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Ranbaxy in Sun's shadow!

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What goes up must come down too! This famous quote by Sir Issac Newton is apt to summarise the Ranbaxy's timeline. Like many successful businesses, the company too started on a humble note more than five decades ago. Despite its ups and downs ranging from quality issues to financial setbacks, it survived all along. However, the threshold was when it suffered worst after being bought by Daiichi Sankyo while Singh brothers exited the business. But with takeover by Sun Pharma through deal with Daiichi, there is a complete overshadowing of the once renowned band now left being as nothing more than a mere business unit.

Ranbaxy's phenomenal journey: From rising to top and sliding down

1937: Ranbaxy started by Ranbir Singh and Gurbax Singh as a distributor for a Japanese company.
1961: Ranbaxy is incorporated.
1973: Company went public.
1997-98: Entry into US market.
2004: WHO detects quality issues in Ranbaxy's medicines.
2005: Whistle blower exposes malpractices to USFDA.
2008: Daiichi acquires Ranbaxy in a deal worth $4.6 billion by acquiring a 63.92% stake in Ranbaxy.
2013: Company pleads guilty of clinical generic drug data and selling adulterated drugs to the United States, fined Rs 500

million by USFDA.
2015: Sun Pharma takes over Ranbaxy business from Diachii Sankyo.
2015: Ranbaxy ceases to exist as company.

So what possibly went wrong? A New Delhi based pharma analyst calls it a mix of wrong policies and short sightedness. "The downfall started when Ranbaxy overlooked the concerns at the right time and continued to operate normally despite warnings. The waterloo moment was when the whistle blower removed the perfect company tag by exposing the quality issues at a global level. Aftermath was devastating for it," he mentions.

Another school of thought however is not convinced with the argument. It says that the Ranbaxy is not the only company that has been caught in the web of quality issues. "There are so many examples of even non-Indian MNCs getting caught and let off after quality issues. But in Ranbaxy's case, it was just bad luck that one of its employee spilled beans and others too joined in," says a top pharma executive on the basis of anonymity.

Daiichi's failed India aspirations

The withdrawal from Ranbaxy business and sale of its shares by Daiichi Sankyo, after much hyped entry into India seven years ago has been completed with clear losses expected on investments.

Daiichi on March 25, 2015 announced that it has decided to sell off the shares of Sun Pharma received following the completion of Sun Pharma's merger with Ranbaxy. "From the perspective of the improvement of corporate value, Daiichi Sankyo has performed a review of the Sun Pharma shares and reached a conclusion to sell the shares entirely or partially. After the sale, Daiichi Sankyo will not be a major shareholder of Sun Pharma. However, the existing business partnership with Sun Pharma will remain unchanged," said the statement from company. After its board approved the share sale to exit India, Daiichi sold its entire holding of 8.9 per cent in Sun Pharma on April, 28.

As per Daiichi, it will make an announcement concerning the effect of any gain or loss on the sale of Sun Pharma shares during results of operations for the fiscal year ending in March 2015. However, in its statement to Bombay Stock Exchange (BSE), the company has mentioned that it will book a loss on sales of investment securities of 46.2 billion yen under extraordinary losses in its non-consolidated financial results for fiscal 2015. Daiichi got Rs 20,026 crore ($3.18 billion) which is technically about the same amount it had invested in rupee terms. However, there is still a loss compared to the dollar investment value of Daiichi which had invested through a mix of stake purchase from previous promoters, preferential allotment and open offer, giving it 63.92 per cent stake in Ranbaxy.

Impact on 'Make in India'

Seen as a silver lining in the dark clouds, the government's recent decision to allow FDI into two major Indian pharma firms is being seen as step to push indigenous manufacturing. The Cabinet Committee on Economic Affairs (CCEA), chaired by the Prime Minister, Mr Narendra Modi, on April, 07 approved qualified institutional buyers to infuse fresh equity of upto 7 percent amounting to about Rs 2165 crore into Aurobindo Pharma engaged in manufacturing generic pharmaceuticals and active pharma ingredients. Besides that $1 billion Glenmark Pharmaceutical's foreign investment limit by FIIs has been approved from 35.07 percent to 49 percent. This will result in an inflow of about Rs 2022 crore. Apart from manufacturing pharmaceuticals, the company is also engaged in Research and Development activities in drugs.

The government is confident that it will help and exemplify "Make in India". Whether the picture is going to be as rosy as being claimed remains to be seen. Post its acquisition of Ranbaxy, Sun Pharma with its 10 percent of domestic market share, stands at the top. Therefore, its role in Make in India initiative cannot be ignored. This after company making it clear that intends to go for more acquisitions, points towards further strengthening of business.

However, despite the strength, there are some outstanding issues that can spoil the party. Mr Tapan Ray, Independent Pharmaceutical Industry Analyst and Consultant wrote in his blog, "It is much well known though, that the US drug regulator has already imposed a ban on import of medicines into the US, produced at its key constituent Ranbaxy's India-based factories. Earlier, certain drugs produced at its Dewas plant of Ranbaxy were also barred from export to the entire EU region for non-compliance to GMP norms. On its own, the acquirer - Sun Pharma has also faced USFDA ban on import of products made at its Karkhadi plant in Gujarat. Taking all these into consideration, one can probably argue that the 'Make in India' issue for Indian pharma is humongous and quite a widespread one. Its adverse impact is very much palpable even at the very top."

The trouble doesn't seem to be over yet for it at a time when the USFDA is stepping up scrutiny of India's pharmaceutical industry, which supplies nearly 40 percent of the drugs sold in the United States. Suddenly a new allegation has popped up on Ranbaxy's malpractices in past. A lawsuit filed in Boston court recently has accused it of conspiring for manipulating the U S Food and Drug Administration (USFDA) by putting up false or incomplete papers. The complaint that has named Sun Pharma mentions that the Ranbaxy as company intended to block competition while claiming 180 days of exclusive marketing rights.

Road ahead:

With Ranbaxy in its fold, Sun Pharma's 40 percent of the turnover comes from India and other emerging markets, and it has 45 manufacturing plants that make products for sale across 150 countries. The founder and managing director of Sun Pharma, Mr Dilip Shanghvi, has mentioned that Ranbaxy deal would not stop him from pursuing other big-ticket acquisitions. He said winning back the confidence of regulators would be the company's "most important focus", as it works to resolve quality control issues that have led to U S import bans on all of Ranbaxy's India drug manufacturing plants.

Integration with Sun Pharma

â¦? Value creation initiatives to deliver US$ 250 million synergies in 3 years.
â¦? Combined entity structure to create opportunities for strong talent growth.
â¦? 100 percent compliance, enhancing R&D productivity and strong business growth are the key priorities.
â¦? Management Leadership Team to lead combined entity's next growth phase.
â¦? Plans strong team of functional leaders drawing best of Sun Pharma and Ranbaxy.

Sun is looking to increase its annual research spending to about $300 million from $250 million now. Remediation at manufacturing units which are currently in deviation from cGMP norms will remain a critical focus. Sun Pharma is working with global consultants assisting its internal teams to achieve compliance objectives. It has formalized an operational blueprint for realizing its US$ 250 million synergy target for year-3 through significant value creation across functions. The integration will cover all functions and markets globally.

Whatever be the future, one thing is clear that Ranbaxy is no more. But then it leaves with Indian pharma industry, a list of experiences to learn from.

What others can imbibe?

âˆ? Focus on quality issues should be supreme.
âˆ? Regulatory procedures shouldn't be undermined.
âˆ? Financial dealings and professional conduct must be clean.
âˆ? Investments in R&D can help in stronger original product pipeline.