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MARK TO MARKET

RAVI ANANTHANARAYANAN
We welcome your comments at marktomarket@livemint.com

Dr Reddy's sales growth beats expectations in December quarter

Dr Reddy's Laboratories Ltd did well in the December quarter, considering that its Russian business was expected to be hit by the rouble's depreciation and the low expectations from the US business. Still, overall sales rose by 9% from a year earlier.

Sales in North America rose by 4% from a year ago. Sequentially, sales growth was relatively healthy at 17%. Dr Reddy's said that growth was aided by continuing contribution from low-competition drugs and an increase in market shares of some key drugs.

Russia and CIS (Commonwealth of Independent States) sales did decline by 10% from the year-ago period—but the company staved off a worse performance thanks to its currency hedges.

But this support may not last long, and the continued currency volatility could have a bigger impact on its forthcoming results. It did well in other emerging markets, especially in Venezuela. However, India sales growth at 11% was a bit slower than the 14% seen in the preceding quarter.

Ebitda (earnings before interest, taxes, depreciation and amortization) margin, however, declined by 1.1 percentage points over the year-ago period. The decline was not entirely a surprise, since Dr Reddy's had planned an increase in its research and development expenditure. Besides, forex volatility in emerging markets hit profits.

One concern for investors is the company's Srikakulam plant having got a notice from the US Food and Drug Administration, and whether the issue gets resolved in Dr Reddy's favour. Currency volatility in emerging markets is another risk that should be watched, though the company's underlying performance in these markets seems to be in good shape.

Company