

Biotech industry too hit by Dollar depreciation

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With exports contributing for over 55 percent of share of the total sale revenues of the Indian biotech industry, it cannot remain immune to the rising rupee value.

Announcing the unaudited financial results for the quarter ended June 30, 2007, Rajesh Jain, joint managing director, Panacea Biotech observed, "The current financial year is full of challenges for all those companies which are deriving major revenues in foreign currencies particularly in US Dollar, as the domestic currency has appreciated significantly against the US Dollar. Panacea Biotech has registered growth in its forex earnings as well as domestic business both pharma and vaccines, however the impact of growth was nullified by around 10 percent appreciation in the Rupee against the US Dollar during the quarter under review as compared to corresponding quarter of previous year."

Panacea Biotech registered a net turnover of Rs 233.4 crore during the quarter ending June 30, 2007 compared to Rs 233.4 crore for the corresponding quarter of previous financial year. Its revenues from pharma (formulations) segment grew by 27 percent at Rs 49.8 crore, with the domestic turnover registering 26 percent growth and export turnover growing by 36 percent. The vaccine business registered turnover of Rs 183.7 crore during Q1 2008 compared to Rs 194 crore during the Q1 2006.

Biotech major Biocon's sales in Q1, 2008 grew by 28 percent to Rs 227.4 crore and operating profits by 40 percent. Commenting on the results, Kiran Mazumdar-Shaw, CMD, Biocon Ltd, said, "I am pleased that we have delivered robust and

growing profits at a time when we are challenged with increased RD investments, strengthening currency and rising operating costs. This has been possible due to expanded markets for our biotherapeutics as well as significant licensing income from our R&D programs." Shaw acknowledges that there has been some impact due to the dollar depreciation. Responding to the analysts conference call on the sort of impact Biocon saw both on its revenues and on the treasury income, Shaw said, "This has impacted some of our earnings, because you know that we have a high dollar denominated revenue income, and some of this we have hedged because they are on a contractual basis, but there is a lot of this business that cannot be hedged because of the fact that some of the businesses are really on spot purchases. So we have tried to do as much as we can to safeguard the impact of this."

The extent of impact is not yet clear, but the impact is being felt by both small and big companies say industry executives. Dr Shama Bhat, managing director, Bhat Biotech, said, "The rupee has become so strong it is very difficult to export today. We are a very small company but we are exporting more than 50 percent of our products into several countries, majority of them are going to South Africa where for the last 15 years we got some government orders which we are able to supply. We are exporting Parikshak HIV at 52 cents. Two years ago we got this tender. At that time, the rupee value was Rs 48. That translates into about Rs 25 per test. Today the same 52 cents at Rs 40 will be around Rs 22.80. We lost about Rs 4.20 just because of that."

Would it mean there would be benefit because most of the raw materials are imported? "We can import raw materials at the depreciated rate. But unfortunately what happens is our input is less than 5-10 percent of the raw materials wherein we may be saving about Re 1 per test. That means net loss of about Rs 3.20, i.e, about 15 percent loss in our margins. Because of global competition, we cannot mark up the prices so high and the margins are very slim. Companies like us are really struggling and we are losing money. Because of the tenders and government supplies, we will not be able to raise the price. The government has promising to do something. However, it is almost three-four months but nothing has been done. This is one area where they have to act fast so that companies will be able to compete with others and survive."

To give relief to exporters hit hard by rupee appreciation against dollar, the Centre announced a Rs 1,400-crore fund, including increased rates of duty drawback with effect from April 1. Besides, the Centre has asked the banks to extend cheaper credit to exporters at an interest rate not exceeding BPLR minus 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for period between April 1 and December 31 this year.

Further, the ministry of finance has accorded relaxation from monthly and quarterly ceilings of expenditure for deemed export benefits to enable the commerce ministry to meet the pending reimbursement claims, which are estimated to be in the order of Rs 600 crore.

Though the industry has welcomed the announcements, many feel this is short of expectations.

Will the biotech industry ask for some share of the Rs 1,400 crore package? Dr KK Narayanan, president ABLE said that the association is planning to ask for it. "The center has announced that it will do something about the interest rate even though it would directly not be able to tinker with the exchange rate. I do not know how far this will have impact. This is affecting other sectors too. Even software companies and others are finding it difficult to service their customers. It is a wider issue. There will be many more people fighting this issue."

Indian biotech companies are trying to import a lot of instruments and this may work in the industry's favor say some executives. Almost about \$1.5-2 billion worth of instruments will be imported in the next two years, which may be good news for the biosuppliers. There is another section of the industry which feels dollar depreciation will work in its favor if it is scouting for mergers and acquisitions, considering that many of the Indian companies are looking at acquisitions. In the past few months one has seen an increase in the M&A activity. Irrespective of what the impact is, companies in India are bracing up to tackle the changing environment.

Ch.Srinivas Rao with
Namratha Jagtap