

ANTITRUST HURDLE

# Sun-Ranbaxy deal in CCI crosshairs

**CCI issues show-cause notices to firms, asks why deal should be cleared as it will lead to market domination**

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**S**un Pharmaceutical Industries Ltd's acquisition of Ranbaxy Laboratories Ltd may have hit a major hurdle, with the antitrust body, the Competition Commission of India (CCI), asking the two companies why a public investigation should not be ordered into the deal because it will result in significant market domination by one company and could affect the prices of essential life-saving drugs in the domestic market.

Officials at the competition body say it has issued so-called show-cause notices to both Ranbaxy and Sun Pharma. They add that they believe the deal could be against "national interest". None of the officials from the antitrust body wished to be identified.

This is the first time CCI has evoked national interest to ask hard questions of a merger-in-the-making.

Ranbaxy and Sun Pharma did not respond to emails sent on Thursday. Company spokespersons who said they would revert with a comment on Monday hadn't done so as of press time on Tuesday.

On 11 July, the National Stock Exchange and BSE cleared the deal. It still needs to be cleared by capital market regulator Securities and Exchange Board of India, CCI and various courts.

On 6 April, Sun Pharma agreed to buy Ranbaxy for \$3.2 billion in stock from its Japanese parent Daiichi Sankyo Co. Ltd. It also agreed to take on \$800 million of Ranbaxy's debt.

The antitrust body is especially concerned about the 46 drug formulations that will constitute the merged entity's portfolio and in which the entity will have a significant presence in the market. If the merger goes through, it will create India's biggest drug maker with an 8.5% share of India's pharmaceutical market, worth an annual ₹76,000 crore by sales.

Under India's merger and acquisition (M&A) rules, companies need CCI's approval if the combined assets of the two entities are worth more than ₹1,500 crore or sales amount to more than ₹4,500 crore in India.

Sun Pharma's acquisition of Ranbaxy—slightly uncommon in the pharmaceutical sector with one Indian company buying a local competitor—will have estimated annual revenue of \$4.2 billion (about ₹25,200 crore). Since both companies are market leaders in various drug segments, the merger may have significant impact on drug prices.

A person familiar with the development and who asked not to be identified said that "when companies hold between 50-90% of markets share in any drug segment (for example, antibiotics or statins), it will become difficult to keep prices under check. While some companies may make cheaper variables of these drugs, it will not influence the market. In this case, the merger would have resulted in highly concentrated market in 46 drug categories, throwing the drug price control in complete disarray. Hence, there is enough reason to raise red flags."

A CCI official said that this is the first time the antitrust body had sent out such show-cause notices. "Other deals have been fairly simple. Prima facie, we had no reason to demand a public investigation. Since the pharmaceutical sector is slightly complicated and the ripple effect of the merger could be huge, we decided to send the notices. The procedure is fairly simple. We are waiting to hear from the companies as to why we should clear the deal. Depending on that, we will take further steps," the official said.

Under the terms of the deal, shareholders of Ranbaxy will receive four shares of Sun Pharma for every five shares they hold. Analysts were expecting the merger to be completed by the end of the year.

The announcement of the acquisition, and the launch of the generic version of blood pressure drug Diovan, have provided a boost to Ranbaxy's stock which is now trading at ₹590 a share, up from the sub-₹300 levels it was trading at a year ago.

In the past year, Ranbaxy has been battling a regulatory crisis, with the US Food and Drug Administration putting all four of its manufacturing plants on an import alert after violations of good manufacturing practices surfaced.

On Monday, shares of Ranbaxy rose 1.24% to ₹590 on the BSE and shares of Sun Pharma gained 1.33% to ₹789.70. The BSE's benchmark Sensex fell 0.52% to 25,991.23 points.

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