Japanese acquisition in India's Ranbaxy

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Abstract

Purpose – The purpose of this paper is to examine the rationale and synergies of a Japanese firm's acquisition of India's leading pharmaceutical firm, Ranbaxy, and to answer the following pertinent questions: could Ranbaxy have been able to survive and succeed, had the firm not gone for this strategic sale to a foreign firm? What is the rationale for this strategic sale immediately after undertaking many major acquisitions during the previous two-year period? For what strategic reasons did a Japanese firm pay a premium price for this international acquisition?

Design/methodology/approach – An exploratory method was used in this study to analyze the rationale and synergies of the acquisition. The method of case writing has been followed as a design (case situation first, then goes back to the past, then comes back to the current situation).

Findings – The findings confirm that Ranbaxy got a premium price for agreeing to be acquired for their share (much higher price than the market price). Japanese firm Dai-Ichi got greater market access and control of Ranbaxy, which were driving factors for them to pay a higher share price for Ranbaxy.

Originality/value – This original study gives insight into the points to be taken into consideration while thinking about international acquisitions.

Keywords India, Pharmaceuticals industry, Acquisitions and mergers, Strategy, Expansion

Paper type Research paper

Introduction

Wednesday morning of 11 June 2008 was a remarkable day in the 47 year history of Ranbaxy Limited, the largest pharmaceutical company in India. With excitement and emotion, Ranbaxy Chief Executive Officer and Managing Director, Malvinder Singh, announced the $4.6 billion planned sale of 53.92 percent stake in the company for $4.6 billion to Daiichi Sankyo of Japan, the second largest pharmaceutical firm based in Japan. This acquisition marked the biggest takeover of an Indian company by a foreign firm in the last decade. The recent trend had been for Indian companies to take over foreign businesses, so it was surprising to see a major successful Indian multinational firm suddenly agree to a takeover by an unassociated foreign company after having pursued an aggressive inorganic growth strategy series of foreign acquisitions over the previous decade.

Malvinder Mohan Singh, Ranbaxy's Chief Executive and Managing Director – and the head of the Singh family that founded the company – therefore made Indian corporate history. For the year 2008, the company had recorded global sales of US$16,282 million with its 12,000 strong multicultural workforce[1]. Therefore, his decision to sell was debated as people asked whether he had done the right thing or if there was any unexplained motive. Singh explained that "This is I think the best deal after exploring and evaluating all permutation and combination. This is what we have chosen as the most optimal deal, I feel ever"[2].

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Answering a journalist, after the announcement of the deal, Singh contended that this was just what the doctor had ordered: "This will put us on a new and much stronger platform to harness our capabilities in drug development, manufacturing and global reach, " He added:

> Together with our pool of scientific, technical and managerial resources and talent, we will enter a new orbit to chart a higher trajectory of sustainable growth [. . .] in the developed and emerging markets, organically and inorganically. This is a significant milestone in our mission of becoming a research-based international pharmaceutical company"[3].

At the same time, the president and chief executive officer Daiichi Sankyo Company, Limited commented about the deal with the following words:

> The proposed transaction is in line with our goal to be a global pharmaceutical innovator and provides the opportunity to complement our strong presence in innovation with a new, strong presence in the fast-growing business of non-proprietary pharmaceuticals.

He added: "While both companies will closely cooperate to explore how to fully optimize our growth opportunities, we will respect Ranbaxy's autonomy as a standalone company as well[3].

History and background

Ranbaxy was established by Ranbir Singh and Gurbax Singh in 1937 in India. Ranbaxy Laboratories Limited was registered in India in the year 1961. Dr Parvinder Singh made immense contributions to Ranbaxy with bold new ideas. He joined Ranbaxy in 1967, was appointed as its Joint Managing Director in 1977, and elevated as Managing Director in 1982. He rose to the position of Vice Chairman and Managing Director in 1987, and took over as Chairman and Managing Director in 1993.

Ranbaxy began manufacturing formulations in 1962. It went public in 1973. A multipurpose chemical plant was setup for the manufacture of pharma products at Mohali in India. Ranbaxy formulated export strategies dependent upon on opportunities in 1975. In 1977, Ranbaxy's had its first international joint venture in Lagos (Nigeria). In 1983, a modern dosage forms facility at Dewas (MP) in India was developed. In 1985, Ranbaxy Research Foundation was established. Stancare, Ranbaxy's second pharmaceutical marketing division, also started functioning.

In 1987, production started at the modern plant at Toansa (Punjab). In 1988, Ranbaxy's Toansa plant got US Food and Drug Authority (FDA) approval. In 1990, Ranbaxy was granted a US patent for Doxycyline.

Internationalization – strategy

Ranbaxy had always been a very outward looking company. It recognized that if 99 percent of the pharmaceuticals market lay outside India, tapping the international potential was always something bigger than just meeting export commitments. Ranbaxy had foreseen that the future regime would be based on worldwide product-based patent rights, which was brought into practice by the World Trade Organization.

Ranbaxy repositioned itself in 1992 and the following changes were carried out in the organization to meet with internationalization requirements:

- Bringing a change in the exports mindset was the first step taken.
- In 1992, six to eight months were spent studying what Ranbaxy Laboratories really wanted to be.

The management prepared a business plan and declared their vision statement, which had the following three elements:

(1) Ranbaxy decided that the company would not look at diversification into unrelated or even related areas and would stick to its core area of pharmaceuticals.
(2) The management stated its intent to be an international company. This implied a focused and rapid expansion into foreign countries.
(3) They clarified that they would be a research-based company, which meant that it would discover its own proprietary innovative drugs, as leverage in the era of worldwide intellectual property rights.

Dreams of a young CEO

Malvinder Singh joined Ranbaxy in 1998 and became the CEO and MD in 2006. Within two years of becoming CEO, Malvinder Singh had systematically purged risk out of Ranbaxy's model. An alumnus of the prestigious Doon School, Dehradun, St Stephens College, New Delhi, and an MBA from Fuqua School of Business at Duke University, North Carolina, Singh is well built and dapper with a penchant for photography. Affectionately known inside the company as "Malav," Malvinder Singh, 36, did not mind wearing a T-shirt to the office. Singh (referred to as Malav by nearly everyone who knows him – right down to the security guard at the gate) was at ease facing the world. Cookery competitions and birthday parties were held regularly in the company, as were fancy dress shows (Singh dressed as colorful Singer Daler Mehendi at one of these). In his office, there was a cutout of, "Ranbaxy/fun @work," which he had registered as a trademark.

Work had not been so much fun when Singh took charge as the Chief Executive Officer in January 2006. The previous year (Ranbaxy follows the calendar year), net profits had fallen 62 percent, sales were flat, the return on capital employed was a measly 5.3 percent and return on net worth 10.6 percent. The company was too dependent on the USA, which accounted for 45 percent of its business[4].

Singh lost no time in embarking on a mission that systematically reduced risk in the company's business model. His diagnosis and prescription was accurate; apart from the buoyancy in the share price, the return on capital employed jumped more than three times and the return on net was worth more than two-and-a-half times. In Singh's words:

> When I took over as the CEO, I was clear that we needed to change our strategy. We were heavily focused on doing everything on our own. We were litigating with everyone. We were not making the best use of resources and needed to improve our speed[4].

Within four days, at the end of March 2006, Ranbaxy announced three overseas acquisitions: the unbranded generic business of Allen SpA (a division of GlaxoSmithKline) in Italy, Terapia in Romania, and Ethimed NV, a generics company in Belgium. This was followed by the acquisition of Mundogen generic business of Glaxo SmithKline plc (GSK) in Spain in July and Be-Tabs Pharmaceuticals in South Africa in December. Singh cooled off by the end of the year. The only significant overseas acquisition in the following year (2007) was the US rights of a group of 13 dermatology products from Bristol-Myers Squibb Company in May:

> The alliances with Big Pharma (the world's biggest companies) firms brought in more certainty of launching products in the US. In litigation, there is always uncertainty. You may have a strong case, but not win. We have the second largest first-to-file pipeline for the US after Teva (the world's largest generic drugs maker). We are the only company which will, every year, have one first-to-file for a billion dollar plus productsaid Singh[5].

At the same time, Ranbaxy, the giant at home in India, moved to get footholds in domestic companies that complimented it. Less than two months after Singh took charge, Ranbaxy acquired 7 percent equity in Zenotech Laboratories and forged an alliance with it to market its oncology products under the Ranbaxy label. That equity stake has since gone up to 48 percent, though the original promoter continues to be in charge of operations[5].

A few months later, the company expanded its in-house active pharmaceutical ingredient manufacturing capacity by acquiring Cardinal Drugs based in Gwalior. In January 2007, Ranbaxy acquired 14.9 percent in Krebs Biochemical's, which would help it leverage Krebs' API and Fermentation capabilities and derive cost benefits. Three months later, it entered into an agreement to acquire 14.9 percent in Jupiter Biosciences and struck a global supply arrangement for peptides.

In April 2007, Singh made his move in acquiring 14.7 percent in India-based antibiotics exporter Orchid Pharmaceuticals. The acquisition was done through Solrex, a partnership firm between Ranbaxy subsidiaries, Solus Pharma and Rexcel Pharma (known as Solrex). In the weeks leading to this announcement, though most people saw a connection between Solrex and Ranbaxy, the company kept quiet and left everyone to their conjectures. A visible involvement of Ranbaxy would have fuelled a rally in Orchid's shares, increasing the cost of the acquisition:

> From the compliance perspective, we did what we were required to do and disclosed when we were ready to talk. We picked up the shares when the market was down, said Singh[6].

There was also an agreement with Orchid to synergize manufacturing and marketing capabilities across geographies and therapeutic categories. Singh went to all the four with the same proposition:

> You have the technical skills and R&D, but are limited to the emerging markets. We have the capability to take it to the developed markets. One plus one is not two; it's four. When you are the leader, you have to set the pace for the industry, aid Singh confidently[6].

Internationalization – phases and entry modes

A lot of criticism was encountered within and outside the company. Among the often quoted criticisms were comments such as: it is a tough industry, it is pharmaceuticals, it is only the west which can discover and make high-quality pharmaceuticals, the Indian image is poor, one cannot sell an Indian product in the USA and not even in some of the developing countries, etc.

The Indian pharmaceutical industry has long struggled with an international image that has collectively labeled its members as trespassers of Intellectual Property rights. Ranbaxy was serious about its image as an "international" player and fought hard and long against the stigma attached to Indian firms (Table I for chronology of Ranbaxy's achievements).

Year	Achievement
1961	Company incorporated
1973	A multipurpose chemical plant was setup for manufacturing of APIs at Mohali, India Ranbaxy went public
1977	First joint venture with Lagos (Nigeria)
1985	Ranbaxy Research Foundation was established
1987	Production start up at the modern API plant at Toansa (Punjab, India), Ranbaxy became the largest antibiotic/antibacterial manufacturer of India
1990	Ranbaxy was granted US patent for Doxycyline
1992	Entered into an agreement with Eli Lilly & Co. of USA for setting up a joint venture in India to market select Lilly products Ranbaxy's DGR listed in Luxembourg Stock Exchange
1994	Establishes regional headquarters in the UK and the USA. The new research center at Gurgaon (Haryana, India) becomes fully operational
1995	Acquired Ohm Laboratories in the USA
1997	Ranbaxy Laboratories Ltd crosses a sales turnover of Rs 10 billion
1998	Ranbaxy enters USA, world's largest Pharma market with products under its own name
2001	Crosses US$100 million sales, fastest growing company in USA
2003	Ranbaxy & Glaxo SmithKline enter into global alliance for drug discovery and development
2004	Ranbaxy began operations in France as top ten generic company after acquiring RPG (Aventis) SA
2005	Ranbaxy acquires generic products portfolio from EFARMES 005. Ranbaxy launches operation in Canada
2006	Ranbaxy acquires Be Tabs pharmaceuticals, the fifth largest generic company in South Africa for $70 million, also acquires unbranded generics business of GSK in Italy and Spain, acquires Terapia for $324 million 2006 Ranbaxy places US$440 million in FCCB
2008	Ranbaxy redefined its business model, brought Daiichi Sankyo company limited as majority partner (sold the majority stake to this Japanese firm)

Source: Substantially modified version based on the information collected from www.ranbaxy.com/aboutus/history.aspx (accessed16 July 2008)

Table I.
Ranbaxy – milestones

Phase 1: 1992-2005

In 1992, Ranbaxy entered into an agreement with Eli Lilly & Co. of the USA to set up a joint venture in India to market select Lilly products. In 1993, the company set up a joint venture in China called Ranbaxy (Guangzhou China) Limited.

In 1994, the new research center at Gurgaon (near Delhi) became fully operational. Ranbaxy established Regional Headquarters in London (UK) and Raleigh (USA). The fermentation pilot plant at Paonta Sahib was commissioned. Ranbaxy's Global Depository Receipts) were listed in the Luxembourg Stock Exchange. Thus, 1994 was a very important year in the growth phase of the company.

In 1995, Ranbaxy acquired Ohm Laboratories, Inc. an FDA approved, state-of-the-art manufacturing facility in the USA. In 1997, Ranbaxy crossed a sales turnover of Rs 10,000 million, with its exports reaching an all time high of Rs 5,000 million.

In 1998, Ranbaxy entered the USA, the world's largest pharmaceutical market, with products under its own name. In 1999, Bayer AG, Germany and Ranbaxy signed an agreement for an international strategic alliance where Bayer obtained exclusive development and worldwide marketing tights to an oral once daily formulation of ciprofloxacin, originally developed by Ranbaxy. Ranbaxy's strategy was to market its products globally through this alliance.

In 2000, Ranbaxy acquired Bayer's Generics business (trading under the name of Basics) in Germany. It also forayed into Brazil, the largest pharmaceutical market in South America, and achieved global sales of US$2.5 million in that market.

In 2001, Ranbaxy took a significant step forward in Vietnam by initiating the setting up of a new manufacturing facility with an investment of US$10 million (Greenfield venture). It achieved a turnover of US$600 million for the year 2001. At the same time, their US subsidiary, Ranbaxy, USA, crossed sales of US$100 million, thus becoming the fastest growing company in the USA.

In 2002, Ranbaxy launched cefuroxime axetil post-approval from USFDA, the first approval granted to any generic company for this product. In 2003, Ranbaxy received The Economic Times Award for Corporate Excellence for "Company of the Year, 2002-2003". Ranbaxy and GSK accelerated their discovery programs through a global alliance for drug discovery and development. Ranbaxy launched the first-branded product Sotret (isotretinoin) in the USA.

In 2004, Ranbaxy began operations in France as a generic company after acquiring a wholly owned subsidiary RPG (Aventis) SA. The company joined the elite club of Billion Dollar Companies, achieving global sales of US$1 billion in February 2004. Ranbaxy made its first anti-retroviral filing with the USFDA under the President Emergency Fund for AIDS Relief (PEPFAR). RBx 11106 and an anti-malarial molecule being developed in collaboration with medicines for malaria venture successfully completed phase I studies.

In 2005, Ranbaxy's anti-malarial molecule successfully completed proof-of-concept phase II studies. Ranbaxy launched operations in Canada. It opened its third state-of-the-art R&D facility on the Gurgaon campus to focus on new chemical entity discovery research. Ranbaxy's joint venture with Nippon Chemiphar in Japan (Nihon Pharmaceutical Industry Limited) launched Vogseal for diabetes, the first product of the joint venture. The same year it acquired generic product portfolios from EFARMES of Spain (18 drugs for sale in Spain). Ranbaxy received India's first approval from USFDA for an ARV drug under PEPFAR.

Phase 2: 2006 – Ranbaxy under CEO Malvinder Singh

The year 2006 was an eventful relentless expansion year for Ranbaxy under the leadership of young CEO Malvinder Singh. The four global acquisitions in ten days in March 2006 proved that Singh was a true young assertive leader with a daredevil sense of enterprise. The series of overseas acquisitions by Ranbaxy in the year 2006 were:

- *March 21, 2006*. Ranbaxy's US arm buys patents, trademarks, and automated manufacturing equipment from Senetek for its disposable auto injector for self-administration of parenteral drugs for anaphylactic shock.
- *March 27, 2006*. Ranbaxy's Italian subsidiary acquired the unbranded generic business of Allen, a division of GSK, to complement its pipeline for the Italian and Spanish market.
- *March 29, 2006*. Ranbaxy acquired 96.7 percent of the largest independent Romanian generic pharma company Terapia from Advent International for $324 million (Rs1,522 crores). Combined with Ranbaxy's own operations in Romania, the Terapia acquisition created Romania's largest generic firm.

- *March 30, 2006*. Ranbaxy acquired generics company, Ethimed, a top ten player in Belgium. This provided Ranbaxy with a place from where to manage and expand its operations in the Benelux countries (Belgium, The Netherlands, and Luxembourg).
- *July 18, 2006*. Ranbaxy's Spanish subsidiary purchased the Mundogen generics business of GSK in Spain. The acquisition beefed up Ranbaxy's product portfolio in the country.

Phase 3: 2007-2008

Malvinder Singh and his team continued to buy stakes in foreign firms in 2007-2008. They would achieve many things during this period. The important among them were:

- Acquisition of Be Tabs pharmaceuticals, the fifth largest generic company in South Africa for $70 million.
- Ranbaxy successfully invalidated Pfizer's 995 Lipitor US patent.
- Ranbaxy obtained USFDA approval for Simvastatin, with a 180 day exclusivity.
- Ranbaxy placed US$440 million FCCB (Foreign Currency Convertible, the largest in healthcare segment in India).
- Ranbaxy entered into a strategic alliance with Zenotec for its basket of oncology products to be marketed as a co-branded product in various global markets.

Global footprints

Ranbaxy's global footprint extends to 49 countries embracing different local people and cultures to form a family of 51 nationalities with an intellectual pool of some of the best minds in the world.

USA

Ranbaxy Pharmaceuticals, Inc. (RPI), a wholly owned subsidiary of Ranbaxy Laboratories Limited, established operations in the USA in 1994 and began marketing abbreviated new drug application (ANDA) approved generic products in 1998 after receiving FDA approval for Cefaclor, a broad spectrum anti-infective agent.

In the USA (the world's largest pharma market) Ranbaxy captured a significant share of the generics market. During the year 2006, the company achieved sales of US$379 million representing an increase of 15 percent. By May 2007, Ranbaxy had 122 ANDAs approvals in the USA, with 75 pending approvals from the US FDA. Ranbaxy had the second largest product pipeline pending with the US FDA[7].

Ranbaxy's product development and manufacturing capability, teamed with its ability to market products in many global markets, made RPI an attractive business partner. A key part of Ranbaxy's business strategy was to collaborate with partners with complementary skills creating a "Win-Win" position for both partners. RPI had already experienced commercial success in penetrating the US healthcare market and looked forward to enhancing growth and future business opportunities through collaboration and strategic alliances.

Ranbaxy Laboratories, Inc. (RLI), also a wholly owned subsidiary of Ranbaxy Laboratories Limited, was the branded prescription division in the US market. RLI had continuously grown and expanded through its R&D efforts with novel drug delivery systems, as well as through Ranbaxy's licensing activities, mergers, and acquisitions.

Ohm Laboratories was also a subsidiary company of Ranbaxy Laboratories Limited and was the US manufacturing site for approximately 40 percent of RPI's product portfolio. In addition to manufacturing prescription products, Ohm had a commercial presence in the private label market (over-the-counter) and supported the needs of many major retail outlets throughout the USA.

Ranbaxy's global expertise and commitment to develop new and innovative products, through rapidly expanding generic, private label and brand product lines, positioned Ranbaxy as a robust and capable player in the US market.

Brazil

Ranbaxy initiated operations in Brazil, in November 2000, through its majority-owned entity – Ranbaxy SP Medicamentos Ltd The Brazilian Government introduced the National Policy for generics medicine in 1999 and the first generics were registered in Brazil in February 2000. Ranbaxy was the first Indian company to get its plants approved by the regulatory authorities of Brazil and the first international company to support the Brazilian Government's initiative to guarantee and improve access to generic medicines. Ranbaxy is the sixth largest generics company in Brazil as per IMS Health. In 2007, the company achieved sales of US$ ~ 40 million. The company's product portfolio in this market comprises a wide range covering chronic and acute therapy segments.

Canada

Ranbaxy Pharmaceuticals Canada, Inc. was established as a wholly owned subsidiary of Ranbaxy Laboratories Limited that started operations in September 2005. Backed by a strong management team, the company has a strong product pipeline. The distribution function has been outsourced to McKesson Logistics and the laboratory testing function to SGS Laboratories.

Mexico

A wholly owned subsidiary set up in 2004, Ranbaxy, Mexico, has been selling over 50 products in the Mexican market encompassing anti-infectives, cardiovasculars, analgesics, anti-retrovirals, anti-Acne, gastro-intestinals, anti-diabetes, and CNS preparations.

Peru

Ranbaxy has been doing business in Peru since 2000, initially as a joint venture and then as a wholly owned subsidiary named Ranbaxy PRP (Peru) SAC. It has a strong presence in the institutional market, as well as in private hospitals, pharmacy chains and independent pharmacies. Ranbaxy in Peru imports around 45 molecules and more than 70 different products. Ranbaxy is committed to the global objective of providing good quality medicines at an affordable price.

Venezuela, Ecuador, Colombia

Ranbaxy has been operating in Venezuela, Ecuador, and Columbia since 2004. The company is engaged in marketing of good quality generics across several therapeutic segments in order to provide access to medicines to a larger population.

Central Europe

A part of Ranbaxy Pharmaceuticals' expansion into global markets; the Central Europe operations have been managed from the offices in Vienna, Austria, and London, the UK. The countries covered include Austria, Switzerland, Czech Republic, Slovakia and Hungary.

The portfolio comprises a broad variety of branded and non-branded generics products. Cooperation with several local marketing and distribution partners has been put in place to ensure smooth and profitable operations. Through various endeavors, Ranbaxy supports the government's initiative to bringing down overall healthcare costs.

Lithuania and Latvia

The Baltics' operations are managed out of offices in Lithuania and Latvia. The portfolio comprises a broad variety of branded generics.

Belgium

A wholly owned subsidiary of Ranbaxy, Ranbaxy Belgium NV started operations in Belgium on 14 February 2006, after the acquisition of Ethimed NV. It is among the top ten generic companies in Belgium. Rechristened Ranbaxy Belgium in November 2006, it serves as headquarters for Ranbaxy's Benelux (Belgium, The Netherlands, and Luxembourg) operations.

Bulgaria

The direct operations of Ranbaxy Bulgaria started in September 2005. The nature of operations is primarily representing Ranbaxy. The supply agreement was signed with Actavis in October 2005 and subsequently with Ecopharm in early 2007. Ranbaxy was the first Indian generics manufacturer to set up direct operations in Bulgaria and has got clear pricing advantage over the other European generics.

France

Ranbaxy Pharmacie Génériques started operations January 2004. An operation of about 80 persons, RPG has a 4 percent market share in the French generics market.

Germany

A wholly owned subsidiary of Ranbaxy, Basics GmbH is located at Leverkusen, Germany. The German generics market is the largest in Europe. Market share of generics has reached a level of approximately 46 percent of prescriptions in 2006, according to insight health. In Germany, Ranbaxy has a generic product portfolio of 50 generic drugs in a variety of dosage forms and strengths covering a wide therapeutic range, including cardiovasculars, anti-diabetes/metabolic disorders, anti-infectives, analgesics/anti-rheumatics, central nervous system and gastrointestinal drugs.

Ireland

Ireland's commercial operations (sales of Ranbaxy products in the Ireland market) are managed out of their office in London, UK. The portfolio comprises a number of branded generics. Cooperation with a couple of local marketing and distribution partners have been put in place to ensure smooth and profitable operations.

Italy
Ranbaxy Italia SPA was established to promote and distribute Ranbaxy products in the Italian market.

Poland
Ranbaxy is one of the fastest growing generic companies in Poland, selling a wide range of products and employing over 90 people. In business since 1997, the company promotes competitive, high-quality pharmaceuticals across many therapeutic drug categories: anti-infective, anti-arthritics, cardiovascular, and CNS.

Portugal
Ranbaxy Portugal was set up in December 2004 and is based in Porto. The generic product portfolio covers a wide therapeutic range such as central nervous system, cardiovascular, anti-diabetes, anti-infective, analgesics and anti-rheumatics and gastrointestinal at an affordable price.

Romania
Terapia Ranbaxy is the largest independent generic company in Romania. Terapia (Romanian firm) was the largest acquisition of Ranbaxy (in 2006) till date and with this new entity Ranbaxy positioned itself as a strong player in the EU and CIS markets. Terapia has a strong brand name and a consistent track record of growth and profitability. Terapia Ranbaxy recorded combined sales of US$73 million during 2006[8]. The company has the largest sales force on the market, strong product development, and regulatory departments.

Spain
Ranbaxy in Spain is located in Barcelona. The company has its own sales force to market Ranbaxy products. A strong sales team covering the entire territory and a strong customer service department provides customers with the best of the services.

United Kingdom
Europe continues to be a major growth engine for Ranbaxy and the UK operation, a wholly owned subsidiary, plays a significant role in Ranbaxy's European presence. In 2006, the UK operations clocked sales of US$35 million[9], despite severe price erosion and an intense competitive market. The branded business witnessed sales exceeding US$7.5 million, a growth of 34 percent over the previous year[10]. The branded product portfolio was enhanced in the respiratory segment with the introduction of easyhaler (inhaler), complementing the respiratory class. Ranbaxy UK now has the easyhaler for Salbutamol, Budesonide, Beclamethazone and Formoterol, Visclair (Mecysteine) indicated for chronic obstructive pulmonary disease and Distaclor-MR (Cefaclor MR) for respiratory tract infections. RUKL has made remarkable progress in enhancing its product portfolio and for securing the product basket by in-licensing products. Ranbaxy signed deals with various companies for a number of different molecules in different therapeutic areas.

Kazakhstan
Ranked as the no. 24 company in the country, Ranbaxy CAR began its direct operations in October 1998. Ranbaxy has its presence throughout Kazakhstan, Kyrgyzstan, and

Georgia. The company has a wide presence in segments such as cough and cold preparations, anti-infectives, NSAIDS, iron combination products and cardiovasculars.

Russia

Ranbaxy has been operational in Moscow since 1993. The marketing and sales team is spread in all the major cities of the Russian Federation like St Petersburg, Yekaterinburg, Novosibirsk, Rostov-on-Don, Chelyabinsk, Krasnodar, Perm, Kazan, Vladivostok, Krasnoyarsk, N. Novgorod, etc.

Ukraine

Positioning itself as a company that offers "best products at affordable prices," Ranbaxy Ukraine started its operations in 1993. The operations of the company were structured upon the branded generic marketing model.

Egypt

Since its introduction in 1996, Ranbaxy Egypt is continuously reinforcing its position as a new name in the pharmaceutical industry in Egypt, backed by Ranbaxy's global image. Ranbaxy Egypt offers international standard quality medicines at affordable prices to Egyptian patients.

Ivory Coast

In the Ivory Coast, Ranbaxy is ranked amongst the top ten pharmaceutical companies and hailed as one of the fastest growing companies. The company began its operations in 1995. The pharmaceutical market in this country is close to US$80 million and Ranbaxy has a turnover of approx. US$1.5 million in this market[11].

Morocco

Ranbaxy registered its office in Morocco in July 2005 to oversee the operations in Maghreb viz. the Morocco, Algerian, and Tunisian region.

South Africa

Ranbaxy (SA) (Pty) Ltd – South Africa, a wholly owned subsidiary of Ranbaxy, was set up in 1998. During 2006, Ranbaxy acquired Be-Tabs with the turnover US$ ~ 30 million, and thus became the fifth largest generic company in South Africa[12]. The product portfolio is divided into three strategic areas: acute, chronic and OTC. The acute products contribute the majority of the company's turnover and include anti-infectives and anti-fungals.

Ranbaxy's joint venture with Community Investment Holdings (South Africa), "Sonke Pharmaceuticals (Pty) Ltd" (Sonke) has sold Ranbaxy's range of anti-retroviral products in South Africa and other African markets.

Australia

Ranbaxy Australia Pty Ltd was incorporated in 2004; the company has strengthened its operations with the launch of direct operations.

Cambodia

Ranbaxy entered the Cambodian market in 1997 with a few products, Brustan (Ibuprofen & Paracetamol), Norbactin (Norfloxacin), Histac (Ranitidine). Since then, Ranbaxy has obtained more than 90 approvals from the Ministry of Health (MoH) in Cambodia. Ranbaxy is one of the leading supplier of products to the MoH.

China

Ranbaxy Guangzhou China Limited was incorporated in 1993, the partners being Ranbaxy Laboratories Limited, Guangzhou Qiaoguang Pharmaceutical Co. Ltd (an affiliate of Bain Yun Shan Pharmaceutical Company), and HK New Chemic Ltd This Ranbaxy joint venture marked a milestone as being the first Sino-India joint venture and received full support from both governments.

Japan

The Japanese pharma market, with a low generic penetration valued at US$3 billion, represents 5 percent of the overall pharma market. Ranbaxy was the first Indian company to enter the world's second largest pharmaceutical market. During 2006, the company's 50:50 joint venture, Nihon Pharmaceutical Industry company Ltd (with Nippon Chemiphar), clocked in sales of US$24 million[13].

After being acquired by Daiichi Sankyo of Japan, in 2008, Ranbaxy might be in a position to sell more in Japan through Daiichi Sankyo's distribution network.

Malaysia

Recognized as a leading manufacturer, Ranbaxy Malaysia was set up as a wholly owned subsidiary in June 1984. With its excellent sales and marketing team, the firm has had strong brand recognition amongst general practitioners, government hospitals and retail pharmacy sector.

Myanmar

Ranbaxy entered the Myanmar market in 1993 with its first product approvals from the local FDA. Ranbaxy set up direct representation through its own branch office in June 1997 and, since then, Ranbaxy has been able to obtain over 175 approvals and is considered to be amongst the top three companies in Myanmar.

The company has its home office in Yangon, in one of the prime business centers of the country, and a branch office in Mandalay.

Philippines

Ranbaxy started business in Philippines in 1998, through a strategic alliance with a local marketing and distribution company. Philippines still remains an export destination for Ranbaxy.

Singapore

Ranbaxy launched its operations in Singapore in 2001. The business is managed from Ranbaxy Malaysia, which has a manufacturing plant in Sungai Petani, Kedah, for supplying to the Singapore market.

Thailand

The Thailand operations were set up in 1983 through a joint venture between RLL and Thai shareholders.

In 1995, the operations were enhanced with the acquisition of a reputable Thai pharmaceutical company, Unichem. Marketing is Ranbaxy Thailand's forte. Ranbaxy

Unichem Co. Ltd (as the company is known in Thailand) markets and sells ethical pharmaceutical products to medical channels (hospitals and clinics) and drug store channels throughout Thailand. Some locally acquired products are also exported to neighboring countries. About 50 percent of products are imported from India and the rest are manufactured locally by OLIC (a subsidiary of Diethelm Switzerland). The logistics of distribution and collection is outsourced to Diethelm, considered one of the best in the Asia Pacific region. During the year 2006, the operations registered a turnover of over US$9 million, showing a growth exceeding 17 percent[14].

Middle East and UAE

UAE is the single largest market for Ranbaxy in the Middle East region. It is recognized as the largest generic company in this market. During 2006, the company consolidated its position in the Middle East on the back of new product introductions in UAE, Oman, Bahrain, and Lebanon. Ranbaxy was ranked as the no. 1 generic company in the UAE in the private market and is placed at no. 13th amongst the pharma companies. It is growing at 27 percent. The company markets its products through a distributor with a dedicated sales team of ~15 front line staff. In the UAE, Ranbaxy's Histac became the leading brand in its category. Ranbaxy is the no. 1 generic company in the UAE. It has two brands in the top 50 list, each valued at more than US$1 million.

Sri Lanka

Ranbaxy's operations in Sri Lanka date back to over two decades. Ranbaxy was ranked as the fourth largest pharmaceutical corporation in Sri Lanka.

Acquisition by Daiichi Sankyo

On the 11 June 2008, in one of the biggest strategic sales in the pharmaceutical sector, Japan's second largest pharmaceutical company, Daiichi Sankyo, agreed to buy up to a 51 percent stake in Ranbaxy Laboratories at Indian Rs 737 (US$17) a share. Singh sold the promoter's 34.8 percent stake for around Rs 10,000 crores ($2.4 billion) at Indian Rs, 737 per share[15]. In November 2008, Daiichi Sankyo completed the takeover of the company from the founding Singh family in a deal worth $4.6 billion by acquiring a 63.92 percent stake in Ranbaxy[16].

Daiichi Sankyo acquired the majority equity stake in Ranbaxy by a combination of:

- purchase of shares held by the sellers;
- preferential allotment of equity shares;
- an open offer to the public shareholders for 20 percent of Ranbaxy's shares, as per Indian regulations; and
- Daiichi Sankyo's exercise of a portion or all of the share warrants to be issued on a preferential basis (Table II).

All the shares/warrants were acquired/issued at a price of Rs 737 per share.

The purchase price represented a premium of 53.5 percent to Ranbaxy's average daily closing price on the National Stock Exchange for the three months ending on June 10, 2008 and 31.4 percent to such closing price on June 10, 2008[17]. (Tables III and IV for Ranbaxy's share price on the National Stock Exchange). This is an indicator that the Daiichi had seen potential in Ranbaxy's business in India as well as in other countries. The share price of Ranbaxy rose 3.86 percent to Rs 526.40 (BSE) and Rs 525.85 (NSE) on June 9, two days before the company announced its buyout by Daiichi Sankyo (Table IV). India'a benchmark index, Sensex, plunged 506 points the same day.

Daiichi Sankyo agreed to pay as much as $4.6 billion for a 50.1 percent stake in Ranbaxy. As reported earlier by Financial Express, on June 10, a day before the deal was announced, the Ranbaxy scrip surged 6.52 percent to Rs 560.75 and the Sensex fell 177 points. The stock ended almost flat at Rs 560.80 on June 11. On Monday, it settled at 567.75 points, up a mere 0.15 percent (Tables V-VII).

A senior government official said the regulator had called for trading details of Ranbaxy shares from stock exchanges to inquire into the contrarian movement of the company's stock over the last two weeks. "There was some unusual

Date of acquisition	Particulars	Number of shares
15 October 2008	Acquisition of shares under open offer	92,519,126
20 October 2008	Allotment of shares on preferential basis	46,258,063
20 October 2008	Acquisition of shares from the Singh family	81,913,234
7 November 2008	Acquisition of shares from the Singh family	48,020,900
	Total	268,711,323

Source: The Ranbaxy – Daiichi Sankyo deal: where do they go now?, SSRN-ID1415972 (accessed 16 July 2009)

Table II.
Details of shares

Month	Open price (Rs)	High (Rs)	Low (Rs)	Close (Rs)	Volume (000's)	Value (lakhs)
March 2008	439.00	473.80	418.45	438.45	26,013.39	116,700.69
April 2008	444.00	502.00	435.90	479.75	35,283.97	168,794.59
May 2008	480.00	535.00	459.50	528.30	20,852.75	103,689.82
June 2008	533.00	660.00	456.25	523.05	123,899.01	700,173.83

Source: www.moneycontrol.com (accessed 16 July 2009)

Table III.
Ranbaxy share prices on National Stock Exchange in India

Date	Closing price on BSE (in Rs)	Closing price on NSE (in Rs)
30 May 2008	528.65	528.30
2 June 2008	514.05	514.00
3 June 2008	529.95	529.95
4 June 2008	518.90	518.05
5 June 2008	525.00	525.35
6 June 2008	506.80	506.90
9 June 2008	526.40	525.85
10 June 2008	560.75	560.75
11 June 2008	560.00	561.00
12 June 2008	543.50	544.05
13 June 2008	566.90	566.85

Source: Compiled from: www.moneycontrol.com (accessed 20 July 2009)

Table IV.
Ranbaxy Share prices on National Stock Exchange and Bombay Stock Exchange in India

Elements	Daiichi Sankyo	Ranbaxy Laboratories
	FY 2007	FY 2007
Net sales	8,220.13	1,012.85
Overseas sales	3,349.32	613.87
R&D	1,527.09	96.47
Operating income	1,464.51	229.91
Net income	912.52	143.96
Assets	13,896.99	527.03
Return on equity (ROE)	7.80%	28.80%
EPS	$1.26	$0.35
No. of consolidated subsidiaries	43	18
No. of employees	15,349	8,141
Exchange rates used	All figures mentioned are in million dollars	
$1 = Rs 42.91		
$1 = 107.07 ¥		

Source: *Business World*, 23 June 2008, page no. 28

Table V. The buyer and the seller financial results

Region/country	FY 2008	FY 2007	Change (%)	Q4 2008	Q4 2007	Change (%)
North America	19,282	17,306	11	5,080	4,463	14
India	14,857	13,932	7	3,740	3,427	9
Europe	14,275	15,070	−5	3,628	4,183	−13
Asia Pacific & CIS (Excl. India)	9,310	7,588	23	2,688	2,278	18
Rest of the world	9,713	8,618	13	2,580	2,457	5
Active pharmaceutical ingredients (API) and other	5,069	4,413	15	1,379	1,143	21
Global sales	72,507	66,927	8	19,096	17,951	6

Source: Available at: http://ranbaxy.com/news/newsdisp.aspx?cp = 912&flag = ARC (accessed 16 July 2009)

Table VI. Ranbaxy's global sales before Japanese acquisition – regionwise (Rs million)

Particulars	FY 2008	FY 2007	Change (%)	Q4 2008	Q4 2007	Change (%)
Sales	72,507	66,927	8.3	19,096	17,951	6.4
EBITDA[a]	6,168	9,467	−34.9	(1,085)	2,977	–
EBITDA margin (%)	8.5	14.1		−5.7	16.6	
Profit after tax	(9,146)	7,866	–	(6,798)	1,878	–

Note: [a]EBITDA: earnings before interest, tax, depreciation and amortization
Source: Annual Report of Ranbaxy, 2007-2008

Table VII. Consolidated financial performance (Rs million)

movement in the stock price before the deal was announced, which needs to be looked into," the official said.

Ranbaxy stock price movement during the six months period prior to the deal was not remarkable. The Ranbaxy deal was a major takeover in the offing, but the deal still took everyone by surprise. Thus, the amount of movement in the stock as well as the period over which speculative positions were built was not large.

Ranbaxy's acquisition by Daiichi Sankyo is the biggest acquisition of a listed Indian entity till date. The combined company is worth about $30 billion bigger than Teva, the world's largest generic company at $9.4 billion. It ranks no. 15 among the list of innovator companies dotted by big names, such as $48 billion Pfizer and $44 billion Glaxo SmithKline[18].

Daiichi Sankyo is the product of a 2005 merger between Sankyo and Daiichi. In the financial year ended March 2008, it had net sales of $8.2 billion and a profit after tax of $915 million[19]. It has a presence in 21 countries and employs 18,000 people. It is the second largest pharmaceutical company in Japan. The company can trace its roots back to 1899, though the formal entity today is relatively new. Daiichi Sankyo makes prescription drugs, diagnostics, radiopharmaceuticals, and over-the-counter drugs. Daiichi Sankyo found it easier to enter the Indian market with Ranbaxy, but its bigger goal would be in securing a strong presence in the global market for generics which Ranbaxy had.

In an interview, Malvinder Mohan Singh, commented of their decision to exit Ranbaxy"

This is not an exit. This is a strategic transaction that will completely transform the way business is done. It brings together a generic and innovator company. This is phenomenal. We are headed for a strategic redefinition, and are creating a new business model. It makes perfect sense for the share holders, and takes the company to a different level. On the financial side, the debt goes to zero, Rs 3,000 crore of cash comes in, the market capitalization goes to $8 billion, the net worth goes up. Our objective is to be no. 1 in generics. Together we are bigger than Teva. And it is a matter of great pride for any Indian to say this. I want this deal to be seen as a transformational deal, a deal which took Ranbaxy to next orbit[20].

Daiichi Sankyo and Ranbaxy believed that this transaction would create significant long-term value for all stakeholders through:

- A complementary business combination that provides sustainable growth by diversification that spans the full spectrum of the pharmaceutical business.
- An expanded global reach that enables leading market positions in both mature and emerging markets with proprietary and non-proprietary products.
- Strong growth potential by effectively managing opportunities across the full pharmaceutical life cycle.
- Cost competitiveness by optimizing usage of R&D and manufacturing facilities of both companies especially in India.

The acquisition was expected to boost Ranbaxy's branded drug development initiatives for developed markets. Ranbaxy will gain cost competitiveness by optimizing usage of R&D and manufacturing facilities of Daiichi Sankyo. The company will also gain smoother access to and a strong foothold in the Japanese drug market. The immediate benefit for Ranbaxy is that the deal frees up its debt and imparts more flexibility into its growth plans. After the acquisition, Ranbaxy will operate as Daiichi Sankyo's subsidiary.

The deal aimed to combine Ranbaxy a generic powerhouse making copycat drugs with Daiichi that only deals in premium priced patented medicine. In Japan, where an ageing population and rising healthcare costs have led the government to allow generics substitution for branded innovator drugs, Daiichi lacks the low-cost development and manufacturing back end to supply them, like Ranbaxy did.

Until 2008, Ranbaxy, under Singh, embarked on a string of acquisitions to enter new markets or strengthen its presence in the old ones. Among his foreign acquisitions are the unbranded generic drug business of Allen SpA (a division of GlaxoSmithKline) in Italy; Terapia in Romania; Ethimed, a generics company in Belgium; the Mundogen generic business of GSK in Spain; and Be-Tabs Pharma in South Africa. Singh has taken over or acquired strategic stakes in a host of domestic companies such as Zenotech Laboratories, Cardinal Drugs, Krebs Biochemicals, and Jupiter Bioscience.

After such an acquisitive strategy, why would Singh suddenly agree to be acquired? The answer was not easy. Indian generic companies, especially Ranbaxy, were feeling the heat of falling prices and regulatory requirements in the USA, the world's largest pharmaceutical market. In such a situation, being resilient was more important for Ranbaxy, as was searching for new markets to keep moving ahead. Ranbaxy could also bypass a lot of European and the US companies that are finding it difficult to enter the Japanese market where safety and testing requirements are a lot higher.

What is the rationale for this strategic sale? Did Singh want to get rid of the challenges that he encountered? Did he get a better deal by selling the stake at Indian Rs 737, when the market price was approximately Rs 500? What would be the synergies of this acquisition in the much-coveted Japanese market and within the Daiichi Sankyo?

As much smaller companies than Ranbaxy have gone to Japan, shopping bag in hand, why did not Singh try to stake in a Japanese firm or in Daiichi Sankyo instead of selling? Domestic laws make Japanese companies difficult to take over. But there surely could have been an equivalent in Europe or the USA. Unlike many Indian MNCs which targeted foreign companies several times their size, why did Ranbaxy follow a different prescription?

First, the company has thrived on selling off-patent drugs in the USA. But this had become a much more expensive proposition because of litigation. Second, there was growing competition in generics at home and abroad. Finally, even the Indian Government was insisting on stringent quality norms and extending its regime of price controls. The industry contends that it simply could not make adequate returns on various products.

For Daiichi Sankyo, there are huge benefits in getting access to Indian research capabilities and market. India and Indian companies are a very good way forward for them as Daiichi Sankyo was banking not just on the cost advantage Ranbaxy would bring, but also its capabilities for innovation and new product development. They would shift a section of their R&D to Ranbaxy's facilities in India because there was an abundant supply of scientists in the field in India.

Daiichi Sankyo's has formulated a plan to make the much cheaper generic drugs the default option over branded drugs. The ministry stamp of approval will eliminate the problems patients have been facing with health insurance claims; some insurers have not been accepting generic drugs as valid medicines. Indian pharmaceutical companies have been aware of this opportunity.

Post-acquisition phase

Cultural challenge

After the deal, there were doubts raised since there has been no recent example of a generic company being integrated into an innovator company. Some also highlighted the possibilities of cultural clashes – innovator companies have always seen themselves as superior to generic companies. Besides, the Japanese culture of consensus-building and team playing could be new for a promoter-run company.

Financial results

For the years 2008-2009, the company recorded sales of Rs 72,507 million (US$1,667 million), registering a growth of 8 percent. EBITDA was Rs 6,168 million (US$142 million). Net income for the year was Rs 9,146 million (US$198 million). Loss on account of exceptional items (including provisions on inventories, mark-to-market losses on fair value of derivatives) was Rs (9,389) million (US$196 million)[21].

During the first quarter of post-acquisition, Ranbaxy shares were down and ranged between 240 and 300 Rs 247.40 sharply below the 737 Rs per share that Daiichi Sankyo paid for its stake in January 2009.

On May 24, 2009, Daiichi Sankyo announced that Mr Malvinder Mohan Singh would step down from the positions of Chairman, CEO, and Managing Director of Ranbaxy with immediate effect. Mr Atul Sobti, who was serving as Ranbaxy's Chief Operating Officer, had been appointed as CEO. Commenting on these changes, Mr Takashi Shoda, a Director of Ranbaxy and the CEO of Daiichi Sankyo, said:

> We very much appreciate the efforts of the Singh family, which grew Ranbaxy from a small, local Indian company to the large multi-national company it has become today. We especially acknowledge the contributions of Mr Singh. His strategic vision and passion for the pharmaceutical industry will be missed in Ranbaxy's operations. We wish him continued success as he pursues his many other business interests[22].

"It was a difficult decision to separate from Ranbaxy," said Mr Singh:

> [. . .] but it was the right time for me to do so. I leave with complete confidence that the initial transition phase that followed Daiichi Sankyo's acquisition of majority shareholding interest in Ranbaxy has been completed successfully and that the company's excellent team of management colleagues are well-positioned to take full advantage of the company's growth opportunities[22].

An important question to be answered here is – Why did Daiichi Sankyo offer premium price and acquired controlling stake in Ranbaxy? Despite facing ups and down in its journey, Ranbaxy always had been a resilient company and has always had looked forward. But will Ranbaxy be able to be a phoenix in the world of pharmaceuticals market after its acquisition by Daiichi Sankyo if it does not bear fruitful results as was predicted?

Notes

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