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Cipla: Move to enter biotech looks opportune

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<http://economictimes.indiatimes.com/markets/stocks/stocks-in-news/Cipla-Move-to-enter-biotech-looks-opportune/articleshow/6056650.cms>

Cipla's latest move to grow through acquisitions comes at a time when the company has been growing at lower than the industry growth rate for the past few years.

Its decision to acquire two smaller biotech outfits will help the pharma major enter the fast-growing global market of the biotechnology segment. This, however, may not improve Cipla's profitability in immediate future since product development under the new venture would take at least 2-3 years.

The country's leading generic formulations company will pay \$40 million for a 40% stake in Mabpharm, Goa and \$25 million for a 25% stake in Shanghai-based BioMab. Cipla's investment of \$65 million (around Rs 300 crore) would give rights to Cipla to market the portfolio of over 10 bio-similar products — generic version of patented biotech drugs, in therapeutic areas of oncology, arthritis, rheumatism and asthma.

It will focus on India as well as international markets such as Africa, Latin America, South-East Asia and other semi-regulated and unregulated markets. Globally, the biotech industry is \$90-billion strong growing at a rate of over 35% annually.

Cipla's decision to enter the biotech space seems opportune, given the fact that over the past five years, growth in its generic business has remained tepid. In FY06, Cipla's revenue had grown by 30% year-on-year. This has slowed down to 8% in FY10. Its peers have reported a similar growth.

Cipla's financial performance is also reflected in its share price. Its shares have gained just over 3% in the past one year compared with the 57% rise in the ET Pharma index.

Cipla's business growth, so far, has not been able to justify the growth in its capital expenditure over the past five years. There has also been increasing competition from MNCs in the domestic market. Though investments in the two biotech companies offer a promise of better growth, it may take 2-3 years for the benefits to accrue, given a long product-development cycle in the biotech space.

At the Wednesday's price of Rs 335.3, Cipla's stock is trading at a P/E of 27. The Cipla management had earlier guided for a revenue growth of 8-10% in FY11. The latest acquisitions are not likely to have much impact on this expectation.