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Sun Pharma: The battle continues

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Acquiring Taro is no longer a necessity, as the US market dynamics have changed. The three-year-long Taro saga may continue for Sun Pharma, as the management has rejected a lucrative offer for its stake in the Israeli company. Sun Pharma has overlooked the \$215-million offer by Guggenheim Securities for its holding in Taro and will continue its efforts to gain control of the Israeli company through the court battle.

On the face of it, had Sun taken the offer, it would have gained \$140 million on its initial investment of \$105 million. This offer price of \$15 per share implies a premium of around seven times the current Taro share price. Analysts believe the management should have accepted the offer as it was lucrative and the current investment in Taro was not yielding anything. Taro would have been fruitful investment for Sun three years back, when it made a bid to acquire it for \$454 million, say analysts. Taro's US base (manufacturing and distribution) and strong generic range would have given it mileage.

Three years down the line, Sun has substantial presence in the US market with a strong product range. It has manufacturing facilities through its subsidiary Caraco Pharma. It also has 84 approved abbreviated new drug application, while 123 are in line for approval. Drug Master File (DMF) and patent approvals stand at 89 and 81, respectively. A total of 155 DMF and 246 patent applications have been submitted.

Sun will have to buy five million more shares to acquire complete control of Taro. At present, Sun Pharma is the largest shareholder of Taro, with around 36 per cent stake (14.4 million shares). It can easily acquire Taro even at a higher price as it has cash of around Rs 3,700 crore. But, Sun has a strong research and development base with spending of around Rs 247 crore in FY10 and has capabilities to develop any product range to match Taro's prowess. Thus, acquiring Taro is not a major necessity for Sun Pharmaceutical.