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SELECTIONS FROM The Economist

Business | Indian drugmakers

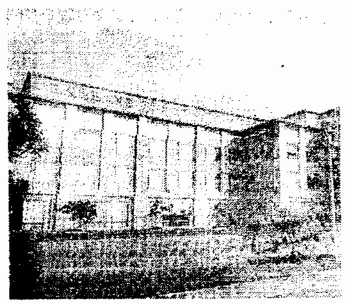
Sun takes a shine to Ranbaxy

Buying a troubled rival will make Sun Pharma a global contender

RANBAXY has brought Daiichi Sankyo nothing but trouble. The Japanese drugmaker paid $4.6 billion for Ranbaxy in 2008. Daiichi Sankyo wanted to expand into the burgeoning market of generic medicines; the Indian company was supposed to be expert at producing such copycat drugs. Instead, it produced scandals, and not the fun sort. American regulators have banned imports from four of its factories. Last year America's Justice Department fined Ranbaxy $500m for, among other things, inventing safety data for some of its medicines.

Though Ranbaxy has been a curse for Daiichi Sankyo, Sun Pharma views it as a shining opportunity. On April 7th Sun, another Indian generic-drug maker, said it would buy Ranbaxy in a deal valuing it at $3.2 billion, 2.2 times its annual sales. The deal, said Sun's founder and boss, Dilip Shanghvi, is a "landmark" in his company's history. Although Sun will remain the world's fifth-largest generic-drug maker, it will no longer trail far behind the bigger four, and thus will become a strong competitor to them.

Sun is an experienced shopper—it has snapped up 16 companies over the past 20 years—and has improved the performance of a recent target, Taro. But integrating those firms was simple compared with the task ahead. Much depends on whether Sun can yank Ranbaxy out of its regulatory mire. The Food and Drug Administration (FDA), which regulates medicines in America, is scrutinising Indian manufacturers ever more closely. Margaret Hamburg, its commissioner, visited India in February to drive home the point. Even Sun has run into trouble of late. In March the FDA banned imports from one of its Indian plants.



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Nevertheless, Mr Shanghvi reckons that Ranbaxy will be a boon. Sun is as well-respected a firm as Ranbaxy is toxic. With margins greater than 40%, it is popular among investors. Sun's expertise in formulating copycat drugs helped it ink a deal with Merck, a much bigger American pharmaceutical firm, to develop and sell generic medicines to emerging markets. With Ranbaxy, Sun contends that it can do much more.

The combined company will still be half the size of the world's largest generics maker by sales, Teva of Israel. But Sun's sales will nearly double, to $4.3 billion, with more revenue coming from more corners of the world. The generics market will swell in both rich and emerging markets, as governments and patients demand more medicines at lower prices. Generics made up about one-quarter of all drug sales in 2012; by 2017 they will account for more than one-third, thinks IMS Health, a data firm.

Sun will now be better able to profit from this growth. Before the Ranbaxy deal, Sun earned only 17% of its revenue in markets beyond India and America. Now it will have broader reach, with that share rising to 31%.

Most important, says Sujay Shetty of PwC, a consulting firm, Sun will have new dominance in its two main markets. The deal makes Sun the biggest Indian drugmaker in America, with sales of more than $2 billion. Crucially, Sun will acquire Ranbaxy's impressive list of "patent challenges": in America, the first firm to challenge successfully a branded drug's patent is rewarded by having all other competitors kept out of the market for six months, enough time to make lots of money.

The merger also makes Sun the biggest drugmaker in India, where demand continues to grow quickly. The combined company will have a 9.2% market share, nearly 50% larger than that of its closest competitor, Abbott. "To get all of that for this price, I think it's a very good deal," says Mr Shetty.

Company