

Merger with Sun Pharma will spell the end of the Ranbaxy brand, but a new dawn beckons

# And Now, the Dénouement



Ramesh Adige

**T**his writer had received some phone calls last Sunday from the media whether one could confirm if Sun Pharma was indeed buying up Ranbaxy Laboratories. Can anybody keep such a possibility completely under wraps? After all, the due diligence process on Ranbaxy's manufacturing plants and financials conducted by Sun had emitted some smoke. My honest reply, however, was that I was not sure.

Lo and behold, Daichi Sankyo (DS) makes the announcement on Monday at 8:30 am Tokyo time that DS has decided to sell Ranbaxy to Sun Pharma in a merger deal. It's been some time since we saw the huge buzz that this announcement created. A media conference and analyst conference followed with Sun Pharma taking the lead.

## Nuts & Bolts of the Deal

What are the implications of Sun Pharma merging itself with Ranbaxy? It is still early in the day but we can make some informed guesses. ► It is obvious that with Ranbaxy's merger, Sun Pharma will be catapulted to the No. 1 position in the highly fragmented India pharma market, ahead of Abbot. The combined entity will also be the fifth-largest generics company in the world.

So, size, scale and synergies will be achieved.

► The valuation of Ranbaxy is attractive at this point in time when USFDA and regulatory issues are at a peak. And Sun Pharma has been known to purchase companies and turn them around in the quickest possible time.

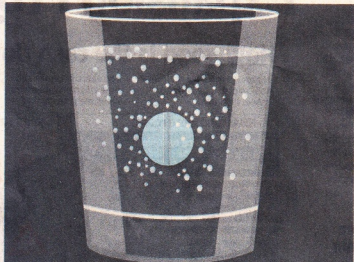
Is it the right time for DS to exit at a loss? This writer doesn't think so. Why throw in the towel when things can't get worse? They can only get better. After the Import Alert on Ranbaxy's Toansa plant was announced, for the first time, the company conducted an investigation in right earnest to hold persons responsible. As a result, people directly responsible as well as people taking moral responsibility have been asked to leave.

## Removing the Kinks

This will be music to USFDA ears and confidence in Ranbaxy taking corrective actions, and preventive action will only increase from this point onwards. In a lighter vein, one remembers speaking to colleagues in DS in 2008 that the word "hybrid" used by DS to describe the model being followed (viz, innovator and generics arms resulting in the hybrid) did not bode well, simply because in some hybrids, there is a problem in multiplication — a reference to the mule that is a hybrid between a horse and a donkey. Sadly, this has turned out to be true.

The real issue is finding a replacement to the Toansa plant for bulk drugs. And Sun Pharma will be able to fill this gap.

► The merger won't have too many cultural and integration issues since both companies are Indian. What we have to watch out for are other HR issues such as rationalisation of manpower. In the merged Sun entity, one plus one cannot be two. Know-



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ing that Dilip Shinghvi runs a tight ship, one plus one is likely to be 1.5. This will happen particularly in geographies where both Sun and Ranbaxy are present.

► One immediate task after the high court approves the merger would be to get Ranbaxy Laboratories' USFDA regulatory issues out of the way. This may take time. Sun Pharma itself has some regulatory issues with USFDA to sort out.

Meanwhile, the combined entity can use Sun Pharma's bulk drug and drug formulations (DF) units along with Ranbaxy's DF units in India and overseas. There is news that Ranbaxy's Romania plant has got approval from the USFDA. This DF plant will be able to manufacture for the US market soon and take the pressure off Ranbaxy's New Jersey plant, which is now working at full capacity. Ranbaxy's pipeline of first-to-file molecules for the US market can be monetised with the help of Sun Pharma bulk drug units.

## Fix it, and it'll Work

► With indemnities from DS in place, Sun Pharma may not have to face surprises emanating from Ranbaxy.

The only sad development is that there is every likelihood that brand Ranbaxy will see a sunset clause when the merger takes place. Ranbaxy was and still is considered to be India's flagship pharma company. It is India's first blue-blooded MNC with global footprints.

But Wyeth was subsided by Pfizer, MSD gobbled up Schering-Plough, and there are many such examples in the pharmaceutical sector. We have to move on. Brands are created over a period of time with sweat and toil. The same brand can disintegrate in the twinkling of an eye due to reputational loss. One would think for Indian pharmaceutical companies it is better to spend millions to meet the highest compliance standards rather than to lose billions due to regulatory issues.

Sun Pharma has shrewdly followed the Latin dictum, "*abusus non tollit usum*" (abuse does not preclude proper use) — just because something (Ranbaxy) is not used properly does not mean it (Ranbaxy) cannot be used correctly!

The writer is former executive director, Ranbaxy Laboratories

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