



FOCUS Ranbaxy good option for Merck's generic ops, Sanofi-Aventis more realistic

FRANKFURT (AFX) - Ranbaxy Laboratories Ltd would be a better option than private equity companies to take over the reins of Merck KGaA's generic drugs unit, a top analyst in mergers and acquisitions has said.

But other analysts believe Sanofi-Aventis SA would be a more "realistic" choice, as Ranbaxy might be financially "stretched" by the acquisition.

Although India's Ranbaxy -- with its annual sales of 1.2 bln usd -- generates just half the annual revenues of Merck's generics ops, it would make industrial sense for Ranbaxy to buy the unit, said Christopher Kummer, director of the Institute of Mergers, Acquisitions and Alliances. Kummer said: "There is an evolving pattern of companies from so-called developing countries becoming more acquirers than targets. "From a point of view of industrial logic it would make more sense for Ranbaxy to buy the company, rather than it going into the hands of a private equity firm, because Ranbaxy is known to be good and efficient at manufacturing drugs."

Dresdner Kleinwort said in a note to analysts: "We are not surprised to see Ranbaxy expressing an interest in German generic companies, after the company was outbid by Dr Reddy's when trying to buy Betafarm."

Another analyst, however, who asked not to be named, said: "It is difficult to believe that such a purchase could be realistic. The only way this could be feasible would be if Ranbaxy joined forces with another company. A strategic partnership with another generics company seems unlikely, so it is more likely to get together with a private equity firm."

But merger and acquisition expert Kummer said that that, rather than joining forces with a private equity company, Ranbaxy would be better off funding an acquisition by increasing its own debt capacity and share capital.

Health Insight analyst Aparna Krishnan described valuations of Merck's generics ops as up to 4.5 bln eur as a possible "stretch" for Ranbaxy. But she added that the acquisition would provide Ranbaxy with an advantage in German and other Western European markets.

"With the German generic market in a state of flux (following the introduction of the Economic Optimisation of Pharmaceutical Care Act (AVWG)), any potential buyer for Merck's generics would be more likely to come from outside Germany," said Krishnan.

She added that Sanofi-Aventis's rumoured interest in Merck's generics would be more "realistic", adding: "Sanofi-Aventis is looking to expand its presence in what it perceives to be a growing sector, on a global scale at least."