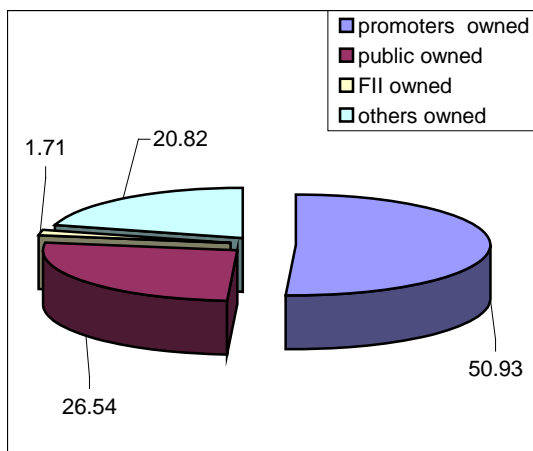


Stock statistics	26 December 2007
Market Cap (Rs Mn) :	12336.56
52-Week high/low (Rs) :	431/269
Face value :	5
BSE Code :	500672
NSE Code :	NOVARTIS
Industry :	PHARMA
Shares outstanding :	3,19,60,797
Avg. daily vol. (30 days) :	9.3

**Shareholding Pattern (as on 30 Sept.'07)**



**Key Statistics (as on 26 December 2007)**

CMP	:	386
BV (FY'07)	:	121.58
PE	:	12.56
PB	:	3.17
Beta	:	0.80
Turnover (Rs Mn)	:	6.28
Net worth (Rs Mn)	:	3885.8

**BUSINESS BACKGROUND**

Novartis India Ltd is a 51% subsidiary of the Swiss giant Novartis, the world's second largest pharmaceutical company. Novartis was created in 1996 by merging Hindustan Ciba-Geigy and Sandoz India. It's main businesses include pharmaceuticals (43%), crop protection (46%), seeds, animal health, eye-care products and consumer health care. In the pharmaceutical segment, the company is focused on the formulation market. Its main segments are non-steroidal anti-inflammatory drugs and anti-TB segments. Novartis' product Voveran tops the anti-inflammatory segment, with market share of 9% and a growth rate of 20%. The company's pharma business comprises a huge portfolio of prescription medicines. Pharmaceuticals account for more than 81% of total sales of Novartis. Top three brands Voveran, Tegriral and Calcium Sandoz account for one third of pharma sales.

**INDUSTRY OUTLOOK**

The Indian pharmaceutical industry is headed for a phenomenal growth driven by the increasing research and development efforts, contract research and manufacturing activities. The multinationals, not staying behind in introducing newer products in the bulk drugs and formulation segments are touching higher highs in terms of quality and cost effective production. The gov't's continuous focus on economic reforms, its commitment to increase investment in health care, a robust services sector and India's demographic profile are expected to sustain the growth momentum in the pharmaceutical market.

**INVESTMENT RATIONALE**

- The company has been working on bringing a tiered price structure for the medicines used for the poor men diseases. The Novartis Institute for Tropical diseases is working on diseases like malaria, tuberculosis, and dengue fever and is expected to come up with a new strategy soon to effectively reduce the prices and to bring them in reach of common man.
- NIL's products like the Calcium Sandoz Series have put the company into a very strong position in the OTC segment with a major chunk of sales driven by the product. Another drug-Otrivin which was launched in the nasal decongestant category has emerged as a leader in the market. The T-minic range in the cough cold and allergy category (CoCoA) has posted winning results. The company is also committed to capitalise on the emerging opportunities in exports of veterinary drugs.
- The company's decision to not to participate in the tender business has come up as an intelligent move due to the low margins available in the segment. The company has posted positive growth in the fiercely competitive generics segment and is eyeing on the growing export opportunities in the segment.

## FINANCIAL STATEMENT ANALYSIS

Rs. mn

Particulars	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Revenues	1293.80	1487.20	1238.60	1388.30	1478.80
Growth (%)	--	14.95	(16.72)	12.09	6.52
Total Expenditure	1092.80	1240.90	1090.20	1148.60	1142.30
Operating Profit	201.00	246.30	148.40	239.70	336.50
Growth (%)	--	22.54	(39.75)	61.52	40.38
OPM	15.54	16.56	11.98	17.27	22.75
Other Income	88.70	90.30	207.80	121.10	160.90
EBITDA	289.70	336.60	356.20	360.80	497.40
Interest	1.30	1.50	2.00	1.40	1.40
Depreciation	6.90	6.50	6.60	6.80	7.10
PBT	281.50	328.60	347.60	352.60	488.90
Tax	102.80	117.90	108.90	124.20	185.00
Adjusted PAT	178.70	210.70	238.70	228.40	303.90
Growth (%)	--	17.91	13.29	(4.32)	33.06
Adjusted NPM	13.81	14.17	19.27	16.45	20.55
Reported PAT	178.70	210.70	238.70	228.40	303.90
EPS	5.59	6.59	7.47	7.15	9.51
Equity Capital	159.80	159.80	159.80	159.80	159.80

The company has posted excellent results for the quarter ended Sep 07 with the revenues jumping to Rs 1478.80 million against previously posted figure of Rs 1293.80 million in Sep 06, showing a growth of 14.30%. On QoQ basis also the growth remains decent at 6.52%. The operating profits for Q2FY08 stood at Rs 336.50 million compared to Rs 201.00 million in Q2FY07 again witnessing a sharp growth of 67%. The Operating profit margins of the company clearly depict the growth and soundness of the company, with the OPM rising from 15.54% in Q2FY07 to 22.75% in Q2FY08. EBITDA of the company not staying behind, has shown a sharp increase of 71.69 % with the figures rising from 289.70 million in the quarter ended Sep 06 to Rs 497.40 million in the quarter ended Sep 07. The EBITDA margins stood high at 33.43% in Q2FY08 compared to 22.39% in Q2FY07. The robust increase in the EBITDA can be attributed to a large extent to the other income component, which stood at Rs 160.90 million for this quarter. On comparing the bottom line of the company, we find a phenomenal increase with the net profits virtually jumping from Rs 178.70 million to Rs 303.90 million in the quarter ended Sep 07. The net profit margins have also shown a steep increase from 13.81% posted in Q2FY07 to 20.55% in the Sep ending quarter. The EPS of the company stands at 30.72 (calculated on TTM basis).

### VALUATION

The company has been a pioneer multinational in the pharmaceutical segment with strong brand equity and a well diversified operational arena. The Indian government has given firm signals to soon provide clarifications on the intellectual property rights, which shall be of immense help to the company. Novartis India has been able to survive the cut-throat competition in the generics segment quite effectively. Animal health category is also expected to see certain innovations after being hit by bird flu in the beginning of the year. The products in the OTC division of the company enjoy strong brand image and cover a considerable portion of its sales, which are set for further growth on the back of the growing middle class in the country with increasing disposable incomes. This is likely to lead to higher spending on preventive and palliative health care.

The stock is presently trading at Rs 386, which is about 12.56 times to its earnings and 3.17 times to its book value, much lower than the industry P/E of 22 times.

Therefore, keeping in mind the lucrative future prospects offered by the pharmaceutical sector and undervalued status of the company, we initiate a BUY signal on the stock with a target price of Rs 580 expecting an appreciation of 50% in medium to long-term investment horizon.

E-Mail : [research@hemonline.com](mailto:research@hemonline.com)

Disclaimer: This document is prepared on the basis of publicly available information and other sources believed to be reliable. Whilst we are not soliciting any action based on this information, all care has been taken to ensure that the facts are accurate and opinions given fair and reasonable. This information is not intended as an offer or solicitation for the purchase or sell of any financial instrument. Hem Securities Limited, Hem Finlease Private Limited, Hem Multi Commodities Pvt. Limited and any of its employees shall not be responsible for the content. The companies and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities there of, company (ies) mentioned here in and the same have acted upon or used the information prior to, or immediately following the publication