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Cipla to buy 25% in S Africa unit

P B Jayakumar / Mumbai September 3, 2010, 0:19 IST

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<http://www.business-standard.com/india/news/cipla-to-buy-25-in-s-africa-unit/406809/>

Cipla, the largest player in the domestic drug market, could play white knight for Cipla Medpro, South Africa's third-largest drugmaker and a key ally of the Indian company. Cipla is looking to acquire around 25 per cent in the manufacturing division of Cipla Medpro, where it does not hold any stake at present. The deal size could not be ascertained, but it will be the first overseas acquisition by 75-year-old Cipla in any pharmaceutical company. Recently, it acquired a 25 per cent stake in a Hong Kong-based biotech company with manufacturing units in Shanghai.

Cipla will invest in Cipla Medpro Manufacturing (Pty) Ltd (CMM), a subsidiary of Cipla Medpro, which is setting up one of the largest contract manufacturing facilities in Africa at an investment of over Rand 225 million (Rs 145 crore), said executives close to the development.

In April 2009, Johannesburg-based Adcock Ingram, the second-largest generic drugmaker in South Africa, had mounted a hostile bid for Cipla Medpro by offering close to \$233 million (over Rs 1,000 crore). Adcock dropped the attempt following Cipla's threats to sever its contracts and stiff opposition from employees, led by Cipla Medpro Chief Executive Jerome Smith. Sweet Sensations, Cipla Medpro's largest minority shareholder with 18.5 per cent stake, had also opposed the takeover proposal.

When contacted, Cipla Chairman & Managing Director Y K Hamied confirmed the development. "There is a proposal from Cipla Medpro and our board will soon take a decision. Only then can we disclose how much we will invest," said S Radhakrishnan, the company's chief financial officer, adding that the investment might not be "substantial".

A week ago, Hamied had told shareholders of Cipla that the company would invest over Rs 1,000 crore in the "immediate and near future" in factories, expansion of existing facilities and infrastructure.

Industry observers said Cipla's move could be an attempt to ring-fence the key partner from any hostile acquisition and to take a better grip over African operations. The Rs 5,500-crore company exports around 35 per cent of its production, mainly HIV-AIDS drugs, to the continent. Around 15 per cent of its export revenues are through Cipla Medpro, said analysts.

Cipla Medpro said Cipla India would help the company provide additional volumes and assistance in achieving World Health Organisation and US Food & Drug Administration manufacturing approvals in the near future, resulting in increased orders and business for its factory. Currently, the CMM division is loss-making.

DRUG DEAL

First overseas pharma buy for the Indian drug major

Cipla Medpro is the third-largest drugmaker in SA

The two have been partners for 18 years

Cipla recently took 25% in a Hong Kong biotech firm

A Johannesburg Stock Exchange-listed company since 2005, Cipla Medpro has three business segments in pharmaceuticals: manufacturing, animal health and agricare. The company has been a strategic business partner of Cipla for the last 18 years.

Cipla Medpro had a turnover of around Rs 811 crore in 2009. It markets and manufactures drugs in cardio-respiratory, diabetes, oncology, psychiatry and HIV-AIDS categories. It is also the only local company to offer a full basket of diabetes products, such as insulin, oral medications, over-the-counter and diagnostics.