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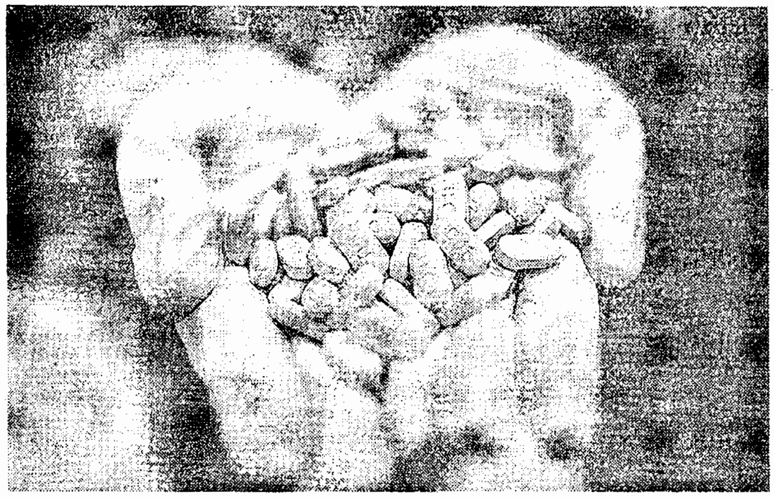
Ukraine crisis to have limited impact on Indian pharma

But Dr Reddy's, a major player in the region, can expect some overhang on its stock till the issue is resolved fully, say analysts

UJJVAL JAUHARI



As the Ukraine crisis brought jitters to bourses worldwide, the Indian market also saw a correction on Monday. While it rebounded on Tuesday on indications of the crisis easing, the BSE Healthcare Index is still down over two per cent — it saw a larger crack of 1.5 per cent on Monday and was down by another 0.5 per cent on Tuesday.

Analysts, however, attribute the correction to profit-booking after a prolific run-up in the previous few days and say there is a limited bearing of the Russia-Ukraine conflict. Sarabjit Kaur Nangra at Angel Broking says the Russian threat of a military strike on Ukraine's Crimean region is a minor irritant for the Indian pharmaceutical sector. The only case to watch is Dr Reddy's, which among Indian players has the largest exposure to the troubled region.

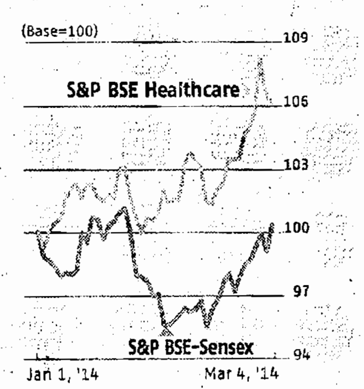
Leading export-focused players such as Lupin and Dr Reddy's had seen their stocks touch 52-week highs last Friday, while Sun Pharma made an all-time high (intra-day) on Monday before falling. While Lupin has recovered some ground, Dr Reddy's was still trading at ₹2,801, lower than its Friday closing of ₹2,901.55. Sun Pharma was down 4.5 per cent to ₹620.50.

While Russia is an important market for global pharma players, among Indian companies, Dr Reddy's has significant exports directed there. The company saw Russia and the CIS (Commonwealth of Independent States) region contribute 18.3 per cent to its global revenues in the third quarter of FY14. In fact, the contribution from Russia and CIS at ₹530 crore was higher than the ₹390 crore contributed by domestic generic sales. In FY13, too, about 20 per cent of Dr Reddy's revenues (₹1,690 crore) came from Russia and CIS. The CIS countries' contribution to the same stood at ₹286 crore (two per cent of sales).

Notably, the Russia and CIS region has posted a compounded annual growth rate of 21.7 per cent during the last five years and has been a strong growth driver for Dr Reddy's. Thus, if the Russia-Ukraine conflict gets prolonged and spreads across the region, it has the potential to disturb the contribution from this important geography. In the near term, however, says Nangra, the impact is likely to be low as the conflict is confined to the Ukraine region. Thus, as of now she maintains her estimates and has an "accumulate" rating on the stock, with a target price of ₹3,008.

Ranjit Kapadia at Centrum Broking, too, feels in the immediate term there is not much reason to worry, since there must be adequate stocks in the pipeline. He adds it is only in the longer run, if the conflict escalates, that orders for Indian companies could get impacted. The likelihood is minimal at the moment, he says. He is, therefore, not immediately looking at making alterations to his target price of ₹3,840 for Dr Reddy's but adds that some overhang on the stock may be seen till the issue is resolved fully.

SHORT-TERM BLIP



Data compiled by BS Research Bureau

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