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ISRAEL MAKOV/SUN PHARMA

We are going to retain Ranbaxy brand wherever it is strong

BY MALVIKA JOSHI & C.H. UNNIKRISHNAN
MUMBAI

Sun Pharmaceutical Industries Ltd's purchase of Ranbaxy Laboratories Ltd may catapult it to India's No.1 drug maker by market share and the world's fifth largest producer of generic medicines, but it also faces the tough task of overcoming the negative reputation the latter has acquired because of import bans by the US drug regulator for sloppy manufacturing practices. Another hurdle it needs to skirt in the integration process will be the cultural mismatch between the two companies in the way they do business.

Sun Pharma chairman **Israel Makov** conceded in an interview that Ranbaxy's reputation in some markets is a concern. Edited excerpts:

Retaining assets: *Israel Makov says Sun Pharma does not have plans to sell any of Ranbaxy's plants.*

Ranbaxy and Sun are two big companies. Integration and extracting synergies will be a big task.

Sun is known for managing such situations. We have been significantly increasing our management capacity. When you have to integrate, there is a need to increase management capacity that Sun has already been doing in the last few years. Again, when you make an acquisition, there are challenges—one of the major ones being how to get over the cultural barriers.

There are two types of cultural barriers—national and business. In this case, a national cultural barrier is out of the equation as we are dealing with two Indian companies here. We are left with a business cultural barrier. But as a global company we are used to such integration and we know how to integrate our business culture with (that of) other companies joining us. In this deal, it will be relatively easier for us to integrate as there are no national cultural barriers.

Both Sun and Ranbaxy complement each other. In India, we will be number one in 13 therapeutic segments which is a matter of pride for people working with both Sun and Ranbaxy. In emerging markets we do not have competing issues and will complement each other. In the US, the significant presence of both Sun and Ranbaxy will allow us to derive synergies. It is a challenge, but we are confident about managing it successfully.

How are you enhancing management capacity?

Globalization is not only acquiring companies and it is not just about establishing subsidiaries outside India. It is about managing complexity of supply chain and managing complexity in the coordination of different pieces in the puzzle. The more you buy, the more you enter into new geographies and increase the complexity of the organization. You need management capacity to deal with it... Sun has already been doing (building) it in the last few years and is now in a position to absorb Ranbaxy and once we absorb it, our management capacity will grow further as people from Ranbaxy will join us.

Sun Pharma is known for turning around distressed companies after acquiring them at low prices. What will it do in case of Ranbaxy that Daiichi Sankyo Co. Ltd has not been able to do?

I am not in a position to comment on Daiichi's behalf and do (not) have sufficient knowledge about the relationship that Daiichi shares with Ranbaxy. But I can say that we (Sun Pharma and Ranbaxy) come from the same industry, we know each other's products, both are generic drug makers and both have a substantial presence in India and several other markets. It is not an unknown entity to us. If Ranbaxy would have been a company based out of India, let's say Japan, the challenges pertaining to a turnaround would have been bigger.

In the last five years, Ranbaxy lost a major chunk of business due to non-compliance with regulatory standards.

There is still some time for us before we get on to managing things at Ranbaxy as the deal is yet to be closed. We have a pretty good understanding of the magnitude of problems that Ranbaxy is facing which is big. Its Indian plants are banned from exporting drugs to the US, which is a big issue. We are a (company) which is meeting the safety standards and compliance requirements. We have a very good management system in place for compliance.

We can guide people at Ranbaxy and talk with the USFDA (US Food and Drug Administration) and do everything in our capacity to set things right there.

But your managing director Dilip Shanghvi, who is so clued into the pharmaceutical industry, has said he has not yet fully understood the required efforts to address issues faced by Ranbaxy.

Yes, it is because we need to do a deeper analysis. While the magnitude of problems is clear, it takes a lot of analysis and time to take remedial measures.

Will you be using Ranbaxy's brand to build your presence?

We are going to retain the Ranbaxy brand wherever it is a strong established name. The firm has spent large resources over the years to build the brand and Ranbaxy is a good brand. We will keep it in India and in most of the countries. In some markets Ranbaxy is stronger and in some Sun is stronger. We will have a specific plan for each market, which is an operational issue and we will deal with it. But you do not plan at this stage. Currently, we are focusing on the scope and issues around this deal.

Ranbaxy has a negative reputation in the US, India and other markets. How will you manage this?

Ranbaxy, as a firm, will be integrated into Sun Pharma and there will be only one entity. Ranbaxy has its plants and marketing team. But we will be one company. Ranbaxy's name will be retained. But the drugs will be manufactured at a plant that will belong to Sun Pharma. We will use the Ranbaxy brand and we are going to use the Sun Pharma brand. We will deal with both of them. In most markets, Ranbaxy is still a reputed brand and in a few markets, including the US, it is less reputed. Wherever Ranbaxy brand has a value, we will retain it and where it has no value we won't.

You have given three years to resolve issues at Ranbaxy and extract synergies worth $250 million. How will you go about it?

We will get $250 million of synergies in three years' time. These are annual synergies and we will get it from the topline. There are opportunities in the emerging markets and we have a complementary product line. In India, we are number one now. In the US also, we can do much more together with Ranbaxy.

Then we will be extracting synergies at the operational level. The main component of costing in generic drug business is material and we will focus on procurement and supply chain which will give us an upside. In generics space, two things are important. Costing is important. Economies of scale helps but you should know how to manage it. Second, having a broad range of products is useful. Our customers are getting bigger by the day and with diversified product portfolio we will be in a better position to serve them.

The merged entity will have 41 factories and 25,000 employees. What is the plan to rationalize operations?

The 25,000 people and 41 factories are assets for us. If you do not manage your assets well they turn into liabilities. Managing assets well will give us an opportunity to upgrade ourselves. We will be able to make specializations and reach economies of scale. There are lots of opportunities to create value. We have not planned to sell any of Ranbaxy's plants. We have a lot of cash. There is no plan to rationalize the plants as of now.

Shareholder approval will be crucial. How are you creating value for them?

We are offering upsides to both Ranbaxy and Sun shareholders. It is a better opportunity for Ranbaxy shareholders and through this transaction we will be unlocking a lot of value for Sun shareholders.

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