



**Novartis India Limited**

**CMP Rs. 558.0 | BUY**

4th January 2010

Summary	Page 3
Company Profile	Page 4
Investment Rationale	Page 5
Glivec - <i>the story continues...</i>	Page 11
Risks and Concerns	Page 12
Valuations	Page 13
Quarterly Analysis	Page 14
Financials	Page 15

## Novartis India Limited

CMP Rs. 558.0

Initiating Coverage

**BUY**

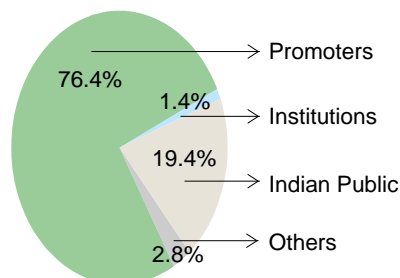
### Stock Codes

Bloomberg	: HCBA.IN
Reuters	: NOIN.BO
BSE Code	: 500672
NSE Code	: NOVARTIND
BSE Group	: B

### Stock Data

Benchmark	: BSE Mid Cap
52 Week H/L	: Rs. 600.0/Rs. 225.1
Float	: 7.54 Mn
Mkt Cap	: Rs. 17,834 Mn
Face Value	: Rs. 5.0

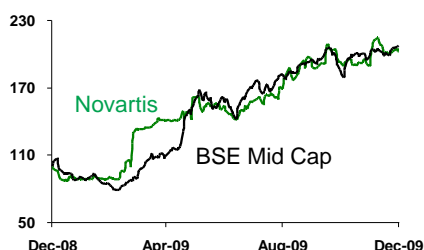
### Shareholding Pattern (as on Sep 09)



### Stock Returns

	1 Mth	3 Mths	6 Mths
Novartis	6.77	4.77	31.17
BSE MID	4.71	6.22	32.34

### Price Comparison



Hiren Samani : hiren@ppfas.com

→ Novartis India Ltd. (NIL) is the Indian listed arm of the Swiss pharmaceutical major Novartis AG. The parent is one of the top 5 pharmaceutical & healthcare companies in the world & holds 76.42% in the paid-up capital of Novartis India. The strong parental support provided by the Swiss major has helped the Indian subsidiary significantly in terms of new product introductions from its product basket & easy access to its rich product pipeline. The Swiss parent has recently increased its stake in the Indian listed subsidiary.

→ Novartis India has strong brands within its product basket that are market leaders within their respective therapeutic areas & have achieved considerable market share. These products have performed very well for the company over the years. These brands along with the new introductions are expected to maintain the growth momentum for the company going forward. Besides, we believe that Novartis India's increased focus towards the interiors of the country as the new growth market will help the company continue on its growth trajectory.

→ Novartis India has grown at a decent rate of 6.2% & 12.3% CAGR in its top-line & bottom-line respectively, over FY05-09 period. It has also shown a steady improvement in Operating Margins over the years. We expect the company to maintain its growth rate & increase its turnover at 6.5% CAGR over FY09-12E period. Further its strong Balance Sheet with almost zero-debt & huge amounts of cash adds to its positive flavor. The company had Cash & Cash Equivalents of Rs. 140 per share for the year ended March 2009.

### Valuations

At CMP of Rs. 558, Novartis trades at 14.2x & 13.3x our FY10E & FY11E earnings of Rs. 39.3 & Rs. 41.9 respectively. It trades at 3.0x Price/Book Value of Rs. 188.7 per share for FY10E. We Initiate Coverage on Novartis with a BUY rating.

### Summary Financials

Particulars (Rs. Mn.)	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues	5,259.2	5,422.4	5,534.5	5,994.8	6,315.8	6,761.1	7,239.3
PAT	1,078.9	885.5	972.3	1,037.1	1,256.3	1,338.9	1,430.6
PAT (%)	20.5%	16.3%	17.6%	17.3%	19.9%	19.8%	19.8%
EPS (Rs.)	33.8	27.7	30.4	32.4	39.3	41.9	44.8
P/E (x)	16.5	20.1	18.3	17.2	14.2	13.3	12.5
ROCE (%)	42.7%	34.7%	34.5%	33.7%	32.1%	29.4%	27.3%
RONW (%)	31.2%	22.8%	21.7%	20.1%	20.8%	19.1%	17.8%
DPS (Rs.)	15.0	10.0	10.0	10.0	10.0	10.0	10.0
Dividend Payout (%)	44.4%	36.1%	32.9%	30.8%	25.4%	23.9%	22.3%

Novartis India Ltd. (NIL) is the listed Indian subsidiary of the global pharmaceutical & healthcare major – Novartis AG, that currently holds about 76.42% in Novartis India's paid-up capital of Rs. 159.8 Mn. NIL ranks 22nd in the overall domestic market & 5th amongst the MNC pharmaceutical companies operating in India, with an overall market share of close to 2%. The company reported Net Sales of Rs. 5,995 Mn. (including Exports of Rs. 69 Mn.) & Net Income of Rs. 1,037 Mn. for the full year ended 31st March 2009. It has a DPCO exposure of close to 12% currently.

Novartis India Ltd. is present in business segments of

- Pharmaceuticals
- Generics
- Over-the-Counter (OTC) drugs
- Animal Health

In the pharmaceutical space, the company operates in therapeutic areas of Cardiovascular (CVS), Oncology, Central Nervous System (CNS) etc. whereas the Animal Health segment caters to the areas of cattle & poultry market segments. The Generic segment includes therapeutic areas such as Anti-TB, Gynaecology, Anti-Histamines etc. & OTC segment mainly operates in Vitamins, Minerals, Cough and Cold market segments. Many of the company's products like Voveran, Tegrital & Neoral (pharmaceutical), Otrivin & Sandoz (generics) among others, continue to remain market leaders & rank among the top three products within their respective segments.

Novartis India Ltd. has four manufacturing sites in Maharashtra, India, approved by the EU & US FDA:

- **Kolshet:** Houses the Sandoz Development Center & Anti-TB formulations plant for global projects.
- **Turbhe:** Dedicated Cephalosporins manufacturing site for API (Active Pharmaceutical Ingredients) & FDF (Finished Dosage Form) – operational since 2001.
- **Mahad:** Dedicated fermentation plant. Vertical Integration Project initiated in 2005.
- **Kalwe:** Oral Solid Dosage Plant with a capacity of 1 billion units. Expansion to 5 billion units under way.

## Background

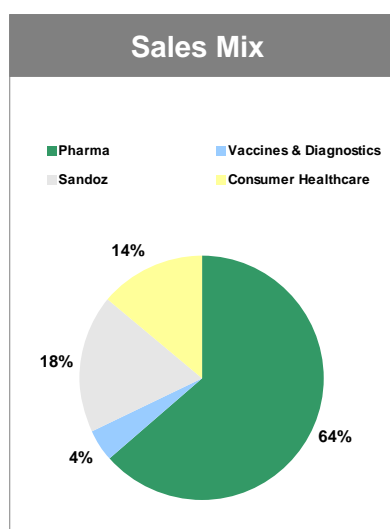
<b>1997</b>	Novartis India Ltd. was formed on the merger of Hindustan Ciba-Geigy Ltd. & Sandoz (India) Ltd., following the worldwide merger of the respective companies.
<b>2000</b>	Due to restructuring of global operations, Novartis India Ltd. demerged its agri-business into Novartis Agribusiness India Pvt. Ltd. Launched Calcium Sandoz as an OTC product in two flavours.
<b>2001</b>	Merged Ciba CKD Biochem Ltd. with itself.
<b>2005</b>	Novartis sold its Rifampicin bulk drug business to Sandoz Pvt. Ltd.
<b>2009</b>	Novartis AG, the Swiss parent increased its stake from 50.93% to 76.42% through an open offer.

## Strong Parentage – Novartis AG

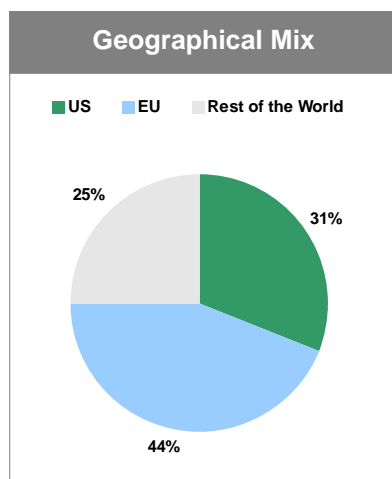
Novartis AG is one of the world's leading pharmaceutical & consumer healthcare companies, headquartered in Basel, Switzerland. The company ranks amongst the top five pharmaceutical companies globally, with business operations in close to 140 countries across the world, employing more than 96,700 full-time associates worldwide. For the year ended December 2008, Novartis Group achieved Net Sales of USD 41,459 Mn. & Net Income of USD 8,163 Mn., with the top 10 products contributing close to USD 17,016 Mn. to its top-line. Some of the top products for the company are Diovan, Glivec, Zometa, Neoral, Lucentis etc.

Novartis AG has its operations diversified into the following business segments:

- **Pharmaceuticals:** operates in therapeutic areas of Cardiovascular & Metabolism, Oncology & Hematology, Neuroscience & Ophthalmics, Respiratory & Immunology & Infectious Diseases. Current product portfolio includes more than 50 key marketed products, many of which are market leaders in their respective therapeutic areas. For the year ended December 2008, pharmaceutical division contributed USD 26,331 Mn. (9.6% higher than 2007).
- **Vaccines & Diagnostics:** consists of Novartis Vaccines that provides more than 20 products to fight viral & bacterial diseases (Influenza, Meningitis & Other Diseases) & Chiron, the blood testing business that makes sophisticated equipments to test blood donations for infections. This division contributed USD 1,759 Mn. to Total Sales for 2008 (21% higher than 2007).
- **Sandoz:** the generic division of Novartis offering affordable, high-quality medicines. It is the second-largest business unit for Novartis, contributing USD 7,557 Mn. to the top-line (5% higher than 2007).
- **Consumer Healthcare:** Readily available products that enable healthy lifestyle choices: OTC (Over-the-Counter), Animal Health and CIBA Vision. This division contributed USD 5,812 Mn. to the top-line (7% higher than 2007)
  - OTC: main product categories are analgesics, cough, cold, allergy, gastrointestinal, skin care and smoking-cessation treatments, as well as mineral supplements.
  - Animal Health: Novartis Animal Health (NAH) is a leader in developing new and better ways to prevent and treat diseases in pets, farm animals and farmed fish.
  - Ciba Vision: global leader in the research, development and manufacturing of contact lenses and lens care products.



Source: Parent Company, PPFAS



Source: Parent Company, PPFAS

Novartis AG has a balanced geographical presence across the world, with US as the Group's largest country market contributing 31% of Net Sales in 2008. The European Union's contribution stood at 44% of Net Sales while the Rest of the World provided 25% of Net Sales for 2008.

### Research & Development

The Swiss pharma major has one of industry's largest pipelines, which includes an exploratory pipeline of 93 New Molecular Entities (NME) & a strong development pipeline of about 149 projects in various stages of clinical development. The company has 19 R&D centers spread across three continents. For the year ended December 2008, the Group invested USD 7,200 Mn. in R&D (17.4% of Revenues). Of this, Pharmaceutical R&D spend amounted to USD 5,700 Mn. The remaining amount was distributed amongst Vaccines & Diagnostics, Sandoz, Consumer Health & Corporate R&D.

The company has developed a new vaccine 'Celtura' against Influenza A - H1N1 (Swine Flu) that has already shown effective results during its pilot testing. The company has already received approval from the German regulatory authorities & continues to pursue registration in other countries, including Japan & Switzerland.

It is said to be in talks with the Governments of various countries (including India) to supply the vaccine.

### Presence in India

Novartis AG currently holds about 76.42% in Novartis India Ltd. Apart from the listed entity, the Swiss major has three wholly owned 100% subsidiaries in India. These are:

- Haxel Pharma Pvt. Ltd.,
- Novartis Healthcare Pvt. Ltd. (Hyderabad) &
- Sandoz Pvt. Ltd.

In May 2009, Novartis AG made an open offer to acquire a further 38.99% in Novartis India Ltd., increasing its stake from 50.93% to 89.93% at a price of Rs. 351 per share. The offer price was then revised to Rs. 450 per share on 28 May 2009. However, the parent company could garner a total of 25.49% through the open offer, eventually increasing its stake to 76.42% currently.

## Business Profile

Novartis India Ltd. operates in India in the following business segments:

- **Pharmaceuticals:** largely comprising of prescription medicines of original research from the Novartis Group, in therapeutic areas of Cardiovascular (CVS), Oncology, Central Nervous System (CNS), Neuroscience & Ophthalmics, Respiratory, Immunology & Infectious Diseases. This division has been the main contributor to the company's top-line over the years, contributing almost 68% for FY09.
- **Generics:** primarily focusing in therapeutic areas of Anti-TB, Gynaecology, Anti-histamines, Antibiotics, Anti-ulcerants, Anti-diabetes & Cardiovascular Diseases. For FY09, generics division contributed about 10.3% of the total Net Sales of the company.
- **OTC:** mainly into Vitamins, Minerals & Natural Supplements (VMS) & Cough, Cold & Allergy (CoCoA). OTC has been the second largest contributor with 13.5% contribution for year ended March 2009.
- **Animal Health:** present primarily in the cattle & poultry market segments. Animal Health division contributed about 8.3% to the company's turnover.

Novartis India enjoys the strong support of its parent company – Novartis AG, who acknowledges India as one of the important emerging markets & is continuously focused towards its subsidiary's growth. Over the years, NIL has been pretty consistent in launching products in the Indian domestic market, from its parent's product basket, thereby boosting its revenue growth. In the past 5 years, the company has launched close to 38 products & line extensions in different therapeutic segments. Besides, 5 of these 38 products are amongst the top 20 products for the parent – Novartis AG, namely 'Diovan', 'Glivec', 'Neoral', 'Tegrital' & 'Exelon'. All these new launches will contribute to the overall growth of the company going forward.

### Recent Products Launched

Business Segment	Product Name	Therapeutic Area	Year of Launch
Pharmaceuticals	Lopresor XL	Hypertension	FY09
Pharmaceuticals	Syntomet	Gynaecology	FY09
Pharmaceuticals	Exelon TTS	Alzheimer's Disease	FY09
OTC	Calcium Sandoz Women Lemon	VMS	FY09
OTC	T-minic Aktikof	Cough Syrups	FY09
OTC	T-minic Nitekof	Cough Syrups	FY09
OTC	T-minic Expelkof	Cough Syrups	FY09
Animal Health	Sancal Vet Forte	Oral Vitamin for Cattle	FY09
Pharmaceuticals	Benace H	Anti-Hypertensive	FY08
Pharmaceuticals	Tegrital CR 300	Anti-Epileptic	FY08
Pharmaceuticals	Zaditen	Anti-Allergic - Optha	FY08
OTC	Calcium Sandoz Suspension	VMS	FY08
OTC	Calcium Sandoz Women Mix Fruit	VMS	FY08
OTC	Otrinoz	Nasal Decongestants	FY08
OTC	Benefiber	Laxatives	FY08
Animal Health	Chelated Milmor Forte	Feed Supplement for Cattle	FY08
Pharmaceuticals	Voveran Plus	Pain & Inflammation	FY07
Pharmaceuticals	Epilex MD	Epilepsy	FY07
Pharmaceuticals	Vitalux Plus	Ophthalmology	FY07
OTC	Gascidity (Powder, Liquid & Tablets)	Gastrointestinal	FY07
Animal Health	Petromox	Antibiotic to treat bacterial infections in	FY07

Source: Company, PPFAS Research

## Brand focus & country interiors to drive growth

The MNC pharma subsidiary launched a number of products in the Indian domestic market that have established themselves as strong brands in their respective categories. These brands have been contributing to the company's top-line growth over the years. In the pharmaceutical segment, products like 'Voveran' (Pain & Inflammation), 'Methergin' (Gynaecology) & 'Neoral' (Transplantation/Immunology) have achieved number one spot & continue to dominate the market in their respective therapeutic areas. Recently launched product 'Tegrital' (CNS – launched in FY08) has already achieved a spot in the top three products in its segment. In other business divisions of the company, products like 'Otrivin' (OTC - Cough, Cold & Allergy), 'Foristal' (Generics – Antihistamine), 'Calborol' (AH – Cattle Feed Supplement) etc. have achieved the number one spot in their respective segments & have gained competitive market shares. These strong products, along with the new launches, are expected to drive the top-line growth of the company going forward. Novartis India also invests in various promotional programmes to increase the brand visibility of its products.

### Product Performance

Business Segment	Product Name	Therapeutic Area	Comments	Market Share
Pharma	Voveran	Pain & Inflammation	Rank 1	11.4%
	Tegrital	CNS	Rank 3	N.A
	Sandimmun Neoral	Transplantation/ Immunology	Rank 1	N.A
	Otrivin	Nasal Decongestion	Holds Leadership Position	N.A
	Methergin & Syntocinon	Gynaecology	Rank 1	N.A
	Macalvit	Calcium Supplement	Rank 3	6.9%
	CitroMacalvit	Calcium Supplement	Rank 5	5.6%
Generics	Regestrone	Gynaecology	Rank 2	30.0%
	PZA Ciba	Anti-TB	Rank 2	30.0%
	Foristal	Anti-histamine	Rank 1	12.0%
OTC	Otrivin	Cough, Cold & Allergy	Rank 1	27.0%
	Total Sandoz Brand	Calcium	Rank 2	14.5%
Animal Health	Calborol/Mifex	Cattle Feed Supplement	Rank 1	30.0%
	Protexin	Poultry & Animals	Rank 2	35.0%
	Larvadex	Poultry	Rank 3	25.0%
	Tiamutin	Poultry	Rank 2	30.0%
	Natuzyme	Poultry Feed Supplement	Rank 3	20.0%

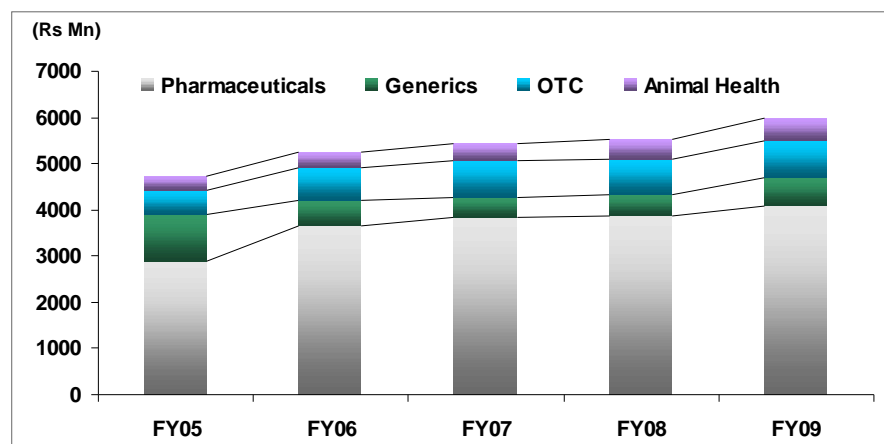
Source: Company, PPFAS Research

Till recently, Novartis India's geographic focus was confined to large urban metros & class 'A' cities. But realizing that the interiors of the country – Tier-II & Tier-III cities have become the new growth drivers of India shining, the company has been moving into these new areas of the country by expanding its distribution network in these smaller towns & cities. We believe that with high per capita income and increasing access to modern medicines, this segment is expected to continue its strong growth momentum. These new markets will bring the required growth for the company in the future & help the company's products reach a much larger market base.

## Increasing contribution from other segments

'Calcium Sandoz' in the OTC segment has been a very strong brand for Novartis. All products under the Sandoz brand have recorded significant growth over the years. Owing to this, the OTC segment has been able to report decent growth over the past several years, growing at 11.6% CAGR over FY05-FY09 period. Its contribution to the top-line of the company has also increased from 11% in FY05 to close to 14% in FY09. Novartis plans to improve its product basket in this segment through product innovation & launch of new products from the global pipeline going forward. Similarly, the Animal Health division has also been performing well for the company, growing at 14.6% CAGR over FY05-FY09 period & contributing more than 8% in Net Revenues for FY09.

### Segmental Performance



Source: Company, PPFAS Research

## Steady Performance – Healthy Financials

Diverse product range within different therapeutic areas & business segments have helped Novartis India Ltd. report steady performance over the past. Decent performances in Pharmaceuticals, OTC & Animal Health segments have helped Novartis report a top-line growth of more than 6% CAGR over FY05-FY09 period. The Generics business has been sluggish over FY05-FY09 period. However, with better operational efficiencies, the company has been able to report more than 12% CAGR growth in its bottom-line for the same period. On the margins front, Novartis India has consistently improved its Operating Profit Margins (OPM) from 15% in FY05 to 18.6% in FY09.

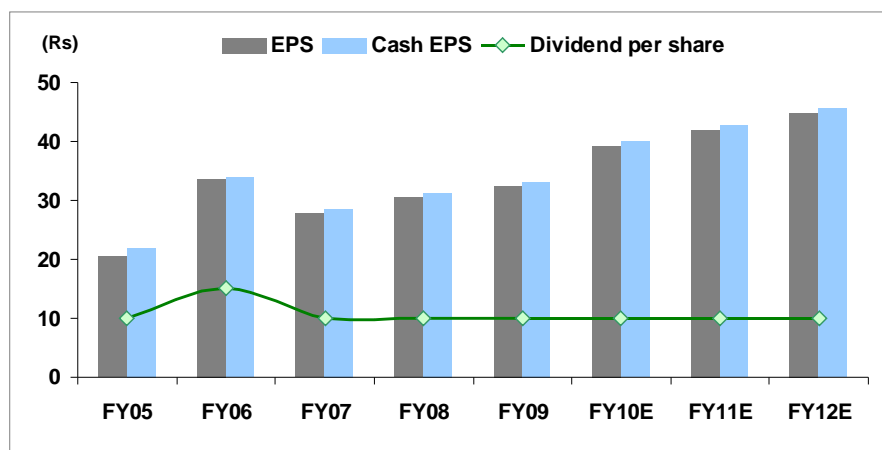
Novartis India Ltd. has maintained strong financials over the years. The company is virtually debt-free & has significant amounts of free cash & cash equivalents on its Balance Sheet, the major chunk of which have been parked as Inter-Corporate Deposits with fellow subsidiaries. Novartis had cash & cash equivalents of about Rs. 140 per share for the year ended March 2009. The company has been rewarding shareholders with healthy dividends (payout ratio in 30%-50% range).

Novartis has parked major chunk of Cash & Cash Equivalents as Inter-Corporate Deposits (ICD) with fellow subsidiaries, on which it earns Interest Income at market rate of interest. This helps the company to significantly reduce the Working Capital requirements, thereby reducing the Working Capital Turnover Days as shown in the table below:

Particulars	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Working Capital T/o Days	165.0	219.3	249.8	266.9	285.6	322.2	353.5	383.8
Working Capital T/o Days (Excl. Cash & ICD)	37.9	13.5	57.8	32.5	13.5	(17.0)	(17.0)	(17.0)

Going forward, introduction of new products & line extensions for existing products would drive the growth for the company. We expect the company to maintain a 6%-6.5% CAGR growth in its revenue over FY09-FY12 period. We expect the company to have cash & cash equivalents of Rs. 184 per share for FY10E & maintain its dividend per share going forward.

EPS – Cash EPS –  
Dividend per share



Source: PPFAS Research

### Probable de-listing candidate

As mentioned earlier, the Swiss parent – Novartis AG had announced an open offer to increase its stake to 89.93% in Novartis India Ltd. This move of the parent company was some indication about its plans to de-list the company from the Indian Stock Exchanges. We have two reasons to believe this:

- ✓ Firstly, its plan to increase its stake to about 90% of the paid-up capital in the listed subsidiary, if successful, would have triggered a mandatory open offer to the shareholders of the company for an eventual delisting.
- ✓ Secondly, SEBI's plan to cap promoter holdings in all listed companies to a maximum of 75% was already in the public domain when the parent company made the open offer. So if it did not plan to de-list the Indian arm, it would have restricted its offer to acquire only 24%, since it already held 50.93%, thereby limiting its holding in Novartis India, post the open offer, to a maximum of 75%. If SEBI actually makes the proposed changes in promoter holding regulations, the parent company – Novartis AG would either have to de-list the Indian arm, or reduce its stake in the Indian subsidiary.

Hence, we have reasons to believe that Novartis India Ltd. could be a delisting candidate in the near future, which should be beneficial to the shareholders in terms of a hefty premium on delisting.

Glivec is among the first & the most contentious patent battle in the Indian pharmaceutical sector since India changed its patent laws to comply with its obligations to the World Trade Organization (WTO) in 2005.

### **What is Glivec ?**

Glivec is a blockbuster drug from Novartis Group that treats two rare cancers:

- Chronic Myeloid Leukemia
- Gastrointestinal Stromal Tumors

Glivec has been a breakthrough medicine in the beta crystalline form of 'Imatinib Mesylate'. It has been granted patent in nearly 40 countries, including China, Russia & Taiwan. It is one of the top performing drugs for Novartis AG & contributed USD 3.6 Billion in Revenues for 2008.

In 1998, Novartis filed a patent application in India for a product patent on Glivec. As India did not recognize product patents for pharmaceuticals, this patent application was to be examined only after 2005, post which India would comply with WTO norms on product patent. However, in 2003, Novartis obtained Exclusive Marketing Rights (EMR) for the medicine based on this patent application.

The Madras High Court first denied patent protection to Glivec, followed by the Intellectual Property Appellate Board (IPAB). The main basis for the denial of patent was under Section 3(d) of the Indian Patents Act which refers to 'evergreening' & Section 3(b) referring to the price of the drug.

Novartis has filed a Special Leave Petition in the Supreme Court against the order of the IPAB, mentioning that Section 3(d) on 'evergreening' is not applicable at all since the beta crystalline form of Imatinib Mesylate is the active ingredient of the genuine breakthrough medicine Glivec & no other drug comprising Imatinib was available anywhere in the world before Glivec was launched. It also objected to IPAB's contention under Section 3(b) on pricing of the drug as 'too unaffordable'. Novartis said that the price was irrelevant since 99% of all Glivec patients in India – currently more than 11,000 – have been receiving their medicine free of charge through the Glivec International Patient Assistance Program (GIPAP) since 2002". The drug costs about Rs. 120,000 per month per patient.

For the parent – Novartis AG, whether the Glivec case turns out to be successful or not, we believe that the denial of patent for the drug could diminish the parent's interest in investing in R&D in the country.

## **Regulatory Concerns**

The Government of India plans to bring all 354 medicines on the National List of Essential Medicines under the Drug Price Control Order (DPCO) net, from 74 drugs currently, through its New Pharmaceutical Policy 2006. This New Policy is being considered by the Group of Ministers (GoM) constituted in January 2007. While there is still no clarity on this front, the policy has found stiff opposition from the pharmaceutical industry, since in the event of this law getting passed, it would be detrimental to the fortunes of domestic & MNC pharma companies alike.

## **Volatility in Generics Business**

Unlike other business segments, the Generics unit of Novartis India has witnessed a rather bumpy ride over the years, reporting significant de-growth in 2 of the last 5 years. It has not performed well even in the first half of the current financial year. A notable point here is that the TB treatment has moved from the private sector to the government administered DOTS (Directly Observed Therapy Short-term) program where the margins are very low. This has resulted in shrinking of the retail Anti-TB business. Despite the fact that Novartis is increasing its focus on this segment, we expect the Generics business unit to report none to very minimal growth in the next couple of years.

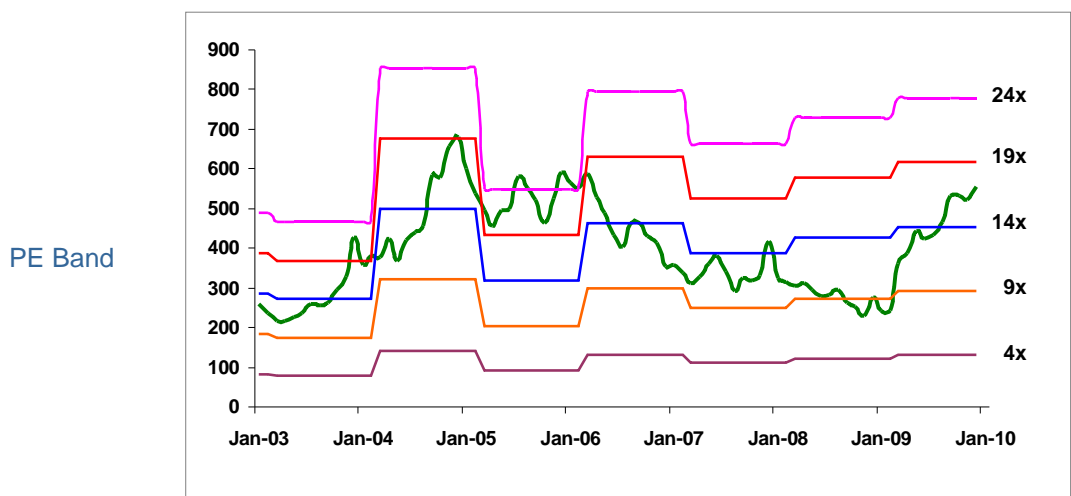
## **New Launches through unlisted subsidiary**

The parent company – Novartis AG launched couple of products through its 100% subsidiary – Novartis Healthcare Pvt. Ltd., namely 'Lucentis' (Mascular Degeneration), 'Elidel' (Atopic Dermatitis) & 'Galvus' (Diabetes) in the past two years. On the other hand, there have been no new products launched through the listed entity barring a few line extensions. We believe that if this trend continues, it can prove to be negative for the listed company – Novartis India Ltd., impacting its growth & profitability going forward.

Novartis India Ltd. has been one of the top MNC pharmaceutical companies operating in the Indian domestic market. The company has successfully established itself within the therapeutic areas, both chronic & acute, that it operates in & has a number of products that are market leaders in their respective segments, commanding considerable market share. These products have been growing very well & contributing to the top-line of the company over the years. Besides, the global parent has been a strong support for the company in terms of new product introductions & line extensions from its global product portfolio. It has also increased its stake in the Indian listed arm, recently. Also, the company has increased its focus on maintaining its brand visibility & is planning to move into the interiors of the country, which we believe would prove to be the next growth driver for the company.

The company has registered a 6.2% & 12.3% CAGR growth in its top-line & bottom-line, respectively over FY05-09 period. We expect the company to maintain its growth trajectory at 6.5% CAGR over FY09-12E period, largely backed by the growth in Pharmaceuticals, Animal Health & OTC market segments, which contribute more than 90% of its revenues. Novartis, like other MNC pharma companies, maintains a strong Balance Sheet with almost zero-debt & huge amounts of cash. The company reported Cash & Cash Equivalents of Rs. 140 per share for FY09 (Cash Equivalents here refer to the Inter-Corporate deposits). We expect this figure to increase to Rs. 183.7 per share for FY10E going forward. Also, Novartis has been paying dividends at 200% of face value (FV - Rs. 5) over past several years. We expect this to continue in the future.

At CMP of Rs. 558, Novartis trades at 14.2x & 13.3x our FY10E & FY11E earnings of Rs. 39.3 & Rs. 41.9 respectively. It trades at 3.0x Price/Book Value of Rs. 188.7 per share for FY10E. We Initiate Coverage on Novartis with a BUY rating.



Novartis India Ltd. reported stable performance for the second quarter ended 30th September 2009. The MNC reported a growth of 5.5% in Net Revenues for Q2FY10 over the previous quarter. With a Q-o-Q rise of more than 10% in Total Expenditure, the company saw a minor dip of 52 bps in Operating Profit Margins (OPM) in Q2FY10. PAT for the second quarter grew by 4.7% Q-o-Q to Rs. 332.6 Mn. from Rs. 317.6 Mn. in the previous quarter. EPS for Q2FY10 stood at Rs. 10.4. The company was able to more or less maintain its PAT margins.

Net Revenues for Q2FY10 grew by 4.6% over the same quarter last year. With about 19% increase in Staff Costs over Q2FY09, Novartis reported flat Operating Profits at Rs. 329 Mn. in Q2FY10. OPM declined by 84 bps to 20.4%. However with a significant decline in Effective Tax Rate from 42.3% in Q2FY09 to 34% in Q2FY10, the company saw its bottom-line increase by almost 14% Y-o-Y, from Rs. 291.9 Mn. in Q2FY09 to Rs. 332.6 Mn. in this quarter.

For the first six months of FY10, Novartis India reported a Y-o-Y increase of 2.1% & 10.5% in its top-line & bottom-line respectively. EPS for the first half of FY10 stood at Rs. 20.3 as against Rs. 18.4 over corresponding period last year.

## Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	6MFY10	6MFY09	Y-Y(%)
Net Revenues	1,615.4	1,531.8	5.5%	1,544.9	4.6%	3,147.2	3,081.7	2.1%
Cost of Materials	619.4	606.4	2.1%	592.3	4.6%	1,225.8	1,215.5	0.8%
Gross Profit	996.0	925.4	7.6%	952.6	4.6%	1,921.4	1,866.2	3.0%
Staff Costs	200.1	200.4	-0.1%	168.4	18.8%	400.5	340.6	17.6%
Other Expenses	466.9	405.1	15.3%	456.6	2.3%	872.0	857.3	1.7%
Total Expenditure	667.0	605.5	10.2%	625.0	6.7%	1,272.5	1,197.9	6.2%
Operating Profit	329.0	319.9	2.8%	327.6	0.4%	648.9	668.3	-2.9%
OPM (%)	20.4%	20.9%	(51.7)	21.2%	(83.9)	20.6%	21.7%	(106.8)
Other Income	181.2	189.3	-4.3%	185.8	-2.5%	370.5	320.4	15.6%
EBITDA	510.2	509.2	0.2%	513.4	-0.6%	1,019.4	988.7	3.1%
Depreciation	5.6	5.6	0.0%	6.5	-13.8%	11.2	13.6	-17.6%
EBIT	504.6	503.6	0.2%	506.9	-0.5%	1,008.2	975.1	3.4%
Interest	0.5	0.7	-28.6%	0.8	-37.5%	1.2	1.5	-20.0%
PBT	504.1	502.9	0.2%	506.1	-0.4%	1,007.0	973.6	3.4%
Tax	171.5	185.3	-7.4%	214.2	-19.9%	356.8	385.3	-7.4%
<i>Current Tax</i>	187.5	176.0	6.5%	201.8	-7.1%	363.5	365.2	-0.5%
<i>Fringe Benefit Tax</i>	(10.6)	10.6		12.6		0.0	24.9	
<i>Deferred Tax</i>	(5.4)	(1.3)	315.4%	(0.2)	-	(6.7)	(4.8)	39.6%
PAT	332.6	317.6	4.7%	291.9	13.9%	650.2	588.3	10.5%
Equity Capital	159.8	159.8		159.8		159.8	159.8	
EPS	10.4	9.9	4.7%	9.1	13.9%	20.3	18.4	10.5%
Ratio Analysis								
Profitability								
YE March	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	6MFY10	6MFY09	Y-Y(%)
OPM (%)	20.4%	20.9%	(51.7)	21.2%	(83.9)	20.6%	21.7%	(106.8)
EBITDA (%)	31.6%	33.2%	(165.8)	33.2%	(164.8)	32.4%	32.1%	30.8
EBIT (%)	31.2%	32.9%	(164.0)	32.8%	(157.4)	32.0%	31.6%	39.3
PAT (%)	20.6%	20.7%	(14.4)	18.9%	169.5	20.7%	19.1%	157.0

Earnings Statement								
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues	4,714.9	5,259.2	5,422.4	5,534.5	5,994.8	6,315.8	6,761.1	7,239.3
- Growth (%)		11.5%	3.1%	2.1%	8.3%	5.4%	7.0%	7.1%
Total Expenditure	4,008.7	4,397.4	4,536.7	4,546.2	4,880.7	5,106.1	5,453.1	5,825.6
Operating Profit	706.3	861.8	885.6	988.3	1,114.1	1,209.7	1,308.0	1,413.7
Forex Gain/(Loss)	1.4	(0.4)	3.2	3.7	(11.1)	0.0	0.0	0.0
Other Income	402.3	634.5	497.5	585.7	660.0	749.2	778.7	816.0
EBITDA	1,109.9	1,495.9	1,386.4	1,577.7	1,763.1	1,958.8	2,086.7	2,229.7
Depreciation	52.2	5.9	26.7	28.5	26.9	24.8	26.8	28.8
EBIT	1,057.8	1,469.4	1,380.2	1,549.2	1,736.2	1,934.0	2,059.9	2,200.9
Interest	17.4	26.5	6.3	6.0	7.1	1.2	0.0	0.0
PBT	1,040.4	1,463.6	1,353.5	1,543.1	1,729.1	1,932.8	2,059.9	2,200.9
Tax	389.2	410.3	468.0	570.8	692.0	676.5	721.0	770.3
PAT Before EI	651.2	1,053.3	885.5	972.3	1,037.1	1,256.3	1,338.9	1,430.6
- Growth (%)		61.8%	-15.9%	9.8%	6.7%	21.1%	6.6%	6.8%
Extra-ordinary Items	0.0	25.6	0.0	0.0	0.0	0.0	0.0	0.0
PAT	651.2	1,078.9	885.5	972.3	1,037.1	1,256.3	1,338.9	1,430.6

Ratio Analysis								
Particulars	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
OPM (%)	15.0%	16.4%	16.3%	17.9%	18.6%	19.2%	19.3%	19.5%
EBITDA (%)	23.5%	28.4%	25.6%	28.5%	29.4%	31.0%	30.9%	30.8%
PBIT (%)	22.4%	27.9%	25.5%	28.0%	29.0%	30.6%	30.5%	30.4%
PAT (%)	13.8%	20.5%	16.3%	17.6%	17.3%	19.9%	19.8%	19.8%
Interest Cover (x)	60.9	55.5	220.8	256.2	246.0	1,611.7	-	-
EPS (Rs.)	20.4	33.8	27.7	30.4	32.4	39.3	41.9	44.8
P/E (x)	27.4	16.5	20.1	18.3	17.2	14.2	13.3	12.5
P/BV (x)	6.3	5.3	4.6	4.0	3.5	3.0	2.5	2.2
BVPS (Rs.)	89.0	105.6	121.6	140.3	161.1	188.7	218.9	251.9
Market Cap (Rs. Mn.)	17,834.1	17,834.1	17,834.1	17,834.1	17,834.1	17,834.1	17,834.1	17,834.1
M Cap/Sales (x)	3.8	3.4	3.3	3.2	3.0	2.8	2.6	2.5
EV (Rs. Mn.)	17,255.6	16,638.6	17,873.0	17,686.5	17,299.6	17,069.0	16,436.2	15,735.0
EV/EBITDA (x)	15.5	11.1	12.9	11.2	9.8	8.7	7.9	7.1
EV/Sales (x)	3.7	3.2	3.3	3.2	2.9	2.7	2.4	2.2
ROCE (%)	36.3%	42.7%	34.7%	34.5%	33.7%	32.1%	29.4%	27.3%
RONW (%)	22.9%	31.2%	22.8%	21.7%	20.1%	20.8%	19.1%	17.8%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventory T/o Days	51.0	42.6	45.4	44.6	30.5	40.0	40.0	40.0
Debtors T/o Days	32.2	27.5	28.6	26.0	27.7	28.0	28.0	28.0
Advances T/o Days	121.2	154.1	232.4	274.3	288.6	295.0	295.0	295.0
Creditors T/o Days	56.1	48.1	45.3	47.9	54.3	51.0	51.0	51.0
Working Cap T/o Days	165.0	219.3	249.8	266.9	285.6	322.2	353.5	383.8
Fixed Assets T/o (Gross)	3.1	23.5	23.4	23.7	26.3	25.5	25.2	25.1
DPS (Rs.)	10.0	15.0	10.0	10.0	10.0	10.0	10.0	10.0
Dividend Payout (%)	49.1%	44.4%	36.1%	32.9%	30.8%	25.4%	23.9%	22.3%
Dividend Yield (%)	1.8%	2.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%

Balance Sheet								
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Equity Capital	159.8	159.8	159.8	159.8	159.8	159.8	159.8	159.8
Reserves	2,683.9	3,216.2	3,726.0	4,324.4	4,987.6	5,870.0	6,835.1	7,891.7
Shareholders Funds	2,843.7	3,376.0	3,885.8	4,484.2	5,147.4	6,029.8	6,994.9	8,051.5
Minority Interest								
Borrowed Funds	69.0	63.1	92.0	4.4	3.0	0.0	0.0	0.0
Deferred Tax Liability	(86.1)	(108.1)	(132.1)	(128.4)	(138.9)	(138.9)	(138.9)	(138.9)
<b>Total Liabilities</b>	<b>2,826.6</b>	<b>3,331.0</b>	<b>3,845.7</b>	<b>4,360.2</b>	<b>5,011.5</b>	<b>5,891.0</b>	<b>6,856.0</b>	<b>7,912.6</b>
Fixed Assets	219.8	100.8	96.7	93.5	86.9	81.4	74.6	65.8
Investments	475.3	70.8	37.7	220.1	233.9	233.9	233.9	233.9
Current Assets								
Inventory	658.6	613.2	674.0	676.6	501.0	692.1	740.9	793.3
Sundry Debtors	415.9	396.1	424.2	393.8	454.9	484.5	518.7	555.3
Other Current Assets	0.8	0.8	0.8	0.8	0.0	0.0	0.0	0.0
Loans & Advances	1,565.6	2,219.8	3,452.4	4,158.7	4,740.0	5,104.6	5,464.4	5,850.9
Cash & Bank Balance	647.5	1,258.6	53.1	152.0	537.5	765.2	1,397.9	2,099.1
Current Liabilities								
Sundry Creditors	724.6	692.8	673.1	726.8	892.4	882.5	944.7	1,011.5
Provisions	432.4	636.4	220.1	608.3	650.4	588.3	629.8	674.3
Net Current Assets	2,131.5	3,159.5	3,711.4	4,046.7	4,690.7	5,575.6	6,547.4	7,612.9
<b>Total Assets</b>	<b>2,826.6</b>	<b>3,331.0</b>	<b>3,845.7</b>	<b>4,360.2</b>	<b>5,011.5</b>	<b>5,891.0</b>	<b>6,856.0</b>	<b>7,912.6</b>

Cash Flow								
Particulars (Rs. Mn.)	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Opening Cash & Bank	86.6	647.5	1,258.6	53.1	152.0	537.5	765.2	1,397.9
Profit After Tax	651.2	1,078.9	885.5	972.3	1,037.1	1,256.3	1,338.9	1,430.6
Investment Income	(402.3)	(634.5)	(497.5)	(585.7)	(660.0)	(749.2)	(778.7)	(816.0)
Interest Paid	17.4	26.5	6.3	6.0	7.1	1.2	0.0	0.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	52.2	5.9	26.7	28.5	26.9	24.8	26.8	28.8
Deferred Taxation	90.3	(22.0)	(18.3)	3.7	(10.5)	0.0	0.0	0.0
Others	(189.3)	(1,192.1)	(22.6)	(22.2)	(26.8)	0.0	0.0	0.0
Change in Working Cap	312.7	(416.9)	(1,757.5)	(236.4)	(258.4)	(657.3)	(339.1)	(364.2)
CF - Operating Activities	532.2	(1,154.2)	(1,377.4)	166.4	115.4	(124.1)	247.9	279.2
Change in Fixed Assets	64.7	1,305.3	(5.7)	(3.1)	6.4	(19.3)	(20.0)	(20.0)
Change in Investments	(64.7)	404.5	33.1	(182.4)	(13.9)	0.0	0.0	0.0
Investment Income	402.3	634.5	497.5	585.7	660.0	749.2	778.7	816.0
CF - Investing Activities	402.3	2,344.3	524.9	400.1	652.5	729.8	758.7	796.0
Increase in Equity	0.0	0.0	(11.2)	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Changes in Borrowings	9.0	(5.9)	28.9	(87.6)	(1.4)	(3.0)	0.0	0.0
Interest Paid	(17.4)	(26.5)	(6.3)	(6.0)	(7.1)	(1.2)	0.0	0.0
Dividend Paid	(365.3)	(546.7)	(364.4)	(373.9)	(373.9)	(373.9)	(373.9)	(373.9)
CF - Financing Activities	(373.7)	(579.0)	(353.0)	(467.6)	(382.4)	(378.1)	(373.9)	(373.9)
Net Change in Cash	560.8	611.2	(1,205.5)	98.9	385.5	227.6	632.7	701.2
Closing Cash & Bank Balance	647.5	1,258.6	53.1	152.0	537.5	765.2	1,397.9	2,099.1

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Novartis India Limited

NO  
YES  
YES

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

## Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Hiren Samani	Analyst - Investment Research	hiren@ppfas.com	91 22 2284 6555 Extn 206

**Now access PPFAS Reports on Bloomberg**

<PPFS> <Go>

## Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

[www.ppfas.com](http://www.ppfas.com)