by **HIMALI PATEL**

Making Of A New Indian Pharma Giant

As Sun Pharma becomes the top formulations player with its Ranbaxy takeover, how is the deal for its investors?

Sun Pharma has done it again, and this time it has done it big. On 6 April, Sun, valued in the market at ₹1,22,128 crore, struck one of the biggest deals in recent times to take over pharma major Ranbaxy Laboratories, which attracts a valuation of only ₹19,070 crore, from Daiichi Sankyo Company of Japan.

Caraco and Taro were among the 15 companies that Sun, India's top pharma company by market capitalisation, had taken over in the past. But, the takeover of Ranbaxy, which, for the better part of the last two decades was regarded as Indian pharma's top dog, betters them all. When the process is complete, Sun will become India's top pharma formulations company, overtaking Abbott India.

The market cheered the deal, with the shares of Sun gaining 7 per cent in the two days after the announcement. At present, the company continues to trade close to its all-time high of ₹653 recorded in March 2014. According to the agreement between the two companies, Sun will acquire 100 per cent of the Daiichi Sankyo-owned Ranbaxy Laboratories in an approximately ₹24,000-crore transaction. In this merger, Daiichi will receive 0.8 shares of Sun for every share held in Ranbaxy. This, in turn, means that Ranbaxy's valuation of ₹457 per share at the time of the announcement represents a premium of 18 per cent to Ranbaxy's 30-day volume-weighted average share price and of 24.3 per cent to the similar 60-day price. So, Sun's valuation becomes $4 billion or 2.2 times Ranbaxy's sales in calendar year (CY) 2013.

In the case of most other companies, investors would have been skeptical since acquisitions involve substantial payouts with proposed benefits accruing only in the future.

Buy-out to strengthen Sun in global generics market and also make it India's top pharma formulations company

That's why the first reaction of investors to such news tends to be negative and the stock price typically goes down initially. When such deals fall through, as it did for Apollo Tyres, the stock price goes up. But, Sun has a track record in acquisitions that inspires confidence and is often seen as a master turn-around company with a proven track record of investing the necessary resources to successfully integrate acquired companies.

Ranbaxy's problems with the US Food and Drug Administration (USFDA) have been chronicled too well and had distressed its finances (see *Indian Pharma's Midnight Knock*, April issue). Ranbaxy recorded a consolidated loss of ₹1,011.5 crore in CY2013 against a profit of ₹922.7 crore in CY2012. As the commotion in the market over the deal settles down, it is worth investigating how things would pan out for Ranbaxy and Sun investors. To do that, we need to first understand the advantages Ranbaxy offers to Sun.

Tapping into Ranbaxy's advantages. Ranbaxy operates in a large scale in the US, which is also one of Sun's major markets. Ranbaxy also has a healthy pipeline of ANDAs (Abbreviated New Drug Applications) there, including a few high-value FTFs (First-to-File), which should boost Sun's topline and bottomline in a short span of time compared to it initiating the development of products by itself and spending time to get ANDAs. Says Aditya Khemka, senior analyst–research, institutional equities, Ambit Capital: "Ranbaxy's key FTF assets could generate cash flows of up to ₹3,055 crore for Sun in the near term, compensating for almost 15 per cent of the purchase consideration." After the acquisition, around 184 ANDAs, including high-value FTFs is expected in Sun's portfolio.

Sun Pharma is an acquisitive company and is known to buy a company for complementary products in a complex drug base. The Ranbaxy deal only illustrates this.

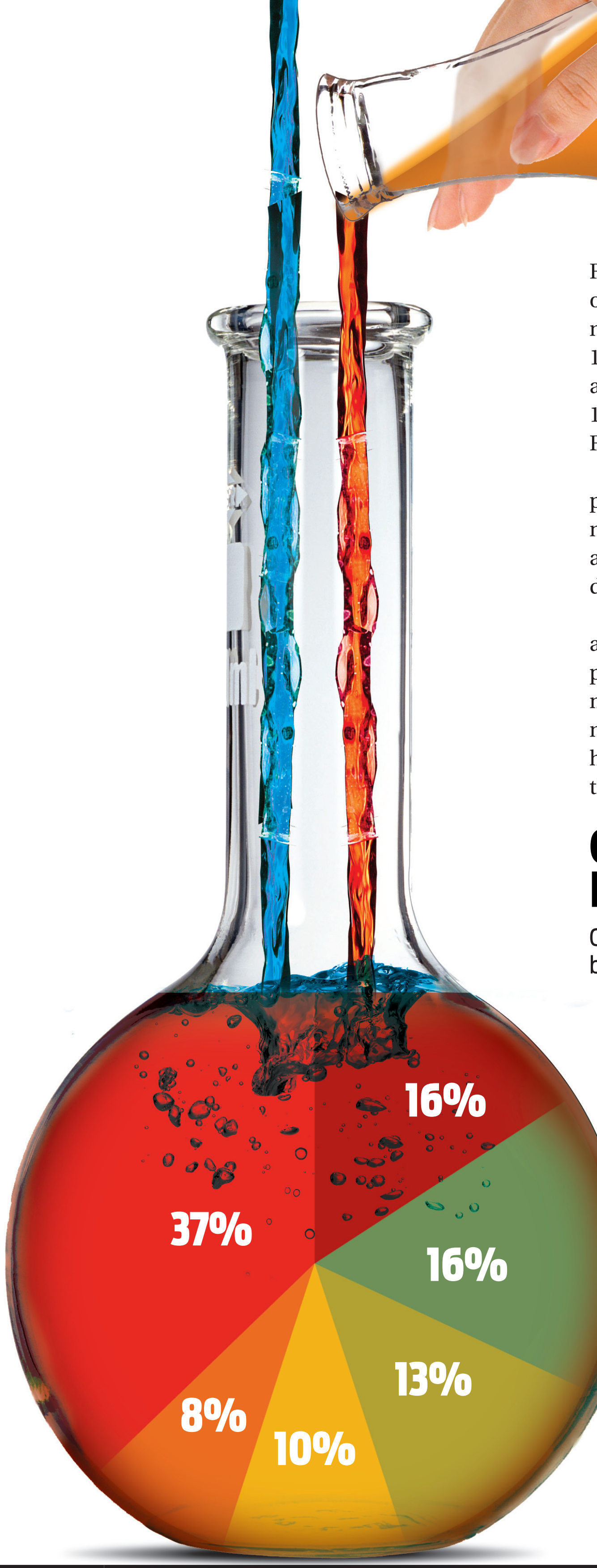
Says Suruchi Jain, equity research analyst, Morningstar India: "A complex drug base has more complex molecules that take more time to not only be developed, but are also harder to copy and one needs to go through the regulatory process. Further, these products have strong pricing power. Sun is looking at these complementary products, which they don't have in their portfolio, and they look to acquire through different companies."

Ranbaxy also brings to Sun well-established over-the-counter (OTC) brands in the Indian market, something that Sun doesn't have. In ethical drugs too, Ranbaxy brings with it strengths in certain segments. Says D.R. Dogra, managing director & chief executive officer, Care Ratings: "Ranbaxy has a strong presence in segments such as anti-infectives, orthopaedic and dermatology, as well as a strong OTC product portfolio. With the addition of Ranbaxy's product portfolio, Sun's position in many of the therapeutic segments and OTC is expected to improve significantly." The combined entity will have more than 30 brands among the Top 300 brands in India, making it a leader in many therapeutic segments in the country. The acquisition of Ranbaxy will not only strengthen Sun's position in the global generics market (consolidating its position as the fifth-largest generic company in the world with a market share of 9.2 per cent), but also make it India's top pharma formulations company.

Sun's tested formula. Sun's existing investors would be assured of their future thanks to Sun's clinical approach to inorganic growth. Says Khemka: "All their past acquisitions have been based on the logic that it was cheaper and less time-consuming to buy these assets than to have created them in-house." Sun is also very value-conscious in its acquisitions. They have ended up buying assets with the therapy, the product differentiation and the geographical presence that they want." Khemka

CLEAR LEADERSHIP

Combined entity will be balanced between chronic and acute therapies



Combined Leadership
- **Chronic therapies**

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- **Acute, hospitals & OTC business**

- Others
- Neuropsychiatry
- Cardiology
- Anti-infectives
- Gastroenterology
- Pain & Analgesics

Source : Company

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