

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	2QCY2016	1QCY2016	% chg (qoq)	2QCY2015	% chg (yoy)
Net sales	565	506	11.7	514	9.9
Other income	59	64	(7.2)	45	30.5
Operating profit	103	91	13.3	86	19.9
Adj. Net profit	85	81	5.8	64	32.9

Source: Company, Angel Research

Sanofi India (Sanofi) posted a robust set of numbers for 2QCY2016. It posted a 9.9% yoy growth in sales to ₹565cr, although the same are lower than our expectation. The bottom-line came in higher than our expectation on the back of a 30.5% surge in other income during the quarter. On the operating front, the company reported a gross margin of 50.5% V/s 48.3% in 2QCY2015, which resulted in an OPM of 18.2% V/s 16.7% in 2QCY2015. The proportionate expansion in the OPM was less than that in the gross margin as other expenses rose by 15.6% yoy during the quarter. The net profit for the quarter came in at ₹85.3cr V/s ₹64.2cr in 2QCY2015. **We maintain our Neutral rating on the stock.**

Sales underperform: For the quarter, the company posted sales of ₹565cr, a yoy growth of 9.9%. Gross margin stood at 50.5% V/s 48.3% in 2QCY2015, which enabled the company to post an OPM of 18.2% V/s 16.7% in 2QCY2015. The proportionate expansion in the OPM was less than that in the gross margin, as other expenses rose by 15.6% yoy during the quarter. Expansion in OPM along with a 30.5% yoy growth in other income aided the net profit to come in at ₹85.3cr V/s ₹64.2cr in 2QCY2015.

Outlook and valuation: We expect net sales to post a 14.6% CAGR to ₹2,692cr and EPS to register a 21.2% CAGR to ₹169.2 over CY2015–17E. At the current levels, the stock is trading at 29.9x and 27.1x its CY2016E and CY2017E earnings, respectively. **Given the fuller valuations, we recommend a Neutral rating on the stock.**

Key financials

Y E Dec (₹ cr)	CY2014	CY2015	CY2016E	CY2017E
Net Sales	1,875	2,049	2,357	2,692
% chg	9.9	9.3	15.0	14.2
Net Profit	197.1	264.9	353.0	389.2
% chg	(17.8)	34.4	33.3	10.2
EPS (₹)	85.6	115.2	153.5	169.2
EBITDA (%)	12.6	15.4	17.3	17.3
P/E (x)	53.5	39.8	29.9	27.1
RoE (%)	14.4	19.3	25.8	28.4
RoCE (%)	10.2	14.8	20.9	24.9
P/BV (x)	7.1	6.5	5.1	4.1
EV/Sales (x)	5.4	4.9	4.1	3.4
EV/EBITDA (x)	42.7	31.6	23.8	19.5

Source: Company, Angel Research; Note: CMP as of July 25, 2016

NEUTRAL

CMP	₹4,582
Target Price	-

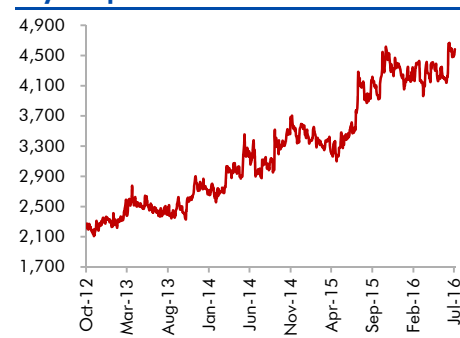
Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	10,553
Net debt (₹ cr)	(531)
Beta	0.5
52 Week High / Low	4,770/3,676
Avg. Daily Volume	2,356
Face Value (₹)	10
BSE Sensex	28,095
Nifty	8,636
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	15.1
FII / NRIs / OCBs	14.3
Indian Public / Others	10.2

Abs. (%)	3m	1yr	3yr
Sensex	9.4	(0.1)	39.8
Sanofi India	10.5	22.7	93.4

3-year price chart



Source: Company, Angel Research

Sarabjit Kour Nangra

+91 22 3935 7800 Ext: 6806

sarabjit@angelbroking.com

Exhibit 1: 2QCY2016 performance

Y/E Dec (₹ cr)	2QCY2016	1QCY2016	% chg (QoQ)	2QCY2015	% chg (YoY)	1HCY16	1HCY15	% chg yoy
Net sales	565	506	11.7	514	9.9	1,072	974	10.0
Other income	59	64	(7.2)	45	30.5	123	94	30.6
Total income	624	570	9.5	560	11.6	1,194	1,068	11.8
PBIDT	103	91	13.3	86	19.9	194	140	38.6
OPM (%)	18.2	18.0		16.7		18.1	14.4	
Interest	0.7	0.1		0.1		1	0	
Depreciation & amortisation	30	30	(0.3)	28	5.6	60	54	11.3
PBT & exceptional items	132	125	5.6	103	27.9	256	180	42.2
Less : Exceptional items	0	0		0		0	(16)	
Profit before tax	132	125	5.6	103	27.9	256	196	30.6
Provision for taxation	46	44	5.2	39	19.7	90	67	34.5
Net profit	85	81	5.8	64	32.9	166	129	28.6
Adj net profit	85	81	5.8	64	32.9	166	129	28.6
EPS (₹)	37.1	35.0		27.9		72.1	56.1	

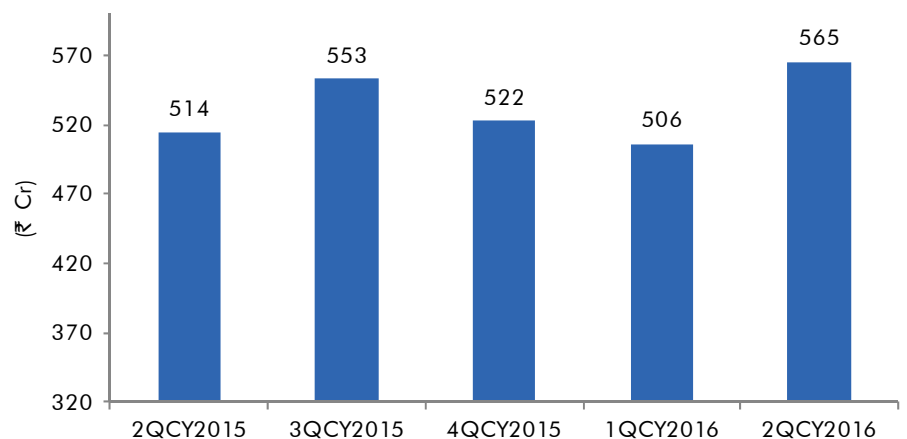
Source: Company, Angel Research

Exhibit 2: 2QCY2016 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net sales	565	600	(5.8)
Other income	59	45	30.5
Operating profit	103	104	(0.7)
Tax	46	42	10.6
Net profit	85	77	10.4

Source: Company, Angel Research

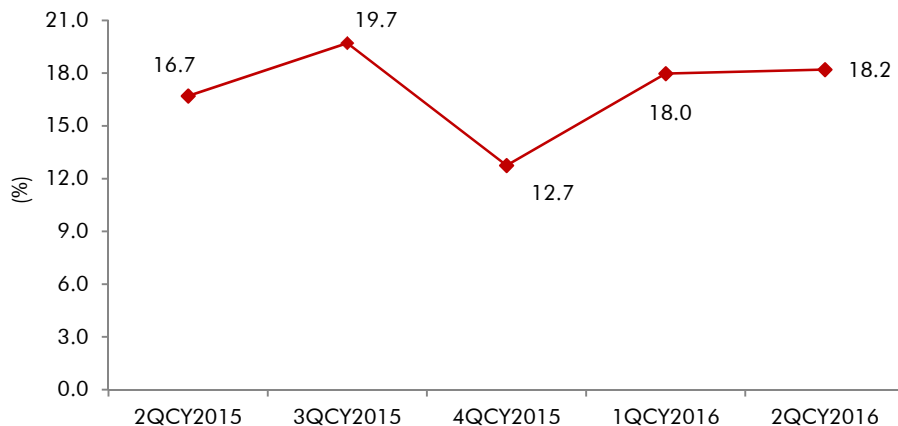
Revenue growth lower than expectation: - The company posted a 9.9% yoy growth in sales of ₹565cr, which is lower than our expectation of ₹600cr, mainly impacted by the fixed dose combination ban and on account of National List of Essential Medicines (NLEM) getting enforced. We expect the near term performance of the company to continue to be impacted on this account.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM expands to 18.2%: On the operating front, gross margin came in at 50.5% V/s 48.3% in 2QCY2015, which enabled the company to post an OPM of 18.2% V/s 16.7% in 2QCY2015. The proportionate expansion in the OPM was less than that in the gross margin, as other expenses rose by 15.6% yoy during the quarter.

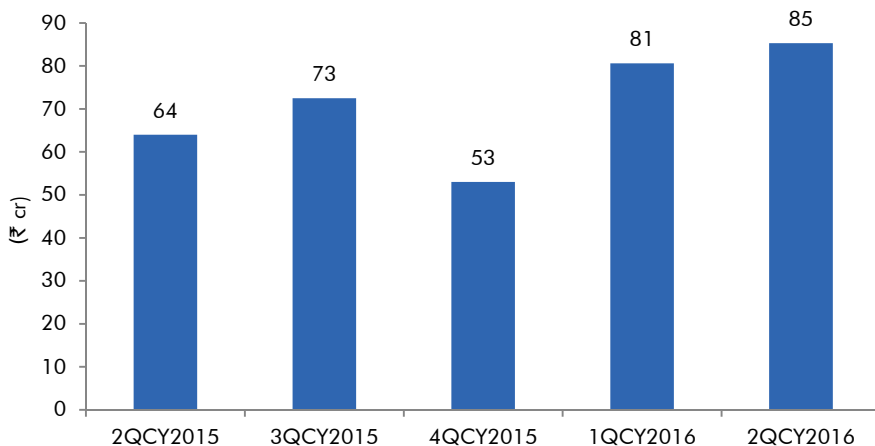
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line higher than expected: The expansion in the OPM along with a 30.5% yoy growth in other income (at ₹59cr V/s ₹45cr in 2QCY2015) aided the net profit to come in at ₹85cr V/s ₹64cr in 2QCY2015 and V/s ₹77cr expected.

Exhibit 5: Adj. net profit trend



Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Sanofi recorded a revenue CAGR of 9.1% over CY2006–12 to ₹1,494cr. The growth could have been better but was impacted by a lower-than-expected growth in domestic formulations and loss of distribution rights of *Rabipur* vaccine. Going forward, to grow in line with the industry's average growth rate in the domestic segment, the company has rolled out a project - *Prayas*, an initiative to increase its penetration in rural areas. Under the project, the company would launch low-priced products in the anti-infective and NSAID therapeutic segments and increase its field force. The project is expected to provide incremental revenue of ₹500cr over the next five years.

Sanofi also plans to launch CVS and vaccine products in the domestic market post the acquisition of Shantha Biotech by its parent company. Further, during CY2011, the company acquired the nutraceutical business of Universal Medicare Pvt. Ltd, which led the company's foray into the nutraceutical business, thus aiding it in diversifying, and boosting overall growth of its domestic formulation business.

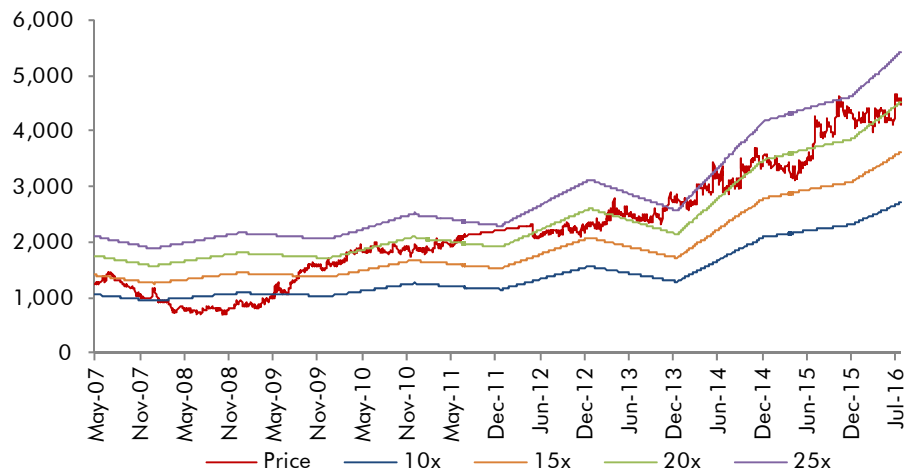
Recently the government expanded the NLEM and banned ~344 fixed drug combinations (FDCs), which will impact the industry's growth. Overall, we expect the company's net sales to log a 15.0% CAGR over CY2015–17, with domestic formulation sales expected to post a yoy growth of around 15.0% during the period.

Valuation: We expect net sales to post a 14.6% CAGR to ₹2,692cr and EPS to register a 21.2% CAGR to ₹169.2 over CY2015–17. At current levels, the stock is trading at 29.3x and 26.6x its CY2016E and CY2017E earnings, respectively. **Given the fuller valuations, we recommend a neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2016E	CY2017E
Net sales growth (%)	15.7	14.2
Domestic sales growth (%)	15.0	15.0
Export sales growth (%)	10.0	10.0
Growth in employee expenses (%)	15.7	14.2
Operating margins (%)	17.3	17.3
Net profit growth (%)	33.3	10.2
Capex (₹ cr)	30.0	30.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E


Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2018E		FY16-18E	FY2018E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Neutral	588	-	-	24.8	2.6	15.0	(21.2)	23.5	21.3
Aurobindo Pharma	Accumulate	799	877	9.7	16.9	2.8	11.7	18.1	22.5	26.1
Cadila Healthcare	Accumulate	372	399	7.5	18.6	2.8	12.5	15.8	24.3	26.6
Cipla	Neutral	525	-	-	19.3	2.5	13.3	20.4	13.5	15.2
Dr Reddy's	Neutral	3,476	-	-	20.0	2.9	11.9	12.2	19.3	18.2
Dishman Pharma	Sell	165	83	(42.0)	13.8	1.5	7.0	(1.1)	9.6	10.2
GSK Pharma	Neutral	3,404	-	-	52.1	7.2	37.5	21.6	35.8	31.8
Indoco Remedies	Sell	315	225	(28.6)	20.2	2.3	12.5	31.5	19.1	19.2
Ipca labs	Buy	495	613	23.8	17.4	1.8	9.7	17.9	11.8	14.9
Lupin	Buy	1,717	1,809	5.4	24.8	4.0	15.0	17.2	24.4	20.9
Sanofi India*	Neutral	4,582	-	-	29.9	3.4	19.5	21.2	24.9	28.4
Sun Pharma	Buy	803	944	17.6	24.5	5.0	16.0	22.0	33.1	18.9

Source: Company, Angel Research, *- December ending

Company Background

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Pvt Ltd and Shantha Biotechnics. Sanofi India focuses its activities on seven major therapeutic areas, namely – Cardiovascular diseases, Metabolic Disorders, Thrombosis, Oncology, Central Nervous System disorders, Internal Medicine and Vaccines. Predominately a domestic company, the company exports to semi-regulated markets; exports at ~₹500cr contributed ~26% of sales in CY2014.

Profit & loss statement

Y/E Dec. (₹ cr)	CY2012	CY2013	CY2014	CY2015	CY2016E	CY2017E
Gross sales	1,534	1,746	1,915	2,097	2,412	2,748
Less: Excise duty	40	39	40	48	55	56
Net sales	1,494	1,707	1,875	2,049	2,357	2,692
Other operating income	91	102	103	144	144	144
Total operating income	1,585	1,809	1,978	2,193	2,500	2,835
% chg	20.5	14.1	9.3	10.9	14.0	13.4
Total expenditure	1,261	1,411	1,639	1,734	1,948	2,225
Net raw materials	735	820	974	1,012	1,117	1,276
Other mfg costs	74	82	93	106	122	140
Personnel	214	242	288	333	383	438
Other	238	267	283	283	325	371
EBITDA	233	296	236	315	409	467
% chg	32.2	27.0	7.3	8.3	9.3	10.3
(% of Net Sales)	15.6	17.3	12.6	15.4	17.3	17.3
Depreciation & amortisation	90	92	97	113	123	125
EBIT	143	203	140	202	286	342
% chg	(1.5)	42.4	5.7	6.7	7.7	8.7
(% of Net Sales)	9.6	11.9	10.2	11.2	12.2	13.2
Interest & other charges	1	0	-	-	-	-
Other income	30	58	64	135	100	100
(% of PBT)	11.4	15.9	18.6	19.6	20.6	21.6
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	262	363	307	481	530	585
% chg	(7.7)	38.7	3.8	4.8	5.8	6.8
Extraordinary Expense/(Inc.)						
PBT (reported)	262	363	307	481	530	585
Tax	85.0	123.3	109.0	159.4	174.9	193.2
(% of PBT)	32.4	33.9	35.6	33.1	33.0	33.0
PAT (reported)	177	240	198	322	355	392
Extra-ordinary items	(0)	(25)	(67)	56	-	-
PAT after MI (reported)	177	266	264	321	353	389
ADJ. PAT	177	240	197	265	353	389
% chg	(7.4)	35.4	(17.8)	34.4	33.3	10.2
(% of Net Sales)	11.8	15.6	14.1	15.7	15.0	14.5
Basic EPS (₹)	77	104	86	115	153	169
Fully Diluted EPS (₹)	77	104	86	115	153	169
% chg	(7.4)	35.4	(17.8)	34.6	33.3	10.2

Balance Sheet

Y/E Dec (₹ cr)	CY2012	CY2013	CY2014	CY2015	CY2016E	CY2017E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,181	1,324	1,463	1,604	2,061	2,553
Shareholders funds	1,204	1,347	1,486	1,627	2,084	2,576
Long term provisions	19	25	32	40	40	40
Other long term liabilities	-	-	-	-	-	-
Total loans	-	-	-	-	-	-
Total liabilities	1,223	1,372	1,518	1,668	2,126	2,620
APPLICATION OF FUNDS						
Gross block	889	1,075	1,195	1,349	1,379	1,409
Less: Acc. depreciation	315	409	506	619	741	867
Net block	574	666	690	730	638	542
Goodwill	125	125	125	125	125	125
Capital Work-in-Progress	43	43	43	43	43	43
Long term loan and adv.	61	62	106	262	262	262
Investments	0.4	0.2	0.2	0.2	0.2	0.2
Current assets	827	947	1,263	1,245	1,865	2,551
Cash	429	264	469	572	788	1,428
Loans & advances	208	219	196	301	346	288
Other	191	464	598	373	731	835
Current liabilities	387	435	656	617	687	785
Net current assets	441	512	607	628	1,178	1,767
Deferred tax assets	(21)	(37)	(54)	(120)	(120)	(120)
Total assets	1,223	1,372	1,518	1,668	2,126	2,620

Cash flow statement

Y/E Dec. (₹ cr)	CY2012	CY2013	CY2014	CY2015	CY2016E	CY2017E
Profit before tax	282	285	291	292	293	294
Depreciation	90	92	97	113	123	125
(Inc./Dec) in Working Capital	(147)	236	(64)	73	334	(51)
Less: Other income	91	102	66	67	68	69
Direct taxes paid	93	91	93	94	95	96
Cash Flow from Operations	41	420	164	317	587	203
(Inc./Dec.) in Fixed Assets	(67)	(186)	(120)	(154)	(30)	(30)
(Inc./Dec.) in Investments	-	0	0	-	-	1
Other income	91	102	66	67	68	69
Cash Flow from Investing	24	(84)	41	42	43	44
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(88)	(104)	(104)	(104)	(104)	(104)
Others	218	(397)	102	(153)	(301)	519
Cash Flow from Financing	130	(501)	(1)	(257)	(404)	415
Inc./Dec.) in Cash	195	(164)	204	103	226	663
Opening Cash balances	234	429	264	469	572	788
Closing Cash balances	429	264	469	572	788	1,428

Key ratios

Y/E Dec.	CY2012	CY2013	CY2014	CY2015	CY2016E	CY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	59.6	44.0	53.5	39.8	29.9	27.1
P/CEPS	39.5	29.5	29.2	24.3	22.2	20.5
P/BV	8.8	7.8	7.1	6.5	5.1	4.1
EV/Sales	6.8	6.0	5.4	4.9	4.1	3.4
EV/EBITDA	43.5	34.8	42.7	31.6	23.8	19.5
Per Share Data (₹)						
EPS (Basic)	76.9	104.1	85.6	115.2	153.5	169.2
EPS (fully diluted)	76.9	104.1	85.6	115.2	153.5	169.2
Cash EPS	115.9	155.4	156.7	188.7	206.9	223.7
DPS	33.0	33.0	33.0	33.0	33.0	33.0
Book Value	522.9	584.8	645.2	707.4	906.0	1,120.2
Returns (%)						
RoCE (Pre-tax)	12.1	15.7	10.2	14.8	20.9	24.9
Angel ROIC (Pre-tax)	17.5	22.4	14.6	21.1	29.8	35.5
ROE	15.3	18.8	14.4	19.3	25.8	28.4
Turnover ratios (x)						
Inventory / Sales (days)	61	31	28	26	23	20
Receivables (days)	23	9	8	7	7	6
Payables (days)	44	24	21	20	18	16

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Sanofi India

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)