MOTILAL OSWAL

Aventis Pharma

STOCK INFO.	BLOOMBERG
BSE Sensex: 11, 939	HOEC IN
	REUTERS CODE
S&P CNX: 3,556	AVPH.BO

Equity Shares (m)	23.0
52-Week Range	2,140/1,175
1,6,12 Rel. Perf. (%)	-4/-11/-37
M.Cap. (Rs b)	43.7
M.Cap. (US$ b)	1.0

26 April 2006 **Buy**

Previous Recommendation: Buy Rs1,897

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/05A	8,022	1,591	69.1	10.5	27.4	8.8	31.9	46.7	5.1	17.9
12/06E	9,010	1,805	78.4	13.4	24.2	7.0	29.1	41.8	4.4	15.3
12/07E	9,974	1,978	85.9	9.6	22.1	5.8	26.3	38.0	3.8	13.6

Aventis Pharma's (APL) 1QCY06 results were in line with our estimates with sales and earnings growing by 15% and 28% respectively. However, EBITDA margin expansion was lower than our estimate. Key result highlights:

- Net sales grew by 15% to Rs2b, primarily driven by 25% YoY growth to Rs1.5b in the domestic market (on the low base of 1QCY05 due to VAT). However, export business declined by 10% to Rs470m.
- EBITDA margins improved marginally by 40bp to 25.4% YoY resulting in 16% YoY EBITDA growth. Margins expansion was lower due to higher staff cost (up 21% YoY) and higher other costs (up 13% YoY).
- However, lower tax provisioning (at 32.3% of PBT v/s 40.1% in 1QCY05) resulted in an improved 28% YoY growth in recurring PAT to Rs369m.

We believe Aventis will be one of the key beneficiaries of the patent regime in the long term. The parent has a strong R&D pipeline and plans to file 18 NDAs by CY08E. APL has an impeccable track record of brand building in the domestic market with its strategic brands recording double-digit growth consistently. Aventis is currently valued at 24.2x CY06E and 22.1x CY07E earnings. Maintain **Buy**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E DECEMBER	CY05				CY06				CY05	CY06E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	**1,725**	**2,134**	**2,234**	**1,929**	**1,976**	**2,214**	**2,407**	**2,412**	**8,022**	**9,010**
YoY Change (%)	*5.4*	*17.1*	*19.1*	*-2.2*	*14.6*	*3.7*	*7.8*	*25.1*	*9.8*	*12.3*
Total Expenditure	1,294	1,514	1,515	1,418	1,474	1,593	1,662	1,712	5,741	6,440
EBITDA	**431**	**620**	**719**	**511**	**502**	**621**	**745**	**701**	**2,281**	**2,569**
Margins (%)	*25.0*	*29.1*	*32.2*	*26.5*	*25.4*	*28.1*	*31.0*	*29.0*	*28.4*	*28.5*
Depreciation	44	43	43	42	43	45	45	47	172	180
Interest	0	0	0	0	0	0	0	0	0	0
Other Income	74	61	78	82	86	59	81	43	295	270
PBT before EO Items	**461**	**638**	**754**	**551**	**545**	**635**	**781**	**697**	**2,404**	**2,659**
Extra-Ord Expense	67	79	0	8	0	0	0	0	154	0
PBT after EO Items	**394**	**559**	**754**	**543**	**545**	**635**	**781**	**697**	**2,250**	**2,659**
Tax	158	217	257	167	176	204	251	223	799	854
Deferred Tax	-23	-1	-12	0	-12	0	0	0	-52	0
Effective tax Rate (%)	*40.1*	*38.8*	*34.1*	*30.7*	*32.3*	*32.1*	*32.1*	*32.0*	*35.0*	*32.1*
Reported PAT	**236**	**342**	**497**	**376**	**369**	**431**	**530**	**474**	**1,451**	**1,805**
Adj PAT	**289**	**423**	**497**	**382**	**369**	**431**	**530**	**474**	**1,591**	**1,805**
YoY Change (%)	*5.7*	*26.5*	*16.9*	*-5.9*	*27.9*	*2.1*	*6.7*	*24.2*	*10.5*	*13.4*
Margins (%)	*16.7*	*19.8*	*22.2*	*19.8*	*18.7*	*19.5*	*22.0*	*19.7*	*19.8*	*20.0*

E: MOSt Estimates

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Export decline restricts sales growth

Sales during 1QCY06 grew 15% YoY to Rs2b, driven primarily by 25% YoY growth to Rs1.5b. However, exports declined 10% YoY to Rs470m. The growth in the domestic market was on a lower base of 1QCY05 due to the impact of value added tax (VAT).

TREND IN MARKET MIX (RS M)

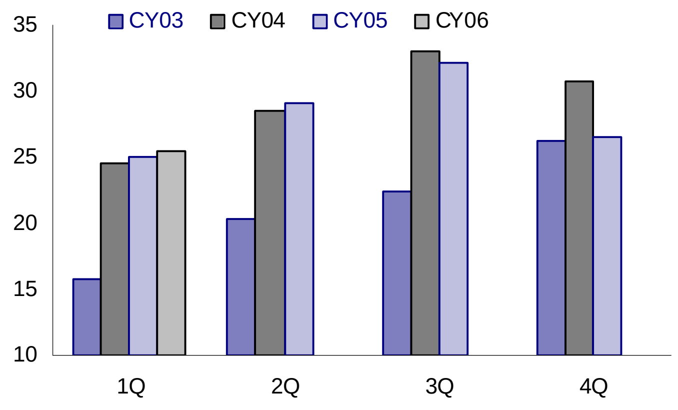
	1QCY06	1QCY05	4QCY05	YOY (%)	QOQ (%)
Net Domestic Sales	1,506	1,201	1,474	25.4	2.2
% of Sales	*76.2*	*69.6*	*76.4*		
Exports	470	524	455	-10.3	3.3
% of Sales	*23.8*	*30.4*	*23.6*		
Net Sales	1,976	1,725	1,929	14.6	2.4

Source: Company/Motilal Oswal Securities

EBITDA margins stable

EBITDA margins improved marginally by 40bp to 25.4% YoY resulting in 16% YoY EBITDA growth. Margin expansion was lower due to higher staff costs (up 21% YoY) and higher other cost (up 13% YoY). However, higher other income (up by 16% YoY) and lower tax provisioning (at 32.3% of PBT v/s 40.1% in 1QCY05) resulted in 28% YoY growth in recurring PAT.

TREND IN EBITDA MARGIN (%)



Source: Company/Motilal Oswal Securities

Withdrawal of Cox-II inhibitors may benefit Aventis India

We believe that withdrawal of Rofecoxib and Valdecoxib (cox-II inhibitors) from the global and Indian markets (due to their adverse side effects) may have a positive impact on sales of older (and proved) painkillers such as APL's Combiflam. Doctors and patients may not be willing to resort to cox-II inhibitors (including Rofecoxib, Celecoxib, Valdecoxib etc.) unless absolutely necessary. Historically, Combiflam has grown in single digits. Higher growth for Combiflam can have a positive impact on EBITDA margins since it commands a very high brand-equity. Products such as Combiflam are cash cows, and the company does not spend on promotion for such products.

Aventis-Sanofi – Global merger

Sanofi has a 100% subsidiary in India (Sanofi India) , which is engaged in marketing of the parent's products, particularly in the CVS and CNS segments. Management of APL had indicated that if this arm were to be merged with APL, it would be earnings accretive for Aventis Pharma. While APL has not indicated any figures, we believe that Sanofi India recorded revenues of about Rs.900m for CY04. However, revenue figures for CY05 are yet unavailable.

On the positive side, it appears there is little overlap (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. In the event of a merger, APL would 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 four 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).

New product launches may slow down

Versus peers, APL has been the most aggressive with new launches, and has launched most of the top products of the parent, in India. Aventis launched Lantus (anti-diabetic) and Actonel (osteoporosis) in the anti-diabetic and pain management segments in CY03. It has not launched any new products in CY04 and launched Apidra (anti-diabetic) in CY05. We believe that the parent's portfolio is very well mapped in the domestic entity, leaving little scope for aggressive new launches going forward. The table below indicates the details of past launches as well as the status for potential new products.

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.
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

Well placed to benefit from the patent regime

Over the longer term, Aventis is well placed to benefit from 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. Aventis' history of launching new products in India, a well-mapped portfolio versus the parent and its 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 introduce significant benefits for Aventis, albeit in the long term. We expect launch of patented products from the parent's portfolio by 2008. Although clarity on this will emerge only by 2007, we present below in table 1 our estimates of the potential upside to Aventis from the patent regime.

Parent targeting 18 regulatory filings by CY08

Sanofi-Aventis currently has 129 projects in research and development, including about 74 in clinical development and 55 in late stage (Phase II & III) development. It plans to file about 11 NDAs and seven vaccines by CY08E. The table 2 below gives details on the parent's R&D pipeline.

Although, clarity on launch of these drugs will emerge only over a period of time, we believe that some of these products

TABLE 1: AVENTIS - UPSIDE FROM PATENTED PRODUCTS (RS M)

	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15
No. of Patented Products Launched	1	2	2	1	1	1	1	1
Total No. of Patented Products on Market	1	3	5	6	7	8	9	10
Product A	250	500	1,000	1,200	1,440	1,584	1,742	1,917
Product B	0	250	500	1,000	1,200	1,440	1,584	1,742
Product C	0	250	500	1,000	1,200	1,440	1,584	1,742
Product D	0	0	250	500	1,000	1,200	1,440	1,584
Product E	0	0	250	500	1,000	1,200	1,440	1,584
Product F	0	0	0	250	500	1,000	1,200	1,440
Product G	0	0	0	0	250	500	1,000	1,200
Product H	0	0	0	0	0	250	500	1,000
Product I	0	0	0	0	0	0	250	500
Product J	0	0	0	0	0	0	0	250
Total Sales	**250**	**1,000**	**2,500**	**4,450**	**6,590**	**8,614**	**10,740**	**12,959**
NPM (%) - Assumed	20	20	20	20	20	20	20	20
Net Profit	**50**	**200**	**500**	**890**	**1,318**	**1,723**	**2,148**	**2,592**
Incremental EPS (Rs)	2	9	22	39	57	75	93	113
P/E for patented products (x)	40	40	40	40	40	40	40	40
Valuation for patented products (Rs/share)	87	347	868	1,546	2,289	2,992	3,731	4,502

Source: Motilal Oswal Securities

TABLE 2: SANOFI-AVENTIS R&D PIPELINE

NO. OF DRUGS	PRE-CLINICAL	PHASE I	PHASE IIA	PHASE IIB	PHASE III	TOTAL
Cardiovascular	5	3	2	4	1	15
Thrombosis	4	1	1	3	1	10
Central Nervous System	10	6	3	2	7	28
Oncology	7	4	3	1	4	19
Metabolic Disorders	4	4	3	2	1	14
Internal Medicine	9	6	4	2	1	22
Vaccines	9	2	4	4	2	21
Total	48	26	20	18	17	129

Source: Sanofi-Aventis

could be relevant for the Indian market and are likely to be launched in India with a time lag.

New drug policy could be a dampener

We expect more drugs to come under price control should recommendations of the (proposed) New Pharmaceutical Policy be accepted by the government, thus adversely impacting the domestic operations of all companies. The new policy has also recommended some form of price controls on patented drugs. The industry is currently lobbying with the government for a more pragmatic approach toward drug price control. We believe that APL can be adversely impacted if the proposed new drug policy is implemented in its current form. We await announcement of the final policy from the government.

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 well positioned to take advantage of the patent regime ahead. It is in the process of integrating Sanofi's domestic operations with itself (post the global merger). We believe that there is little overlap between APL and Sanofi's portfolio in India.

We expect Aventis to be among the best performing Pharma MNCs over the next few years. APL is currently valued at 24.2x CY06E and 22.1x CY07E earnings. We reiterate **Buy** with a target price of Rs2,100 (~24x CY07E EPS).

Aventis Pharma: an investment profile

Company description

Aventis Pharma (50% subsidiary of Aventis SA) is the second largest MNC and among the top 10 formulation players in India. The company has built a strong franchise in chronic therapy areas such as 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 thrust it back on the growth path.
- Aggressive cost cutting and improved efficiencies will boost 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 18 NDA filings by CY08.

Key investment risks

- Sanofi's acquisition of Aventis SA could hamper Indian operations if the new parent is not committed
- The proposed new drug policy could adversely impact APL.

Valuation and view

- Valuations of 24.2x CY06E and 22.1x CY07E earnings is very attractive, given high growth, excellent return ratios and free cash on books (around Rs186/share in CY06E).
- Reiterate **Buy** with an upgraded target price of Rs2,100 (to reflect CY07E earnings)

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)	FY07E	24.2	34.1	29.3
	FY08E	22.1	30.4	25.0
P/BV (x)	FY07E	7.0	11.3	7.3
	FY08E	5.8	9.2	6.4
EV/Sales (x)	FY07E	4.4	6.9	4.2
	FY08E	3.8	6.1	3.7
EV/EBITDA (x)	FY07E	15.3	22.7	17.8
	FY08E	13.6	20.1	14.9

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	60.4	60.4	60.4
Domestic Institutions	15.6	15.4	17.1
FIIs/FDIs	13.9	13.9	11.5
Others	10.1	10.3	11.0

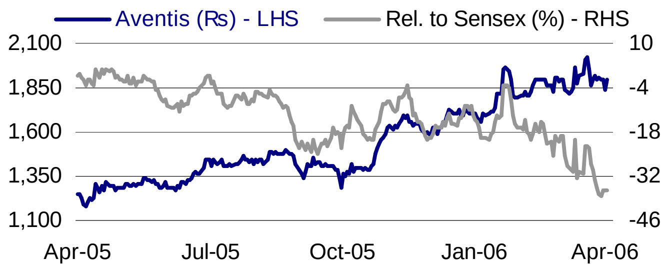
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
CY06	78.4	78.8	-0.5
CY07	85.9	92.7	-7.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,897	2,100	10.7	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (Rs Million)

Y/E DECEMBER	2003	2004	2005	2006E	2007E
Exports	1,561	2,041	2,231	2,566	2,950
Net Domestic Sales	4,963	5,266	5,791	6,444	7,024
Net Sales	**6,524**	**7,307**	**8,022**	**9,010**	**9,974**
Change (%)	*6.7*	*12.0*	*9.8*	*12.3*	*10.7*
Total Expenditure	5,126	5,162	5,741	6,440	7,174
EBITDA	**1,398**	**2,145**	**2,281**	**2,569**	**2,800**
Change (%)	*43.9*	*53.5*	*6.3*	*12.6*	*9.0*
Margin (%)	*21.4*	*29.4*	*28.4*	*28.5*	*28.1*
Depreciation	174	168	172	180	197
Int. and Finance Charges	2	1	0	0	0
Other Income - Rec.	160	218	295	270	310
PBT & EO Items	**1,381**	**2,194**	**2,404**	**2,659**	**2,913**
Change (%)	*54.2*	*58.9*	*9.6*	*10.6*	*9.6*
Extra Ordinary Income/(Exp)	70	68	-154	0	0
PBT after EO Items	**1,451**	**2,262**	**2,250**	**2,659**	**2,913**
Tax	465	777	799	854	935
Tax Rate (%)	*32.1*	*34.4*	*35.0*	*32.1*	*32.1*
Reported PAT	**986**	**1,485**	**1,451**	**1,805**	**1,978**
PAT Adj for EO Items	**938**	**1,440**	**1,591**	**1,805**	**1,978**
Change (%)	*55.5*	*53.5*	*10.5*	*13.4*	*9.6*
Margin (%)	*14.4*	*19.7*	*19.8*	*20.0*	*19.8*

BALANCE SHEET

Y/E DECEMBER	2003	2004	2005	2006E	2007E
Equity Share Capital	230	230	230	230	230
Reserves	2,797	3,810	4,755	5,969	7,290
Revaluation Reserves	186	178	170	161	153
Net Worth	**3,213**	**4,218**	**5,155**	**6,361**	**7,674**
Loans	152	196	0	0	0
Deferred Tax Liabilities	-10	-5	-5	-5	-5
Capital Employed	**3,355**	**4,409**	**5,149**	**6,355**	**7,668**
Gross Block	2,627	2,742	2,862	2,992	3,142
Less: Accum. Deprn.	1,087	1,225	1,405	1,594	1,800
Net Fixed Assets	**1,540**	**1,517**	**1,457**	**1,398**	**1,342**
Capital WIP	108	28	15	25	25
Investments	53	53	53	53	53
Curr. Assets	**2,985**	**4,111**	**5,192**	**6,808**	**8,331**
Inventory	871	1,016	1,067	1,190	1,241
Account Receivables	460	918	823	924	1,022
Cash and Bank Balance	1,271	1,673	2,942	4,303	5,715
Others	383	504	360	391	354
Curr. Liability & Prov.	**1,331**	**1,300**	**1,568**	**1,928**	**2,083**
Account Payables	1,006	974	1,042	1,338	1,427
Provisions	325	326	525	591	656
Net Current Assets	**1,654**	**2,812**	**3,625**	**4,879**	**6,248**
Appl. of Funds	**3,355**	**4,409**	**5,149**	**6,355**	**7,668**

E: MOSt Estimates

RATIOS

Y/E DECEMBER	2003	2004	2005	2006E	2007E
Basic (Rs)					
EPS	**40.7**	**62.5**	**69.1**	**78.4**	**85.9**
Cash EPS	48.3	69.8	76.5	86.2	94.4
BV/Share	131.4	175.4	216.4	269.2	326.5
DPS	16.0	16.0	20.0	22.5	25.0
Payout (%)	46.2	28.1	36.2	32.7	33.2
Valuation (x)					
P/E		30.3	27.4	24.2	22.1
Cash P/E		27.2	24.8	22.0	20.1
P/BV		10.8	8.8	7.0	5.8
EV/Sales		5.8	5.1	4.4	3.8
EV/EBITDA		19.7	17.9	15.3	13.6
Dividend Yield (%)		0.8	1.1	1.2	1.3
Return Ratios (%)					
RoE	31.0	35.6	31.9	29.1	26.3
RoCE	41.2	49.8	46.7	41.8	38.0
Working Capital Ratios					
Asset Turnover (x)	1.9	1.7	1.6	1.4	1.3
Debtor (Days)	26	46	37	37	37
Inventory (Days)	49	51	49	48	45
Working Capital (Days)	21	57	31	23	20
Leverage Ratio					
Current Ratio	2.2	3.2	3.3	3.5	4.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT

Y/E DECEMBER	2003	2004	2005	2006E	2007E
OP/(Loss) before Tax	1,398	2,145	2,281	2,569	2,800
Interest/Dividends Recd.	160	218	295	270	310
Direct Taxes Paid	-478	-772	-799	-854	-935
(Inc)/Dec in WC	-320	-756	456	106	43
CF from Operations	**760**	**836**	**2,233**	**2,091**	**2,218**
EO Items	70	68	-154	0	0
CF from Ope (EO items)	**830**	**904**	**2,079**	**2,091**	**2,218**
(Inc)/Dec in FA	-206	-73	-107	-140	-150
(Pur)/Sale of Investments	-1	0	0	0	0
CF from Investments	**-207**	**-73**	**-107**	**-140**	**-150**
Issue of Shares	0	-54	18	0	0
(Inc)/Dec in Debt	-48	44	-196	0	0
Interest Paid	-2	-1	0	0	0
Dividend Paid	-456	-417	-525	-591	-656
CF from Fin. Activity	**-506**	**-429**	**-703**	**-591**	**-656**
Inc/Dec of Cash	**117**	**402**	**1,269**	**1,361**	**1,411**
Add: Beginning Balance	1,154	1,271	1,673	2,942	4,303
Closing Balance	**1,271**	**1,673**	**2,942**	**4,303**	**5,715**

NOTES

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Disclosure of Interest Statement	Aventis Pharma
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No

MOSt is not engaged in providing investment-banking services.

This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.