

## Sanofi India

### Performance Highlights

Y/E Dec. (' cr)	1QCY2017	4QCY2016	% chg (qoq)	1QCY2016	% chg (yoy)
<b>Net sales</b>	<b>513</b>	<b>552</b>	<b>(7.1)</b>	<b>518</b>	<b>(1.1)</b>
Other income	56	55	1.3	64	(11.9)
Operating profit	61	67	(8.6)	92	(33.2)
<b>Adj. Net profit</b>	<b>60</b>	<b>51</b>	<b>18.8</b>	<b>83</b>	<b>(27.4)</b>

Source: Company, Angel Research

For 1QCY2017, Sanofi India posted results which were below expectations on all fronts. The sales came in at ₹513cr v/s. ₹550cr expected, registering a yoy de-growth of 1.1%. On the operating front, the EBITDA margin came in at 12.0% (17.6% expected) v/s. 17.7% in 1QCY2016. Despite better GPM (Gross Profit Margin), which came in at 54.2% v/s 53.2% in 1QCY2016, the EBITDA margin was lower, as the other expenses rose by 26.8% yoy, while employee expenses rose by 6.9% yoy. Consequently, the Adj. PAT came in at ₹60cr v/s. ₹83cr in 1QCY2016, a yoy de-growth of 27.4%. This was against the expectations of ₹71cr. **We maintain our Neutral rating.**

**Results lower than expectations on all fronts:** For 1QCY2017, Sanofi India posted results which were below expectations on all fronts. The sales came in at ₹513cr v/s. ₹550cr expected, registering a yoy de-growth of 1.1%. On the operating front, the EBITDA margin came in at 12.0% (17.6% expected) v/s. 17.7% in 1QCY2016. Despite better GPM (Gross Profit Margin), which came in at 54.2% v/s 53.2% in 1QCY2016, the EBITDA margin was lower, as the other expenses rose by 26.8% yoy, while employee expenses rose by 6.9% yoy. Consequently, the Adj. PAT came in at ₹60cr v/s. ₹83cr in 1QCY2016, a yoy de-growth of 27.4%.

**Outlook and valuation:** We expect net sales to post 13.9% CAGR to ₹2,862cr and EPS to register 9.2% CAGR to ₹153.8 over CY2016–18E. At current levels, stock is trading at 27.2xCY2018E earnings respectively. **We recommend a Neutral rating.**

#### Key financials

Y E Dec (' cr)	CY2015	CY2016	CY2017E	CY2018E
<b>Net Sales</b>	<b>2,049</b>	<b>2,206</b>	<b>2,508</b>	<b>2,862</b>
% chg	9.3	7.7	13.7	14.1
<b>Net Profit</b>	<b>264.9</b>	<b>296.5</b>	<b>321.8</b>	<b>353.8</b>
% chg	34.4	11.9	8.5	9.9
<b>EPS (₹)</b>	<b>115.2</b>	<b>128.9</b>	<b>139.9</b>	<b>153.8</b>
EBITDA (%)	15.4	16.6	16.8	16.8
P/E (x)	36.3	32.4	29.9	27.2
RoE (%)	19.3	21.6	23.5	25.8
RoCE (%)	14.8	17.1	20.1	23.9
P/BV (x)	5.9	5.5	4.3	3.5
EV/Sales (x)	4.4	4.1	3.4	2.8
EV/EBITDA (x)	28.7	24.8	20.3	16.7

Source: Company, Angel Research; Note: CMP as of May 5, 2017

## NEUTRAL

CMP	₹4,181
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	9,628
Net debt (₹ cr)	(518.9)
Beta	0.3
52 Week High / Low	4,770/3,850
Avg. Daily Volume	2,061
Face Value (₹)	10
BSE Sensex	29,859
Nifty	9,285
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	18.7
FII / NRIs / OCBs	15.4
Indian Public / Others	5.1

Abs. (%)	3m	1yr	3yr
Sensex	5.0	16.2	33.6
Sanofi India	0.8	(4.4)	41.8

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 1QCY2017 performance**

Y/E Dec (₹ cr)	1QCY2017	4QCY2016	% chg (qoq)	1QCY2016	% chg (yoy)	CY2016	CY2015	% chg yoy
<b>Net sales</b>	<b>513</b>	<b>552</b>	<b>(7.1)</b>	<b>518</b>	<b>(1.1)</b>	<b>2,206</b>	<b>2,049</b>	<b>7.7</b>
Other income	56	55	1.3	64	(11.9)	233	223	4.6
<b>Total income</b>	<b>569</b>	<b>607</b>	<b>(6.3)</b>	<b>582</b>	<b>(2.3)</b>	<b>2,439</b>	<b>2,272</b>	<b>7.4</b>
<b>PBIDT</b>	<b>61</b>	<b>67</b>	<b>(8.6)</b>	<b>92</b>	<b>(33.2)</b>	<b>366</b>	<b>315</b>	<b>16.0</b>
<b>OPM (%)</b>	<b>12.0</b>	<b>12.2</b>		<b>17.7</b>		<b>16.6</b>	<b>15.4</b>	
Interest	0.4	0.4		0.1		2	0	
Depreciation & amortization	25	41	(38.6)	27	(6.3)	131	113	16.2
PBT & exceptional items	92	81	13.3	128	(28.6)	466	425	9.7
Less : Exceptional items	0	0		0		0	(56)	
Profit before tax	92	81	13.3	128	(28.6)	466	481	(3.1)
Provision for taxation	32	30	4.3	46	(30.8)	169	159	6.1
<b>Net profit</b>	<b>60</b>	<b>51</b>	<b>18.8</b>	<b>83</b>	<b>(27.4)</b>	<b>297</b>	<b>322</b>	<b>(7.6)</b>
<b>Adj net profit</b>	<b>60</b>	<b>51</b>	<b>18.8</b>	<b>83</b>	<b>(27.4)</b>	<b>297</b>	<b>265</b>	<b>11.9</b>
<b>EPS (₹)</b>	<b>26.1</b>	<b>22.0</b>		<b>35.9</b>		<b>129.1</b>	<b>115.4</b>	

Source: Company, Angel Research

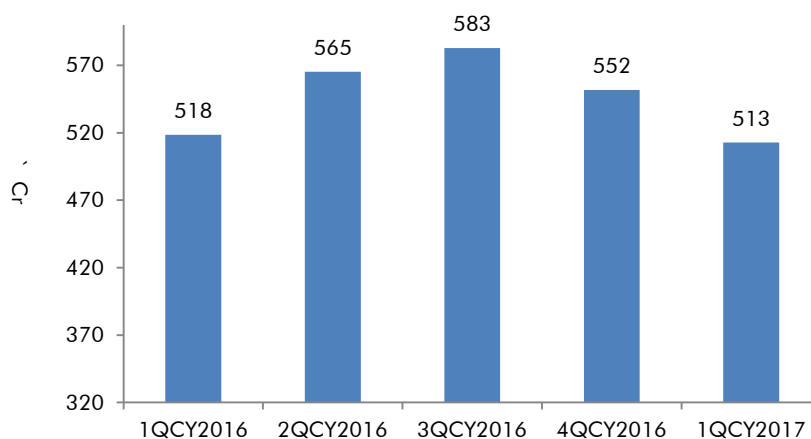
**Exhibit 2: 1QCY2017 – Actual Vs Angel estimates**

₹ cr	Actual	Estimates	Variation (%)
<b>Net sales</b>	<b>513</b>	<b>550</b>	<b>(6.8)</b>
Other income	56	55	1.3
Operating profit	61	97	(36.6)
Tax	32	40	(20.3)
<b>Net profit</b>	<b>60</b>	<b>71</b>	<b>(15.1)</b>

Source: Company, Angel Research

**Revenue growth lower than expectation**

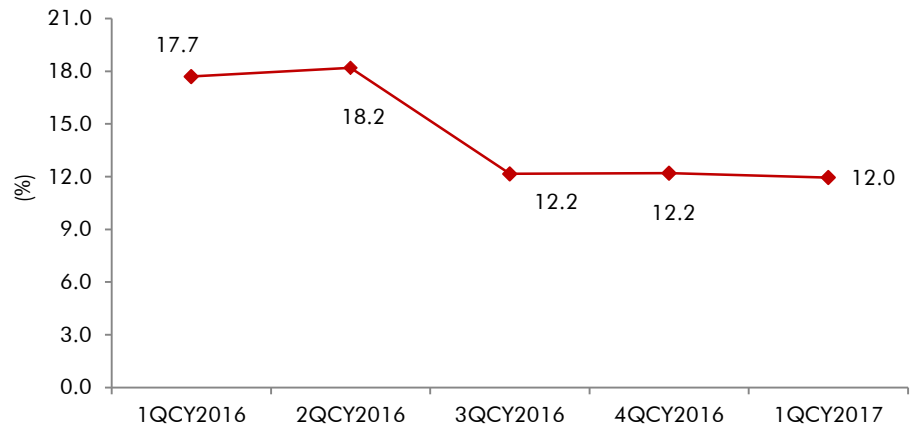
The sales came in at ₹513cr v/s. ₹550cr expected, posting a yoy de-growth of 1.1%, mainly on the back of the lower volumes in the exports market. According to AIOCD, Sanofi posted secondary sales growth of ~10% yoy in 1QFY2017.

**Exhibit 3: Sales trend**


Source: Company, Angel Research

**OPM dips to 12.0%:** On the operating front, the EBITDA margin came in at 12.0% (17.6% expected) v/s. 17.7% in 1QCY2016. Despite better GPM (Gross Profit Margin), which came in at 54.2% v/s 53.2% in 1QCY2016, the EBITDA margin was lower, as the other expenses rose by 26.8% yoy, while employee expenses rose by 6.9% yoy.

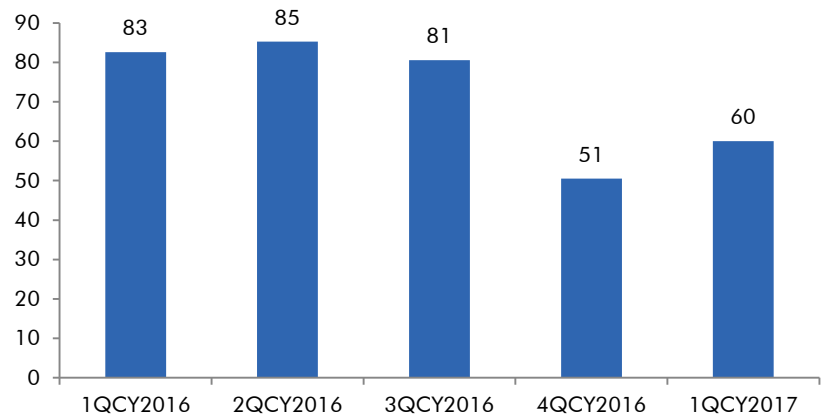
#### Exhibit 4: OPM trend



Source: Company, Angel Research

**Bottom-line much lower than estimates:** Consequently, the Adj. PAT came in at ₹60cr v/s. ₹83cr in 1QCY2016, a yoy de-growth of 27.4%. This was against the expectations of ₹71cr. Other income, which came in at ₹56.1cr, dipped 11.9% yoy.

#### Exhibit 5: Adj. Net Profit trend



Source: Company, Angel Research

## Recommendation rationale

**Focus on top-line growth:** Sanofi recorded revenue CAGR of 12.6% to ₹2,206cr over CY2010–16. The growth was impacted by a lower-than-expected growth in domestic formulations and loss of distribution rights of *Rabipur* vaccine. Going forward, in order 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. Sanofi also launched 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. We expect the company's net sales to log 13.9% CAGR over CY2016–18, mainly driven by domestic formulation.

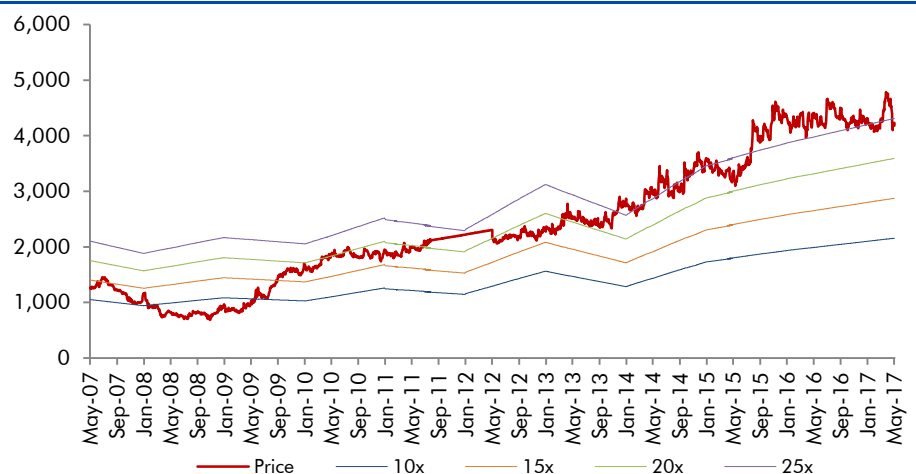
**Valuation:** We expect net sales to post 13.9% CAGR to ₹2,862cr and EPS to register 9.2% CAGR to ₹153.8 over CY2016–18. At current levels, the stock is trading at 29.9x and 27.2x its CY2017 and CY2018E earnings respectively. **Given the rich valuations, we recommend a Neutral rating.**

### Exhibit 6: Key assumptions

	CY2017E	CY2018E
Net sales growth (%)	13.7	14.1
Growth in employee expenses (%)	13.7	14.1
Operating margins (%)	16.8	16.8
Net profit growth (%)	8.5	9.9
Capex (₹ cr)	80.0	80.0

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 EV/Sales (x)	FY2018E EV/EBITDA (x)	FY16-18E CAGR in EPS (%)	FY2018E RoCE (%)	FY2018E RoE (%)
Alembic Pharma	Accumulate	593	648	9.2	23.2	2.6	12.9	(18.2)	25.7	22.8
Aurobindo Pharma	Buy	590	877	48.7	12.5	2.1	8.8	18.1	22.5	26.1
Cadila Healthcare	Neutral	466	-	-	24.3	3.8	17.6	13.5	23.6	27.1
Cipla	Sell	549	465	(15.2)	22.4	2.5	15.1	14.2	12.2	13.9
Dr Reddy's	Neutral	2,602	-	-	19.9	2.4	10.2	(2.7)	15.3	15.2
Dishman Pharma	Sell	313	143	(54.3)	27.7	3.0	13.1	16.3	13.0	13.5
GSK Pharma	Neutral	2,445	-	-	40.5	6.1	29.8	16.9	37.5	34.5
Indoco Remedies	Accumulate	225	240	6.6	14.1	1.7	9.1	33.2	19.1	20.1
Ipca labs	Accumulate	538	613	14.0	28.0	1.9	12.5	34.8	8.6	9.5
Lupin	Buy	1,251	1,809	44.7	18.0	3.0	11.1	17.2	24.4	20.9
Sanofi India*	Neutral	4,181	-	-	29.9	3.4	20.3	10.2	20.1	23.5
Sun Pharma	Buy	631	847	34.3	17.9	3.7	11.3	26.5	18.9	20.1

Source: Company, Angel Research, \*-Note December ending company

**Company Background**

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Private 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 of ~₹500cr, contributed around 26% of sales in CY2016E.

**Profit & loss statement**

Y/E Dec. (₹ cr)	CY13	CY14	CY15	CY16	CY17E	CY18E
<b>Gross sales</b>	<b>1,745</b>	<b>1,916</b>	<b>2,093</b>	<b>2,253</b>	<b>2,564</b>	<b>2,919</b>
Less: Excise duty	38	41	44	47	56	57
<b>Net sales</b>	<b>1,707</b>	<b>1,875</b>	<b>2,049</b>	<b>2,206</b>	<b>2,508</b>	<b>2,862</b>
Other operating income	102	103	144	162	162	162
<b>Total operating income</b>	<b>1,809</b>	<b>1,978</b>	<b>2,193</b>	<b>2,369</b>	<b>2,671</b>	<b>3,025</b>
% chg	14.1	9.3	10.9	8.0	12.8	13.2
Total expenditure	1,411	1,639	1,734	1,841	2,086	2,380
Net raw materials	820	974	1,012	1,065	1,204	1,374
Other mfg costs	82	93	106	115	130	149
Personnel	242	288	333	359	408	466
Other	267	283	283	302	343	391
<b>EBITDA</b>	<b>296</b>	<b>236</b>	<b>315</b>	<b>366</b>	<b>423</b>	<b>482</b>
% chg	27.0	7.3	8.3	9.3	10.3	11.3
(% of Net Sales)	17.3	12.6	15.4	16.6	16.8	16.8
Dep. & amortisation	92	97	113	131	147	155
<b>EBIT</b>	<b>203</b>	<b>140</b>	<b>202</b>	<b>234</b>	<b>276</b>	<b>328</b>
% chg	42.4	5.7	6.7	7.7	8.7	9.7
(% of Net Sales)	11.9	10.2	11.2	12.2	13.2	14.2
Interest & other charges	0	-	-	-	-	-
Other income	58	64	135	71	71	71
(% of PBT)	15.9	18.6	19.6	20.6	21.6	22.6
Share in profit of Asso.	-	-	-	-	-	1.0
<b>Recurring PBT</b>	<b>363</b>	<b>307</b>	<b>481</b>	<b>468</b>	<b>509</b>	<b>561</b>
% chg	38.7	3.8	4.8	5.8	6.8	7.8
Extraordinary Exp./(Inc.)						
<b>PBT (reported)</b>	<b>363</b>	<b>307</b>	<b>481</b>	<b>468</b>	<b>509</b>	<b>561</b>
Tax	123.3	109.0	159.4	169.1	184.3	203.0
(% of PBT)	33.9	35.6	33.1	36.2	36.2	36.2
<b>PAT (reported)</b>	<b>240</b>	<b>198</b>	<b>322</b>	<b>299</b>	<b>325</b>	<b>358</b>
Extra-ordinary items	(25)	(67)	56	-	-	-
<b>PAT after MI (reported)</b>	<b>266</b>	<b>264</b>	<b>321</b>	<b>297</b>	<b>322</b>	<b>354</b>
<b>ADJ. PAT</b>	<b>240</b>	<b>197</b>	<b>265</b>	<b>297</b>	<b>322</b>	<b>354</b>
% chg	35.4	(17.8)	34.4	11.9	8.5	9.9
(% of Net Sales)	15.6	14.1	15.7	13.4	12.8	12.4
<b>Basic EPS (₹)</b>	<b>104</b>	<b>86</b>	<b>115</b>	<b>129</b>	<b>140</b>	<b>154</b>
<b>Fully Diluted EPS (₹)</b>	<b>104</b>	<b>86</b>	<b>115</b>	<b>129</b>	<b>140</b>	<b>154</b>
% chg	35.4	(17.8)	34.6	11.9	8.5	9.9

**Balance sheet**

Y/E Dec (` cr)	CY13	CY14	CY15	CY16	CY17E	CY18E
<b>SOURCES OF FUNDS</b>						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,324	1,463	1,604	1,713	2,195	2,709
<b>Shareholders funds</b>	<b>1,347</b>	<b>1,486</b>	<b>1,627</b>	<b>1,736</b>	<b>2,218</b>	<b>2,732</b>
Long term provisions	25	32	40	40	40	40
Other long term liabilities	-	-	-	-	-	-
Total loans	-	-	-	-	-	-
<b>Total liabilities</b>	<b>1,372</b>	<b>1,518</b>	<b>1,668</b>	<b>1,778</b>	<b>2,261</b>	<b>2,776</b>
<b>APPLICATION OF FUNDS</b>						
Gross block	1,075	1,195	1,349	1,427	1,507	1,587
Less: Acc. Depreciation	409	506	619	750	897	1,051
<b>Net block</b>	<b>666</b>	<b>690</b>	<b>730</b>	<b>677</b>	<b>610</b>	<b>535</b>
Goodwill	125	125	125	125	125	125
Capital Work-in-Progress	43	43	43	43	43	43
Long term loan and adv.	62	106	262	129	129	129
<b>Investments</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Current assets	947	1,263	1,245	1,567	2,209	2,906
Cash	264	469	572	559	1,018	1,547
Loans & advances	219	196	337	363	412	471
Other	464	598	336	646	778	888
Current liabilities	435	656	617	668	759	866
<b>Net current assets</b>	<b>512</b>	<b>607</b>	<b>628</b>	<b>900</b>	<b>1,450</b>	<b>2,039</b>
Deferred tax assets	(37)	(54)	(120)	(97)	(97)	(97)
<b>Total assets</b>	<b>1,372</b>	<b>1,518</b>	<b>1,668</b>	<b>1,778</b>	<b>2,261</b>	<b>2,776</b>

**Cash flow statement**

Y/E Dec. (₹ cr)	CY13	CY14	CY15	CY16	CY17E	CY18E
Profit before tax	278	291	292	293	294	295
Depreciation	92	97	113	131	147	155
(Inc.)/Dec. in Working Capital	236	(64)	73	152	91	61
Less: Other income	102	66	67	68	69	70
Direct taxes paid	89	93	94	95	96	97
<b>Cash Flow from Operations</b>	<b>415</b>	<b>164</b>	<b>317</b>	<b>414</b>	<b>366</b>	<b>344</b>
(Inc.)/Dec. in Fixed Assets	(186)	(120)	(154)	(78)	(80)	(80)
(Inc.)/Dec. in Investments	0	0	-	-	-	-
Other income	102	66	67	68	69	70
<b>Cash Flow from Investing</b>	<b>(84)</b>	<b>41</b>	<b>42</b>	<b>43</b>	<b>44</b>	<b>45</b>
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(104)	(104)	(104)	(160)	(160)	(160)
Others	(393)	102	(153)	(310)	210	(758)
<b>Cash Flow from Financing</b>	<b>(496)</b>	<b>(1)</b>	<b>(257)</b>	<b>(470)</b>	<b>49</b>	<b>(918)</b>
Inc./(Dec.) in Cash	(164)	204	103	(13)	460	(529)
<b>Opening Cash balances</b>	<b>429</b>	<b>264</b>	<b>469</b>	<b>572</b>	<b>559</b>	<b>1,018</b>
<b>Closing Cash balances</b>	<b>264</b>	<b>469</b>	<b>572</b>	<b>559</b>	<b>1,018</b>	<b>1,547</b>



**Key ratios**

Y/E Dec.	CY13	CY14	CY15	CY16	CY17E	CY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	40.2	48.8	36.3	32.4	29.9	27.2
P/CEPS	26.9	26.7	22.2	22.5	20.5	18.9
P/BV	7.1	6.5	5.9	5.5	4.3	3.5
EV/Sales	5.5	4.9	4.4	4.1	3.4	2.8
EV/EBITDA	31.7	38.7	28.7	24.8	20.3	16.7
<b>Per Share Data (₹)</b>						
EPS (Basic)	104.1	85.6	115.2	128.9	139.9	153.8
EPS (fully diluted)	104.1	85.6	115.2	128.9	139.9	153.8
Cash EPS	155.4	156.7	188.7	186.0	203.7	221.1
DPS	33.0	33.0	33.0	68.0	68.0	68.0
Book Value	584.8	645.2	707.4	754.6	964.2	1,187.8
<b>Returns (%)</b>						
RoCE (Pre-tax)	15.7	10.2	14.8	17.1	20.1	23.9
Angel ROIC (Pre-tax)	22.4	14.6	21.1	24.4	28.7	34.0
ROE	18.8	14.4	19.3	21.6	23.5	25.8
<b>Turnover ratios (x)</b>						
Inventory / Sales (days)	31	28	26	24	21	19
Receivables (days)	9	8	7	7	6	6
Payables (days)	24	21	20	19	17	15

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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)