Daiichi Sankyo Cuts Pay as Ranbaxy Reaches U.S. Settlement

By Kanoko Matsuyama and Adi Narayan

(Updates with comment from analyst in 10th paragraph.)

Dec. 21 (Bloomberg) -- Daiichi Sankyo Co. cut pay for executives and directors after slashing its profit forecast because of a $500 million provision to settle a legal dispute at its Ranbaxy Laboratories Ltd. unit in India.

Japan's third-biggest drugmaker by market value expects net income to slump 63 percent to 26 billion yen ($334 million) in the year ending March 2012, from 70.1 billion yen a year earlier, it said in a statement today. Profit will miss the 50 billion yen forecast made in July because of a 37.5 billion yen charge linked to Ranbaxy's settlement with the U.S. Justice Department, it said.

Chief Executive Officer Joji Nakayama and board members will receive 5 percent to 30 percent less compensation for six months in response to the cut in the earnings forecast, Daiichi Sankyo said today. The company has lost about half its market value since agreeing to buy a majority stake in Ranbaxy, India's largest drugmaker, in June 2008. Most of the drop occurred after the U.S. Food and Drug Administration banned imports from two of the unit's plants because of manufacturing violations.

"I sensed the settlement was near and am relieved to hear it finally," Yasuhiro Nakazawa, an analyst at SMBC Nikko Securities Inc. in Tokyo, said by telephone today. "It's a step forward and I'm waiting for Ranbaxy to give more details on the process for resuming exports to the U.S."

Daiichi Sankyo rose 2.9 percent, the biggest gain in almost three weeks, to 1,515 yen at the close of trade in Tokyo. The stock has dropped 15 percent this year, compared with the 19 percent decline in the benchmark Topix index. Ranbaxy fell 1.3 percent to 389.3 rupees at 11:39 a.m. in Mumbai.

The Japanese drugmaker will pay a 30 yen dividend for the second half as previously planned. The revised earnings forecast doesn't account for sales expected from the generic version of Pfizer Inc.'s cholesterol-lowering pill, Lipitor, introduced by Ranbaxy in the U.S. three weeks ago, it said.

Import Ban

Three months after Daiichi Sankyo agreed to buy a controlling stake in Ranbaxy, based near New Delhi, for $4.6 billion, the FDA barred imports from the Indian drugmaker's Paonta Sahib and Dewas plants because of manufacturing defects.

In February 2009, U.S. regulators said they halted reviews of new products from one of Ranbaxy's factories because the company falsified data about the products' shelf life.

Ranbaxy agreed to a settlement with the FDA and committed to strengthening procedures and policies to comply with industry standards, it said in a separate statement today. The $500 million provision "will be sufficient to resolve all potential civil and criminal liability," Ranbaxy said.

The payment, which is 16 percent of Ranbaxy's market value, "is much above our expectation," said Bino Pathiparampil, a Mumbai-based pharmaceutical analyst at IIFL Ltd. "This could wipe out the company's profits for this year and the next," he said in a telephone interview.

Consent Decree

The agreement paves the way for U.S. exports to resume from the company's two tainted factories, while drug approvals could take at least 12 months, said Pathiparampil, who downgraded the stock to "reduce" from "add" after the announcement.

The resolution with the FDA is a consent decree which is "not a straight approval to manufacture but more like a plan of action of things to be done to get compliance," he said.

The consent decree needs to be approved by a U.S. district court in Maryland, the company said.

"While we were disappointed by the conduct that led to the FDA's investigation, we are proud of the systematic corrective steps we have taken to upgrade and enhance the quality of our business and manufacturing processes," Arun Sawhney, Ranbaxy's CEO and managing director, said in the statement.