



## Aventis Pharma

|                    |              |
|--------------------|--------------|
| STOCK INFO.        | BLOOMBERG    |
| BSE Sensex: 19,724 | HOEC IN      |
|                    | REUTERS CODE |
| S&P CNX: 5,866     | AVPH.BO      |

1 November 2007

Buy

Previous Recommendation: Buy

Rs1,023

|                       |             |
|-----------------------|-------------|
| Equity Shares (m)     | 23.0        |
| 52-Week Range         | 1,600/992   |
| 1,6,12 Rel. Perf. (%) | -28/-63/-86 |
| M.Cap. (Rs b)         | 23.6        |
| M.Cap. (US\$ b)       | 0.6         |

| YEAR   | NET SALES | PAT    | EPS  | EPS        | P/E  | P/BV | ROE  | ROCE | EV/   | EV/    |
|--------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END    | (RS M)    | (RS M) | (RS) | GROWTH (%) | (X)  | (X)  | (%)  | (%)  | SALES | EBITDA |
| 12/06A | 8,821     | 1,693  | 73.5 | 3.2        | 13.9 | 4.0  | 28.6 | 42.0 | 2.2   | 8.9    |
| 12/07E | 8,653     | 1,382  | 60.0 | -18.3      | 17.0 | 3.5  | 20.8 | 31.5 | 2.2   | 11.1   |
| 12/08E | 8,995     | 1,464  | 63.6 | 5.9        | 16.1 | 3.2  | 19.8 | 30.0 | 2.0   | 9.8    |

Aventis Pharma's 3QCY07 results are lower than our estimates. Key highlights:

- Net sales de-grew by 7% to Rs2.26b, due to export de-growth of 24% YoY to Rs481m and domestic sales de-growth of 0.7% to Rs1.8b. Company has indicated that an appreciating currency and preference to locally manufactured products has impacted export growth. Domestic sales growth was impacted significantly due to lower supplies of Rabipur (~Rs780m annualized sales) from Chiron due to production related issues.
- EBITDA margins declined by 856bp to 19.7% due to lower Rabipur sales (a high margin product) and higher staff cost (up 22% YoY, partly due to new recruitments). PAT de-grew by 31.6% to Rs368m.
- We are revising our estimates for CY07E and CY08E downward by 17% to Rs60 and 28% to Rs63.6 respectively, to factor in for lower exports and Rabipur supply issues.

We believe that APL will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline with a total of 123 products under development, of which 23 are in Phase-III. It plans to file 40 NDAs by CY10E. While, we continue to remain positive on APL's long-term prospects, we believe that the stock performance is likely to remain muted till clarity emerges on the Rabipur issue. We believe that, at 16.1x CY08E earnings, valuations are not demanding. Maintain **Buy** with a revised target price of Rs1,200 (~19x CY08E EPS).

### QUARTERLY PERFORMANCE

(Rs Million)

| Y/E DECEMBER               | CY06         |              |              |              | CY07         |              |              |              | CY06         | CY07E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                            | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4QE          |              |              |
| <b>Net Sales</b>           | <b>2,005</b> | <b>2,228</b> | <b>2,431</b> | <b>2,176</b> | <b>2,129</b> | <b>2,302</b> | <b>2,264</b> | <b>1,958</b> | <b>8,840</b> | <b>8,653</b> |
| YoY Change (%)             | 16.2         | 4.4          | 8.8          | 11.2         | 6.2          | 3.3          | -6.9         | -10.0        | 9.4          | -2.1         |
| Total Expenditure          | 1,513        | 1,609        | 1,744        | 1,749        | 1,635        | 1,857        | 1,818        | 1,644        | 6,633        | 6,954        |
| <b>EBITDA</b>              | <b>492</b>   | <b>619</b>   | <b>687</b>   | <b>427</b>   | <b>494</b>   | <b>445</b>   | <b>446</b>   | <b>314</b>   | <b>2,207</b> | <b>1,699</b> |
| Margins (%)                | 24.5         | 27.8         | 28.3         | 19.6         | 23.2         | 19.3         | 19.7         | 16.1         | 25.0         | 19.6         |
| Depreciation               | 43           | 42           | 43           | 51           | 45           | 47           | 47           | 51           | 179          | 190          |
| Interest                   | 0            | 1            | 0            | 1            | 0            | 0            | 2            | 0            | 2            | 0            |
| Other Income               | 96           | 90           | 156          | 111          | 200          | 182          | 176          | 30           | 471          | 588          |
| <b>PBT before EO Items</b> | <b>545</b>   | <b>666</b>   | <b>800</b>   | <b>486</b>   | <b>649</b>   | <b>580</b>   | <b>573</b>   | <b>294</b>   | <b>2,497</b> | <b>2,098</b> |
| Extra-Ord Expense          | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            | 0            |
| <b>PBT after EO Items</b>  | <b>545</b>   | <b>666</b>   | <b>800</b>   | <b>486</b>   | <b>649</b>   | <b>580</b>   | <b>573</b>   | <b>294</b>   | <b>2,497</b> | <b>2,098</b> |
| Tax                        | 176          | 227          | 262          | 139          | 216          | 207          | 205          | 88           | 804          | 716          |
| Effective tax Rate (%)     | 32.3         | 34.1         | 32.8         | 28.6         | 33.3         | 35.7         | 35.8         | 29.8         | 32.2         | 34.1         |
| <b>Reported PAT</b>        | <b>369</b>   | <b>439</b>   | <b>538</b>   | <b>347</b>   | <b>433</b>   | <b>373</b>   | <b>368</b>   | <b>206</b>   | <b>1,693</b> | <b>1,382</b> |
| <b>Adj PAT</b>             | <b>369</b>   | <b>439</b>   | <b>538</b>   | <b>347</b>   | <b>433</b>   | <b>373</b>   | <b>368</b>   | <b>206</b>   | <b>1,693</b> | <b>1,382</b> |
| YoY Change (%)             | 56.4         | 28.4         | 8.2          | -7.7         | 17.3         | -15.0        | -31.6        | -40.5        | 16.7         | -18.3        |
| Margins (%)                | 18.4         | 19.7         | 22.1         | 15.9         | 20.3         | 16.2         | 16.3         | 10.5         | 19.2         | 16.0         |

E: M0St Estimates

**Decline in exports and Rabipur supply issues restricts sales growth**

Net sales de-grew by 7% to Rs2.26b, due to export de-growth of 24% YoY to Rs481m and domestic sales de-growth of 0.7% to Rs1.8b. Supplies to Russia and sourcing by the parent are the two main components of exports for the company. Company has indicated that an appreciating currency and preference to locally manufactured products has impacted export growth. The company has recorded export de-growth in 6 out of the last 7 quarters. Domestic sales growth was impacted significantly due to lower supplies of Rabipur (~Rs780m annualized sales) from Chiron due to production related issues. We are awaiting further clarity from the company on Rabipur’s status.

TREND IN MARKET MIX (RS M)

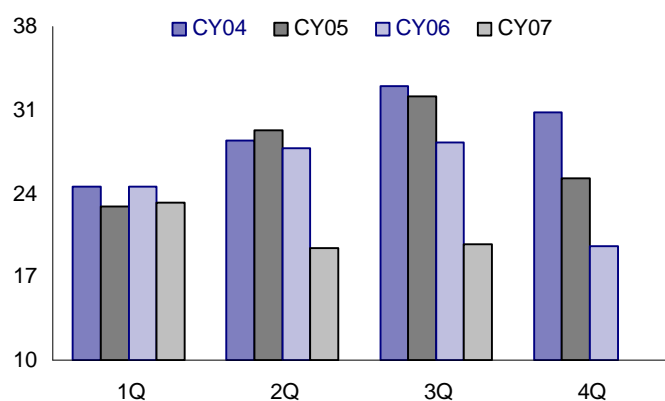
|                    | 3QCY07       | 3QCY06       | YOY (%)     | 2QCY07       | QOQ (%)     |
|--------------------|--------------|--------------|-------------|--------------|-------------|
| Net Domestic Sales | 1,783        | 1,795        | -0.7        | 1,833        | -2.7        |
| % of Sales         | 78.8         | 73.8         |             | 79.6         |             |
| Exports            | 481          | 636          | -24.4       | 469          | 2.6         |
| % of Sales         | 21.2         | 26.2         |             | 20.4         |             |
| <b>Net Sales</b>   | <b>2,264</b> | <b>2,431</b> | <b>-6.9</b> | <b>2,302</b> | <b>-1.7</b> |

Source: Company/Motilal Oswal Securities

**EBITDA margins decline significantly**

EBITDA margins declined by 856bp to 19.7% due to lower Rabipur sales (a high margin product) and higher staff cost (up 22% YoY, partly due to AS15 provisioning). PAT de-grew by 31.6% to Rs368m.

TREND IN EBITDA MARGIN (%)



Source: Company/Motilal Oswal Securities

**Parent committed to listed entity**

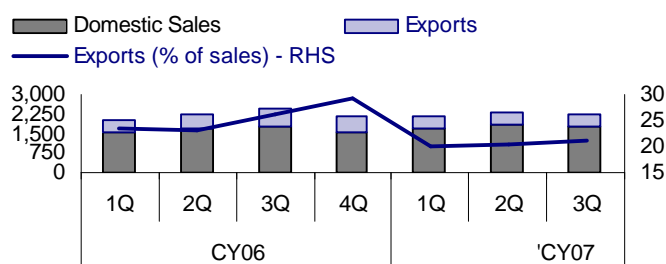
APL management (at the Jun-07 AGM) has reiterated the parent’s commitment to the listed entity despite the existence of Sanofi’s 100% subsidiary. Management clearly mentioned that the interests of the listed entity will not be compromised as far as new launches are concerned. This is also vindicated from the company’s past track record wherein most of the new launches have come through the listed entity. In fact, APL has been one of the most aggressive companies in the MNC category as far as launch of new products are concerned.

AVENTIS – PORTFOLIO MAPPING WITH PARENT

| PRODUCT                                | INDIA LAUNCH     | LAUNCH YEAR | POSSIBILITY OF LAUNCH IN INDIA   |
|--|------------------|-------------|--|
| Lovenox/Clexane                        | Y                |             | N.A.   |
| Plavix/Iscover - Sanofi Product        | Y                |             | N.A. (Launched through 100% Sanofi subsidiary prior to global merger)                |
| Allegra                                | Y                | 1998        | N.A.   |
| Taxotere                               | Y                |             | N.A.   |
| Stilnox/Ambien/Myslee - Sanofi Product | N                |             | No - Global launch in 1992. Old product  |
| Eloxatin - Sanofi Product              | N                |             | Yes - Global launch in 1996  |
| Delix/Tritace/Triatec                  | Y                | 1994        | N.A.   |
| Lantus                                 | Y                | 2003        | N.A.   |
| Aprovel/Avapro/Karvea - Sanofi Product | N                |             | Yes - Global launch in 1997. But Indian companies have already launched this product |
| Copaxone                               | N                |             | No – Product belongs to Teva   |
| Amaryl                                 | Y                | 1999        | N.A.   |
| Actonel                                | Y                | 2003        | N.A.   |
| Depakine - Sanofi Product              | Y                |             | N.A.   |
| Nasacort - Sanofi Product              | Status not known |             |  |
| Xatral - Sanofi Product                | N                |             | Unlikely - It is a 1988 product  |

Source: Company/Motilal Oswal Securities

TREND IN MARKET MIX



Source: Company/Motilal Oswal Securities

### Exports to gradually improve going forward

APL indicated that the outsourcing by the parent is likely to increase in the coming years. It has already commenced export of APIs like Articaine, Glibenclamide and Lasamide to the parent. It also commenced exporting Paracetamol in 1QCY07. APL's exports have de-grown in six of the last seven quarters as some of its products were removed from the Federal Reimbursement List in Russia. We believe that export performance is likely to improve in the future due to increased outsourcing by the parent.

### Rabipur status remains uncertain

Rabipur (anti-rabies vaccine) is currently manufactured through a JV between APL & Chiron (now Novartis) and marketed by APL. The company has been maintaining that it is facing supply constraints and that it is not able to receive adequate supplies of Rabipur from Chiron. Rabipur recorded sales of Rs780m on annualized basis. While these supply issues seem temporary in nature, we also do not rule out a protracted problem if Chiron wishes to take back the product from APL. As of now, we do not have clarity on this issue. We believe that APL's performance will be significantly impacted if Chiron were to take back the vaccine.

### Withdrawal of Cox-II inhibitors may benefit Aventis India

We believe that the withdrawal of Rofecoxib and Valdecoxib (cox-II inhibitors) from the global and Indian markets due to adverse side effects may have a positive impact on the sales of older (and proven) painkillers like APL's Combiflam. Historically, Combiflam has grown in single digits.

### Well placed to benefit from the patent regime

Over the longer term, APL is well placed to benefit from the introduction of product patents, given its strengths in marketing, a supportive parent and a healthy product pipeline (of NCEs) following the formation of Sanofi-Aventis. APL's history of launching patented products in India, a well mapped portfolio vis-à-vis the parent and ability to build them into big brands make it one of the biggest potential beneficiaries of the product patent regime in India.

We believe that the patent regime will bring-in significant benefits for APL, albeit in the long-term. We expect launch of patented products from the parent's portfolio by 2008/09. The company is yet to give visibility on launch of patented products in India.

### To benefit from the parent's R&D pipeline

Sanofi-Aventis currently has 123 projects in research and development, including about 31 in pre-clinical development and 60 in late stage (Phase II & III) development. It is planning to file about 31 NDAs and 9 vaccines with the regulatory authorities by CY10E. The table below gives details on the parent's R&D pipeline:

| SANOFI-AVENTIS R&D PIPELINE |              |           |           |           |           |            |
|-----------------------------|--------------|-----------|-----------|-----------|-----------|------------|
| NO. OF DRUGS                | PRE-CLINICAL | PHASE     |           |           |           | TOTAL      |
|                             |              | I         | IIA       | IIB       | III       |            |
| Cardiovascular              | 3            | 5         | 0         | 4         | 2         | 14         |
| Thrombosis                  | 3            | 2         | 0         | 3         | 2         | 10         |
| Central Nervous System      | 5            | 8         | 1         | 4         | 6         | 24         |
| Oncology                    | 6            | 5         | 1         | 0         | 7         | 19         |
| Metabolic Disorders         | 3            | 2         | 2         | 4         | 0         | 11         |
| Internal Medicine           | 6            | 5         | 5         | 2         | 1         | 19         |
| Vaccines                    | 5            | 5         | 3         | 3         | 10        | 26         |
| <b>Total</b>                | <b>31</b>    | <b>32</b> | <b>12</b> | <b>20</b> | <b>28</b> | <b>123</b> |

Source: Sanofi-Aventis (as of September 2007)

Although, clarity on launch of these drugs will emerge only over a period of time, we believe that some of these products could be relevant for the Indian markets and are likely to be launched in India with a time-lag. However, uncertainty still remains on whether these products will be launched through the listed subsidiary or the 100% subsidiary.

### New drug policy still remains uncertain

We believe that the biggest risk to our positive stance on APL could be the implementation of the new pharmaceutical policy in the current form. The new policy proposes to significantly increase the span of control by bringing in additional 354 drugs under price control. This could severely impact the profitability of APL's domestic business. Industry has taken strong objection to the proposed policy and we believe that the policy is unlikely to be implemented in the current form. Given the strong opposition from the industry,

the government has formed a Group on Ministers (GoM), which would give final recommendations to the government regarding the new pharmaceutical policy. However, the uncertainty related to this will remain till the government finally notifies the new pharmaceutical policy.

### Revising estimates downwards

We are revising our estimates for CY07E and CY08E downward by 13% to Rs62.8 and 24% to Rs67.6 respectively, to factor in for lower exports and Rabipur supply issues.

#### REVISED FORECAST (RS M)

|            | CY07E |       |         | CY08E |        |         |
|------------|-------|-------|---------|-------|--------|---------|
|            | REV   | OLD   | CHG (%) | REV   | OLD    | CHG (%) |
| Net Sales  | 8,653 | 9,480 | -8.7    | 8,995 | 10,655 | -15.6   |
| Net Profit | 1,382 | 1,664 | -16.9   | 1,464 | 2,052  | -28.6   |
| EPS (Rs)   | 60.0  | 72.3  | -16.9   | 63.6  | 89.1   | -28.6   |

Source: Motilal Oswal Securities

### Valuation and outlook

APL has an impeccable track record of brand building in the domestic market with its strategic brands recording

double digit growth consistently. In the long-term, focus on growing strategic brands and strong support from the parent will augur well for the company. We believe that it is very well positioned to take advantage of the patent regime in the long-term. It is in the process of integrating Sanofi's domestic operation with itself (post the global merger). We believe that there is very little over-lap between APL and Sanofi's portfolio in India.

We believe that APL will be one of the key beneficiaries of the patent regime in the long-term. The parent has a strong R&D pipeline with a total of 123 products under development, of which 28 are in Phase-III. It plans to file 40 NDAs by CY10E.

While, we continue to remain positive on APL's long-term prospects, we believe that the stock performance is likely to be muted till clarity emerges on the Rabipur issue. We believe that, at 16.1x CY08E earnings, valuations are not demanding. Maintain **Buy** with a revised target price of Rs1,200 (~19x CY08E EPS).

## Aventis Pharma: an investment profile

### Company description

Aventis (50% subsidiary of Aventis SA) is the second largest MNC and among the top 10 formulations players in India. The company has built a very strong franchise in chronic therapy areas like anti-diabetes, oncology and CVS, in the process realigning its domestic portfolio with that of its parent. Aventis is currently undergoing transformation, with the parent being taken over by Sanofi Synthelabo worldwide.

### Key investment arguments

- ✎ Significant improvement in product mix, with enhanced focus on strategic products and rationalization of older products has put it back on the growth path.
- ✎ Aggressive cost cutting and improved efficiencies to add to revenue growth and boost operating performance.
- ✎ Strong parental commitment and excellent brand equity among doctors make it the best placed MNC to gain from the IPR regime. Parent plans 40 NDA filings by CY10.

### Key investment risks

- ✎ Protracted supply issues related to Rabipur could significantly impact performance.
- ✎ Exports have been de-growing for the last four quarters
- ✎ The proposed new drug policy could adversely impact APL.

### Valuation and view

- ✎ Valuations of 16.1x CY08E earnings do not fully factor in the future prospects, excellent return ratios and free cash on books (around Rs4.6b for CY07E).
- ✎ Maintain **Buy** with a target price of Rs1,200.

### Sector view

- ✎ Indian Pharma market expected to witness steady growth, on the back of gradual increase in the low penetration levels – companies with strong brands and marketing muscle to benefit the most.
- ✎ IPR regime unlikely to lead to any major change in the near term; MNCs and large Indian players to benefit over the longer term.
- ✎ Among MNCs, we are bullish on companies where risk of conflict with 100% subsidiaries is limited.

#### COMPARATIVE VALUATIONS

|               |       | AVENTIS | GSK  | PFIZER |
|---------------|-------|---------|------|--------|
| P/E (x)       | CY07E | 17.0    | 24.1 | 15.2   |
|               | CY08E | 16.1    | 22.1 | 17.1   |
| P/BV (x)      | CY07E | 3.5     | 5.8  | 2.8    |
|               | CY08E | 3.2     | 5.0  | 2.6    |
| EV/Sales (x)  | CY07E | 2.2     | 4.9  | 2.2    |
|               | CY08E | 2.0     | 4.3  | 2.2    |
| EV/EBITDA (x) | CY07E | 11.1    | 16.0 | 8.5    |
|               | CY08E | 9.8     | 14.1 | 9.7    |

#### SHAREHOLDING PATTERN (%)

|               | SEP-07 | JUN-07 | SEP-06 |
|---------------|--------|--------|--------|
| Promoter      | 60.4   | 60.4   | 60.4   |
| Domestic Inst | 19.1   | 20.2   | 18.9   |
| Foreign       | 9.9    | 9.1    | 9.8    |
| Others        | 10.6   | 10.3   | 11.0   |

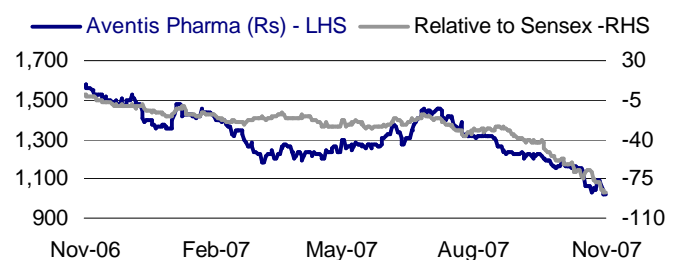
#### EPS: MOST FORECAST VS CONSENSUS (RS)

|      | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| CY07 | 60.0          | 79.9               | -24.9         |
| CY08 | 63.6          | 90.0               | -29.3         |

#### TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-------|
| 1,023              | 1,200             | 17.3       | Buy   |

#### STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT            |              | (Rs Million) |              |              |              |  |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Y/E DECEMBER                | 2004         | 2005         | 2006         | 2007E        | 2008E        |  |
| Exports                     | 2,041        | 2,287        | 2,258        | 1,806        | 1,806        |  |
| Net Domestic Sales          | 5,266        | 5,735        | 6,563        | 6,847        | 7,189        |  |
| <b>Net Sales</b>            | <b>7,307</b> | <b>8,022</b> | <b>8,821</b> | <b>8,653</b> | <b>8,995</b> |  |
| Change (%)                  | 2.0          | 9.8          | 10.0         | -1.9         | 4.0          |  |
| Total Expenditure           | 5,162        | 5,741        | 6,615        | 6,954        | 7,152        |  |
| <b>EBITDA</b>               | <b>2,145</b> | <b>2,281</b> | <b>2,206</b> | <b>1,699</b> | <b>1,844</b> |  |
| Change (%)                  | 53.5         | 6.3          | -3.3         | -23.0        | 8.5          |  |
| Margin (%)                  | 29.4         | 28.4         | 25.0         | 19.6         | 20.5         |  |
| Depreciation                | 168          | 172          | 178          | 190          | 205          |  |
| Int. and Finance Charges    | 1            | 0            | 2            | 0            | 0            |  |
| Other Income - Rec.         | 218          | 331          | 471          | 588          | 583          |  |
| <b>PBT &amp; EO Items</b>   | <b>2,194</b> | <b>2,440</b> | <b>2,497</b> | <b>2,098</b> | <b>2,222</b> |  |
| Change (%)                  | 58.9         | 112          | 2.3          | -16.0        | 5.9          |  |
| Extra Ordinary Income/(Exp) | 68           | 0            | 0            | 0            | 0            |  |
| <b>PBT after EO Items</b>   | <b>2,262</b> | <b>2,440</b> | <b>2,497</b> | <b>2,098</b> | <b>2,222</b> |  |
| Tax                         | 777          | 799          | 804          | 716          | 758          |  |
| Tax Rate (%)                | 34.4         | 32.7         | 32.2         | 34.1         | 34.1         |  |
| <b>Reported PAT</b>         | <b>1,485</b> | <b>1,641</b> | <b>1,693</b> | <b>1,382</b> | <b>1,464</b> |  |
| <b>PAT Adj for EO Items</b> | <b>1,440</b> | <b>1,641</b> | <b>1,693</b> | <b>1,382</b> | <b>1,464</b> |  |
| Change (%)                  | 53.5         | 13.9         | 3.2          | -18.3        | 5.9          |  |
| Margin (%)                  | 19.7         | 20.5         | 19.2         | 16.0         | 16.3         |  |

| BALANCE SHEET                      |              | (Rs Million) |              |              |              |  |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Y/E DECEMBER                       | 2004         | 2005         | 2006         | 2007E        | 2008E        |  |
| Equity Share Capital               | 230          | 230          | 230          | 230          | 230          |  |
| Reserves                           | 3,810        | 4,838        | 5,690        | 6,417        | 7,158        |  |
| Revaluation Reserves               | 178          | 170          | 161          | 153          | 145          |  |
| <b>Net Worth</b>                   | <b>4,218</b> | <b>5,238</b> | <b>6,082</b> | <b>6,800</b> | <b>7,533</b> |  |
| Loans                              | 0            | 0            | 0            | 0            | 0            |  |
| Deferred Tax Liabilities           | -5           | -57          | -131         | -131         | -131         |  |
| <b>Capital Employed</b>            | <b>4,213</b> | <b>5,181</b> | <b>5,951</b> | <b>6,669</b> | <b>7,402</b> |  |
| Gross Block                        | 2,742        | 2,794        | 2,841        | 3,074        | 3,233        |  |
| Less: Accum. Deprn.                | 1,225        | 1,389        | 1,517        | 1,772        | 1,985        |  |
| <b>Net Fixed Assets</b>            | <b>1,517</b> | <b>1,405</b> | <b>1,324</b> | <b>1,303</b> | <b>1,248</b> |  |
| Capital WIP                        | 28           | 13           | 132          | 25           | 25           |  |
| Investments                        | 53           | 53           | 53           | 53           | 53           |  |
| <b>Curr. Assets</b>                | <b>4,111</b> | <b>5,419</b> | <b>6,942</b> | <b>6,747</b> | <b>7,629</b> |  |
| Inventory                          | 1,016        | 1,363        | 1,588        | 959          | 960          |  |
| Account Receivables                | 918          | 510          | 685          | 880          | 915          |  |
| Cash and Bank Balance              | 1,673        | 2,944        | 3,861        | 4,686        | 5,529        |  |
| Others                             | 504          | 601          | 808          | 222          | 225          |  |
| <b>Curr. Liability &amp; Prov.</b> | <b>1,496</b> | <b>1,710</b> | <b>2,500</b> | <b>1,458</b> | <b>1,553</b> |  |
| Account Payables                   | 665          | 846          | 1,104        | 802          | 831          |  |
| Provisions                         | 831          | 864          | 1,396        | 656          | 722          |  |
| <b>Net Current Assets</b>          | <b>2,616</b> | <b>3,709</b> | <b>4,442</b> | <b>5,288</b> | <b>6,076</b> |  |
| <b>Appl. of Funds</b>              | <b>4,213</b> | <b>5,181</b> | <b>5,951</b> | <b>6,669</b> | <b>7,402</b> |  |

E: MOST Estimates

| RATIOS                        |             | (Rs Million) |             |             |             |  |
|-------------------------------|-------------|--------------|-------------|-------------|-------------|--|
| Y/E DECEMBER                  | 2004        | 2005         | 2006        | 2007E       | 2008E       |  |
| <b>Basic (Rs)</b>             |             |              |             |             |             |  |
| <b>EPS</b>                    | <b>62.5</b> | <b>71.3</b>  | <b>73.5</b> | <b>60.0</b> | <b>63.6</b> |  |
| Cash EPS                      | 69.8        | 78.7         | 81.3        | 68.3        | 72.5        |  |
| BV/Share                      | 175.4       | 220.1        | 257.1       | 288.6       | 320.8       |  |
| DPS                           | 16.0        | 16.0         | 32.0        | 25.0        | 27.5        |  |
| Payout (%)                    | 28.1        | 25.8         | 49.6        | 47.5        | 49.3        |  |
| <b>Valuation (x)</b>          |             |              |             |             |             |  |
| P/E                           |             | 14.4         | 13.9        | 17.0        | 16.1        |  |
| Cash P/E                      |             | 13.0         | 12.6        | 15.0        | 14.1        |  |
| P/BV                          |             | 4.6          | 4.0         | 3.5         | 3.2         |  |
| EV/Sales                      |             | 2.6          | 2.2         | 2.2         | 2.0         |  |
| EV/EBITDA                     |             | 9.0          | 8.9         | 11.1        | 9.8         |  |
| Dividend Yield (%)            |             | 16           | 3.1         | 2.4         | 2.7         |  |
| <b>Return Ratios (%)</b>      |             |              |             |             |             |  |
| RoE                           | 35.6        | 32.4         | 28.6        | 20.8        | 19.8        |  |
| RoCE                          | 52.1        | 47.1         | 42.0        | 31.5        | 30.0        |  |
| <b>Working Capital Ratios</b> |             |              |             |             |             |  |
| Asset Turnover (x)            | 1.7         | 1.5          | 1.5         | 1.3         | 1.2         |  |
| Debtor (Days)                 | 46          | 23           | 28          | 37          | 37          |  |
| Inventory (Days)              | 51          | 62           | 66          | 40          | 39          |  |
| Working Capital (Days)        | 47          | 35           | 24          | 25          | 22          |  |
| <b>Leverage Ratio</b>         |             |              |             |             |             |  |
| Current Ratio                 | 2.7         | 3.2          | 2.8         | 4.6         | 4.9         |  |
| Debt/Equity                   | 0.0         | 0.0          | 0.0         | 0.0         | 0.0         |  |

| CASH FLOW STATEMENT           |              | (Rs Million) |              |              |              |  |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Y/E DECEMBER                  | 2004         | 2005         | 2006         | 2007E        | 2008E        |  |
| OP/(Loss) before Tax          | 2,145        | 2,281        | 2,206        | 1,699        | 1,844        |  |
| Interest/Dividends Recd.      | 218          | 331          | 471          | 588          | 583          |  |
| Direct Taxes Paid             | -772         | -851         | -878         | -716         | -758         |  |
| (Inc)/Dec in WC               | -560         | 177          | 185          | -22          | 55           |  |
| <b>CF from Operations</b>     | <b>1,032</b> | <b>1,939</b> | <b>1,984</b> | <b>1,550</b> | <b>1,724</b> |  |
| EO Items                      | 68           | 0            | 0            | 0            | 0            |  |
| <b>CF from Ope (EO items)</b> | <b>1,100</b> | <b>1,939</b> | <b>1,984</b> | <b>1,550</b> | <b>1,724</b> |  |
| (Inc)/Dec in FA               | -73          | -54          | -225         | -69          | -158         |  |
| (Pur)/Sale of Investments     | 0            | 0            | 0            | 0            | 0            |  |
| <b>CF from Investments</b>    | <b>-73</b>   | <b>-54</b>   | <b>-225</b>  | <b>-69</b>   | <b>-158</b>  |  |
| Issue of Shares               | -54          | -190         | 0            | 0            | 0            |  |
| (Inc)/Dec in Debt             | -152         | 0            | 0            | 0            | 0            |  |
| Interest Paid                 | -1           | 0            | -2           | 0            | 0            |  |
| Dividend Paid                 | -417         | -423         | -840         | -656         | -722         |  |
| <b>CF from Fin. Activity</b>  | <b>-625</b>  | <b>-614</b>  | <b>-842</b>  | <b>-656</b>  | <b>-722</b>  |  |
| <b>Inc/Dec of Cash</b>        | <b>402</b>   | <b>1,271</b> | <b>917</b>   | <b>825</b>   | <b>843</b>   |  |
| Add: Beginning Balance        | 1,271        | 1,673        | 2,944        | 3,861        | 4,686        |  |
| <b>Closing Balance</b>        | <b>1,673</b> | <b>2,944</b> | <b>3,861</b> | <b>4,686</b> | <b>5,529</b> |  |

**N O T E S**



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**Disclosure of Interest Statement**

**Aventis Pharma**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
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