

# Developing Synergies in the Pharmaceutical Sector: M&A Activity post 2005



Santosh Gopalkrishnan, Parth Aggarwal, Nehachandra Balabhadra

**Abstract:** Mergers and acquisitions (M&A) are inorganic growth strategies which have their importance in the present corporate world because of the prevailing stringent business conditions. In the current globalised economy, M&As are progressively utilised for enhancing the intensity of pharmaceutical firms through the rise of their market share in the industry, widening of product portfolio to enter new markets and geographies (competitive advantage) and reaping benefits through enhanced economies of scale. A strong and developing domestic market, a substantial pipeline of generic medicines and a capacity to service established markets abroad have swiftly made the Indian pharmaceutical companies most sought-after in the M&A space. This paper analyses the performance of M&A activities in the pharmaceutical space in India. It aims to consider the pattern in M&A across pharmaceutical companies in India, especially during the period 2005–2017 through a pre-merger and post-merger analysis. The paper performs a pre and post-merger comparison of 4 most crucial M&A deals in the Indian pharmaceutical landscape through metrics like ratio analysis, share price performance (accretion or dilution in case of listed companies) and synergy benefits from the point of view of the target as well as the acquirer and the combined entity as a whole.

**Index Terms:** Indian Pharma Sector M&A, M&A in Pharma, Synergies in the Pharma Sector

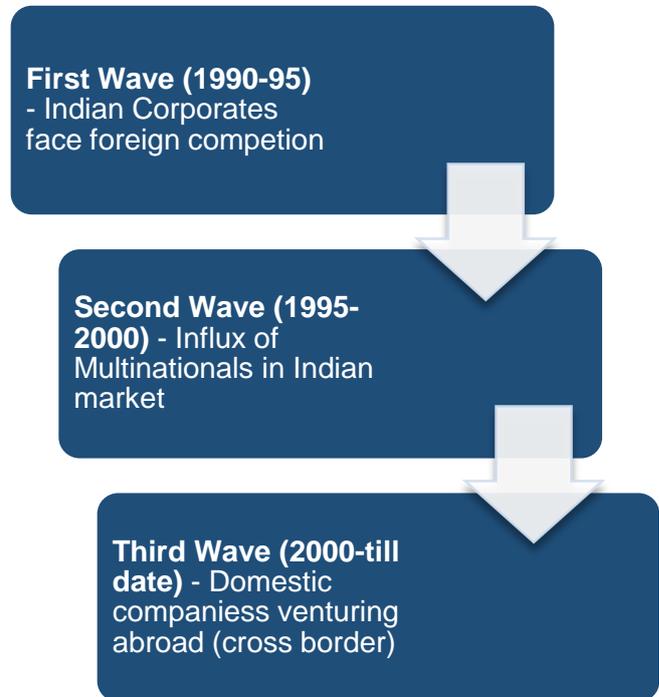


Figure 1: Growth in Indian M&As since 1990s

## I. INTRODUCTION

In the present scenario, organisations across the globe, in order to proliferate and create enhanced value for their stakeholders are entering into strategic alliances with companies within the same sector in the same geography or different sector with an altogether different geographical presence. This route via M&A deals is perceived as a viable strategy to reduce cost, increase efficiency, create a global footprint, ensure economies of scale in operations with easy access to advanced and sophisticated technology and thus create value for the owners and shareholders of the business. There has been significant growth in mergers and acquisitions in the Indian space as well, and this growth can be divided into the following three stages:

## II. REVIEW OF LITERATURE

Mergers and Acquisitions (M&A) have always been a subject of great importance and interest in the financial landscape. In the past, many research studies have been carried out to analyze the impact of such a consolidation on the bidder and target and evaluate the potential gains in the form of synergies or losses arising as a result of such a transaction. However, before, we look into the intricacies and details of the M&A deals which we are analyzing as a part of this research paper, let's first understand from the perspective of eminent authors the meaning of a merger and an acquisition, their types, motives behind undertaking such transactions and reasons for their success and failures. According to **Professor Alexander Roberts, Dr. William Wallace and Dr. Peters Moles (2016)** a merger or an acquisition has been defined as the combination of two or more companies into one new company or a corporation. The main point of difference between the two is the style in which the transaction between the bidder and the target are undertaken. A merger refers to a combination of two companies after a process of negotiation, listing out the potential benefits (commonly known as synergies), the difficulties as well as the challenges that will arise for both the entities as a new entity is formed.

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All this takes place through a series of meetings between the management of both the target and the acquirer, and if the terms of the contract are agreed upon by both the parties, then the deal is closed. The mergers can be vertical, horizontal or conglomerate by the nature of its type. Conversely, an acquisition indicates a buyout of one firm (target) by another firm (acquirer) in such a manner that the target firm either becomes a wholly owned subsidiary of the acquirer and may eventually be merged within the business of the acquirer firm and cease to exist in the long run or continue as one of

the subsidiaries of the acquiring firm in its original form. Acquisitions can be friendly or hostile in nature.

**Hardeep Singh Bedi (2010)** stated the potential reasons for Mergers and Acquisition as Cost Synergies: The deal results in an increase in productivity and efficiency thereby a reduction in the costs and Revenue Synergies: This relates to enhanced performance through increased financial stability and revenues.

**Sidharth Saboo and Sunil Gopi (2007)** studied the recent trends in the M&A space in India and concluded that the type of acquisition, i.e. domestic and cross border plays a significant role in the performance of the company. He developed a hypothesis to understand the change in the critical financial ratios pre-merger and post-merger of the deals which happened between the year 2001 to 2007. **Dr. Neena Sinha, Dr. K.P. Kaushik and Timcy Chaudhary (2010)** analyzed the financial efficiency of M&A deals in the financial sector for the period 2000- 2008 through ratio analysis to arrive a conclusion that the shareholders' earnings were affected significantly without any material change in the liquidity position First Wave (1990-95) - Indian Corporates face foreign competition Second Wave (1995-2000) - Influx of Multinationals in Indian market Third Wave (2000-till date) - Domestic companies venturing abroad (cross border) implying a direct correlation implying a direct correlation in financial health and the transaction.

**K. Ramkrishnan (2008)** conducted a study the financial performance of the merged firms in the long run in India to ascertain that M&A transactions in the country has led to a positive growth in the operations of the combined entity in the long run through higher operating cash flows along with synergistic benefits for both the target and the acquirer. Similarly, **Reena Kohli and Bikram Jit Singh Mann (2011)** through their research, established the determining factors for creation of value in both cross-border as well as domestic acquisitions in India that both domestic as well as cross border deals have had a tangible impact on the shareholders' wealth with international transactions producing substantial gains than domestic ones. On the other hand, **Pawaskar (2001)** analyzed the performance of 36 M&A deals that were closed in India from 1992 to 1995 to conclude that there was a negative impact on the profitability of the merged entity post the deal.

**Pramod Mantravadi and A Vidyadhar Reddy (2008)** examined the performance of the acquiring firms across different industries in India for a period between 1991 and 2003 to arrive at a conclusion that the Banking and Financial Services Industry (BFSI) has shown a marginally positive impact on the profits of firms with textiles, pharmaceuticals and electronic equipment demonstrating a

marginally negative impact on profitability and the financial performance. However, his analysis further provided the insights that M&A have caused a decline in ROI and ROA for agricultural products and chemical sector deals.

### III. PHARMACEUTICAL INDUSTRY

Various studies have been conducted to analyze the performance of M&A activities in India Pharmaceutical industry to check the trend and the pre and post-merger deal. Mergers and acquisitions have gained substantial importance and visibility in the corporate world in order to create and maintain a competitive edge in terms of increased market share, reduced cost and higher tax benefits. An increase in product offering along with compensating for sluggishness in the home market and diversification of the business as a process is used for restructuring corporate organizations. In India also, after liberalization, globalization and research and development improvement, merger and acquisition took place and open the gate of consolidation of companies to gain the competitive advantage in Indian industries and so Indian pharmaceutical industry ("**Merger and Acquisition scenario in Pharmaceutical Industry**", **Gautam. S.**)

**Beena. S (2006)**, conducted a study on the Indian Pharmaceutical industry and found that due to the consolidation of the companies' huge costs were cut during 2000-2005 eliminating wasteful expenses to the greater extent and also result in better result compare to non-merging companies in that industry. However, due to unfavourable financial effects, delay in antitrust action along with limited flexibility and time-consuming processes due to sophisticated structures, mergers and acquisitions slowed down after 2013 (**Tripathy. S & Prajapati. V.**) **Duggal. N (2015)** studied that the impact of merger on the operating and financial performance of Listed Pharmaceutical industry in BSE and NSE during the period of 2005-2010 and found that there was a positive impact on the profitability of acquiring firm in the short run (+1 years.) but could not be sustained for long after post-merger (+5 years). The PBIT, cash profit margin increased but could not long last for more than 1-2 years.

**Vyas. V, Narayan. K & Ramanathan. A (2012)**, conducted a study on the topic determinant of merger and acquisition in Indian Pharmaceutical Industry by using cross tabulation and logit analysis and found that large and multinational companies are investing more in M& A activities for excess capacity and R&D investment to restructure and consolidate their position to achieve synergies in work. Moreover, the small companies which could not expand due to the limited resources should be merged in the big conglomerate companies to get accessibility in terms of getting demand from the market. Likewise, by the use of cross tabulation method, they found that there was a considerable gap before liberalization in terms of technology requirement and so the government should formulate R & D related policy to identify upcoming stream where R&D efforts of the firm could be redirected.

Lars Schweizer (2005) states that due to the complexity and versatile nature of mergers and acquisitions, pharmaceutical companies have started to implement a hybrid post-acquisition integration approach with concurrent short- and long-term motives/orientations and segmentation at a different pace across different value chain elements.

Major David R. King, Dan R. Dalton, Catherine M. Daily and Jeffrey G. Covin (2003) used a meta-analytic technique to assess the impact of the post-acquisition performance. The results indicated that, on average and across the most commonly studied variables, acquiring firms' performance does not positively change, post their acquisition activity, and is negatively affected to a meagre extent. More importantly, the results indicated that unknown variables might explain significant variance in post-acquisition performance, suggesting the need for additional theory development and modify the M&A research methods.

**IV. OBJECTIVE OF THE STUDY**

The objective of the study is to analyze the pre and post-merger performance of the M&A deals in the Indian pharmaceutical space from the period 2005 to the present. Our aim to conduct an in-depth analysis of three significant transactions that happened during this period, namely

- Ranbaxy Laboratories – Daiichi Sankyo (2007)
- Piramal Healthcare - Abbott Laboratories (2010)
- Ranbaxy Laboratories – Sun Pharmaceuticals Ltd. (2014)
- Gavis Pharmaceuticals – Lupin Limited (2015)

These four deals will act as a sample to ascertain the scope of such transactions in the pharmaceutical sector in India.

**V. METHODOLOGY**

The paper employs a methodology of ratio analysis to ascertain the financial health and performance of the target and the combined entity. A calculation of the financial ratios for the Indian counterpart in the transaction, pre and post-merger has been performed.

The major financial ratios undertaken for the interpretation of the deal are as follows:

<b>Operating Profit Ratio</b>	Operating Profit / Net Sales *100
<b>Net Profit Ratio</b>	Net Profit / Net Sales *100
<b>Current Ratio</b>	Current Assets/ Current Liabilities
<b>Return on Capital Employed/ Return on Equity</b>	Net Profit/ Shareholders' Funds
<b>Return on Assets</b>	Net Profit/ Total Assets*100
<b>Debt Equity Ratio</b>	Long term Debt/Shareholders' Funds
<b>Earnings Per Share</b>	Net Profit (Net Income)/ No. of common stock

**VI. RESULTS**

*Summary of Deals*

**Table 1: Summary of M&A Deals**

Year	Target	Acquirer	Deal Value (₹ Cr.)	Stake Acquired	Ratio
2008	Ranbaxy Lab.	Daiichi Sankyo	22,500	63.92%	NA
2010	Piramal Healthcare	Abbott	16,000	Business Buyout	2:3
2014	Ranbaxy Lab.	Sun Pharma	24,000	100%	0.8
2015	Gavis Pharma	Lupin	5,280	100%	NA

*Ranbaxy Laboratories – Daiichi Sankyo*

**Table 2: Pre-Acquisition Performance Ratios for Daiichi Sankyo**

Performance Ratio	Pre- Acquisition Daiichi Sankyo			
	2005	2006	2007	Average
Operating Profit Ratio	16.7%	14.5%	17.8%	16.3%
Gross Profit Ratio	68.6%	71.5%	73.3%	71.1%
Net Profit Ratio	9.5%	8.5%	11.1%	9.7%
Return on Equity	7.30%	6.30%	7.80%	7.13%
Debt Equity Ratio	0.28	0.28	0.30	0.29
Earnings Per Share	119.4	107.7	135.5	120.9

**Table 3: Post-Acquisition Performance Ratios for Daiichi Sankyo**

Performance Ratio	Post- Acquisition Daiichi Sankyo			
	2009	2010	2011	Average
Operating Profit Ratio	10.0%	13.0%	10.0%	11.0%
Gross Profit Ratio	70.8%	71.0%	71.0%	70.9%
Net Profit Ratio	4.4%	7.3%	1.1%	4.3%
Return on Equity	4.9%	8.2%	1.3%	4.8%
Debt Equity Ratio	0.33	0.29	0.32	0.31
Earnings Per Share	59.4	99.6	14.8	57.9

The financial performance of Daiichi Sankyo Pre-merger and Post-merger was a big mess and had to face a lot of negative consequences as shown from the data. Average operating profit plunged from 16.33% to 11%, showing its performance fell after the merger.



## Developing Synergies in the Pharmaceutical Sector: M&A Activity post 2005

Despite posting a gross profit, the net profit had a sharp fall from 11.1% in 2007 to 4.4% in 2009 pre and post the merger. Apart from that, ROE, D/E Ratio and EPS also showed negative result making this deal unsuccessful.

### Piramal Healthcare - Abbott Deal

**Table 4: Pre-Acquisition Performance Ratios for Piramal Healthcare**

Performance Ratio	Pre- Acquisition Piramal Healthcare			
	2007-08	2008-09	2009-10	Average
Operating Ratio	17.7%	19.3%	20.3%	19.1%
Gross Profit Ratio	55.9%	57.3%	57.1%	56.8%
Net Profit Ratio	13.9%	16.5%	18.7%	16.4%
Return on Equity	22.7%	27.7%	28.5%	26.3%
Debt Equity Ratio	0.5	0.5	0.5	0.5
Earnings Per Share	2.3	3.1	3.7	3.0

**Table 5: Post-Acquisition Performance Ratios for Piramal Healthcare**

Performance Ratio	Post- Acquisition Piramal Healthcare			
	2011-12	2012-13	2013-14	Average
Operating Ratio	14.8%	20.3%	12.0%	15.7%
Gross Profit Ratio	60.0%	62.1%	54.0%	58.7%
Net Profit Ratio	12.2%	15.0%	11.8%	13.0%
Return on Equity	20.2%	23.3%	9.9%	17.8%
Debt Equity Ratio	0.5	0.7	0.1	0.4
Earnings Per Share	3.0	3.7	1.6	2.8

The observation, after the comparison of different ratios, was that Piramal had not witnessed an exponential increase in any of the ratios and instead of increasing, the mean ratios have declined post-acquisition of Piramal. The mean of operating profit ratio witnessed a considerable decline from 19.1%- 15.7% after the acquisition. The mean of net profit ratio, as well as the mean of return on equity, showed the same result. They plunged by 3.4% and 8.4% respectively. The mean of some ratios witnessed a small dip, and those ratios are debt-equity ratios (0.5% to 0.4%), earning per share (3% to 2.7%) and dividend payout ratio (47.8% - 46.3%). A significant change was observed in the mean of gross profit ratio, which came out to be the only

performance ratio whose increased from 56.7% - 58.6%, which translates into an increase of 1.9%.

### Lupin Limited – Gavis Pharmaceuticals LLC and Novel Laboratories Inc.

**Table 6: Pre-Acquisition Performance Ratios for Lupin**

Performance Ratio	Pre- Acquisition Lupin Limited			
	2012	2013	2014	Average
Gross Profit Ratio	63.2%	63.2%	66.2%	64.2%
Net Profit Ratio	11.6%	14.0%	15.9%	13.8%
Current Ratio	2.2	2.3	2.7	2.4
Return on Equity	21.7%	28.5%	28.6%	26.3%
Debt Equity Ratio	0.4	0.2	0.1	0.2
Earnings Per Share	17.7	29.4	38.7	28.6

**Table 7: Post-Acquisition Performance Ratios for Lupin**

Performance Ratio	Post- Acquisition Lupin Limited			
	2015	2016	2017	Average
Gross Profit Ratio	67.4%	68.0%	68.0%	67.8%
Net Profit Ratio	19.1%	16.6%	18.8%	18.2%
Current Ratio	1.8	3.1	3.5	2.8
Return on Equity	30.4%	25.1%	27.0%	27.5%
Debt Equity Ratio	0.1	0.4	0.4	0.3
Earnings Per Share	53.5	55.3	74.8	61.2

At first glance, the financial performance shows that all the metrics have shown an increase in post-acquisition for Lupin Limited. The average over three years, both pre and post-acquisition for the company have been calculated, which reflects a positive trend in Gross Profit Ratio, Net Profit Ratio, Return on Equity and Earnings per share. However, the current ratio and Debt to Equity ratio's increase may hurt the company. The current ratio has seen a change from 2.4 to 2.8 while Debt to Equity has increased marginally to 0.3 due to an increase in the liability for payment to Gavis's management.

**Sun Pharmaceuticals – Ranbaxy Laboratories**

**Table 8: Pre-Acquisition Performance Ratios for Sun Pharmaceuticals**

Performance Ratio	Pre- Acquisition Sun Pharmaceuticals			
	2012	2013	2014	Average
Current Ratio	3.93	4.05	3.12	3.70
Gross Profit Ratio	80.0%	82.0%	83.0%	81.7%
Net Profit Ratio	32.0%	32.0%	35.0%	33.0%
Return on Equity	24.0%	26.0%	31.0%	27.0%
Debt Equity Ratio	0.04	0.07	0.02	0.04
Earnings Per Share	25.7	28.8	15.2	23.2

**Table 9: Post-Acquisition Performance Ratios for Sun Pharmaceuticals**

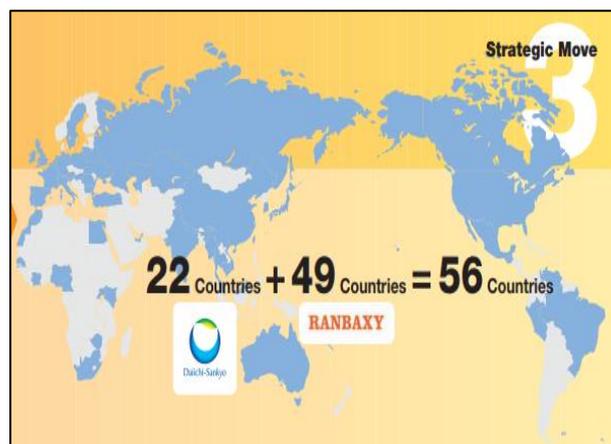
Performance Ratio	Post- Acquisition Sun Pharmaceuticals			
	2015	2016	2017	Average
Current Ratio	1.88	2.28	1.84	2.0
Gross Profit Ratio	75.0%	77.0%	73.0%	75.0%
Net Profit Ratio	18.0%	19.0%	23.0%	20.0%
Return on Equity	19.0%	18.0%	20.0%	19.0%
Debt Equity Ratio	0.06	0.10	0.04	0.07
Earnings Per Share	18.9	18.9	29	22.3

The profit margins, i.e. the gross profit margin and net profit margin, have declined post-merger significantly in comparison with the pre-merger situation. However, this decline cannot entirely be attributed to this transaction. The value creation for shareholders at present also does not compare at the same level when compared with pre-merger financials through an analysis of return on equity. However, the debt to equity has remained significantly unchanged, thereby reflecting a low reliance on debt and further implying an all-stock transaction. Lastly, the EPS has shown a minor dilution from 23.2 to 22.3, not resulting in a significant sacrifice for the shareholders of Sun Pharma. The long term prospects for the company appear to be strong and healthy.

**VII. ANALYSIS AND DISCUSSION**

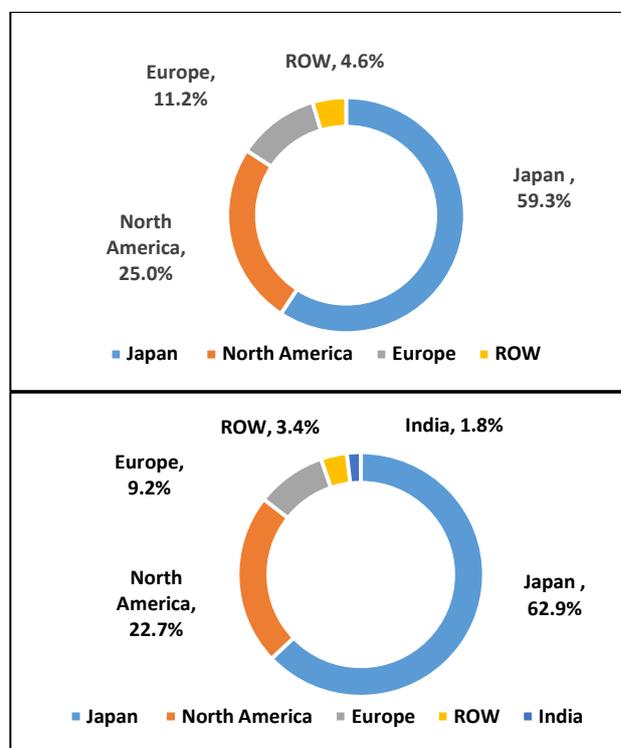
**RANBAXY LABORATORIES – DAIICHI SANKYO**

The clear view of going overseas because of the shrinking market in Japan brought Daiichi Sankyo into India for growth in sales and low-cost manufacturing base. It acquired Ranbaxy Laboratories’ 63.92% of stake including 34.83% stake of promoters, 9.4% of preferential shares and 20% of open offer from shareholders. After the merger, it came down from 22nd to 15th rank among world largest pharmaceutical companies. Daiichi already made a presence in 22 countries, and after acquiring Ranbaxy, it would reach 56 different countries.



**Figure 2: Global Presence of Daiichi Sankyo Post Merger**

In terms of revenue, around 1.8 % of revenue came from India in the year 2008-2009 and there onwards, making it a bad deal.



**Figure 3: Global Pre & Post Merger Revenue for Daiichi-Sankyo**

**EPS Analysis**

Daiichi Sankyo EPS plunged after the acquisition with Ranbaxy Laboratories, as shown in the graph shown. In 2007, the EPS was 135.5 but just after the acquisition it went down to 59.4 and after that leading to 14.8 in 2011.

## Developing Synergies in the Pharmaceutical Sector: M&A Activity post 2005

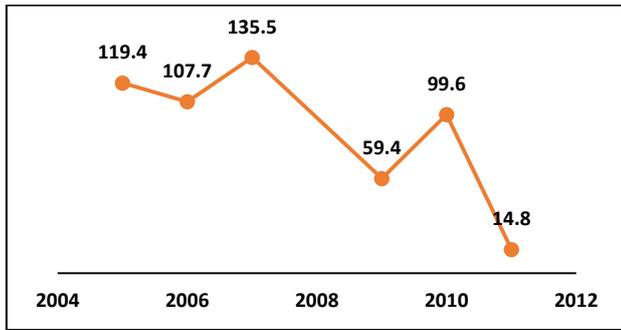


Figure 4: Post Merger EPS for Daiichi Sankyo

### Net Profit Ratio Trend

Net profit ratio also fell to 1.10% in 2011 compared to 11.1% pre-acquisition. Despite gross profit, which is the same around 70%, Net profit fell to 4.4% and so on. This is because of the blind trust of Daiichi Sankyo in Ranbaxy financial on papers. They have not made any effort to get a check on the field before making a deal.

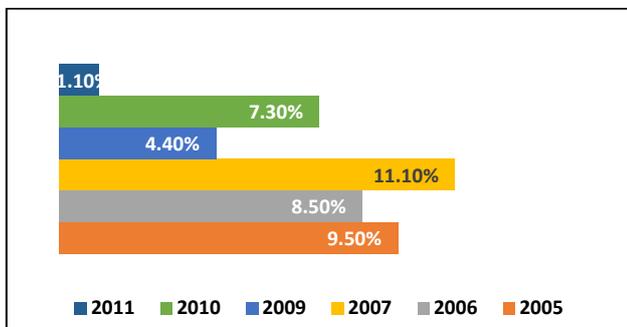


Figure 5: Post Merger Net Profit Trend for Daiichi Sankyo

### Return on Equity

Return on Equity also gone down, as shown in the graph. This deal was all cash because of huge cash in Daiichi's reserves and surplus account, and they used it to acquire Ranbaxy, leading to minimum ROE to shareholders.

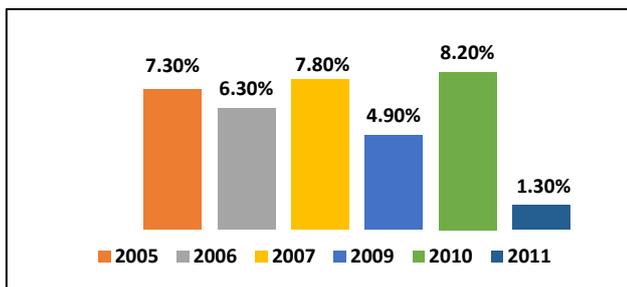


Figure 6: Post Merger Return on Equity for Daiichi Sankyo

### PIRAMAL HEALTHCARE – ABBOTT DEAL

Piramal sold off its branded business for \$3.72 billion (INR 16,000 crore), and most people wondered whether the company would be able to maintain good returns for their shareholders or would they use the cash in ventures that would prove to be unprofitable. However, one look at today's scenario would be sufficient to say that Piramal has utilized the money earned from the sale well. Their revenue has increased by a CAGR of 23 percent over the last five

years to INR 6,610 crores while the net profit has risen by 53 percent CAGR to INR 951 crores in the same period. Due to this, Piramal's stock has experienced a healthy movement. Its stock price has risen from Rs.387 to Rs. 2,702, taking its market capitalisation to approximately INR 47,000 crores.

### Business Wise Revenue Trend

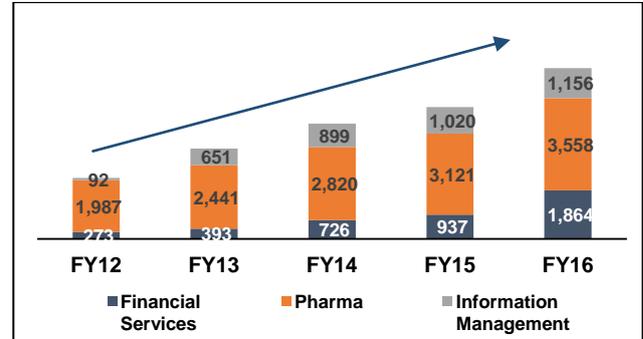


Figure 7: Business-wise Revenue Trend for Piramal Healthcare

### Operating Profit and Margin Trend

The operating profit, as well as the operating profit margin, have seen consistent growth over the years from FY12 to FY16. The operating margins have gone up from 8% to 28% showing increased and enhanced efficiency in the operation of the combined entity.

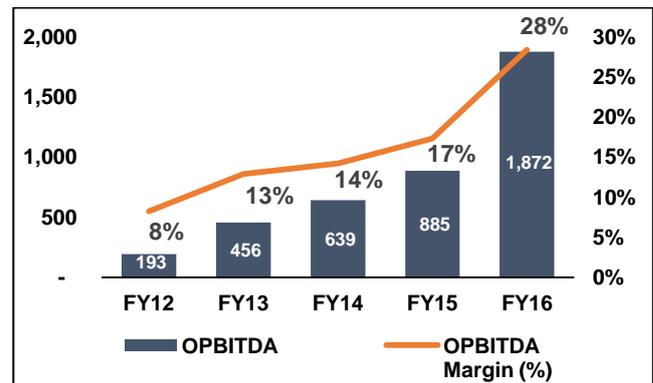


Figure 8: Operating Profit and Operating Margin Trend

### Net Profit and Margin Trend

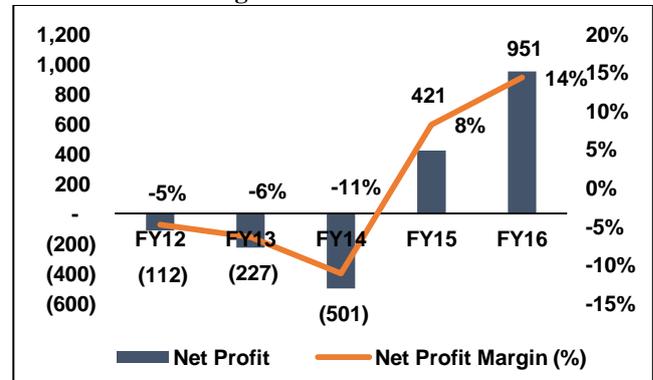


Figure 9: Net Profit and Net Profit Margin Trend

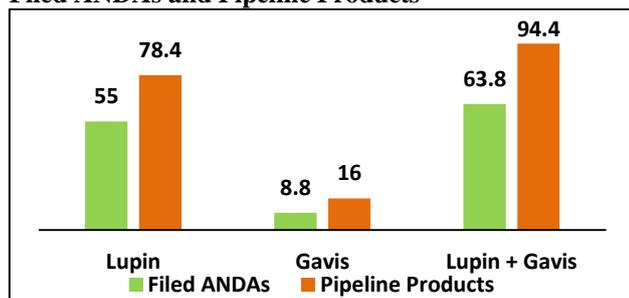
As per our analysis, we could ascertain the following synergies for Abbott from the deal:

- **The Abbott-Solvay-Piramal trio:** The gastrointestinal market has a potential of Rs.4, 350 crores. These three companies would emerge as the leader with a share of over 11%. As it would move forward this trio could defeat its major competitors like Cadila Healthcare, Alkem and Dr. Reddy's.
- **Vitamins & nutrients Market:** In this market the combined market share of Abbott & Piramal could be over 8%. This duo could defeat its major competitors like Novartis, Pfizer, GSK, Merck among host of other companies.
- **Dermatology Segment:** The holding of Piramal is 6.5% of the total market in the dermatology segment and after this acquisition Abbott will become among the top 5 players.
- **Pharma Neurology Space:** Sun Pharma would remain the only player above the duo of Abbott and Piramal.
- **Core Anti-infectives:** In this segment Abbott is not even in top 10 players in the market and it would gain presence with Piramal's strength. In the Core Anti-infectives business Piramal has a market share of 5.6% with 6th position from the top.

**LUPIN LIMITED – GAVIS PHARMACEUTICALS LLC AND NOVEL LABORATORIES INC.**

In 2015, Indian Pharma company Lupin entered into an agreement to acquire US based privately held company Gavis Pharmaceuticals LLC and Novel Laboratories for a transaction valued at USD 880mn with certain closing conditions. The major purpose for Lupin was to expand into the US market and also enhance its scale in the US generic market making it the 5<sup>th</sup> largest pipeline of ANDA filings with USFDA with a market potential of USD 64bn.

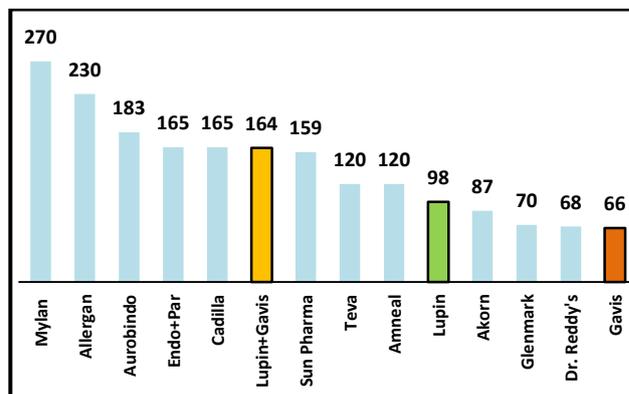
**Filed ANDAs and Pipeline Products**



**Figure 10: Filed Abbreviated New Drug Applications & Products in the Pipeline for Lupin both pre and post Gavis Acquisition**

**Expanding Market Share**

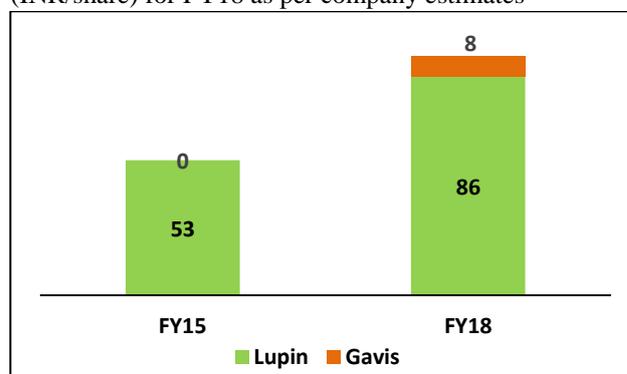
Gavis Pharmaceuticals acquisition by Lupin Limited places it in the top 6 companies in the US engaged in the production of generic drugs with around 160 ANDAs pending for approval. This combination also makes the combined entity as the 5<sup>th</sup> largest filed ANDAs pipeline. This is also likely to drive 22% CAGR growth in the US business



**Figure 11: Lupin's expanding Market Share post Acquisition**

**Effect on EPS**

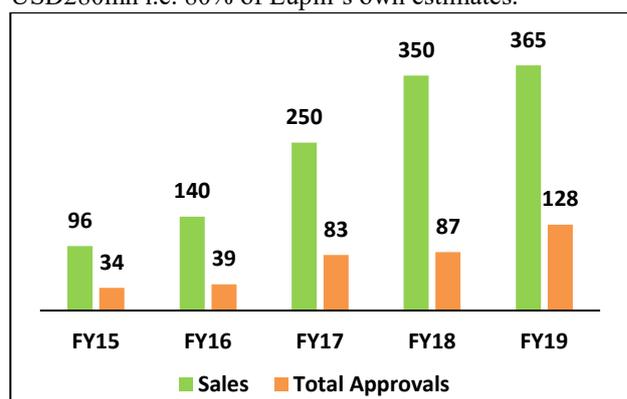
Gavis Pharma's business post-acquisition is expected to contribute close to 9% increase in the earnings per share (INR/share) for FY18 as per company estimates



**Figure 12: Effect on EPS post Gavis' Acquisition by Lupin**

**Revenue Trend**

Lupin also expects Gavis sales to increase 3x by FY18 over the next three years, majorly driven by more than 50 product approvals with Gavis sales contribution projected to reach USD280mn i.e. 80% of Lupin's own estimates.



**Figure 13: Lupin's Revenue Trend from 2015 to 2019**

### Potential Synergies

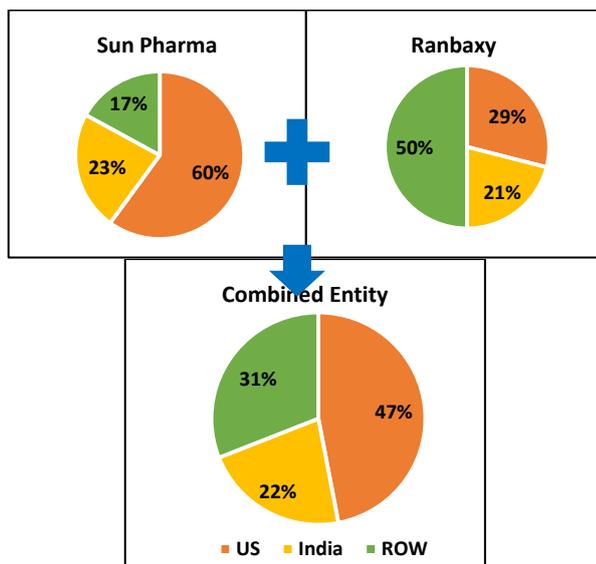
- **Enhanced access to US Markets:** The deal aligns with Lupin's goal of expanding and deepening its presence in the US with Gavis's facility in New Jersey to become the first manufacturing facility for Lupin and cater to the government channel
- **Strengthened product portfolio:** Niche launches will extend Lupin's product portfolio in tropical, control substances and gastro intestinal products along with oral contraceptives, complex injectable and respiratory product pipeline.
- **Gain foothold in US generic dermatology market:** With a strong portfolio of 25+ derma products, Lupin has been able to gain a large market share in the US derma market which has saved 3 to 4 years for Lupin, had it made an entry organically.

### SUN PHARMACEUTICALS – RANBAXY LABORATORIES

The merger of Ranbaxy Laboratories with Sun Pharma emerged as one of the largest M&A deal in the Indian pharma space. The deal was valued at USD 4 billion and was finally completed in March 2015 (announced in April, 2014). It was an all-stock transaction with the shareholders of Ranbaxy receiving 0.8 shares of Sun Pharma for each share of Ranbaxy held. The deal helped Sun Pharma become the 5<sup>th</sup> largest global specialty generic pharma company (4<sup>th</sup> largest at present) with being the No.1 pharma company in India and in the US market.

#### Strengthened Global Footprint

The combined entity for the FY2014 clocked a revenue of USD 4.2 billion with US contributing 47% of the sales, India contributing 22% of the sales and ROW the remaining 31%.

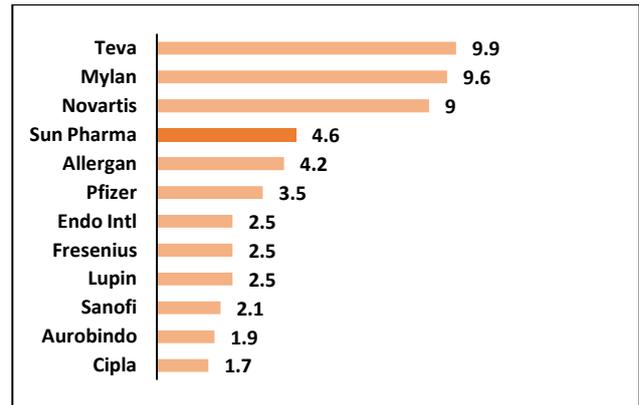


**Figure 14: Sun Pharma's strengthened Global Presence post Ranbaxy acquisition**

#### Fourth largest generic drug maker by Sales and ranked no. 1 in India

At present i.e. FY17, the company as a combined entity has emerged as the fourth largest generic drug maker in the world in terms of revenues with 74% of the revenues being

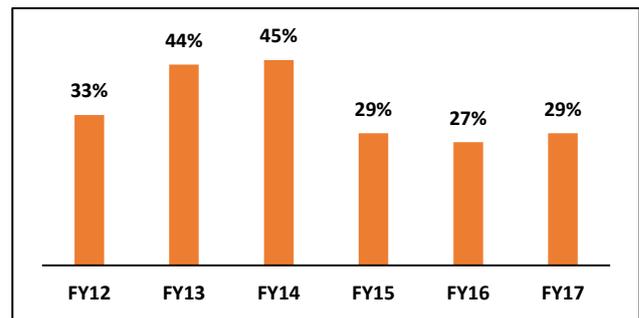
driven internationally and remaining 26% through the Indian market.



**Figure 15: Improved Global Ranking to 4th position due to Ranbaxy Merger**

#### EBITDA Margins

The pre and post-merger EBITDA margins have been plotted to ascertain the impact of the transaction on the profit margins of the company. From observation, though it can be seen that post-merger, the margins for Sun Pharma have seen a major reduction from 45% to 29% but then it has remained stable for FY16 to FY17 at 27% and 29% respectively with CAGR of 29% over the past 5 years.



**Figure 16: EBITDA Margins from FY 2012 to FY 2017**

#### EPS Analysis

The EPS for Sun Pharma has witnessed a compounded annual growth of 28% over the past 15 years. The deal has proved to be accretive to the shareholders with synergistic benefits worth USD 250 million accruing by the 3<sup>rd</sup> year post completion. Apart from this, it also helped Sun Pharma to emerge as a global supply chain leader with a strong balance sheet, product portfolio and low debt, thereby implying a positive trend in EPS.

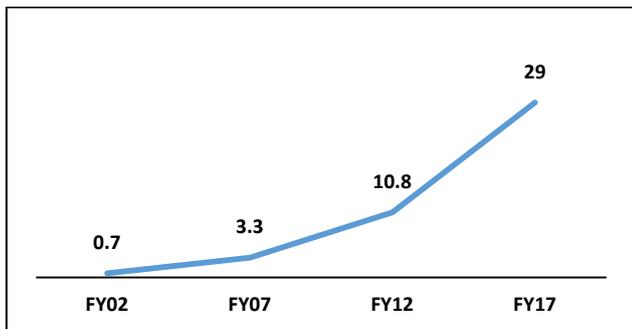


Figure 17: Trend depicting growth in EPS for Sun Pharma

**Highly Diversified Revenue base**

Sun Pharma has strengthened and enhanced its revenue base enormously since the acquisition of Ranbaxy Laboratories. The three major specialty initiatives undertaken by the management are as follows:

- **Ramping up specialty pipeline** through acquisition of Dusa Pharma in US (dermatology), InSite Vision (ophthalmic products), and entered into a JV with Intrexon Corporation for ocular diseases
- **Branded Business in US, India and ROW:** Ranked no. 3 branded dermatology company in US market and amongst the largest Indian companies in branded emerging markets.
- **Complex Generics in US:** Established itself as a no. 1 supplier of generic dermatology products in U.S. with one of the few firms to have farm to market capabilities for controlled substances and key focus on dermatology, oncology, ophthalmic amongst others.

**Pre- Ranbaxy Acquisition**

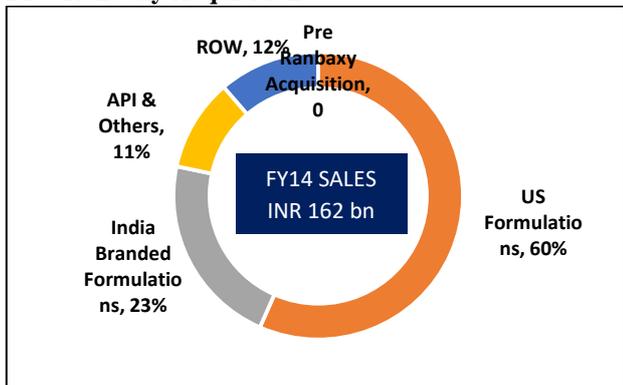


Figure 18: Revenue Breakup Pre-Ranbaxy Acquisition

**Post- Ranbaxy Acquisition**

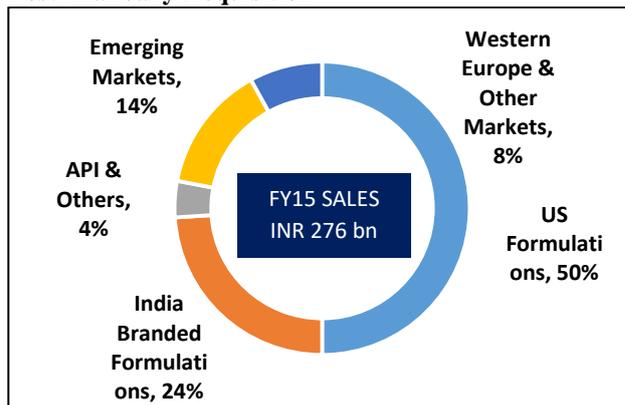


Figure 19: Revenue Breakup Post-Ranbaxy Acquisition

**Potential Synergies**

- **Global presence:** The combined entity will have a footprint in 55 countries across the globe backed by 40 manufacturing facilities with a highly diversified and product portfolio.
- **Majority Shareholding:** Post the completion of the deal, the previous acquirer Daiichi Sankyo of Japan will become the second largest shareholder of Sun Pharma.
- **Increased leadership in Emerging markets** such as Russia, Romania, South Africa, Brazil and Malaysia.
- **Operational Synergies** in terms of USD 250 million of revenues by 3<sup>rd</sup> year through growth in top line and procurement and supply chain efficiencies.

**VIII. CONCLUSIONS AND RECOMMENDATIONS**

**Results**

*Summary of Deals*

Table 10: Summary of M&A Deals

Year	Target	Acquirer	Deal Value (INR cr.)	Stake Acquired	Ratio
2008	Ranbaxy Lab.	Daiichi Sankyo	22,500	63.92%	NA
2010	Piramal Healthcare	Abbott	16,000	Business buyout	2:3
2014	Ranbaxy Lab.	Sun Pharma	24,000	100%	0.8
2015	Gavis Pharma	Lupin	5,280	100%	NA

To conclude, it can be inferred from our study and analysis that three out of four deals resulted in synergistic benefits for the target as well as the acquirer company. Both the target and acquirer have witnessed assured positive impacts from the deals. A comparison of the Indian counterpart's pre-merger and post-merger financial performance enabled us to

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develop a hypothesis that most the deals that took place during the period of 2005 to present have had a successful outcome not just in the Indian context but globally as well. However, in the case of Daiichi Sankyo and Ranbaxy Laboratories false representation of the information on the part of one of the parties resulted in huge loss for both the target and the acquirer. Overall, we conclude that Indian Pharmaceutical companies have the potential to expand their operations and presence through Mergers and Acquisitions not just domestically but also internationally (cross border transactions) and can benefit from such deals primarily because of the following reasons:



**Figure 20: Benefits to Indian Pharma Companies due to M&As**

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