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Teva rumored to be interested in acquiring India-based branded pharma company, industry sources say

Teva (NASDAQ:TEVA), the Israel-based generics pharmaceutical giant, is rumored to be interested in acquiring a stake in an India-based branded pharmaceutical company, said industry sources familiar with the company.

Targets for Teva include API manufacturer Aurobindo Pharma Limited (BOM:524804), Cipla Limited (BOM:500087), Aarti Drugs (BOM:524348), and Indswift (NSE:INDSWFTLAB), according to Shiraz Bugwadia, an IMAP M&A adviser based in India. The company was rumored to be interested in these companies back in 2003, he added. A second India-based industry banker and a US-based industry executive agreed that Teva's interest in Aurobindo is logical because the company is considered a leading active pharmaceutical ingredient (API) manufacturer. "Teva is unlikely to go for a player below the top 8 in India," said the second banker.

Teva did not return calls for comment. The company has a market cap of USD 46.8bn.

Dr. Reddy's Laboratories (NYSE: RDY) is also a company that Teva could target, according to a third US-based industry banker and a fourth India-based industry banker. Dr. Reddy's would need cash infusion to the tune of USD 250m to USD 300m to carry out its research and development programme and invest in its German acquisition Betapharm, said the fourth banker. Teva could show interest in Dr. Reddy's since it was the competing bidder for Betapharm in 2006, he added. However, valuations would be the key to a deal going forward.

Dr. Reddy's owners have been in stake sale talks, according to media reports. The owner's asking price is INR 2400 (USD 51.70) and its shares currently trade at INR 1258 (USD 27.14), as per the reports.

A move in the next 12 months by Teva would not be surprising, the third banker said, citing an uptick in potential sellers, as well as a push by the Indian government to increase patent protection for generic drugs, which will improve margins for drug companies.

However, Bugwadia expressed caution about a potential deal in the next 12 months. The premiums of India-based companies are very high, he said, adding that companies with FDA-approved facilities are seeing a 50% to 60% premium to exit. Teva has a very fixed acquisition model and it is not moved by competitive processes and will not overpay, he added.

The third banker maintained that generic pharmaceuticals, in particular, have a lot to gain from entering the Indian market because of revenue and cost synergies. The branded pharmaceutical market is still highly fragmented and companies are competing to win in this space, he said.

Teva is interested in acquiring assets possessing both API manufacturing and formulations capability, or the company may set up a greenfield facility in India, said the fourth banker. Teva is interested in an asset that will help it market its products in India in addition to the manufacturing base, he added. Macroeconomic arguments for investing in India because of its sizable population, increasing amount of disposable incomes, and lower manufacturing costs, are still strong, agreed the third banker.

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