

Business Standard

Rouble fall to hit Indian pharma exports

Rouble falls to record low of 70 to a dollar

B Dasarath Reddy & Dev Chatterjee | Hyderabad/Mumbai December 17, 2014 Last Updated at 00:49 IST



The rouble's fall affected share prices of Indian pharmaceutical companies Dr Reddy's Laboratories and JB Chemicals on Tuesday, on fear that a crash of the Russian currency would hurt their exports.

Russia's central bank early on Tuesday raised interest rates to 17 per cent to counter the 50 per cent rouble fall in six months. This did not make any difference and the currency fell to 70 to a dollar later in the day. Tougher sanctions by Western countries have added to Russia's economic woes.

"Dr Reddy's earns close to 15 per cent of its sales from Russia. But I think the Russian currency will rebound next year and the fall in Dr Reddy's share price is just a short-term gyration," said Sarabjit Kour Nangra, vice-president, pharma research, at Angel Broking.

ROUBLE TROUBLE

- Russia's central bank early on Tuesday raised interest rates to 17 per cent to counter the 50 per cent rouble fall in the last six months
- Dr Reddy's Lab fell 6.32 per cent on Tuesday to close at Rs 3,142 a share on the BSE
- JB Chemicals and Pharmaceuticals was down 5.6 per cent to Rs 199 a share
- Glenmark Pharma was down five per cent to Rs 767 a share
- It would not be only pharmaceutical companies that would be hurt by the Russian devaluation. Other exports to Russia would also be impacted

Dr Reddy's fell 6.3 per cent on Tuesday to close at Rs 3,142 a share on the BSE. JB Chemicals was down 5.6 per cent to Rs 199 a share. Glenmark Pharma was down five per cent to Rs 767 a share. The BSE Sensex was down on Tuesday by two per cent, or 557 points.

Analysts said JB Chemicals earned Rs 88 crore from export to Russia, according to its annual report. But

as the working capital cycle in Russia is higher by 200 days and more, it blocks money for the Indian company. JB Chemicals chairman Jyotindra Mody did not reply to calls from Business Standard.

When contacted, a senior executive at Dr Reddy's Laboratories said the exact impact of the rouble's fall on the company's revenues could be assessed once it stabilised. "At present, the Russian currency is facing a lot of volatility. It needs to be seen where it stabilises," Soumen Chakraborty, president and chief financial officer of Dr Reddy's told Business Standard.

Though the fall in the Russian currency means earning of more roubles, the actual value of revenue will be determined only in correlation with the dollar and the rupee, according to him.

Dr Reddy's revenues were impacted by the falling rouble in recent quarters as well. In the second quarter ending September, revenue from Russia declined 11 per cent at a little over Rs 400 crore, primarily on account of the rouble devaluation.

According to Nangra, the devaluation will impact revenue growth as it has been the case for the past couple of quarters, but not profitability. A falling rupee would also have to be taken into account in the final analysis, she said.

As the third quarter was almost coming to a close, any impact of the ongoing volatility in the Russian currency would be felt only in the fourth quarter, she said.

Dr Reddy's exports to Russia and the CIS countries in the second quarter stood at Rs 480 crore (17 per cent of global generics revenue), a decrease of 13 per cent over the Rs 551.6 crore in the corresponding quarter last year.

Analysts said it would not be only pharmaceutical companies that would be hurt by the Russian devaluation. Other exports to Russia would also be impacted.

"All companies that have export deals with Russia are bound to be impacted as long as this phenomenon continues. A weaker rouble pushes the cost of imports for Russia and, hence, impacts demand. Indian companies would need to have risk-mitigation models in place to counter this development. The pharma companies should have been hedging their risk on their exports as the Russian phenomenon has been brewing for some time, since the Ukraine imbroglio," said D R Dogra, chief executive officer and managing director of CARE Ratings.