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MERGERS AND ACQUISITIONS A PREREQUISITE GROWTH STRATEGY FOR INDIAN HEALTHCARE INDUSTRY: A CRITICAL ANALYSIS OF RANBAXY-DAIICHI ALLIANCE

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ABSTRACT
The global scenario has undergone rapid restructuring in the corporate sector in the form of consolidation strategies to overcome the challenges posed by new pattern of globalisation and competition which has led to greater and more robust integration of various economies. The intensity of such operations is increasing with the deregulation of various Government policies as a facilitator of the new economic regime. Healthcare sector has a great potential in the present globalised world. The Ranbaxy-Daiichi Alliance is one of the landmarks in the pharmaceutical sector where two strong contenders have altered the paradigm for business and their synergies have enhanced the overall scope, scale and effectiveness of the business. The present paper critically analyses the Ranbaxy-Daiichi Alliance case in term of the post alliance effectiveness. The study is conceptual based on the available secondary source information in the nature of previous research reports available in literature and tertiary like various indexed and referred information.

KEYWORDS
Healthcare, Pharmaceutical, Merger and Acquisition.

INTRODUCTION
Prime Minister Shri Manmohan Singh on October 11, 2011 in a high level meeting quoted, *"India will continue to allow FDI without any limits (100%) under the automatic route for investments in the pharma sector. This will facilitate addition of manufacturing capacities, technology acquisition and development."*. Healthcare sector thus is believed to have a great potential in the present globalized world. It is one of the world's largest industries with total revenues of approximately US$ 2.8 Trillion. It has emerged as one of the largest service sector in India too. Indian healthcare sector has estimated revenue of around $ 30 billion constituting 5% of GDP and offering employment to around 4 million people (CII Report 2011). According to Investment Commission of India, the sector has witnessed a phenomenal expansion in the last few years growing at over 12% per annum. As per a recent CII-McKinsey report, the growth of healthcare sector can contribute to 6-7% of GDP and increase employment by at least 2.5 million by 2012. The financing of health services can come from sources within a country tax or insurance for example, or from without. The latter can be further sub-divided into commercial finance, official aid or non-governmental finance. Commercial financial flows may further be divided into portfolio/equity investments, commercial loans or FDI.
Despite predictions that the global healthcare industry will grow by 6 percent year-over-year till 2030, there are many challenges that need to be addressed to ensure a profitable growth. The increasing demand from health systems around the world to provide cost-effective and quality-driven healthcare is threatened by overwhelming healthcare costs, increasing inaccessibility, and inequality in the healthcare delivery. The challenge to provide cheap and quality healthcare has forced the leading companies to move across borders for accessing innovative technologies and processes. Mergers & Acquisitions (M&A) has, therefore, become the key strategy being adopted by major healthcare companies to attain profitable growth in times of poor organic growth. Although the other industries witnessed a marginal increase in the global M&A deals, the healthcare industry witnessed a considerable increase by the end of 2011.

OBJECTIVES AND METHODOLOGY
The aim of the present paper is to study the Mergers and Acquisitions in Indian healthcare sector. The objective of the study is to critically analyse in detail to find out the benefits, synergies and bottlenecks of Daiichi-Ranbaxy deal. The study is descriptive in nature and based on the secondary data that is gathered from the books, various articles from journals, reports and other valid online sources.

MERGERS AND ACQUISITIONS AS A GROWTH STRATEGY
With expansion of business there are two types of growth organic and inorganic. Organic growth, also called internal growth, occurs when the company grows from its own business activity using funds from one year to expand the company the following year. While ploughing back profits into a business is a cheap source of finance, it is also a slow way to expand and many firms want to grow faster. A company can do so by inorganic growth. Inorganic growth, or external growth, occurs when the company grows by merger or acquisition of another business. Getting involved with another company in this way makes good business sense as it can give a new source of fresh ideas and access to new markets. Most business enterprises are constantly faced with the challenge of prospering and growing their businesses. Growth is generally measured in terms of increased revenue, profits or assets. Businesses can choose to build their in-house competencies, invest to create competitive advantages, differentiate and innovate in the product or service line (Organic Growth) or leverage upon the market, products and revenues of other companies (In-organic Growth).

INDIA A PREFERRED DESTINATION
The pharmaceutical industry's main markets are under serious pressure. North America, Europe and Japan jointly account for 82% of audited and unaudited drug sales; total sales reached US$773 billion in 2008, according to IMS Health. Annual growth in the European Union (EU) has slowed to 5.8%, and sales are increasing at an even more sluggish rate in Japan (2.1%) and North America (1.4%). Impending policy changes, promoting the use of generics in these key markets are expected to further dent the top and bottom-line of global pharma majors. The industry is bracing itself for some fundamental changes in the marketplace and is looking at newer ways to drive growth. Further, higher R&D costs, a relatively dry pipeline for new drugs, increasing pressure from payers and providers for reduced healthcare costs and a host of other factors are putting pressure on the global pharmaceutical companies. Pharma companies are looking for new ways to boost drug discovery potential, reduce time to market and squeeze costs along the whole value chain. India is becoming a preferred destination for many healthcare giants. Since, India's population is growing rapidly, as is its economy – creating a large middle class with the resources to afford Western medicines. Further, India's epidemiological profile is changing, so demand is likely to increase for drugs for cardio-vascular problems, disorders of the central nervous system and other chronic diseases. Together these factors mean that India represents a promising potential market for global pharmaceutical manufacturers. More than that, India has a growing pharmaceutical industry of its own. It is likely to become a competitor of global pharma in some key areas, and a potential partner in others. India has considerable manufacturing expertise; Indian companies are among the world leaders in the production of generics and vaccines. As both of these areas become more important, Indian producers are likely to take a large role on the world stage – and potentially partner with global pharma companies to market their wares outside of India. Indian companies have also started entering into the realm of R&D; some of the leading local producers have now started conducting original research. India has the world's second biggest pool of English speakers and a strong system of higher education, so it should be well-positioned to serve as a source for research talent. A new patent regime provides better protection of intellectual property rights, although some issues remain. Clinical trials can also be conducted here much more cost-effectively than in many developed nations, and some local companies are beginning to develop the required expertise. All of these factors add up to a strong case for partnering with Indian companies around R&D, including clinical

testing. Further, healthcare has become one of the key priorities of the Indian Government and it has launched new policies and programmes to boost local access and affordability to quality healthcare. Global players in the pharma industry cannot afford to ignore India. The country, many predict, will be the most populous in the world by 2050. India will make its mark as a growing market, potential competitor or partner in manufacturing and R&D, and as a location for clinical.

The policy of government to allow 100% FDI in Pharma industry encouraged big merger & acquisition deals in this industry. Matrix laboratory's acquisition by US based Mylan Inc in August 2006, Dabur Pharma's acquisition by Singapore based Fresenius Kabi in April 2008, Ranbaxy labs. Ltd's Acquisition by Daiichi Sankyo in July 2009, acquisition of Shantha Biotech by France based Sanofi Aventis in July 2009, Piramal Healthcare acquired by US based Abbott Labs in May 2010 are some such examples. Concerned over the spree of acquisitions of Indian pharmaceutical companies by foreign pharma companies, the government had decided to bring in a new set of policies to ensure that pharmaceutical sector is not controlled by foreign companies thereby denying availability of cheaper drugs in the domestic market. However, a High-Level Expert Group Report on Universal Health Coverage for India was formed under the chairmanship of Planning Commission Member Shri Arun Maira at the behest of the Cabinet Committee on Economic Affairs suggested status quo in the FDI policy for the pharma sector while recommending oversight by the Competition Commission of India (CCI) on pricing and competition issues. That recommendation was opposed by both Department of Industrial Policy & Promotion (DIPP) and the Health Ministry. As a temporary measure 17a high-level meeting chaired by the Prime Minister Shri Manmohan Singh on October 11, 2011 decided that all the mergers and acquisitions (M&As) in the pharmaceutical sector should be vetted by the Competition Commission of India (CCI) and not by the Foreign Investment Promotion Board (FIPB) as sought by the Health and Commerce and Industry Ministries.

CRITICAL ANALYSIS OF RANBAXY AND DAIICHI SANKYO MERGER

Introduction

Ranbaxy Laboratories Limited was incorporated in 1961, promoted by Ranbir Singh and Gurbax Singh. It was listed on Bombay Stock Exchange on 1973 and it became one of the largest pharmaceutical companies in India.

The rationale behind the deal

In 2001 India liberalised foreign direct investment (FDI) norms for the pharmaceutical sector. As a result, 100% FDI was allowed through the 'automatic route' (without prior permission) in pharmaceutical manufacturing (except in sectors using DNA technology). The FDI policy did not make any distinctions between *'greenfield'* (new facilities) and *'brownfield'* (takeover of existing facilities) investments. However, during the last 12 years MNCs did not make any major effort to undertake greenfield investments in India, largely opting for brownfield investments, i.e., acquisition of Indian companies. Ranbaxy at the time of takeover was among the top 100 pharmaceuticals in the world and that it was the 15th fastest growing company in India. Daiichi Sankyo was Japan's third-largest drug maker. Daiichi Sankyo had its operations in 21 countries at the time of the deal. The deal with Ranbaxy would expand its presence to 56 countries and provide it the platform to launch its innovator products at competitive prices and expand its global operations.

The Deal

In the month of June, 2008, Daiichi entered into a share purchase and share subscription agreement with Ranbaxy and the controlling shareholders (i.e. Promoters), to acquire controlling stake in Ranbaxy. It acquired 129,934,134 fully paid-up equity shares representing 34.81% of the total fully paid-up equity capital of Ranbaxy at a Negotiated price of INR 737/- (Rupees Seven Hundred Thirty-Seven only) per fully paid up equity share in cash. As per Regulations 10 and 12 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (—Takeover Code), acquisition of shares/ voting rights in a listed company, which in aggregate, gave the acquirer 15% or more of the voting rights in the company or acquisition of control over a listed company, would immediately trigger an open offer requirement. On June 27, 2008, Daiichi made the open offer at a price of INR 737 per share to all shareholders of the Company. Daiichi acquired 11.42% shares from the stock market & raised equity stake in Ranbaxy up to 63.92%.

Key Financial Highlights of the deal

Financial Performance for the quarter ended September 30, 2012 (Q3'12)

a) Consolidated sales were Rs.26, 514 Mn ($480 Mn) [Q3'11: Sales Rs.20, 232 Mn ($442 Mn)]. Sales growth of 31% over the corresponding quarter.
b) Earnings before Interest, Tax, Depreciation & Amortization (EBITDA) was 16% of Sales at Rs.4, 179 Mn ($76 Mn) [Q3'11: EBITDA Rs.1, 324 Mn ($29 Mn)].
c) Profit After Tax (PAT) was Rs.7,542 Mn ($137 Mn) [Q3'11: Loss of Rs.4,646 Mn ($103 Mn)]
d) Base business profitability, excluding forex gain continued to improve. Profitability below the EBITDA line in the Quarter was favourably impacted largely by mark-to-market (MTM) gain on long dated derivatives contracts and foreign currency loans owing to a stronger rupee; the impact was adverse in Q3, 2011. Financial Performance for YTD ended September 30, 2012 (YTD Sep'12)
e) Consolidated sales were Rs.95, 209 Mn ($1,803 Mn) [YTD Sep'11: Sales Rs.62, 180 Mn ($1,374 Mn)] Sales growth of 53% over the corresponding period.
f) An earnings before Interest, Tax, Depreciation & Amortization (EBITDA) was 19% of Sales at Rs.17, 699 Mn ($341 Mn) [YTD Sep'11: EBITDA Rs.8, 057 Mn ($178 Mn)].
g) Profit After Tax (PAT) was Rs.14,152 Mn ($ 276 Mn) [YTD Sep'11: Rs.830 Mn ($19 Mn)]

CONCLUSION

The Indian market is impossible to ignore, given its economic prospects. The country's growing capabilities in contract manufacturing, R&D and clinical trials also make it a preferred outsourcing partner for global pharma at every stage of the value chain. Mergers and acquisitions provide an avenue to access the markets and tools required for sustainable growth. These changes in Indian pharma's strategic direction have major implications regarding access to healthcare to low income users and the future direction of pharmaceutical policy in developing countries

Daiichi Sankyo's move to acquire Ranbaxy has enabled the company to gain the best of both worlds without investing heavily into the generic business. The patent perspective of the merger clearly indicates the intentions of both companies in filling the respective void spaces of the other and emerge as a global leader in the pharmaceutical industry. Daiichi Sankyo has now access to Ranbaxy's entire range of 153 therapeutic drugs across 17 diverse therapeutic indications. Additional NDAs from the US FDA on anti-histaminic and anti-diabetics is an added advantage. Through the deal, Ranbaxy has become part of a Japanese corporate framework, which is extremely reputed in the corporate world. From one of India's leading drug manufacturers, Ranbaxy can leverage the vast research and development resources of Daiichi Sankyo to become a strong force to contend with in the global pharmaceutical sector. A smooth entry into the Japanese market and access to widespread technologies including, plant, horticulture, veterinary treatment and cosmetic products are some things Ranbaxy can look forward as main benefits from the deal. However, the recent ban on the US imports of more than 30 Ranbaxy drugs is a major pain point for the company now. Post the deal, Ranbaxy's debt has significantly reduced and will impart more flexibility to pursue growth opportunities.

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