

Aventis Pharma Limited	CMP Rs. 1,835.0 HOLD	Result Update Q1CY10
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Aventis reported a YoY topline growth of ~10% over an QoQ growth of 6%. The bottomline has doubled over the same quarter last year and has reported a 48% growth over the last quarter. This owes predominantly to the margin improvement YoY as well as QoQ. Also domestic sales showed a slight improvement over the last quarter.

The highlight of this quarter would be the inter se transfer of ~10% stake from one promoter (Chairman, Mr. Vijay Mallya) to another promoter group company, namely, Hoechst GmbH. Now the holding company Sanofi-Aventis holds ~60% of Aventis Pharma Limited as of this quarter. Increase in the stake by a parent company is usually a good sign which might indicate more business flowing towards the subsidiary in the future. Aventis provides services to the parent, which forms a significant chunk of their Other Operating Income.

The company sits on ~Rs. 590 crores of cash and cash equivalents & has a good operating cash inflow to fund future growth.

Valuation

Aventis looks fairly priced at CMP of Rs. 1,835.0. One indicator of a probable fair value for the business would be the internal transfer price / share between the promoters. The price at which Sanofi-Aventis acquired the additional 10% stake was @ Rs. 1,750 / share. This can be interpreted as a base price for the probable fair value of the company. On a P/E (TTM) basis, it is available at 27 times earnings. This doesn't make it an attractive candidate to buy.

It does make an interesting business to keep owning since Aventis has a very strong product pipeline. Also it has sizeable market share in many therapeutic areas which gives it advantage to scale up its other categories of medicines. The company also has plans to ramp up its OTC drug business which might make some of the product economies in line with an FMCG business. Drug price controls are usually implemented on essential drugs. This FMCG / OTC play might help the business see a good margin growth going ahead.

We recommend a Hold for Aventis Pharma Limited.

[Financials >>](#)

Aventis Pharma: Quarterly Financials

Earnings Statement								
YE Dec. (Rs. Mn.)	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	CY09	CY08	Y-Y(%)
Net Revenues	2,514.0	2,371.0	6.0%	2,289.0	9.8%	9,744.0	9,833.0	-0.9%
Cost of Materials	1,261.0	1,265.0	-0.3%	1,338.0	-5.8%	4,820.0	4,825.0	-0.1%
Gross Profit	1,253.0	1,106.0	13.3%	951.0	31.8%	4,924.0	5,008.0	-1.7%
Staff Costs	376.0	382.0	-1.6%	326.0	15.3%	1,440.0	1,192.0	20.8%
Other Expenses	513.0	578.0	-11.2%	463.0	10.8%	2,006.0	1,962.0	2.2%
Total Expenditure	2,150.0	2,225.0	-3.4%	2,127.0	1.1%	8,266.0	7,979.0	3.6%
Operating Profit	364.0	146.0	149.3%	162.0	124.7%	1,478.0	1,854.0	-20.3%
OPM (%)	14.5%	6.2%	832.1	7.1%	740.2	15.2%	18.9%	(368.7)
Other Income	226.0	253.0	-10.7%	320.0	-29.4%	1,111.0	926.0	20.0%
EBITDA	590.0	399.0	47.9%	482.0	22.4%	2,589.0	2,780.0	-6.9%
Depreciation	43.0	44.0	-2.3%	42.0	2.4%	173.0	182.0	-4.9%
EBIT	547.0	355.0	54.1%	440.0	24.3%	2,416.0	2,598.0	-7.0%
Interest	0.0	1.0		0.0		1.0	2.0	
PBT	547.0	354.0	54.5%	440.0	24.3%	2,415.0	2,596.0	-7.0%
Tax	186.0	111.0	67.6%	263.0	-29.3%	841.0	934.0	-10.0%
Current Tax	186.0	111.0	67.6%	263.0	-29.3%	841.0	921.0	-8.7%
Fringe Benefit Tax	0.0	0.0		0.0		0.0	28.0	
Deferred Tax	0.0	0.0		0.0		0.0	(15.0)	
PAT	361.0	243.0	48.6%	177.0	104.0%	1,574.0	1,662.0	-5.3%
Equity Capital	230.0	230.0		230.0		230.0	230.0	
EPS	15.7	10.6	48.6%	7.7	104.0%	68.4	72.3	-5.3%
Ratio Analysis								
Profitability								
YE Dec.	Q1CY10	Q4CY09	Q-Q(%)	Q1CY09	Y-Y(%)	CY09	CY08	Y-Y(%)
OPM (%)	14.5%	6.2%	832.1	7.1%	740.2	15.2%	18.9%	(368.7)
EBITDA (%)	23.5%	16.8%	664.0	21.1%	241.1	26.6%	28.3%	(170.2)
EBIT (%)	21.8%	15.0%	678.6	19.2%	253.6	24.8%	26.4%	(162.6)
PAT (%)	14.4%	10.2%	411.1	7.7%	662.7	16.2%	16.9%	(74.9)

Aventis Pharma: Main Financials

Earnings Statement				
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09
Total Revenues	8,839.3	8,735.4	9,832.7	9,744.0
- Growth (%)	9.4%	-1.2%	12.6%	-0.9%
Total Expenditure	6,612.3	7,060.0	7,976.4	8,266.0
Operating Profit	2,227.1	1,675.4	1,856.4	1,478.0
Forex Gain/(Loss)	(21.1)	1.7	5.7	0.0
Other Income	471.4	737.8	920.0	1,111.0
EBITDA	2,677.3	2,414.9	2,782.0	2,589.0
Depreciation	178.5	184.5	182.1	173.0
EBIT	2,498.9	2,230.3	2,599.8	2,416.0
Interest	1.8	1.9	3.4	1.0
PBT	2,497.0	2,228.4	2,596.4	2,415.0
Tax	804.1	784.2	934.4	841.0
PAT Before EI	1,692.9	1,444.2	1,662.0	1,574.0
- Growth (%)	16.7%	-14.7%	15.1%	-5.3%
Extra-ordinary Items	0.0	0.0	0.0	0.0
PAT	1,692.9	1,444.2	1,662.0	1,574.0

Ratio Analysis				
Particulars	CY06	CY07	CY08	CY09
OPM (%)	25.2%	19.2%	18.9%	15.2%
EBITDA (%)	30.3%	27.6%	28.3%	26.6%
PBIT (%)	28.3%	25.5%	26.4%	24.8%
PAT (%)	19.2%	16.5%	16.9%	16.2%
Interest Cover (x)	1,374.5	1,159.2	763.5	2,416.0
EPS (Rs.)	73.5	62.7	72.2	68.3
P/E (x)	25.0	29.3	25.4	26.8
P/BV (x)	6.9	6.0	5.1	4.5
BVPS (Rs.)	264.1	306.9	360.0	404.6
Market Cap (Rs. Mn.)	42,261.2	42,261.2	42,261.2	42,261.2
M Cap/Sales (x)	4.8	4.8	4.3	4.3
EV (Rs. Mn.)	38,260.8	38,355.0	37,287.5	36,401.7
EV/EBITDA (x)	14.3	15.9	13.4	14.1
EV/Sales (x)	4.3	4.4	3.8	3.7
ROCE (%)	41.1%	31.6%	31.4%	25.9%
RONW (%)	27.8%	20.4%	20.0%	16.9%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	65.6	75.5	64.1	86.6
Debtors T/o Days	28.3	24.0	33.2	19.8
Advances T/o Days	27.6	52.2	50.6	53.8
Creditors T/o Days	45.6	47.9	51.4	59.2
Working Cap T/o Days	183.4	227.3	244.8	277.2
Fixed Assets T/o (Gross)	3.1	2.9	3.1	2.9
DPS (Rs.)	32.0	16.0	16.0	20.0
Dividend Payout (%)	43.5%	25.5%	22.2%	29.3%
Dividend Yield (%)	1.7%	0.9%	0.9%	1.1%

Balance Sheet				
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09
Equity Capital	230.3	230.3	230.3	230.3
Reserves	5,851.8	6,838.2	8,060.7	9,087.6
Shareholders Funds	6,082.1	7,068.5	8,291.0	9,317.9
Minority Interest				
Borrowed Funds	0.0	0.0	0.0	0.0
Deferred Tax Liability	(131.1)	(126.2)	(153.2)	(145.7)
Total Liabilities	5,951.0	6,942.4	8,137.9	9,172.2
Fixed Assets	1,456.2	1,449.9	1,490.8	1,720.4
Investments	53.1	53.1	51.9	51.9
<i>Quoted Investments</i>	1.2	1.2	1.2	1.2
Current Assets				
Inventory	1,588.0	1,808.0	1,725.5	2,311.4
Sundry Debtors	684.9	575.1	895.0	527.4
Loans & Advances	668.6	1,249.4	1,363.2	1,437.2
Cash & Bank Balance	4,000.4	3,906.2	4,973.7	5,859.5
Current Liabilities				
Sundry Creditors	1,104.2	1,145.7	1,384.4	1,581.7
Provisions	1,395.9	953.5	977.9	1,153.7
Net Current Assets	4,441.7	5,439.4	6,595.2	7,400.0
Miscellaneous Expenditure				
Total Assets	5,951.0	6,942.4	8,137.9	9,172.2

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
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Aventis Pharma

NO
YES
YES

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