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Concern on Ukraine hits pharma stocks

Weakening rouble the immediate threat, say analysts; war or continued tension would mean more trouble for revenues of some majors

SNEHA PADIYATH & UJJVAL JAUHARI
Mumbai, 18 March

Tension between Russia and Ukraine over the Crimean region is weighing on the shares of select Indian health care companies with business interests in that region.

These have fallen by four to 10 per cent in the past two weeks, as investors have worried about the impact of the geopolitical issues and the weakening ruble on their business in this area. Analysts said the shift in investor focus from traditional defensives such as pharmaceuticals to the so-called cyclicals such as real estate and infrastructure also contributed to the weakness.

"We could see some more impact if the crisis escalates and the currency weakens further," said Nirmal Rungta, director and head (private client group), CIMB Securities.

The rouble has declined by 10 per cent against the dollar since the beginning of the year.

Dr Reddy's Laboratories, Sun Pharma and Ranbaxy are among the largest Indian entities in the Russian market. These companies have been raising their exposure to the region in the past two to three years.

Dr Reddy's has the highest business exposure to the Russia and Commonwealth of Independent States (CIS) region, from where it generates close to 20 per cent of its annual sales, of ₹1,690 crore in 2012-13. Of this latter figure, Russia accounted for ₹1,405 crore; the rest came from Ukraine, Kazakhstan Uzbekistan and Belarus. Ukraine accounts for a minor portion of the sales; so, unrest in Ukraine alone will not offset these significantly. It is Russia which is of high importance.

For Dr Reddy's, the region saw 25 per cent compounded annual growth during FY 2009-13. In the December 2013 quarter, Russia and CIS contributed ₹530 crore (₹430 crore from Russia) to Dr Reddy's consolidated sales.

Sun Pharma has, since the beginning of this month, fallen 9.5 per cent. Ranbaxy is down 5.8 per cent and Dr Reddy's and Glenmark by 4.3 and 4.2 per cent, respectively. The gains made since January in these stocks were arrested after the escalation of the Crimean situation. The BSE Health care sector has fallen 5.9 per cent during the period, even as the benchmark BSE Sensex gained 3.2 per cent.

Industry bodies are concerned about the situation in Ukraine, the second-largest market for India among the CIS after Russia. According to a report from industry body Ficci, 30 per cent of all Indian exports to Ukraine come from the pharma sector. "...industry is worried that if the trend continues, the price of imported products in Ukraine will become expensive. The higher landed cost will ultimately affect the end-consumer," went a Ficci report on the issue.

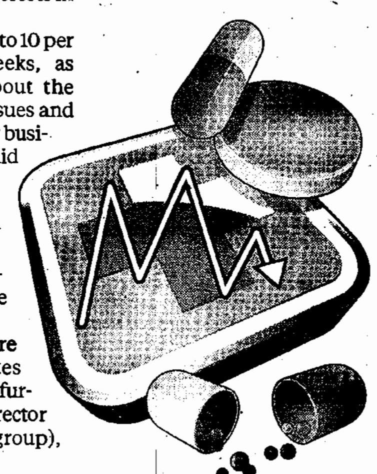
"If there is war, there will be disruption in the sales and distribution of pharma products in the region. That impact could start showing in two to three months," said Hitesh Mahida, research analyst with K R Choksey Securities.

Ranjit Kapadia at Centrum Broking said the companies operate through wholly owned subsidiaries in the region and there must be adequate inventory in the pipeline that will be able to cushion revenues and operating profit impact.

Analysts also believe a portfolio churn by investors helped led to sharp declines in these sectors. "Markets are reacting to a change in portfolio by investors in sectors, which had been under-performing," said Surajit Pal, research analyst with Prabhudas Lilladher.

CRIMEA CRISIS WEIGHS

Select pharma companies shares have fallen 4 to 10% in the past two weeks

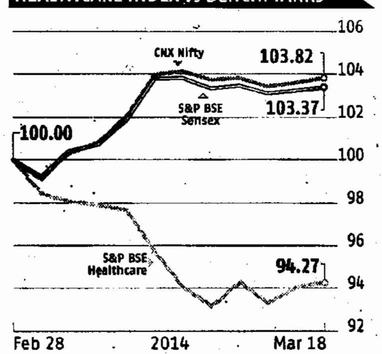


BITTER PILLS

BSE price in ₹

	Feb 28	Mar 18	% chg
Sun Pharma	642.70	579.04	-9.91
Ranbaxy Labs	364.95	345.85	-5.23
Dr Reddy's Labs	2,901.55	2792.10	-3.77
Glenmark Pharma	570.20	554.10	-2.82
Torrent Pharma	554.20	542.45	-2.12

HEALTHCARE INDEX Vs BENCHMARKS



Compiled by BS Research Bureau