

Strong \$, fewer US nods to keep pharma tepid

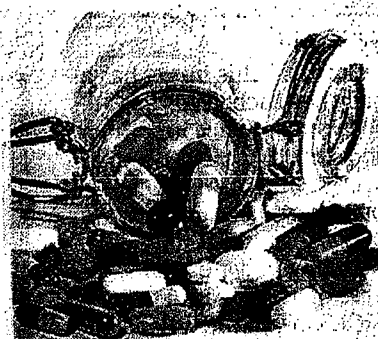
Soumonty Kanungo @SoumontyK

Mumbai: The domestic pharmaceutical industry may report a muted December quarter this fiscal due to few product approvals in the US market and adverse movements in most emerging-market currencies.

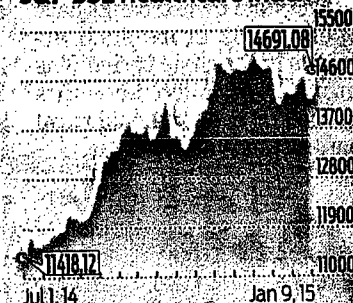
"We expect another quarter of moderate Ebitda (operating profit) growth for Indian pharma companies in third quarter due to lack of US dollar tailwinds (dollar began to appreciate against rupee only from December, 2014), currency headwinds in emerging markets and sluggish pace of new abbreviated new drug applications (ANDA) approvals," IDFC Securities said in a quarter preview.

In the December quarter, the dollar-rupee rate was flat year on year (up 2% quarter on quarter) with most pharma companies receiving only 0-2 new ANDA approvals.

Companies such as Dr Reddy's, Glenmark, Ranbaxy and Ipca have significant exposure to Russia and Venezuela, where currencies have seen sharp depreciation (rouble depreciated against rupee by 21% qoq and



► S&P BSE Healthcare Index



30% yoy in December quarter).

According to stock broking firm Sharekhan, absence of exclusivity type products, fewer number of product approvals in the US during the quarter, US Food and Drug Administration's adverse inspection report on the key Indian facilities and

adverse geopolitical environment in Com-

monwealth of Independent States (CIS) regions are some of the factors that will restrict growth.

However, it maintained that growth in the sector is expected to remain healthy in the third quarter on the back of recovery in the domestic and Latin American business of Indian players.

Stronger traction in the base business and integration of the

newly acquired entities (by Aurobindo Pharma and Torrent Pharmaceuticals) will substantially mitigate the impact.

A Nirmal Bang Securities report said, "The quarter witnessed significantly lower product approvals, which coupled with adverse movement in most emerging market currencies, are likely to impact earnings even as domestic growth may remain strong for most players. We expect the companies under our coverage (excluding Strides Arcolabs because of limited disclosure on consolidated numbers) to post yoy revenue, Ebitda and net profit growth of 15%, 9% and 3%, respectively, led by strong growth in Cadila Healthcare, Divis Laboratories, Natco Pharma and Torrent Pharmaceuticals."

Continued on p12

Industry

Strong \$, fewer US nods to keep pharma tepid

From p11

Sharekhan said the long-term outlook for the industry remained strong, given the sizeable number of products yet to come in the generic space, and strong products pipeline of key players pending approvals from key regulatory agencies and better economic outlook for emerging markets.

"On an aggregate basis, the pharmaceutical companies in our universe will see a revenue and profit growth of 20% and 11.8%, respectively in the third quarter (as compared with 20% and 18% in second quarter). The operating profit margin is expected to decline by 100 basis points for companies under coverage due to a high base effect of third quarter (caused by the launch of generic Cymbalta)," it said.

Given limited likelihood of earning upgrades in the third quarter, a continued phase of healthy consolidation in pharma stocks in the near term is expected. "We remain positive on the medium-term growth outlook for Indian pharma players given strong US ANDA pipelines across companies," IDFC Securities said.

Conrad...