

<b>Novartis India Limited</b>	<b>CMP Rs. 649.0 HOLD</b>	<b>Q1FY11 Result Update</b>
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Novartis reported a good first quarter for FY11, with YoY revenue growth at 9% but a flat bottomline. Margins from the same quarter last year have shown a drop of about 4% on account of increased staff costs. The OTC and the animal business have grown by ~16% over the same quarter last year. Other segments also grew marginally well.

Novartis has a good product portfolio in both patented and generics lines which gives them a good competitive footing amongst the other MNC pharma players. The recent acquisition of Piramal Healthcare's generics business by Abbott, reinforces the growth potential for the generic business in India. Besides contract manufacturing also helps the MNC pharma players to reduce overall cost of drug production.

**Valuation**

Novartis is available at ~16 times earnings, which looks attractive as compared to other MNC pharma companies viz. Aventis Pharma, Fulford and so on. Despite the attractiveness there is also an uncertainty of how the business from the parent company will flow in the future. Will the business go to the wholly owned subsidiary or will it go the publicly held entity? The valuation might indicate that this fear is already factored in.

Also looking at Pharma companies, like Buffett states, its usually better to think about them as a bunch, since it is very difficult to predict which one of them will release the next blockbuster drug. Add to that the uncertainty of the intentions of the parent company about the wholly owned subsidiaries, its wise to HOLD on to it until the valuation really becomes attractive.

**Quarterly Financials >>**

### Quarterly Financials

Earnings Statement				
YE March (Rs. Mn.)	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10
Net Revenues	1,682.8	1,489.2	13.0%	1,531.8
Cost of Materials	647.8	580.5	11.6%	606.4
Gross Profit	1,035.0	908.7	13.9%	925.4
Staff Costs	307.0	205.8	49.2%	200.4
Other Expenses	457.5	466.0	-1.8%	405.1
Total Expenditure	764.5	671.8	13.8%	605.5
Operating Profit	270.5	236.9	14.2%	319.9
OPM (%)	16.1%	15.9%	16.7	20.9%
Other Income	209.7	191.7	9.4%	189.3
EBITDA	480.2	428.6	12.0%	509.2
Depreciation	4.7	5.7	-17.5%	5.6
EBIT	475.5	422.9	12.4%	503.6
Interest	0.6	1.3	-53.8%	0.7
PBT	474.9	421.6	12.6%	502.9
Tax	159.6	143.4	11.3%	185.3
PAT	315.3	278.2	13.3%	317.6
Equity Capital	159.8	159.8		159.8
EPS	9.9	8.7	13.3%	9.9
Ratio Analysis				
Profitability				
YE March	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10
OPM (%)	16.1%	15.9%	16.7	20.9%
EBITDA (%)	28.5%	28.8%	(24.5)	33.2%
EBIT (%)	28.3%	28.4%	(14.1)	32.9%
PAT (%)	18.7%	18.7%	5.5	20.7%
Operational Parameters				
YE March	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10
RM Consumed	38.5%	39.0%	(48.5)	39.6%
Staff Cost	18.2%	13.8%	442.4	13.1%
Other Expenditure	27.2%	31.3%	(410.5)	26.4%
Effective Tax Rate	33.6%	34.0%	(40.6)	36.8%
Segmental Revenues (Rs. Mn)				
YE March	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10
Pharmaceuticals	1,221.9	1,013.7	20.5%	1,126.2
OTC	199.4	232.9	-14.4%	169.5
Animal Health	149.5	148.7	0.5%	128.2
Generics	112.0	93.9	19.3%	107.9
Total	1,682.8	1,489.2	13.0%	1,531.8

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Novartis India Limited

NO  
YES  
YES

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