

Financial Times Dec 21, 2011

Ranbaxy makes \$500m provision on FDA deal

By Lindsay Whipp in Tokyo

[Ranbaxy](#) of India has set aside \$500m to cover liabilities to settle potential claims in an extended legal dispute in the US, as the generic drugmaker seeks to draw a line under years of problems in its most important market.

The sum is more than twice last year's profit and forced its parent, [Daiichi Sankyo](#) of Japan, to slash its net income forecast by nearly half to Y26bn (\$334.3m) for the year ending March. The Japanese pharmaceutical company has also cut the salaries of its board members by between 5 per cent and 30 per cent for six months to signal responsibility for the reduced forecast.

The announcement raised hopes that Ranbaxy could be nearing an agreement with the US Department of Justice and the Food and Drug Administration, and lead to a lifting of the [revenue-sapping ban on exporting drugs to the US](#) from two of the company's Indian plants.

In September 2008, US regulators banned imports of more than 30 medicines produced by Ranbaxy because of concerns over their manufacture.

Optimism that an end to the dispute was in sight, coupled with Daiichi Sankyo's promise to maintain its dividend, sent its shares 2.9 per cent higher to Y1,515. Ranbaxy was trading 3.1 per cent higher at Rs406.07.

However, it remains unclear when Ranbaxy will be able to resume the exports. The ban will remain in place until the drugmaker has taken steps agreed with the FDA, subject to approval by the Maryland district court, the company said.

Ranbaxy this month started selling its generic rival to [Pfizer](#)'s Lipitor cholesterol treatment – called Atorvastatin – in the US. It has a 180-day marketing exclusivity period that the export ban prevents it from fully exploiting, as it cannot produce the drug in the affected Indian plants.

Without the ban, Ranbaxy could have been expected to grab close to a 45 per cent market share of the drug in that initial period, an analyst said, but instead Bloomberg data showed it only managed 9 per cent.

Analysts have questioned why Ranbaxy did not move earlier to set aside liability costs.

“The timing suggests that Tokyo has had enough with the pussyfooting around and wants Ranbaxy to put the whole affair behind it as quickly as possible and make use of what remains of the exclusivity period,” said Pelham Smithers, who runs a boutique research firm.

The share prices of both companies underscores that investors remain unconvinced about [Daiichi Sankyo's controversial acquisition](#) of a majority stake in Ranbaxy back in 2008, when it was heavily criticised for overpaying. Ranbaxy's US problems [forced the Japanese drugmaker to take a Y360bn hit from the deal](#).

Daiichi Sankyo's share price has dropped by half since the deal was announced, compared with a 32 per cent decline of the Topix sub-index of pharmaceutical companies. Ranbaxy's stock is trading at three quarters of its levels before the deal was announced.