

DILIP SHANGHVI/SUN PHARMACEUTICAL INDUSTRIES LTD

Will cancel Ranbaxy stock taken by Silverstreet once it is issued



Road ahead: Shanghvi says Sun Pharma wants to expand on Daiichi's research relationship with Ranbaxy.

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Dilip Shanghvi, founder and managing director of Sun Pharmaceutical Industries Ltd, speaks in an interview about the drug maker's acquisition of Ranbaxy Laboratories Ltd in a \$4 billion deal that includes assumption of \$800 million in debt. Edited excerpts:

You have said this deal has been the hardest to pull off but why do you say so? If reports are to be believed you closed negotiations in record time, you drove a hard bargain. So why has this been harder than the long, hard battles you fought for companies like Taro Pharmaceutical Industries Ltd and Caraco Pharmaceutical Laboratories Ltd?

Size of the transaction itself makes it a difficult decision. It is a company almost as big as Sun Pharma both in terms of top-line, also in terms of number of people, manufacturing facilities. So, to take on such a large additional management responsibility is the reason why we were strengthening the management capability of Sun Pharma. We believe that we are now ready to manage a much bigger business.

Did you make the first move? Was the first overture from Sun's side to Ranbaxy or Daiichi Sankyo Co. Ltd? Would it be safe to assume that when a Sun Pharma subsidiary decided to pick up a stake of 1.4% in the December quarter in Ranbaxy, in a sense it was perhaps the first step or the first move towards this transaction?

We made the first approach to Daiichi Sankyo but I don't think that our investment had anything to do with the transaction. We are actually coming out with a statement which explains our position on this because we manage the business with the highest level of compliance and ethical standards. We believe we have done nothing which is inconsistent with what is required by law.

To see value in Ranbaxy when the stock was being written off as far as the markets were concerned, when there were regulatory concerns everyday that were emerging on the USFDA (US Food and Drug Administration) front seems odd. Silverstreet, the Sun subsidiary, picked up a 1.4% stake as per disclosed information at the end of December, which was hiked to

1.64%. Clearly you saw value when nobody else did?

We clearly see that business, when managed properly, is capable of producing significantly higher value for its shareholders than what is reflected in the market price.

Was that the start of really building an appetite for this large transaction? Did you then at that stage figure that you didn't want to nibble at the margins but you wanted all of it and you wanted it for yourself?

My sense is that the investment and the transaction had no direct connection.

It is just a coincidence that you decided to invest through a subsidiary and then do this mega transaction as well?

True. For completing a transaction, two sides are involved.

Even if we have great desire to buy the company other shareholders need to decide to sell and we can't decide for them.

When did Daiichi Sankyo come back to the table and say that they were interested in taking this deal forward? My understanding is that there were other players in the race; Mylan's name has been talked about. Did it finally boil down to you and Mylan? When did you finally decide to ink the deal

with Daiichi?

I would not know from Daiichi's side how they were managing the transaction. They would be the best to give you bigger information on that. We inked the transaction a few hours before we announced it.

What happens to the current management? Will there be a need for rationalization of work force?

It's going to work in two stages. Till the time we obtain all regulatory approvals, the current management will run the business.

There will be an integration committee. It will have members from both companies. On the other side, I see huge potential in synergies in terms of growth. We fully don't understand their manufacturing. Once we understand, we will take a decision.

What role does Daiichi now play as far as the combined entity is concerned? They will hold 9%, they will get a board seat, and beyond that what role will they play in the combined entity if any at all?

They have a number of relationships with Ranbaxy which we inherit. The relationships are in area of marketing in different geographies. They also have some relationship in research. We wish to expand on that relationship.

We have seen what happened to the Ranbaxy stock a week ahead of this transaction being announced and the way that it ran up over 20% in the last six trading sessions. I don't know if the market regulator has reached out to you yet or not. There are reports suggesting that they have started some sort of a preliminary inquiry. What would your response be?

We haven't heard it...We believe that Sun is in compliance. We also have concern about the run-up on the Ranbaxy stock a few days before the transaction was announced, but we hope that nothing comes out of that inquiry.

As far as the stock, I know you have clarified that you will nullify the stock that was picked up by Silverstreet in Ranbaxy—that decision stands?

That is correct. I think we will cancel those stocks once they get issued.

Company