxy will have a diverse, highly complementary portfolio of specialty and generic products targeting a spectrum of chronic and acute treatments. The combined business will have a strong portfolio of specialty and generic products marketed globally, including 445 ANDAs. Additionally, the combination will create one of the leading dermatology platforms in the United States."

4. Synergic effect:

Stating that the combination creates the fifth-largest generic company in the world and the largest pharmaceutical entity in India, it says, the combined entity will have 47 manufacturing facilities across 5 continents. "The transaction will combine Sun Pharma's proven complex product capabilities with Ranbaxy's strong global footprint, leading to significant value creation opportunities. Additionally, the combined entity will have increased exposure to emerging economies while also bolstering Sun Pharma's commercial and manufacturing presence in the United States and India. It will have an established presence in key high-growth emerging markets. In India, it will be ranked No. 1 by prescriptions amongst 13 different classes of specialist doctors."

5. Value creation to the shareholders :

Calling it a "financially compelling transaction", the Sun Pharma statement says: "the acquisition is expected to be accretive to Sun Pharma's cash earnings per share in the first full year. Additionally, Ranbaxy's shareholders will participate in the value creation of the combined company through their ownership of Sun Pharma shares.

Under the agreements, Ranbaxy shareholders will receive 0.8 shares of Sun Pharma for each share of Ranbaxy. This exchange ratio represents an implied value of Rs 457 for each Ranbaxy share, a premium of 18 per cent to Ranbaxy's 30-day volume-weighted average share price and a premium of 24.3 per cent to Ranbaxy's 60-day volume-weighted average share price, in each case, as of the close of business on April 4, 2014.The transaction has a total equity value of approximately US $3.2 billion. The transaction is expected to represent a tax-free exchange to Ranbaxy shareholders, who are expected to own approximately 14% of the combined company on a pro forma basis. Upon closing, Daiichi Sankyo will become a significant shareholder of Sun Pharma and will have the right to nominate one director to Sun Pharma's Board of Directors.

6. Increased efficiency in Supply chain and procurement:

Sun Pharma expects to realize revenue and operating synergies of US$ 250 million by third year post closing of the transaction. These synergies are expected to result primarily from topline growth, efficient procurement and supply chain efficiencies. As part of the transaction, Sun Pharma intends to leverage the human capital that has supported both companies, in order to drive future growth.

Ranbaxy has recently received a subpoena from the United States Attorney for the District of New Jersey requesting that Ranbaxy produce certain documents relating to issues previously raised by the FDA with respect to Ranbaxy's Toansa facility. In connection with the transaction, Daiichi Sankyo has agreed to indemnify Sun Pharma and Ranbaxy for, among other things, certain costs and expenses that may arise from the subpoena.

Finally, the transaction will need approval by majority in number representing 75 per cent in value of the shares present and voting at the shareholder meetings of each of Sun Pharma and Ranbaxy. Both Daiichi Sankyo (which holds approximately 63.4 per cent of the outstanding shares of Ranbaxy) and promoters of Sun Pharma (who hold approximately 63.7 per cent of the outstanding shares thereof), have irrevocably agreed to vote in favour of the transaction.

Conclusion:

It is a “fantastic” buyout for Sun Pharma, which is set to gain product portfolio, market and fixed cost assets, from the synergy. Going forward, Sun Pharma might merge the Ranbaxy brand with its own to form a single entity. However, it is also open to creating a separate entity, as it did in its earlier acquisitions like that of Israel’s Taro Pharmaceuticals. Though its transaction with Sun Pharma immediately reflects significant value erosion in Daiichi Sankyo’s investment in India, it might revive the Japanese firm’s India plans in the long term, if Sun Pharma is able to pull Ranbaxy factories out of the red in the near future.

Questions:

1. Will it be beneficial for Sun Pharma to create a separate entity out of Ranbaxy, as it has done with earlier acquisitions?

2. What will be the effect on the investment plans of Japanese firms in the Indian pharmaceutical industry?