



Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,163	HOEC IN
	REUTERS CODE
S&P CNX: 4,171	AVPH.BO

15 June 2007

Buy

Rs1,310

Previous Recommendation: Buy

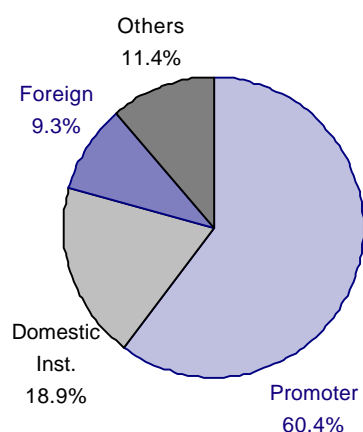
Equity Shares (m)	23.0
52-Week Range	1,886/1,160
1,6,12 Rel. Perf. (%)	3/-10/-58
M.Cap. (Rs b)	30.2
M.Cap. (US\$ b)	0.7

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	17.8	5.1	28.6	42.0	3.0	11.9
12/07E	9,661	1,867	81.0	10.2	16.2	4.2	26.2	39.6	2.6	10.1
12/08E	10,750	2,101	91.2	12.6	14.4	3.5	24.7	37.4	2.2	8.6

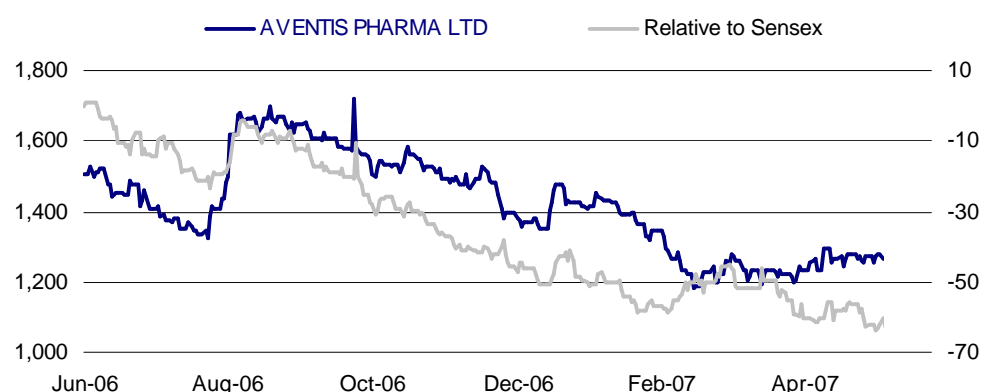
- ✍ **Reiterates commitment to listed entity** - At its recent AGM, Aventis Pharma (APL) reiterated that the interests of the listed entity will not be compromised due to the existence of Sanofi's 100% subsidiary. However, management declined to comment on whether the parent will merge this subsidiary with the listed entity.
- ✍ **Increased outsourcing by the parent** - 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 four of the last five quarters as some of its products were removed from the Federal Reimbursement List in Russia. Management indicated that export performance is likely to improve in the future due to increased outsourcing by the parent.
- ✍ **Rabipur update** - Rabipur (anti-rabies vaccine) is currently manufactured through a JV between APL & Chiron (now Novartis) and marketed by APL. The JV agreement has expired recently and it was generally expected that Rabipur will revert back to Chiron. Management has indicated that it is currently negotiating with Novartis to renew the agreement for future. Rabipur recorded sales of Rs780m on annualized basis.
- ✍ **Capex** - APL expects a capex of Rs232m for CY07E. It incurred capex of Rs251m for CY06.

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 125 products under development, of which 25 are in Phase-III. It plans to file 40 NDAs by CY10. We continue to remain positive on APL's long-term prospects. We believe that, at 14.4x CY08E earnings, valuations are not demanding. Maintain **Buy** with a target price of Rs1,800.

SHAREHOLDING PATTERN (%) - MAR.07



STOCK PERFORMANCE (1 YEAR)



Reiterates commitment to listed entity

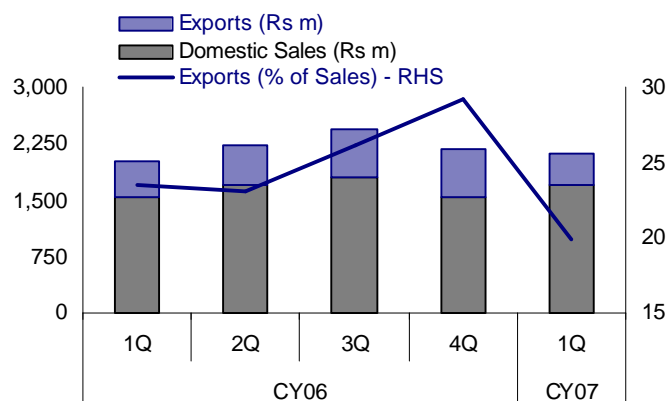
APL management (at the AGM) has reiterated the parent's commitment to the listed entity despite the existence of Sanofi's 100% subsidiary. Management clearly mentioned that the interests of the listed entity will not be compromised as far as new launches are concerned. This is also vindicated from the 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	POSSIBILITY OF LAUNCH	YEAR	LAUNCH IN INDIA
Lovenox/Clexane	Y			N.A.
Plavix/Iscover -	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
Acomplia				Marketing approval received. Company evaluating launch. USFDA recently rejected approval for this product.

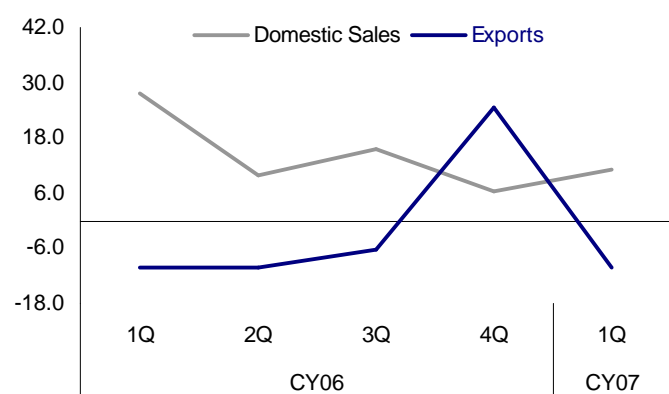
Source: Company/Motilal Oswal Securities

TREND IN MARKET MIX (RS M)

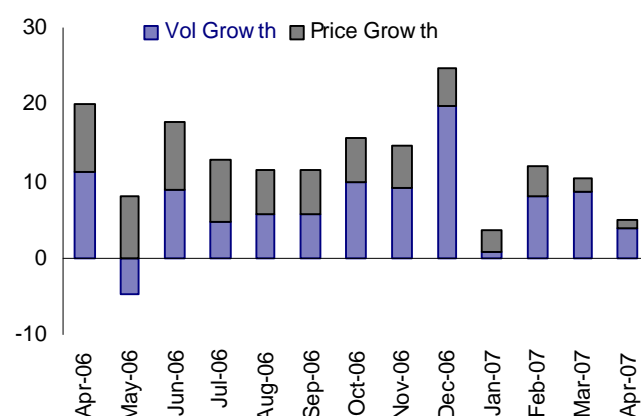


Source: Company/Motilal Oswal Securities

TREND IN BUSINESS GROWTH (%)



TREND IN DOMESTIC BUSINESS GROWTH (%)

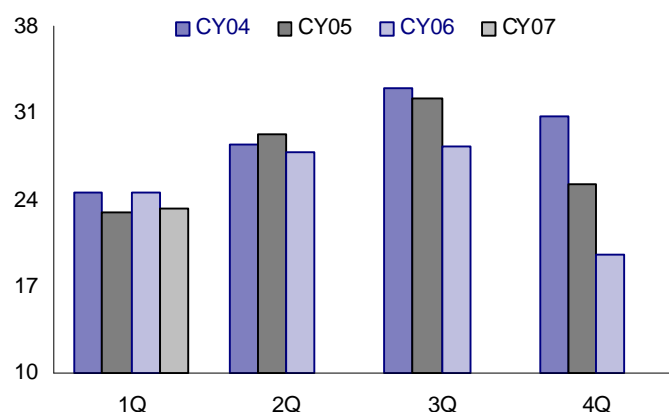


Source: ORG-IMS/Motilal Oswal Securities

EBITDA margins under pressure

APL's EBITDA margins have been under pressure in the past few quarters due to lower exports and higher sales of older (low-margin) products in the domestic market. Exports have de-grown in four of the last five quarters as some of APL's products were removed from the Federal Reimbursement List in Russia. Out-break of certain infectious diseases (like Chickengunia, Malaria) in CY06 resulted in increased sales of anti-infectives and pain killers. APL's Combiflam is a leading pain killer in the country and recorded 27% growth in CY06. However, this being an age-old product in a very competitive market, margins on this product may not be very high.

TREND IN EBITDA MARGINS (%)



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 four of the last five quarters as some of its products were removed from the Federal Reimbursement List in Russia. Management indicated that export performance is likely to improve in the future due to increased outsourcing by the parent.

Negotiating for renewal of Rabipur agreement with Chiron

Rabipur (anti-rabies vaccine) is currently manufactured through a JV between APL & Chiron (now Novartis) and

marketed by APL. The JV agreement has expired recently and it was generally expected that Rabipur will revert back to Chiron. Management has indicated that it is currently negotiating with Novartis to renew the agreement for future. Rabipur recorded sales of Rs780m on annualized basis.

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.

Aventis-Sanofi – Global merger

Sanofi has a 100% subsidiary in India, which is engaged in the marketing of the parent's products, especially in the CVS and CNS segments. APL's management had indicated that if this arm were to be merged with APL, it would be earnings accretive. While APL has not indicated any figures, we believe that Sanofi India has a small business generating about Rs1b of revenues.

On the positive side, there seems to be very little over-lap (except in the CVS segment) between APL's and Sanofi's product portfolios in the Indian market with the latter focusing on CVS and CNS segments. APL will draw strength from the combined R&D pipeline of the global parent, which has become the third largest player in the global pharmaceutical industry.

Sanofi (India) specializes in 4 main therapeutic groups, Thrombosis (major brands- Faxiparine, Tyklid and Plavix) Cardiovascular (Adenocor, Primacor) Neurlogy, (Valparin, Jume) and Internal Medicine (Ladogal Lactacyd, Fortagesic and Calcium Resonium).

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 125 projects in research and development, including about 38 in pre-clinical development and 58 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	2	5	1	4	1	13
Thrombosis	3	1	0	3	2	9
Central Nervous System	8	8	1	4	6	27
Oncology	7	4	1	0	6	18
Metabolic Disorders	2	1	2	4	0	9
Internal Medicine	9	5	5	4	2	25
Vaccines	7	5	2	2	8	24
Total	38	29	12	21	25	125

Source: Sanofi-Aventis

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.

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. 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 125 products under development, of which 25 are in Phase-III. It plans to file 40 NDAs by CY10E. We continue to remain positive on APL's long-term prospects. We believe that, at 14.4x CY08E earnings, valuations are not demanding. Maintain **Buy** with a target price of Rs1,800.

INCOME STATEMENT (Rs Million)					
Y/E DECEMBER	2004	2005	2006	2007E	2008E
Exports	2,041	2,287	2,258	2,439	2,804
Net Domestic Sales	5,266	5,735	6,563	7,222	7,946
Net Sales	7,307	8,022	8,821	9,661	10,750
Change (%)	2.0	9.8	10.0	9.5	11.3
Total Expenditure	5,162	5,741	6,615	7,196	8,004
EBITDA	2,145	2,281	2,206	2,465	2,746
Change (%)	53.5	6.3	-3.3	11.7	11.4
Margin (%)	29.4	28.4	25.0	25.5	25.5
Depreciation	168	172	178	195	205
Int. and Finance Charges	1	0	2	0	0
Other Income - Rec.	218	331	471	563	648
PBT & EO Items	2,194	2,440	2,497	2,833	3,189
Change (%)	58.9	11.2	2.3	13.4	12.6
Extra Ordinary Income/(Exp)	68	0	0	0	0
PBT after EO Items	2,262	2,440	2,497	2,833	3,189
Tax	777	799	804	966	1,088
Tax Rate (%)	34.4	32.7	32.2	34.1	34.1
Reported PAT	1,485	1,641	1,693	1,867	2,101
PAT Adj for EO Items	1,440	1,641	1,693	1,867	2,101
Change (%)	53.5	13.9	3.2	10.2	12.6
Margin (%)	19.7	20.5	19.2	19.3	19.5

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	6,901	8,280
Revaluation Reserves	178	170	161	153	145
Net Worth	4,218	5,238	6,082	7,284	8,655
Loans	0	0	0	0	0
Deferred Tax Liabilities	-5	-57	-131	-131	-131
Capital Employed	4,213	5,181	5,951	7,153	8,523
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
Net Fixed Assets	1,517	1,405	1,324	1,303	1,248
Capital WIP	28	13	132	25	25
Investments	53	53	53	53	53
Curr. Assets	4,111	5,419	6,942	7,322	8,909
Inventory	1,016	1,363	1,588	932	953
Account Receivables	918	510	685	979	1,089
Cash and Bank Balance	1,673	2,944	3,861	5,185	6,636
Others	504	601	808	226	231
Curr. Liability & Prov.	1,496	1,710	2,500	1,549	1,711
Account Payables	665	846	1,104	893	989
Provisions	831	864	1,396	656	722
Net Current Assets	2,616	3,709	4,442	5,772	7,198
Appl. of Funds	4,213	5,181	5,951	7,153	8,523

E: MOSI Estimates

RATIOS					
Y/E DECEMBER	2004	2005	2006	2007E	2008E
Basic (Rs)					
EPS	62.5	71.3	73.5	81.0	91.2
Cash EPS	69.8	78.7	81.3	89.5	100.1
BV/Share	175.4	220.1	257.1	309.6	369.5
DPS	16.0	16.0	32.0	25.0	27.5
Payout (%)	28.1	25.8	49.6	35.2	34.4
Valuation (x)					
P/E		18.4	17.8	16.2	14.4
Cash P/E		16.6	16.1	14.6	13.1
P/BV		6.0	5.1	4.2	3.5
EV/Sales		3.4	3.0	2.6	2.2
EV/EBITDA		11.9	11.9	10.1	8.6
Dividend Yield (%)		12	2.4	1.9	2.1
Return Ratios (%)					
RoE	35.6	32.4	28.6	26.2	24.7
RoCE	52.1	47.1	42.0	39.6	37.4
Working Capital Ratios					
Asset Turnover (x)	1.7	1.5	1.5	1.4	1.3
Debtor (Days)	46	23	28	37	37
Inventory (Days)	51	62	66	35	32
Working Capital (Days)	47	35	24	22	19
Leverage Ratio					
Current Ratio	2.7	3.2	2.8	4.7	5.2
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	2,465	2,746
Interest/Dividends Recd.	218	331	471	563	648
Direct Taxes Paid	-772	-851	-878	-966	-1,088
(Inc)/Dec in WC	-560	177	185	-7	26
CF from Operations	1,032	1,939	1,984	2,054	2,331
EO Items	68	0	0	0	0
CF from Ope (EO items)	1,100	1,939	1,984	2,054	2,331
(Inc)/Dec in FA	-73	-54	-225	-74	-158
(Pur)/Sale of Investments	0	0	0	0	0
CF from Investments	-73	-54	-225	-74	-158
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
CF from Fin. Activity	-625	-614	-842	-656	-722
Inc/Dec of Cash	402	1,271	917	1,324	1,451
Add: Beginning Balance	1,271	1,673	2,944	3,861	5,185
Closing Balance	1,673	2,944	3,861	5,185	6,636



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Aventis Pharma

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|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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