

Aventis Pharma

Performance Highlights

Y/E Dec (₹ cr)	3QCY2011	2QCY2011	% chg (qoq)	3QCY2010	% chg (yoy)
Net sales	313	303	3	276	13.5
Other income	36.9	36	2	31	17.9
Operating profit	50	44	15	43	18.4
Net profit	55	51	8	47	15.9

Source: Company, Angel Research

For 3QCY2011, Aventis Pharma (Aventis) reported in-line results at the top-line and net profit fronts, led by growth across the domestic and exports market. Domestic sales grew by 11.2% yoy, contributing around 82% to the company's total revenue; the remaining contribution came in from exports, which grew strongly by 26.6% in 3QCY2011. **Given the valuations, we recommend a Sell rating on the stock.**

Revenue growth led by the exports segment: Aventis' net sales grew by 13.5% yoy to ₹313cr for 3QCY2011, in-line with our estimate of ₹307cr, backed by 11.2% yoy growth in the domestic segment. Export sales grew by 26.6% to ₹58.8cr. The company reported gross margin of 48.6%, below our estimate of 50.6%. OPM came in at 16.1%, higher than our estimate of 15.0%. Net profit came in at ₹55cr, up 15.9% yoy, lower than our estimate of ₹51cr.

Outlook and valuation: We expect net sales to post a 13.6% CAGR to ₹1,401cr and EPS to register a 15.6% CAGR to ₹89.7cr over CY2010–12E. At current levels, the stock is trading at 27.4x and 26.1x CY2011E and CY2012E earnings, respectively. We recommend Sell on the stock with a target price of ₹1,937.

Key financials

Y E Dec (₹. cr)	CY2009	CY2010	CY2011E	CY2012E
Net Sales	974	1,085	1,224	1,401
% chg	(0.9)	11.3	12.8	14.4
Net Profit	157.4	155.0	197.0	206.4
% chg	(5.3)	(1.5)	27.1	4.8
EPS (₹)	68.4	67.3	85.5	89.7
EBITDA(%)	15.2	13.2	14.9	15.3
P/E (x)	34.3	34.8	27.4	26.1
RoE (%)	17.9	15.9	18.3	17.1
RoCE (%)	14.8	12.6	14.8	15.7
P/BV (x)	5.8	5.3	4.7	4.2
EV/Sales (x)	4.9	4.4	3.9	3.3
EV/EBITDA (x)	32.6	33.1	26.0	21.6

Source: Company, Angel Research

SELL

CMP	₹2,345
Target Price	₹1,937

Investment Period	12 Months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	5,400
Beta	0.2
52 Week High / Low	2,424/1,710
Avg. Daily Volume	2422
Face Value (₹)	10
BSE Sensex	16,776
Nifty	5,030
Reuters Code	AVPH.BO
Bloomberg Code	AVEN@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	23.6
FII / NRIs / OCBs	10.3
Indian Public / Others	5.7

Abs. (%)	3m	1yr	3yr
Sensex	0.3	(15.6)	78.7
Aventis	14.5	23.4	196.8

Sarabjit Kour Nangra

+91 22 3935 7800 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 3QCY2011 performance

Y/E Dec. (₹ cr)	3QCY2011	2QCY2011	% chg (qoq)	3QCY2010	% chg (yoy)	9MCY2011	9MCY2010	% chg yoy
Net sales	313	303	3.3	276	13.5	892	799	11.7
Other income	37	36	2.2	31	17.9	111	79	39.8
Total income	350	339	3.2	307	13.9	1,003	878	14.2
PBIDT	50	44	14.9	43	18.4	138	122	12.5
OPM (%)	16.1	14.5		15.4		15.4	15.3	
Interest	-	-		-		-	-	
Depreciation & amortisation	6	5	13.0	5	15.1	17	14	18.2
PBT & exceptional items	81	75	8.9	69	18.5	231	187	23.6
Less : Exceptional items	-	-		-		-	-	
Profit before tax	81	75	8.9	69	18.5	231	187	23.6
Provision for taxation	26	24	10.5	21	24.1	75	62	22.4
Adj net profit	55	51	8.2	47	15.9	155	126	23.3
EPS (₹)	23.8	12.7		20.6		67.4	52.3	

Source: Company, Angel Research

Exhibit 2: 3QCY2011 – Actual vs. Angel estimates

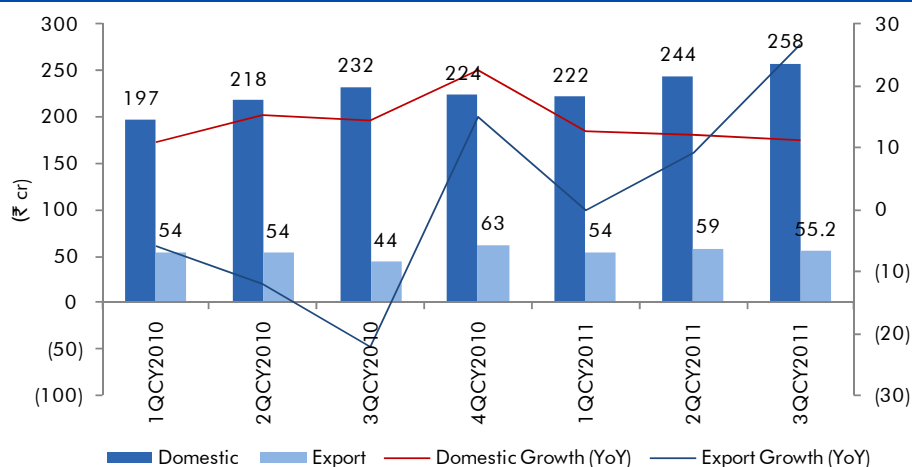
₹ cr	Actual	Estimates	Variation (%)
Net sales	313	307	1.7
Other income	37	36	1.7
Operating profit	50	46	9.1
Tax	26	24	10.7
Net profit	55	51	8.1

Source: Company, Angel Research

Revenue growth led by the domestic segment: Aventis' net sales grew by 13.5% yoy to ₹313cr for 3QCY2011, in-line with our estimate of ₹307cr, backed by 11.2% growth in the domestic segment. Export sales grew by 26.6% to ₹58.8cr during the quarter.

The company incurred planned expenditure in 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.

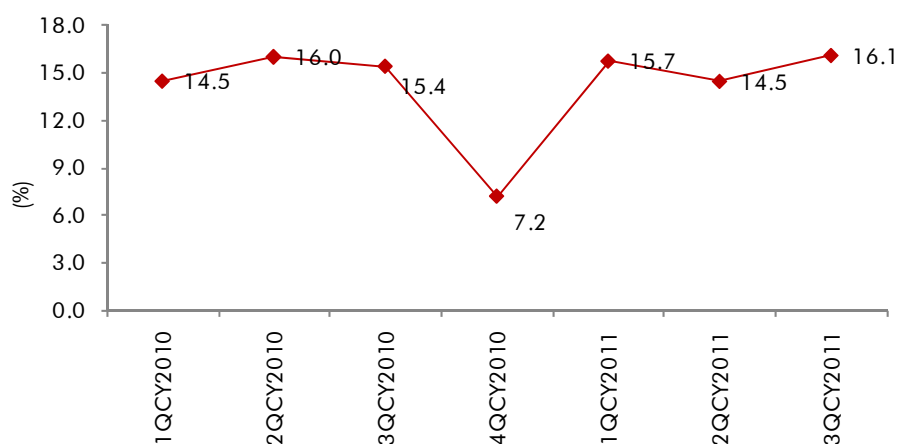
Exhibit 3: Sales trend



Source: Company, Angel Research

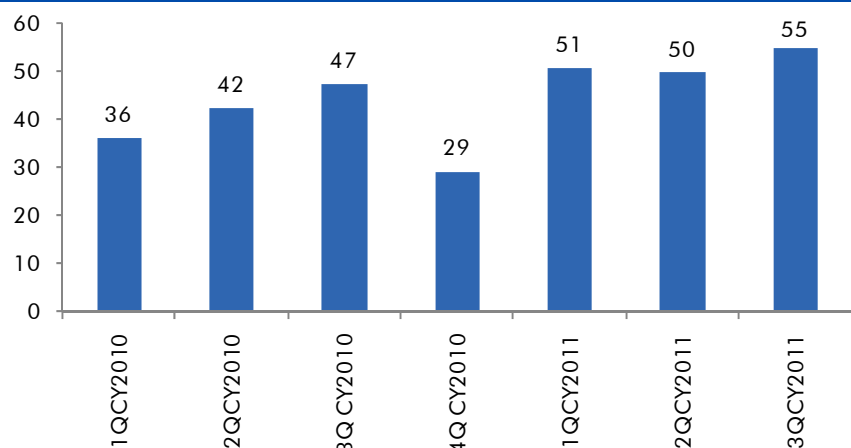
OPM above estimates at 16.1%: For 3QCY2011, the company reported gross margin of 48.6%, below our estimate of 50.6%. OPM came in at 16.1%, higher than our estimate of 15.0% for the quarter. This was mainly on the back of the lower employee expenses (up 5.3% yoy) and a dip in other expenses (down 2.3% yoy), respectively, during the quarter.

Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom line above estimates: For the quarter, Aventis reported net profit of ₹55cr, up 15.9% yoy, and higher than our estimate of ₹51cr, led by higher-than-expected OPM during the quarter.

Exhibit 5: Net profit trend


Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Aventis recorded revenue CAGR of 5.3% to ₹1,085cr over CY2006–10 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, 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 increase 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. We expect the company's net sales to log a 13.6% CAGR over CY2010–12E, majorly driven by its domestic formulation sales.

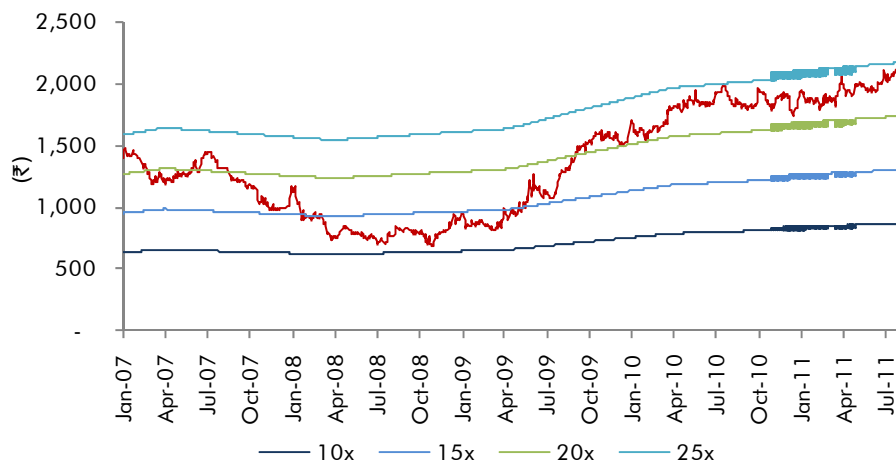
Valuation: Aventis has a strong balance sheet with cash of ₹655cr (~14% of market cap, as of CY2010), which could be used for future acquisitions or higher dividend payouts. We expect net sales to post a 13.6% CAGR to ₹1,401cr and EPS to register a 15.6% CAGR to ₹89.7cr over CY2010–12E. At current levels, the stock is trading at 27.4x and 26.1x CY2011E and CY2012E earnings, respectively. **We recommend Sell on the stock with a target price of ₹1,937.**

Exhibit 6: Key assumptions

	CY2011E	CY2012E
Net sales growth (%)	12.8	14.4
Domestic sales growth (%)	14.0	15.0
Export sales growth (%)	8.0	12.0
Growth in employee expenses (%)	16.0	15.0
Operating margins (%)	14.9	15.3
Net profit growth (%)	27.1	5.1
Capex (₹ cr)	26.6	21.0

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 %	FY2013E		FY11-13E		FY2013E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharmaceuticals	Buy	42	77	82.5	5.5	0.7	4.9	30.6	26.6	37.0
Aurobindo Pharma#	Buy	92	166	80.5	6.7	0.8	5.8	9.9	10.2	15.1
Aventis*	Sell	2,345	1,937	(17.4)	26.1	3.3	21.6	15.4	15.7	17.1
Cadila Healthcare	Buy	723	965	26.8	15.8	2.4	12.8	19.4	25.2	31.1
Cipla	Buy	310	369	19.0	16.8	3.1	14.4	23.8	16.6	18.2
Dr. Reddy's	Buy	1,614	1,920	19.0	16.8	2.9	11.6	22.7	17.7	25.2
Dishman Pharma	Buy	43	68	59.3	3.8	0.9	5.0	3.5	7.1	8.8
Glaxo*	Neutral	1,982	-	-	22.8	5.2	14.5	14.6	41.0	30.7
Indoco Remedies	Buy	399	555	39.0	7.2	0.9	5.9	15.6	14.2	16.9
Ipca labs	Buy	250	358	34.0	9.7	1.5	6.9	14.8	23.3	24.9
Lupin	Buy	456	593	30.1	15.4	2.5	12.8	24.0	23.9	30.8
Orchid Chemicals	Buy	153	270	76.5	4.1	1.5	6.9	29.6	11.7	23.4
Ranbaxy*	Buy	473	577	22.2	9.0	1.7	7.3	22.0	26.8	25.9
Sun Pharma	Buy	490	569	16.1	19.0	5.3	15.0	21.4	22.4	22.4

Source: Company, Angel Research; Note: * December year ending; #CAGR in EPS is based on recurring EPS

Profit and loss statement

Y/E Dec. (₹ cr)	CY2007	CY2008	CY2009	CY2010	CY2011E	CY2012E
Net sales	874	983	974	1,085	1,224	1,401
Other operating income	23	36	52	59	58	50
Total operating income	896	1,019	1,027	1,144	1,282	1,450
% chg	1.2	13.7	0.7	11.4	12.1	13.1
Total expenditure	705	798	827	942	1,042	1,187
Net raw materials	423	476	482	539	569	644
Other mfg costs	17	41	45	53	61	70
Personnel	104	119	144	163	189	218
Other	162	161	156	187	222	254
EBITDA	168	186	148	143	182	214
% chg	(23.7)	10.2	(20.4)	(3.1)	27.0	17.7
(% of Net sales)	19.3	18.9	15.2	13.2	14.9	15.3
Depreciation & amortization	19	18	17	21	22	24
EBIT	149	167	130	123	160	190
% chg	(26.5)	12.2	(22.1)	(6.0)	30.2	19.1
(% of Net sales)	17.1	17.0	13.4	11.3	13.0	13.6
Interest & other charges	0.2	0.3	0.1	2.9	-	-
Other income	51	57	59	55	62	59
(% of PBT)	23.0	21.8	24.3	23.4	22.1	19.7
Recurring PBT	223	260	241	233	280	299
% chg	(10.8)	16.5	(7.0)	(3.4)	19.9	6.9
PBT (reported)	222.8	260	241	234	280	299
Tax	78.4	93.3	84.0	79.0	82.6	92.4
(% of PBT)	35.2	36.0	34.8	33.8	29.6	30.9
PAT (reported)	144	166	157	155	197	206
Extraordinary items				75.7	-	-
PAT after MI (reported)	144	166	157	231	197	206
ADJ. PAT	144	166	157	155	197	206
% chg	(14.7)	15.1	(5.3)	(1.5)	27.1	4.8
(% of Net sales)	16.5	16.9	16.2	21.3	16.1	14.7
Basic EPS (₹)	63	72	68	67	86	90
Fully Diluted EPS (₹)	63	72	68	67	86	90
% chg	(14.7)	15.1	(5.2)	(1.6)	27.1	4.8

Balance sheet

Y/E Dec. (₹ cr)	CY2007	CY2008	CY2009	CY2010	CY2011E	CY2012E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Reserves & surplus	684	806	909	991	1,119	1,253
Shareholders' funds	707	829	932	1,014	1,142	1,277
Total loans	-	-	-	-	-	-
Total liabilities	707	829	932	1,014	1,142	1,277
APPLICATION OF FUNDS						
Gross block	304	321	335	375	396	417
Less: Acc. depreciation	169	178	190	204	227	250
Net block	136	143	145	171	170	167
Capital Work-in-Progress	9	6	27	13	13	13
Investments	5	5.2	5.2	0.4	0.4	0.4
Current assets	754	896	1,014	1,214	1,149	1,300
Cash	391	497	586	655	677	780
Loans & advances	125	136	144	257	115	132
Other	238	262	284	302	357	389
Current liabilities	210	236	274	394	207	225
Net current assets	544	660	740	820	942	1,076
Deferred tax assets	13	15	15	10	17	20
Total assets	707	829	932	1,014	1,142	1,277

Cash flow statement

Y/E Dec. (₹ cr)	CY2007	CY2008	CY2009	CY2010	CY2011E	CY2012E
Profit before tax	223	260	241	234	280	299
Depreciation	18	18	17	21	22	24
(Inc)/Dec in Working Capital	(4)	(21)	4	(10)	(101)	(31)
Less: Other income	23	36	52	59	58	50
Direct taxes paid	97	98	92	79	89	96
Cash Flow from Operations	117	123	118	107	53	147
(Inc.)/Dec.in Fixed Assets	(18)	(24)	(41)	(27)	(21)	(21)
(Inc.)/Dec. in Investments	-	-	-	(5)	-	-
Other income	23	36	52	59	58	50
Cash Flow from Investing	5	12	11	27	37	29
Issue of Equity	-	-	-	-	-	-
Inc./{Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(84)	(43)	(43)	(55)	(69)	(72)
Others	(33)	15	2	(9)	-	(0)
Cash Flow from Financing	(117)	(28)	(41)	(64)	(69)	(72)
Inc./{Dec.) in Cash	5	107	88	69	21	103
Opening Cash balances	386	391	497	586	655	677
Closing Cash balances	391	497	586	655	677	780

Key ratios

Y/E Dec.	CY2007	CY2008	CY2009	CY2010	CY2011E	CY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	37.4	32.5	34.3	34.8	27.4	26.1
P/CEPS	33.0	29.3	30.9	21.5	24.6	23.5
P/BV	7.6	6.5	5.8	5.3	4.7	4.2
Dividend yield (%)	1.2	0.7	0.9	2.3	1.1	1.1
EV/Sales	5.7	5.0	4.9	4.4	3.9	3.3
EV/EBITDA	29.8	26.4	32.6	33.1	26.0	21.6
EV / Total Assets	7.1	5.9	5.2	4.7	4.1	3.6
Per Share Data (₹)						
EPS (Basic)	62.7	72.2	68.4	67.3	85.5	89.7
EPS (fully diluted)	62.7	72.2	68.4	67.3	85.5	89.7
Cash EPS	71.1	80.1	75.9	109.1	95.2	100.0
DPS	27.6	16.0	20.0	55.0	25.7	26.9
Book Value	306.9	360.0	404.6	440.3	495.9	554.5
Returns (%)						
RoCE (Pre-tax)	22.7	21.8	14.8	12.6	14.8	15.7
Angel ROIC (Pre-tax)	57.8	52.9	40.5	36.9	40.1	40.7
ROE	22.0	21.6	17.9	15.9	18.3	17.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.0	3.3	3.1	3.2	3.3	3.6
Inventory / Sales (days)	69	63	72	75	73	70
Receivables (days)	26	26	25	18	20	24
Payables (days)	47	46	49	47	41	36
WC cycle (ex-cash) (days)	43	56	56	51	61	71
Solvency ratios (x)						
Net debt to equity	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Net debt to EBITDA	(2.3)	(2.7)	(4.0)	(4.6)	(3.7)	(3.6)

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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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%)	