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Dr Reddy's: May Change Hedging Policy If Dollar Rises Sharply

Article

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- Expects dollar in INR49-INR52 range over next six months
- Current hedges cover about 54% of \$900 mln-\$1 bln overseas exposure for 18 months
- Average dollar rate in forward contracts INR48.50 now vs INR47.50 in September
- Expect 1-year forward dollar premiums to fall to INR1.90-INR2.20 in early April

By Sudeep Jain and Rumman Ahmed

Of DOW JONES NEWSWIRES

MUMBAI (Dow Jones)—Dr. Reddy's Laboratories Ltd. (500124.BY) may consider revising its hedging policy if the U.S. dollar gains sharply above the upper end of the Indian generic drug maker's expectations, its chief financial officer said.

The company's forecast is that the dollar will trade in a INR49-INR52 range over the next six months, Umang Vohra told Dow Jones Newswires.

His comments come as the Indian rupee has paused its strengthening trend in recent sessions after gaining as much as 9% against the greenback earlier this year.

The Mumbai- and New York-listed company, among India's top four pharmaceutical companies by sales, gets about 80% of its revenue from overseas, and a weak local currency will boost its profit margin when it converts its foreign revenue into rupees.

However, outstanding forward contracts could affect the results—the company will gain if the spot rate for dollar falls below the contracted level, or lose if the currency rises.

The rupee's volatility over the past few months has made it difficult for Indian companies with overseas exposure to manage their currency exposure.

The local currency hit a seven-week low of 50.76 to the dollar last week and was last trading at 49.96. The rupee was the worst-performing Asian currency in 2011 and it hit a record low of 54.2925 on Dec. 15.

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"What we are keeping a watch out for is a runaway depreciation of the rupee," Vohra said.

"We may change our hedging limits if that happens."

The company has its board's permission to hedge a maximum of 60% of its expected net overseas exposure for up to 18 months ahead. It currently has hedged about 54% of its current overseas exposure of \$900 million-\$1 billion, Vohra said.

Dr. Reddy's had made a concerted effort to lock in on high dollar rates through forward contracts in late 2011, Vohra said.

As a result, the average dollar rate of Dr. Reddy's forward contracts has increased to INR48.50 from INR47.50 in September.

Vohra expects the premiums on one-year dollar forwards to fall to INR1.90-INR2.20 in early April from INR2.80-INR3.00 at present, once liquidity conditions improve in the local banking system.

The premium is the difference between the forwards rate for a specific tenure and the spot exchange rate, and higher premiums enable exporters to enter in to contracts to sell dollars at higher rates.

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