

Aventis Pharma Ltd.

CMP Rs. 1,610.0
ACCUMULATE

Result Update
Q4CY09

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Aventis Pharma Ltd. (APL), the Indian listed arm of the French pharma major – Sanofi-Aventis, reported poor set of numbers for the fourth quarter ended December 2009. The MNC subsidiary witnessed an 8.3% Q-o-Q dip in its topline from Rs. 2,585.0 Mn. in Q3CY09 to Rs. 2,371.0 Mn. in Q4CY09. Raw Material Cost & Other Expenses as a percentage of Sales increased by 370 bps & 333 bps respectively. This led to a sharp decline of almost 59% Q-o-Q in Operating Profits to Rs. 163.0 Mn. in Q4CY09. Operating Profit Margins declined from 15.3% in Q3CY09 to below 7% in Q4CY09. Other Income also declined by more than 12% Q-o-Q to Rs. 253.0 Mn. in Q4CY09. APL reported a sequential drop of 40% in its bottomline from Rs. 438.0 Mn. in Q3CY09 to Rs. 260.0 Mn. in Q4CY09. EPS for the fourth quarter stood at Rs. 11.3.

Q4CY09 numbers were poorer even on a Y-o-Y comparison. The main highlights are as follows:

- Net Revenues were down 12% from Rs. 2,699.0 Mn. in Q4CY08 to Rs. 2,371.0 Mn. in Q4CY09.
- Employee Costs increased by 18% Y-o-Y leading to a 65% Y-o-Y decline in Operating Profits.
- Operating Profit Margins declined from 17.3% in Q4CY08 to 6.9% in Q4CY09.
- APL paid Taxes at an effective rate of 30%, down from 36% in the same quarter last year.
- Reported PAT declined by more than 42% Y-o-Y to Rs. 260.0 Mn. in Q4CY09 from Rs. 453.0 Mn. in Q4CY08.
- EPS stood at Rs. 11.3 vis-à-vis Rs. 19.7 for the corresponding quarter last year.

For full year ended December 2009, the MNC subsidiary saw its Net Revenues decline marginally from Rs. 9,832.7 Mn. for CY08 to Rs. 9,744.0 Mn. for CY09. Aventis reported a 5.3% Y-o-Y drop in PAT from Rs. 1,662.0 Mn. in CY08 to Rs. 1,574.0 Mn. in CY09. Full year CY09 EPS stood at Rs. 68.4 as against Rs. 72.3 for CY08. In addition to the Interim dividend of Rs. 3.5 per share paid in August 2009, APL declared a Final dividend of Rs. 16.5 per share for the year ended December 2009, taking the Total dividend to Rs. 20 per share for the full year 2009.

Segmental Analysis

Net Sales break up								
Particulars (Rs. Mn)	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)	CY09	CY08	Y-Y(%)
Domestic Sales-Others	1,828.0	2,025.0	-9.7%	1,716.0	6.5%	7,362.0	6,552.0	12.4%
Domestic Sales-Rabipur	0.0	0.0		295.0		92.0	1,179.0	-92.2%
Export Sales	543.0	560.0	-3.0%	688.0	-21.1%	2,290.0	2,102.0	8.9%
Total Sales	2,371.0	2,585.0	-8.3%	2,699.0	-12.2%	9,744.0	9,833.0	-0.9%

For CY2009, Aventis Pharma reported a Y-o-Y increase of 12.4% in Domestic Sales from Rs. 6,552.0 Mn. in CY08 to Rs. 7,362.0 Mn. in CY09, despite the loss in sales of Rabipur. The company had stopped the sales of the anti-rabies vaccine – Rabipur effective 19th February 2009, after the non-renewal of its Distribution Agreement with Chiron-Behring Vaccines Pvt. Ltd. However, contribution of Domestic Sales to Total Revenues declined from 78.6% in CY08 to 76.5% in CY09.

On the Exports front too, the company reported close to a 9% increase from Rs. 2,102.0 Mn. in CY08 to Rs. 2,290.0 Mn. in CY09. Exports contribution to Total Revenues increased from 21.4% in CY08 to 23.5% in CY09.

Recent Updates

During 2009, Sanofi-Pasteur, the fully integrated vaccines division of the Sanofi-Aventis group, acquired a majority stake in Hyderabad based vaccine company - Shantha Biotechnics, valuing the unlisted Indian company at EURO 550 Mn. (or Rs. 3,740 crores). Shantha would provide Sanofi Pasteur with a portfolio of new vaccines in development which complement Sanofi Pasteur's current vaccines basket, & help it position the company to accelerate its growth in strategically important markets.

The company recently launched 'Prayas' – a two-pronged strategy aimed at bridging the diagnosis-treatment gap through a structured continuing education program for rural doctors across India. It also announced its second strategy for improving healthcare access by making available quality medicines at affordable prices for rural India patients.

Our View

The loss in sales of its anti-rabbies vaccine - Rabipur has definitely hurt the topline of the company for the year 2009. Despite this, Aventis has been able to show decent growth, both on domestic & export side. The company has been improving its export contribution steadily. This shows that the other products of the company have been performing quite well for the company. Further, the zero debt status, huge cash balances & steady dividends make APL a good investment candidate. We continue our positive stance on this MNC pharmaceutical company.

However, in view of the disappointing results for the year ended December 2009, we have revised our CY10E earnings estimate downwards from Rs. 83.9 to Rs. 72.8 per share. At CMP of Rs. 1,610.0, the scrip trades at 22.1x our CY10E revised earnings of Rs. 72.8 per share. Maintain ACCUMULATE.

Quarterly Financials

Earnings Statement					
YE Dec. (Rs. Mn.)	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
Net Revenues	2,371.0	2,585.0	-8.3%	2,699.0	-12.2%
Cost of Materials	1,248.0	1,265.0	-1.3%	1,338.0	-6.7%
Gross Profit	1,123.0	1,320.0	-14.9%	1,361.0	-17.5%
Staff Costs	382.0	380.0	0.5%	324.0	17.9%
Other Expenses	578.0	544.0	6.3%	571.0	1.2%
Total Expenditure	960.0	924.0	3.9%	895.0	7.3%
Operating Profit	163.0	396.0	-58.8%	466.0	-65.0%
OPM (%)	6.9%	15.3%	(844.4)	17.3%	(1,039.1)
Other Income	253.0	289.0	-12.5%	288.0	-12.2%
EBITDA	416.0	685.0	-39.3%	754.0	-44.8%
Depreciation	44.0	44.0	0.0%	44.0	0.0%
EBIT	372.0	641.0	-42.0%	710.0	-47.6%
Interest	1.0	0.0		2.0	
PBT	371.0	641.0	-42.1%	708.0	-47.6%
Tax	111.0	203.0	-45.3%	255.0	-56.5%
Current Tax	111.0	203.0	-45.3%	255.0	-56.5%
Fringe Benefit Tax	0.0	0.0		0.0	
Deferred Tax	0.0	0.0		0.0	
PAT	260.0	438.0	-40.6%	453.0	-42.6%
Equity Capital	230.0	230.0		230.0	
EPS	11.3	19.0	-40.6%	19.7	-42.6%
Ratio Analysis					
Profitability					
YE Dec.	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
OPM (%)	6.9%	15.3%	(844.4)	17.3%	(1,039.1)
EBITDA (%)	17.5%	26.5%	(895.4)	27.9%	(1,039.1)
EBIT (%)	15.7%	24.8%	(910.7)	26.3%	(1,061.6)
PAT (%)	11.0%	16.9%	(597.8)	16.8%	(581.8)
Operational Parameters					
YE Dec.	Q4CY09	Q3CY09	Q-Q(%)	Q4CY08	Y-Y(%)
RM Consumed	52.6%	48.9%	370.0	49.6%	306.2
Staff Costs	16.1%	14.7%	141.1	12.0%	410.7
Other Expenses	24.4%	21.0%	333.3	21.2%	322.2
Effective Tax Rate	29.9%	31.7%	(175.0)	36.0%	(609.8)

Financials

Earnings Statement					
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09A	CY10E
Total Revenues	8,839.3	8,735.4	9,832.7	9,744.0	10,018.1
- Growth (%)	9.4%	-1.2%	12.6%	-0.9%	2.8%
Total Expenditure	6,612.3	7,060.0	7,976.4	8,266.0	8,396.9
Operating Profit	2,227.1	1,675.4	1,856.4	1,478.0	1,621.2
Forex Gain/(Loss)	(21.1)	1.7	5.7	0.0	0.0
Other Income	471.4	737.8	920.0	1,111.0	1,133.2
EBITDA	2,677.3	2,414.9	2,782.0	2,589.0	2,754.4
Depreciation	178.5	184.5	182.1	173.0	176.5
EBIT	2,498.9	2,230.3	2,599.8	2,416.0	2,577.9
Interest	1.8	1.9	3.4	1.0	0.0
PBT	2,497.0	2,228.4	2,596.4	2,415.0	2,577.9
Tax	804.1	784.2	934.4	841.0	902.3
PAT Before EI	1,692.9	1,444.2	1,662.0	1,574.0	1,675.7
- Growth (%)	16.7%	-14.7%	15.1%	-5.3%	6.5%
Extra-ordinary Items	0.0	0.0	0.0	0.0	0.0
PAT	1,692.9	1,444.2	1,662.0	1,574.0	1,675.7

Ratio Analysis					
Particulars	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	25.2%	19.2%	18.9%	15.2%	16.2%
EBITDA (%)	30.3%	27.6%	28.3%	26.6%	27.5%
PBIT (%)	28.3%	25.5%	26.4%	24.8%	25.7%
PAT (%)	19.2%	16.5%	16.9%	16.2%	16.7%
Interest Cover (x)	1,374.5	1,159.2	763.5	2,416.0	-
EPS (Rs.)	73.5	62.7	72.2	68.3	72.8
P/E (x)	21.9	25.7	22.3	23.6	22.1
P/BV (x)	6.1	5.2	4.5	4.0	3.5
BVPS (Rs.)	264.1	306.9	360.0	404.9	454.3
Market Cap (Rs. Mn.)	37,079.3	37,079.3	37,079.3	37,079.3	37,079.3
M Cap/Sales (x)	4.2	4.2	3.8	3.8	3.7
EV (Rs. Mn.)	33,078.9	33,173.1	32,105.6	30,768.4	29,592.7
EV/EBITDA (x)	12.4	13.7	11.5	11.9	10.7
EV/Sales (x)	3.7	3.8	3.3	3.2	3.0
ROCE (%)	41.1%	31.6%	31.4%	25.9%	24.6%
RONW (%)	27.8%	20.4%	20.0%	16.9%	16.0%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	65.6	75.5	64.1	65.0	65.0
Debtors T/o Days	28.3	24.0	33.2	30.0	30.0
Advances T/o Days	27.6	52.2	50.6	40.0	40.0
Creditors T/o Days	45.6	47.9	51.4	45.0	45.0
Working Cap T/o Days	183.4	227.3	244.8	286.4	322.8
Fixed Assets T/o (Gross)	3.1	2.9	3.1	2.8	2.8
DPS (Rs.)	32.0	16.0	16.0	20.0	20.0
Dividend Payout (%)	43.5%	25.5%	22.2%	29.3%	27.5%
Dividend Yield (%)	2.0%	1.0%	1.0%	1.2%	1.2%

Financials

Balance Sheet					
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09E	CY10E
Equity Capital	230.3	230.3	230.3	230.3	230.3
Reserves	5,851.8	6,838.2	8,060.7	9,095.7	10,232.5
Shareholders Funds	6,082.1	7,068.5	8,291.0	9,326.0	10,462.8
Minority Interest					
Borrowed Funds	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	(131.1)	(126.2)	(153.2)	(153.2)	(153.2)
Total Liabilities	5,951.0	6,942.4	8,137.9	9,172.8	10,309.6
Fixed Assets	1,456.2	1,449.9	1,490.8	1,475.2	1,398.8
Investments	53.1	53.1	51.9	51.9	51.9
<i>Quoted Investments</i>	1.2	1.2	1.2	1.2	1.2
Current Assets					
Inventory	1,588.0	1,808.0	1,725.5	1,735.2	1,784.0
Sundry Debtors	684.9	575.1	895.0	800.9	823.4
Loans & Advances	668.6	1,249.4	1,363.2	1,067.8	1,097.9
Cash & Bank Balance	4,000.4	3,906.2	4,973.7	6,310.9	7,486.6
Current Liabilities					
Sundry Creditors	1,104.2	1,145.7	1,384.4	1,201.3	1,235.1
Provisions	1,395.9	953.5	977.9	1,067.8	1,097.9
Net Current Assets	4,441.7	5,439.4	6,595.2	7,645.7	8,859.0
Miscellaneous Expenditure					
Total Assets	5,951.0	6,942.4	8,137.9	9,172.8	10,309.6

Cash Flow					
Particulars (Rs. Mn.)	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	3,057.8	4,000.4	3,906.2	4,973.7	6,310.9
Profit After Tax	1,692.9	1,444.2	1,662.0	1,574.0	1,675.7
Investment Income	(471.4)	(737.8)	(920.0)	(1,111.0)	(1,133.2)
Interest Paid	1.8	1.9	3.4	1.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0
Depreciation	178.5	184.5	182.1	173.0	176.5
Deferred Taxation	(73.9)	14.3	(27.0)	0.0	0.0
Others	(51.0)	(24.5)	(87.6)	0.0	0.0
Change in Working Cap	210.0	(1,091.9)	(88.3)	286.7	(37.5)
CF - Operating Activities	1,486.9	(209.2)	724.7	923.7	681.4
Change in Fixed Assets	(165.2)	(163.2)	(135.5)	(157.5)	(100.0)
Change in Investments	0.0	0.0	1.2	0.0	0.0
Investment Income	471.4	737.8	920.0	1,111.0	1,133.2
CF - Investing Activities	306.2	574.7	785.7	953.5	1,033.2
Increase in Equity	(8.3)	(26.7)	(8.4)	(0.2)	0.0
Changes in Borrowings	0.0	0.0	0.0	0.0	0.0
Interest Paid	(1.8)	(1.9)	(3.4)	(1.0)	0.0
Dividend Paid	(840.3)	(431.1)	(431.1)	(538.9)	(538.9)
CF - Financing Activities	(850.5)	(459.7)	(442.9)	(540.0)	(538.9)
Net Change in Cash	942.6	(94.2)	1,067.6	1,337.2	1,175.7
Closing Cash & Bank Balance	4,000.4	3,906.2	4,973.7	6,310.9	7,486.6

Disclaimer

Disclosure of Interest Statement

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

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- NO
YES
YES

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