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**“Analysis of Third Quarter Results of Drug and
Pharmaceutical Companies”**

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Appreciating rupee and high wage cost hit the bottom line of the Pharma Companies, says AEP

Hit by appreciating rupee and high wage cost in the domestic market along with regulatory changes and significant price cuts in the international market, the bottom line of the Pharma companies recorded a minimal growth of 5 per cent during the third quarter ending December 2007, according to an AEP study.

The ASSOCHAM Eco Pulse (AEP) study based on the Quarterly Results of 20 Drug and Pharmaceuticals companies further revealed that against an average growth in raw material cost of about 8 per cent the average hike in wage cost was as high as 21 per cent.

According to ASSOCHAM President Mr. Venugopal N Dhoot "Significant pricing pressures across the US and European markets coupled with appreciating rupee and high wage cost have eroded margins of the major players".

Performance of Pharmaceutical Companies: Q3 FY08 Vs Q3 FY 07

(In per cent change)

S.No.	Name of the company	Net Profit	Net Sales	Employees Cost	Raw Material Cost
		Q3 FY08 Vs Q3 FY 07	Q3 FY08 Vs Q3 FY 07	Q3 FY08 Vs Q3 FY 07	Q3 FY08 Vs Q3 FY 07
1	Ranbaxy Laboratories Ltd	-65.20	-1.20	26.35	-7.60
2	Dr. Reddy's Lab Ltd	-91.60	-34.34	23.23	-6.30
3	Nicholas Piramal India Ltd	70.50	19.16	15.49	36.70
4	Cadila Health Care Ltd	-21.70	21.80	36.99	37.80
5	Sun Pharma Ltd	60.11	48.87	16.13	4.20
6	Cipla Ltd	14.25	25.43	39.35	6.50
7	Orchid Chemicals and Pharmaceuticals Ltd	91.10	39.36	46.78	-7.40

Source: Company Announcements

The companies recording a major fall in their net profits included the market leaders like Dr. Reddy's Laboratories (91.6 per cent), Ranbaxy Laboratories Ltd. (65.2 per cent) and Cadila Healthcare Ltd (21.7 per cent). Other players that suffered a decline in

their bottom line were Shashun Chemicals and Drug Ltd (41.5 per cent), Aurobindo Pharma (8.1 per cent) and Dabur Pharma (7.52 per cent).

Owing to appreciation of rupee to the extent of 12 per cent over the last year, sales of the Pharma sector have seen a growth of just about 13.5 per cent. It is noteworthy that about 40 per cent of drug and pharmaceuticals sales are made offshore.

Dr. Reddy, India's leading Pharma house reported a decline in its net sales by 34.40 per cent. Dabur Pharma also posted a fall in net sales by 15.15 per cent from Rs. 76.62 crore in Q3 FY07 to Rs. 65.01 crore in Q3 FY08. Ranbaxy Laboratory Ltd too recorded a marginal fall in their total sales by nearly 1 per cent.

On the other hand, Sun Pharma Ltd posted an impressive growth of about 49 per cent in their top line. Pharma Companies like Orchid Chemicals and Pharmaceuticals Ltd (39.36 per cent), Cipla Ltd (25.43 per cent), Cadila Health Care (21.81 per cent), Ipca Lab Ltd (20.24 per cent) and Nicholas Piramal India Ltd (19.16 per cent) also recorded a decent increase in their net sales in Q3 2007-08 against Q3 2006-07.

The contraction in the margins of the companies in the sector further got aggravated by rising wage bills. Orchid Chemicals and Pharmaceuticals reported a hike in the wage cost by 46.7 per cent from Rs. 19.24 crore in Q3 2006-07 to Rs. 28.24 crore in Q3 2007-08. Aurobindo Pharma Ltd, Cipla Ltd, Cadila Health Care Ltd and Ranbaxy Laboratory Ltd also recorded major hikes in their personnel costs by 44.39 per cent, 39.35 per cent, 36.99 per cent and 26.35 per cent respectively.

Some drug makers like Shashun Chemicals and Drugs Ltd reported an increase in their raw material cost by 56.8 per cent in the third quarter ending December '07 over the previous year. Cadila Health Care Ltd also witnessed a rise in the raw material cost by 37.8 per cent, from Rs. 112.7 crore in the Q3 2006-7 to Rs.155.4 crore in Q3 2007-08.

An increase in prices of active pharmaceutical ingredients (API) also contributed to the decline in net profits. Due to China's growing stress on eco-protection norms and imposition of Olympic Games' cess on few exports, prices of imported raw materials from China including API have gone up by 5-8 per cent in the last one year.