

Aventis Pharma Limited	CMP Rs. 1,582.0 ACCUMULATE	Result Update Q3CY09
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Hiren Samani | hiren@ppfas.com

Aventis Pharma Ltd. (APL), the 50% Indian subsidiary of the French pharma major – Sanofi-Aventis, reported a flat third quarter ended 30th September 2009. The MNC pharma saw a marginal increase of 3.4% in Net Revenues from Rs. 2,499 Mn. in Q2CY09 to Rs. 2,585 Mn. in Q3CY09. However, a jump of more than 29% in Other Expenses to Rs. 544 Mn. over the previous quarter, led to a significant drop of 25% in Operating Income that fell from Rs. 529 Mn. in Q2CY09 to Rs. 396 Mn. in Q3CY09. The Operating Margins also declined by almost 585 bps to 15.3% in Q3CY09. With a 16% sequential increase in Other Income component, the company reported a 7% Q-o-Q decline in PAT to Rs. 438 Mn. in Q3CY09 from Rs. 471 Mn. in Q2CY09. PAT margins also declined by about 190 bps to 16.9% for Q3CY09. EPS for the third quarter stood at Rs. 19 vis-à-vis Rs. 20.5 for the previous quarter.

Q3CY09 numbers were flattish even on a Y-o-Y comparison. The main highlights are as follows:

- APL registered a growth of 4.3% in its top-line to Rs. 2,585 Mn. in Q3CY09 from Rs. 2,479 Mn. in the same period last year, in spite the loss in sales of Rabipur.
- Staff Costs increased by more than 30% Y-o-Y to Rs. 380 Mn. in Q3CY09 & Other Expenses also rose by almost 11% Y-o-Y to Rs. 544 Mn.
- This led to a decline of 17.3% in Operating Income from Rs. 479 Mn. in Q3CY08 to Rs. 396 Mn. this quarter. Operating Profit Margins (OPM) also dropped by 400 bps.
- Increase of 14.2% Y-o-Y in Other Income & lower Effective Tax Rate of 31.7% for Q3CY09 helped the pharmaceutical company report a very marginal drop of 1.8% in its bottom-line that stood at Rs. 438 Mn. for Q3CY09 vis-à-vis Rs. 446 Mn. for the year ago period.
- The company also faced a lot of margins pressures in the current quarter.

For the first nine months ended 30th September 2009, Aventis reported growth in its top-line & bottom-line to the tune of 3.4% & 8.7% respectively, over comparable period last year.

Segmental Analysis

Net Sales break up								
Particulars (Rs. Mn)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Domestic Sales-Others	2,025.0	1,888.0	7.3%	1,743.0	16.2%	5,534.0	4,836.0	14.4%
Domestic Sales-Rabipur	0.0	0.0		214.0		92.0	884.0	-89.6%
Export Sales	560.0	611.0	-8.3%	522.0	7.3%	1,747.0	1,414.0	23.6%
Total Sales	2,585.0	2,499.0	3.4%	2,479.0	4.3%	7,373.0	7,134.0	3.4%

APL reported Domestic Sales (excl. Rabipur) of Rs. 2,025 Mn. for Q3CY09, registering a growth of 7.3% sequentially & 16.2% over the same period last year. APL achieved double digit growth in Domestic Sales (excl. Rabipur) of 14.4% for the first nine months of CY09 vis-à-vis the same period last year. Sales of Rabipur for nine months ended 30th September 2009 stood at Rs. 92 Mn., against Rs. 884 Mn. in the comparable period last year. This shows that other strong brands of the company have been growing very well & have been able to compensate for the loss of Rabipur.

On the Export side, APL reported a sequential drop of 8.3% from Rs. 611 Mn. in Q2CY09 to Rs. 560 Mn. in Q3CY09. However, Exports Sales were higher by 7.3% compared to the same quarter last year. For the first nine months ended 30th September 2009, Export Sales stood at Rs. 1,747 Mn., a growth of more than 23% over same period last year.

Recent Updates

Sanofi-Pasteur, the fully integrated vaccines division of the Sanofi-Aventis group, have 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 emerging markets.

Our View

We maintain our positive view on Aventis Pharma Ltd. Despite the loss in sales of one of the major products Rabipur, Aventis has been able to show decent growth. It has also been able to grow its exports steadily. Further, the zero debt status, huge cash balances & steady dividends makes APL a good investment candidate. At CMP of Rs.1,582.0, the scrip trades at 20.9x CY09E & 18.8x CY10E earnings of Rs. 75.6 & Rs. 84 per share respectively. Maintain ACCUMULATE.

Aventis Pharma: Quarterly Financials

Earnings Statement								
YE Dec. (Rs. Mn.)	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
Net Revenues	2,585.0	2,499.0	3.4%	2,479.0	4.3%	7,373.0	7,134.0	3.4%
Cost of Materials	1,265.0	1,197.0	5.7%	1,218.0	3.9%	3,572.0	3,487.0	2.4%
Gross Profit	1,320.0	1,302.0	1.4%	1,261.0	4.7%	3,801.0	3,647.0	4.2%
Staff Costs	380.0	352.0	8.0%	291.0	30.6%	1,058.0	868.0	21.9%
Other Expenses	544.0	421.0	29.2%	491.0	10.8%	1,428.0	1,391.0	2.7%
Total Expenditure	924.0	773.0	19.5%	782.0	18.2%	2,486.0	2,259.0	10.0%
Operating Profit	396.0	529.0	-25.1%	479.0	-17.3%	1,315.0	1,388.0	-5.3%
OPM (%)	15.3%	21.2%	(584.9)	19.3%	(400.3)	17.8%	19.5%	(162.1)
Other Income	289.0	249.0	16.1%	253.0	14.2%	858.0	638.0	34.5%
EBITDA	685.0	778.0	-12.0%	732.0	-6.4%	2,173.0	2,026.0	7.3%
Depreciation	44.0	43.0	2.3%	43.0	2.3%	129.0	138.0	-6.5%
EBIT	641.0	735.0	-12.8%	689.0	-7.0%	2,044.0	1,888.0	8.3%
PBT	641.0	735.0	-12.8%	689.0	-7.0%	2,044.0	1,888.0	8.3%
Tax	203.0	264.0	-23.1%	243.0	-16.5%	730.0	679.0	7.5%
Current Tax	203.0	264.0	-23.1%	243.0	-16.5%	730.0	666.0	9.6%
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	438.0	471.0	-7.0%	446.0	-1.8%	1,314.0	1,209.0	8.7%
Equity Capital	230.0	230.0		230.0		230.0	230.0	
EPS	19.0	20.5	-7.0%	19.4	-1.8%	57.1	52.6	8.7%
Ratio Analysis								
Profitability								
YE Dec.	Q3CY09	Q2CY09	Q-Q(%)	Q3CY08	Y-Y(%)	9MCY09	9MCY08	Y-Y(%)
OPM (%)	15.3%	21.2%	(584.9)	19.3%	(400.3)	17.8%	19.5%	(162.1)
EBITDA (%)	26.5%	31.1%	(463.3)	29.5%	(302.9)	29.5%	28.4%	107.3
EBIT (%)	24.8%	29.4%	(461.5)	27.8%	(299.7)	27.7%	26.5%	125.8
PAT (%)	16.9%	18.8%	(190.4)	18.0%	(104.7)	17.8%	16.9%	87.5

Aventis Pharma: Main Financials

Earnings Statement							
Particulars (YE Dec. Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Total Revenues	7,349.9	8,078.4	8,839.3	8,735.4	9,832.7	10,402.6	11,182.8
- Growth (%)		9.9%	9.4%	-1.2%	12.6%	5.8%	7.5%
Total Expenditure	5,186.4	5,873.5	6,612.3	7,060.0	7,976.4	8,362.2	8,945.9
Operating Profit	2,163.6	2,204.9	2,227.1	1,675.4	1,856.4	2,040.3	2,236.9
Forex Gain/(Loss)	(18.5)	24.7	(21.1)	1.7	5.7	0.0	0.0
Other Income	218.2	306.6	471.4	737.8	920.0	845.5	950.7
EBITDA	2,363.3	2,536.2	2,677.3	2,414.9	2,782.0	2,885.9	3,187.6
Depreciation	168.4	171.8	178.5	184.5	182.1	205.7	211.7
EBIT	2,194.9	2,364.3	2,498.9	2,230.3	2,599.8	2,680.1	2,975.8
Interest	1.0	0.5	1.8	1.9	3.4	0.0	0.0
PBT	2,193.9	2,363.9	2,497.0	2,228.4	2,596.4	2,680.1	2,975.8
Tax	777.0	913.1	804.1	784.2	934.4	938.0	1,041.5
PAT Before EI	1,416.9	1,450.8	1,692.9	1,444.2	1,662.0	1,742.1	1,934.3
- Growth (%)		2.4%	16.7%	-14.7%	15.1%	4.8%	11.0%
Extra-ordinary Items	68.1	0.0	0.0	0.0	0.0	0.0	0.0
PAT	1,485.0	1,450.8	1,692.9	1,444.2	1,662.0	1,742.1	1,934.3

Ratio Analysis							
Particulars	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
OPM (%)	29.4%	27.3%	25.2%	19.2%	18.9%	19.6%	20.0%
EBITDA (%)	32.2%	31.4%	30.3%	27.6%	28.3%	27.7%	28.5%
PBIT (%)	29.9%	29.3%	28.3%	25.5%	26.4%	25.8%	26.6%
PAT (%)	20.2%	18.0%	19.2%	16.5%	16.9%	16.7%	17.3%
Interest Cover (x)	2,208.1	5,151.1	1,374.5	1,159.2	763.5	-	-
EPS (Rs.)	64.5	63.0	73.5	62.7	72.2	75.6	83.9
P/E (x)	24.5	25.1	21.5	25.2	21.9	20.9	18.9
P/BV (x)	8.6	7.0	6.0	5.2	4.4	3.8	3.3
BVPS (Rs.)	183.2	227.4	264.1	306.9	360.0	416.9	482.1
Market Cap (Rs. Mn.)	36,434.4	36,434.4	36,434.4	36,434.4	36,434.4	36,434.4	36,434.4
M Cap/Sales (x)	5.0	4.5	4.1	4.2	3.7	3.5	3.3
EV (Rs. Mn.)	34,639.1	33,376.7	32,434.1	32,528.3	31,460.7	29,905.0	28,399.5
EV/EBITDA (x)	14.7	13.2	12.1	13.5	11.3	10.4	8.9
EV/Sales (x)	4.7	4.1	3.7	3.7	3.2	2.9	2.5
ROCE (%)	52.0%	45.1%	41.1%	31.6%	31.4%	27.9%	26.8%
RONW (%)	33.6%	27.7%	27.8%	20.4%	20.0%	18.1%	17.4%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	50.5	61.6	65.6	75.5	64.1	65.0	65.0
Debtors T/o Days	45.6	23.1	28.3	24.0	33.2	30.0	30.0
Advances T/o Days	18.9	22.0	27.6	52.2	50.6	40.0	40.0
Creditors T/o Days	33.0	38.2	45.6	47.9	51.4	45.0	45.0
Working Cap T/o Days	129.9	167.6	183.4	227.3	244.8	279.1	312.3
Fixed Assets T/o (Gross)	2.7	2.9	3.1	2.9	3.1	3.0	3.2
DPS (Rs.)	16.0	16.0	32.0	16.0	16.0	16.0	16.0
Dividend Payout (%)	24.8%	25.4%	43.5%	25.5%	22.2%	21.2%	19.1%
Dividend Yield (%)	1.0%	1.0%	2.0%	1.0%	1.0%	1.0%	1.0%

Aventis Pharma: Main Financials

Balance Sheet							
Particulars (YE Dec. Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Equity Capital	230.3	230.3	230.3	230.3	230.3	230.3	230.3
Reserves	3,988.0	5,007.5	5,851.8	6,838.2	8,060.7	9,371.7	10,872.3
Shareholders Funds	4,218.3	5,237.8	6,082.1	7,068.5	8,291.0	9,602.0	11,102.6
Minority Interest							
Borrowed Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Tax Liability	(5.3)	(57.2)	(131.1)	(126.2)	(153.2)	(153.2)	(153.2)
Total Liabilities	4,213.0	5,180.6	5,951.0	6,942.4	8,137.9	9,448.9	10,949.5
Fixed Assets	1,544.5	1,418.4	1,456.2	1,449.9	1,490.8	1,442.5	1,330.7
Investments	52.9	53.1	53.1	53.1	51.9	51.9	51.9
<i>Quoted Investments</i>	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Current Assets							
Inventory	1,016.5	1,363.4	1,588.0	1,808.0	1,725.5	1,852.5	1,991.5
Sundry Debtors	918.2	510.3	684.9	575.1	895.0	855.0	919.1
Loans & Advances	381.4	487.3	668.6	1,249.4	1,363.2	1,140.0	1,225.5
Cash & Bank Balance	1,795.3	3,057.8	4,000.4	3,906.2	4,973.7	6,529.5	8,035.0
Current Liabilities							
Sundry Creditors	664.7	845.6	1,104.2	1,145.7	1,384.4	1,282.5	1,378.7
Provisions	831.1	864.1	1,395.9	953.5	977.9	1,140.0	1,225.5
Net Current Assets	2,615.6	3,709.1	4,441.7	5,439.4	6,595.2	7,954.5	9,566.9
Miscellaneous Expenditure							
Total Assets	4,213.0	5,180.6	5,951.0	6,942.4	8,137.9	9,448.9	10,949.5

Cash Flow							
Particulars (YE Dec. Rs. Mn.)	CY04	CY05	CY06	CY07	CY08	CY09E	CY10E
Opening Cash & Bank	1,371.2	1,795.3	3,057.8	4,000.4	3,906.2	4,973.7	6,529.5
Profit After Tax	1,485.0	1,450.8	1,692.9	1,444.2	1,662.0	1,742.1	1,931.7
Investment Income	(218.2)	(306.6)	(471.4)	(737.8)	(920.0)	(845.5)	(946.8)
Interest Paid	1.0	0.5	1.8	1.9	3.4	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	168.4	171.8	178.5	184.5	182.1	205.7	211.7
Deferred Taxation	5.0	(51.9)	(73.9)	14.3	(27.0)	0.0	0.0
Others	(176.1)	(7.7)	(51.0)	(24.5)	(87.6)	0.0	0.0
Change in Working Cap	(591.3)	168.9	210.0	(1,091.9)	(88.3)	196.5	(106.9)
CF - Operating Activities	673.7	1,425.8	1,486.9	(209.2)	724.7	1,298.8	1,089.8
Change in Fixed Assets	(49.4)	(38.1)	(165.2)	(163.2)	(135.5)	(157.5)	(100.0)
Change in Investments	0.0	(0.1)	0.0	0.0	1.2	0.0	0.0
Investment Income	218.2	306.6	471.4	737.8	920.0	845.5	946.8
CF - Investing Activities	168.9	268.3	306.2	574.7	785.7	688.1	846.8
Increase in Equity	0.0	(8.4)	(8.3)	(26.7)	(8.4)	(0.0)	(0.0)
Changes in Borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Paid	(1.0)	(0.5)	(1.8)	(1.9)	(3.4)	0.0	0.0
Dividend Paid	(417.4)	(422.9)	(840.3)	(431.1)	(431.1)	(431.1)	(431.1)
CF - Financing Activities	(418.4)	(431.7)	(850.5)	(459.7)	(442.9)	(431.1)	(431.1)
Net Change in Cash	424.2	1,262.4	942.6	(94.2)	1,067.6	1,555.8	1,505.5
Closing Cash & Bank Balance	1,795.3	3,057.8	4,000.4	3,906.2	4,973.7	6,529.5	8,035.0

Disclaimer

Disclosure of Interest Statement

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

Aventis Pharma

NO
YES
YES

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Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Hiren Samani	Analyst - Investment Research	hiren@ppfas.com	91 22 2284 6555 Extn 206

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Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

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