Japan's Daiichi to buy majority stake in India's Ranbaxy for $4.6 bn

Japanese drugs major Daiichi Sankyo Wednesday said will pay $4.6 billion in cash to buy majority stake in Ranbaxy Laboratories, India's largest pharmaceutical firm with global revenues of $1.6 billion, including the entire 34.8 percent equity held by its promoters.

The mega deal - the largest in India's $7.3 billion pharmaceutical industry - is estimated to value Ranbaxy at $8.9 billion and catapult the combined entity as the world's 15th biggest drugs maker from the current 22nd position.

The promoters of the group, led by brothers Malvinder Mohan Singh and Shivinder Mohan Singh, hold a 34.8-percent stake and will get Rs.95.76 billion ($2.4 billion) for their stake. Along with open offer for 20 percent stake, which Daiichi Sankyo will make soon, the Japanese company will spend an estimated $4.6 billion for the controlling stake.

Following the deal, expected to conclude by March 2009, Ranbaxy will become a subsidiary of Daiichi Sankyo but continue to list on Indian bourses.

'For me and the promoters of Ranbaxy Laboratories, this is certainly a very emotional decision,' the company's managing director Malvinder Singh told a press conference here, confirming the deal with Daiichi.

'This is indeed a historic date not just for the two companies but also for the future direction of the global pharmaceuticals industry,' he told reporters at the Shangri La hotel here.

In addition to his present responsibilities as chief executive and managing director of Ranbaxy Laboratories, he will also be the company's chairman, Malvinder Singh added.

As the news on the deal started emerging Wednesday morning, the equity shares of Ranbaxy first dipped a bit but soon moved up by 5 percent on the Bombay Stock Exchange (BSE) to a 52-week high of Rs.592.70.

'From Ranbaxy's point of view, an exit option makes sense for the promoters to sell to a well reputed and established company such as Daiichi Sankyo,' said Shivani Shukla Raval, industry manager for healthcare practice with global consultancy Frost and Sullivan.

'Together with the combined resource pool, the company would be a strong contender in both the generic as well as innovator space. And it would enable Ranbaxy to be a truly research based pharmaceutical Company.'

Under the deal reached Wednesday, Daiichi Sankyo will pay Ranbaxy promoters at least Rs.737 per share for the entire 34.8 percent stake, and also make an open offer for a further acquisition of 20 percent at the same price.

Ranbaxy will also make a preferential equity offer to the Japanese company for 9.5 percent of the equity at Rs.737 and issue warrants for 4.9 percent that can be converted into equity at a later date.

The offer price of Rs.737 represents a premium of 53.5 percent over the average price of the

Ranbaxy scrip for three months ended June 10 and 31.4 percent over the price as on that date.

'This is a path-breaking deal and redefines India's pharmaceutical landscape,' Malvinder Singh said, after successfully negotiating the deal with Daiichi, which has a Indian subsidiary Daiichi Sankyo India Pharma, based out of Mumbai.

'Together with our pool of scientific, technical and managerial resources, we will now enter into a new orbit to chart a higher trajectory of sustainable growth in the medium and long term," he added.

Daiichi Sankyo president Takashi Shoda said the deal was part of the group's strategy to become a global company and complement their presence in original drugs with the fast-growing non-proprietary pharmaceuticals.

"This complementary combination represents a perfect strategic fit and delivers a considerable opportunity for the future growth of the new Daiichi Sankyo group," he added.

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