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DECEMBER QUARTER

Dr Reddy's profit drops 7% on muted sales growth in US

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HYDERABAD

Drug maker Dr Reddy's Laboratories Ltd on Thursday posted a profit decline of 7% in the fiscal third quarter as sales growth in the US, its biggest market, remained muted, and costs increased.

Profit fell to ₹575 crore in the quarter ended 31 December from ₹618 crore in the year earlier. Sales rose 8.8% to ₹3,843.1 crore. Profit bettered the ₹553 crore forecast by analysts in a Bloomberg poll.

The results were, however, better than analysts had expected. According to Thomson Reuters StarMine data, Dr Reddy's was expected to report a profit of ₹541 crore in the third quarter.

The one-time impairment charge of ₹53 crore due to "decline in the recoverable amounts of certain products" has pulled the net profit down, said Saumen Chakraborty, president and chief financial officer of Dr Reddy's.

The research and development expenses of Dr Reddy's grew 45% to ₹430 crore compared to the previous year as the company is betting big on biosimilars, the copycat version of biotech drugs. Revenue from North America, which accounts for about half the generic sales of Dr Reddy's, grew 4% to ₹1,680 crore in the third quarter.

"There has been substantial erosion of price and market share of various products (in the US market)," said Abhijit Mukherjee, president and head of global generics at Dr Reddy's, explaining the reduced growth in North America. "The performance in coming quarters will depend on new launches."

Dr Reddy's has launched six new generic products, and filed two abbreviated new drug applications (ANDAs) in North Amer-

ica in the third quarter. The company has 68 ANDAs pending for approval with the US Food and Drug Administration (USFDA), of which 43 are para-IV filings and 13 have first-to-file status. The first-to-file status, if approved by the USFDA, gives the company 180-day marketing exclusivity.

Revenue from Russia fell 9% to ₹400 crore, primarily on account of the rouble's depreciation, the company said. Russia and CIS (Commonwealth of Independent States), the second biggest market after North America, contributed ₹476.6 crore or 15% of Dr Reddy's global generic sales of ₹3,169 crore in the third quarter.

The decline in the rouble by around 28% in the third quarter is a cause of concern, Mukherjee said. The rouble has been the worst performing currency against the dollar in recent months, as the nation's economy was hit by drop in crude oil prices and economic sanctions imposed by Western countries against Moscow following its annexation of Crimea from Ukraine.

Revenues from India grew 11% to ₹430 crore, driven by continued focus on new product launches and prescription sales growth. Europe sales grew 5% to ₹195 crore.

The active pharmaceutical ingredients and services business, which Dr Reddy's refers to as PSAI, business grew 21% to ₹610 crore in the third quarter.

"The results are better than what we expected," said Hitesh Mahida, an analyst at Mumbai-based Antique Stock Broking Ltd. The rouble impact is lower than expected, US posted better performance and PSAI business started to do well after a long time, Mahida said.

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