

Aventis Pharma

Performance Highlights

Y/E Dec. (₹ cr)	1QCY2012	4QCY2011	% chg (qoq)	1QCY2011	% chg (yoy)
Net sales	323	338	(5)	276	16.7
Other income	28.9	29	1	38	(23.7)
Operating profit	49	40	25	44	13.1
Adj. Net profit	40	36	11	51	(20.8)

Source: Company, Angel Research

For 1QCY2012, Aventis Pharma (Aventis) reported in-line results on the top-line front, while its net profit came in below expectations. The company's sales grew by 16.7% yoy, while its net profit declined by 20.8% yoy mainly on the back of higher-than-expected depreciation expenses. **Given the company's current valuations, we recommend Neutral on the stock.**

Revenue growth just in-line with expectations: For 1QCY2012, Aventis' net sales grew by 16.7% yoy to ₹323cr, in-line with our estimate of ₹312cr, mainly backed by the domestic segment. The company reported gross margin of 50.9%, below our estimate of 50.6%. OPM came in at 15.3%, lower than our estimate of 14.6%. Net profit came in at ₹40.1cr, down by 20.8% yoy, lower than our estimate of ₹51.5cr.

Outlook and valuation: We expect Aventis' net sales to post a 17.0% CAGR to ₹1,682cr and EPS to register a 12.0% CAGR to ₹104.4 over CY2011-13E. At current levels, the stock is trading at 22.5x and 20.5x CY2012E and CY2013E earnings, respectively. **We recommend Neutral on the stock.**

Key financials

Y E Dec (₹ cr)	CY2010	CY2011	CY2012E	CY2013E
Net Sales	1,085	1,230	1,482	1,682
% chg	11.3	13.3	20.5	13.5
Net Profit	155.0	191.7	218.9	240.4
% chg	(1.5)	23.7	14.2	9.8
EPS (₹)	67.3	83.2	95.1	104.4
EBITDA(%)	13.2	14.3	15.5	15.5
P/E (x)	31.8	25.7	22.5	20.5
RoE (%)	15.9	18.0	18.6	17.0
RoCE (%)	12.6	13.6	16.7	16.1
P/BV (x)	4.9	4.4	4.0	3.1
EV/Sales (x)	3.9	3.8	3.1	2.7
EV/EBITDA (x)	29.8	26.6	20.0	17.1

Source: Company, Angel Research

NEUTRAL

CMP	₹2,138
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	17,151
Beta	0.1
52 Week High / Low	2,430/1,917
Avg. Daily Volume	2505
Face Value (₹)	10
BSE Sensex	17,151
Nifty	5,188
Reuters Code	AVPH.BO
Bloomberg Code	AVEN@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	21.9
FII / NRIs / OCBs	12.4
Indian Public / Others	5.3

Abs. (%)	3m	1yr	3yr
Sensex	(2.6)	(7.5)	50.4
Aventis	(4.9)	7.2	127.2

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Exhibit 1: 1QCY2012 performance

Y/E Dec (₹ cr)	1QCY2012	4QCY2011	% chg (qoq)	1QCY2011	% chg (yoy)	CY2011	CY2010	% chg yoy
Net sales	323	338	(4.6)	276	16.7	1,230	1,085	13.3
Other income	29	29	0.7	38	(23.7)	140	189	(26.2)
Total income	351	367	(4.1)	314	11.8	1,369	1,003	36.6
PBIDT	49	40	24.6	44	13.1	177	143	23.8
OPM (%)	15.3	11.7		15.7		14.4	15.6	
Interest	0.4	0.4		0		1	3	
Depreciation & amortisation	18	14	28.9	5	238.9	31	18	72.8
PBT & exceptional items	59	54	10.8	76	(21.6)	285	228	24.8
Less : Exceptional items	0	0		0		0	0	
Profit before tax	59	54	10.8	76	(21.6)	285	228	24.8
Provision for taxation	19	18	10.3	25	(23.4)	93	81	14.5
Adj net profit	40	36	11.1	51	(20.8)	192	155	23.9
EPS (₹)	17.4	15.7		22.0		85.6	67.3	

Source: Company, Angel Research

Exhibit 2: 1QCY2012 – Actual vs. Angel estimates

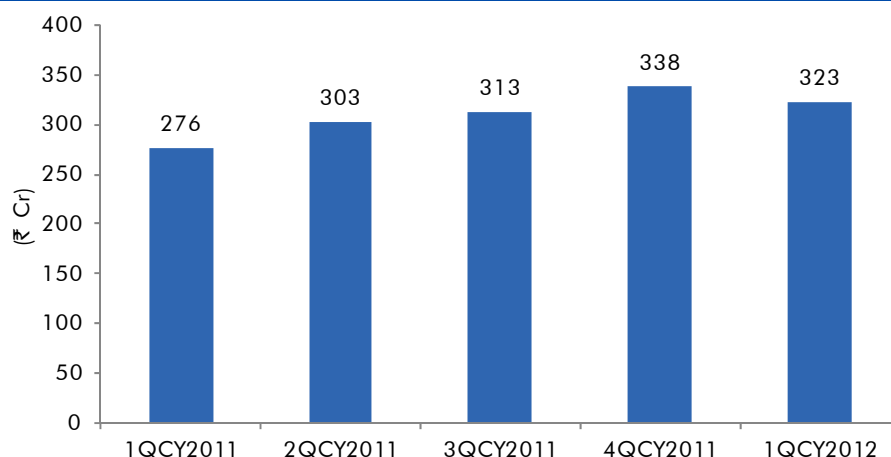
(₹ cr)	Actual	Estimates	Variation (%)
Net sales	323	312	3.3
Other income	29	38	(23.7)
Operating profit	49	46	7.9
Tax	19	23	(16.1)
Net profit	40	51	(22.1)

Source: Company, Angel Research

Revenue growth just in-line with expectations: Aventis' net sales grew by 16.7% yoy to ₹323cr for 1CY2012, in-line with our estimate of ₹312cr, mainly backed by the domestic segment.

The company incurred planned expenditure on two of its critical projects – Prayas and entry into the OTC market. These projects are slated to be the future growth drivers for the company.

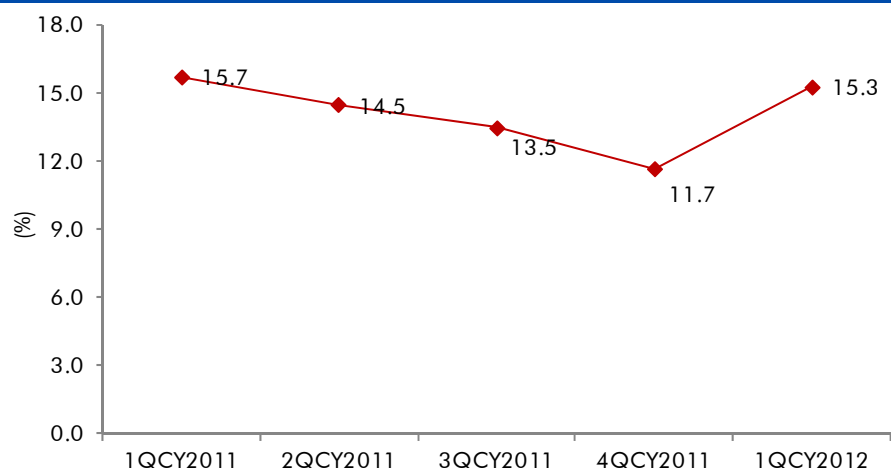
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM declines by 49bp yoy: The company reported gross margin of 50.9% for the quarter, below our estimate of 50.6%. OPM came in at 15.3%, lower than our estimate of 14.6%. Overall, the company’s OPM declined by 49bp yoy.

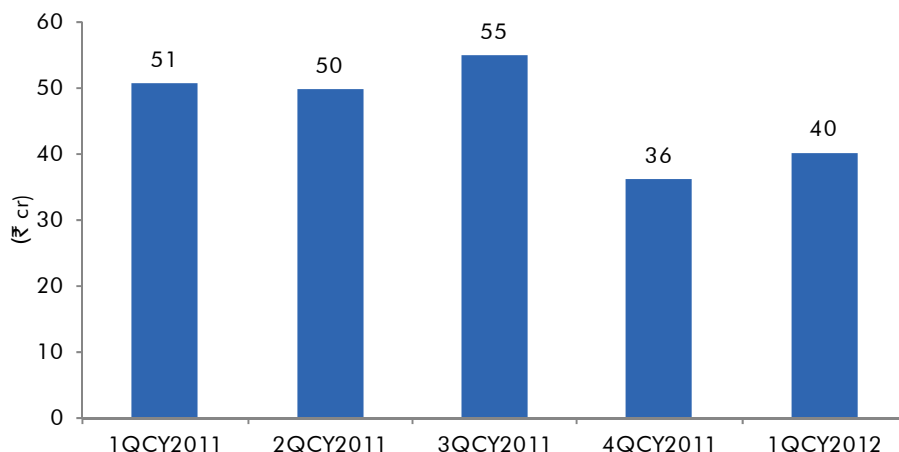
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom line below estimates: The company’s net profit for the quarter came in at ₹40.1cr, down 20.8% yoy, lower than our estimate of ₹51.5cr. This was mainly on account of higher depreciation charges, which also included charges related to amortization costs connected with brands and technical know-how acquired in 2011 from Universal Medicare Private Ltd. Apart from this, lower interest income as a result of the investment in Universal Medicare Private Ltd. contributed to the dip in net profit.

Exhibit 5: Adjusted net profit trend



Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Aventis recorded a revenue CAGR of 6.8% to ₹1,230cr over CY2006–11 on the back of slower-than-expected growth on the domestic formulation front and loss of distribution rights of *Rabipur* vaccine. Going forward, to grow in-line with the industry’s average in the domestic segment, Aventis has rolled out its *Prayas* project, which is an initiative to increase its penetration in rural areas. Under the project, the company would launch low-price products in the anti-infective and NSAID therapeutic segments and expand its field force. The project is expected to provide incremental revenue of ₹500cr over the next five years.

Aventis also plans to launch CVS and vaccine products in the domestic market post the acquisition of Shantha Biotech by its parent company. Further, during CY2011, the company has acquired the nutraceutical business of Universal Medicare Pvt. Ltd., which would bolster the company’s foray into the nutraceutical business, aiding the company to diversify and contribute to overall growth of the domestic formulation business.

We expect the company’s net sales to log a 17.0% CAGR over CY2011–13E, majorly driven by domestic formulation sales.

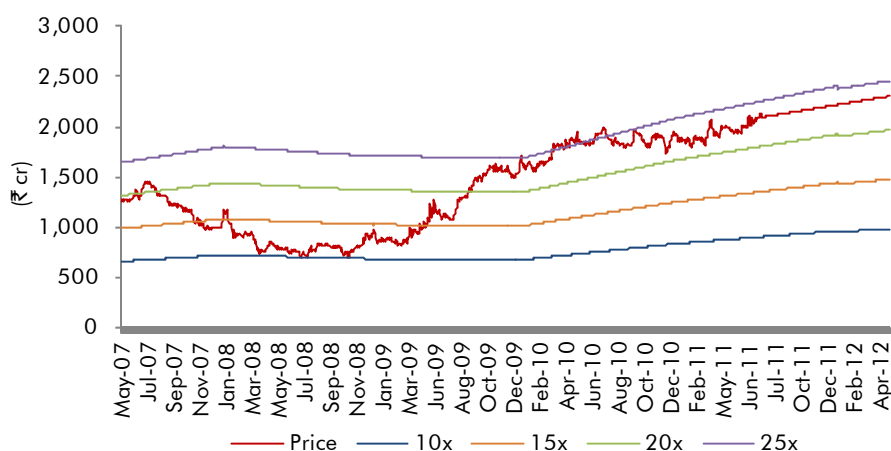
Valuation: We expect Aventis’ net sales to post a 17.0% CAGR to ₹1,682cr and EPS to register a 12.0% CAGR to ₹104.4 over CY2011–13E. At current levels, the stock is trading at 22.5x and 20.5x CY2012E and CY2013E earnings, respectively.

We recommend Neutral on the stock.

Exhibit 6: Key assumptions

	CY2012E	CY2013E
Net sales growth (%)	20.5	13.5
Domestic sales growth (%)	24.0	15.0
Export sales growth (%)	6.0	6.0
Growth in employee expenses (%)	6.5	18.9
Operating margins (%)	15.5	15.0
Net profit growth (%)	14.2	9.8
Capex (₹ cr)	34.0	24.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E


Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	FY2014E			FY12-14E	FY2014E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	54	91	68.5	6.0	0.7	4.7	14.6	29.4	29.2
Aurobindo Pharma	Buy	125	175	40.0	7.1	0.6	4.0	9.9	10.1	14.0
Aventis*	Neutral	2,138	-	-	20.5	2.7	17.1	12.0	16.1	17.0
Cadila Healthcare	Buy	734	1016	38.4	13.9	1.9	9.9	24.7	26.0	27.8
Cipla	Buy	317	372	17.3	18.1	2.7	12.4	18.3	16.7	18.1
Dr Reddy's	Neutral	1,744	-	-	19.4	2.7	11.3	(4.5)	19.5	19.5
Dishman Pharma	Buy	46	92	100.0	3.5	0.8	4.2	38.9	8.9	10.1
GSK Pharma*#	Neutral	2,173	-	-	22.6	6.0	14.1	37.9	45.0	32.9
Indoco Remedies	Buy	467	665	42.4	7.0	0.9	6.1	24.3	14.2	16.9
Ipca labs	Buy	362	443	22.4	11.5	1.8	8.2	25.2	25.9	27.7
Lupin	Buy	539	656	21.7	16.4	2.4	12.0	21.2	25.8	25.7
Orchid Chemicals	Buy	179	270	50.8	4.7	1.2	5.5	50.0	10.7	18.0
Ranbaxy*#	Neutral	499	-	-	12.7	1.5	8.1	12.0	16.3	17.6
Sun Pharma	Accumulate	600	635	5.8	20.8	4.9	16.7	8.3	24.0	20.8

Source: Company, Angel Research; Note: *December year ending; #Based on CY2012 estimates

Profit & loss statement

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Gross sales	1,026	996	1,119	1,259	1,519	1,724
Less: Excise duty	43	21	22	29	37	42
Net sales	983	974	1,085	1,230	1,482	1,682
Other operating income	36	52	59	66	66	66
Total operating income	1,019	1,027	1,144	1,296	1,548	1,748
% chg	13.7	0.7	11.4	13.3	19.5	12.9
Total expenditure	798	827	942	1,054	1,252	1,420
Net raw materials	476	482	539	619	739	826
Other mfg costs	41	45	53	61	74	84
Personnel	119	144	163	174	200	238
Other	161	156	187	199	240	273
EBITDA	186	148	143	176	230	261
% chg	10.2	(20.4)	(3.1)	22.9	30.5	13.9
(% of Net Sales)	18.9	15.2	13.2	14.3	15.5	15.5
Depreciation & amortisation	18	17	21	31	33	34
EBIT	167	130	123	145	197	227
% chg	12.2	(22.1)	(6.0)	18.1	35.9	15.4
(% of Net Sales)	17.0	13.4	11.3	11.8	13.3	13.5
Interest & other charges	0.3	0.1	2.9	0	-	-
Other income	57	59	55	74	54	54
(% of PBT)	21.8	24.3	23.4	26.0	17.1	15.6
Recurring PBT	260	241	233	284	317	347
% chg	16.5	(7.0)	(3.4)	21.9	11.5	9.6
PBT (reported)	260	241	234	284	317	347
Tax	93.3	84.0	79.0	92.6	98.0	106.9
(% of PBT)	36.0	34.8	33.8	32.6	30.9	30.8
PAT (reported)	166	157	155	192	219	240
Extra-ordinary items			75.7	-	-	-
PAT after MI (reported)	166	157	231	192	219	240
ADJ. PAT	166	157	155	192	219	240
% chg	15.1	(5.3)	(1.5)	23.7	14.2	9.8
(% of Net Sales)	16.9	16.2	21.3	15.6	14.8	14.3
Basic EPS (₹)	72	68	67	83	95	104
Fully Diluted EPS (₹)	72	68	67	83	95	104
% chg	15.1	(5.2)	(1.6)	23.7	14.2	9.8

Balance sheet

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Reserves & surplus	806	909	991	1,094	1,211	1,563
Shareholders' funds	829	932	1,014	1,117	1,235	1,587
Total loans	-	-	-	-	-	-
Total liabilities	829	932	1,014	1,117	1,235	1,587
APPLICATION OF FUNDS						
Gross block	321	335	375	843	867	891
Less: Acc. depreciation	178	190	204	231	258	292
Net block	143	145	171	612	609	599
Goodwill				125	125	125
Capital Work-in-Progress	6	27	13	30	40	40
Investments	5.2	5.2	0.4	0.4	0.4	0.4
Current assets	896	1,014	1,214	735	923	1,071
Cash	497	586	655	234	322	448
Loans & advances	136	144	257	174	208	151
Other	262	284	302	327	394	471
Current liabilities	236	274	394	377	459	269
Net current assets	660	740	820	358	464	801
Deferred tax assets	15	15	10	(8)	(5)	20
Total assets	829	932	1,014	1,117	1,235	1,587

Cash flow statement

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Profit before tax	260	241	234	284	317	347
Depreciation	18	17	21	31	33	34
(Inc)/Dec in Working Capital	(21)	4	(10)	41	(19)	(38)
Less: Other income	36	52	59	66	66	66
Direct taxes paid	98	92	79	74	101	111
Cash Flow from Operations	123	118	107	216	163	167
(Inc.)/Dec.in Fixed Assets	(24)	(41)	(27)	(609)	(34)	(24)
(Inc.)/Dec. in Investments	0	-	(5)	0	-	0
Other income	36	52	59	66	66	66
Cash Flow from Investing	12	11	27	(543)	31	41
Issue of Equity	-	-	-	-	-	-
Inc./{Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(43)	(43)	(55)	(88)	(102)	(112)
Others	15	2	(9)	(6)	(5)	31
Cash Flow from Financing	(28)	(41)	(64)	(94)	(107)	(81)
Inc./{Dec.) in Cash	107	88	69	(421)	87	127
Opening Cash balances	391	497	586	655	234	322
Closing Cash balances	497	586	655	234	322	448

Key ratios

Y/E March	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	29.6	31.3	31.8	25.7	22.5	20.5
P/CEPS	26.7	28.2	19.6	22.1	19.6	17.9
P/BV	5.9	5.3	4.9	4.4	4.0	3.1
EV/Sales	4.5	4.5	3.9	3.8	3.1	2.7
EV/EBITDA	23.9	29.4	29.8	26.6	20.0	17.1
Per Share Data (₹)						
EPS (Basic)	72.2	68.4	67.3	83.2	95.1	104.4
EPS (fully diluted)	72.2	68.4	67.3	83.2	95.1	104.4
Cash EPS	80.1	75.9	109.1	96.7	109.3	119.3
DPS	16.0	20.0	55.0	33.0	38.0	41.8
Book Value	360.0	404.6	440.3	484.8	536.1	689.2
Returns (%)						
RoCE (Pre-tax)	21.8	14.8	12.6	13.6	16.7	16.1
Angel ROIC (Pre-tax)	52.9	40.5	36.9	24.2	22.8	23.1
ROE	21.6	17.9	15.9	18.0	18.6	17.0
Turnover ratios (x)						
Inventory / Sales (days)	63	72	75	70	66	32
Receivables (days)	26	25	18	19	19	9
Payables (days)	46	49	47	48	50	24

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Disclosure of Interest Statement	Aventis Pharma
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	