

## Sanofi India

### Performance Highlights

Y/E Dec. (₹ cr)	3QCY2017	2QCY2017	% chg (qoq)	3QCY2016	% chg (yoy)
<b>Net sales</b>	<b>627</b>	<b>556</b>	<b>12.7</b>	<b>597</b>	<b>5.0</b>
Other income	62	73	(15.7)	56	9.8
Operating profit	143	71	102.3	105	36.3
<b>Adj. Net profit</b>	<b>116</b>	<b>74</b>	<b>57.8</b>	<b>83</b>	<b>40.3</b>

Source: Company, Angel Research

For 3QCY2017, Sanofi India posted results which were above expectations on all fronts. The sales came in at ₹627cr v/s. ₹590cr expected, registering a yoy growth of 5.0%. On the operating front, the EBITDA margin came in at 22.8% (15.7% expected) v/s. 17.6% in 3QCY2016. GPM (Gross Profit Margin) was better at 50.5% v/s. 48.3% in 3QCY2016, whereas, the EBITDA margin was higher, despite employee expenses rose by 3.5% yoy. Consequently, the Adj. PAT came in at ₹116cr v/s. ₹83cr in 3QCY2016, a yoy growth of 40.3%. This was against the expectations of ₹77cr. **We maintain our Neutral rating.**

**Results higher than expectations on all fronts:** For 3QCY2017, Sanofi India posted results which were above expectations on all fronts. The sales came in at ₹627cr v/s. ₹590cr expected, registering a yoy growth of 5.0%. On the operating front, the EBITDA margin came in at 22.8% (15.7% expected) v/s. 17.6% in 3QCY2016. GPM (Gross Profit Margin) was better at 60.3% v/s. 51.0% in 3QCY2016, whereas, the EBITDA margin was higher, despite employee expenses rose by 3.5% yoy. Consequently, the Adj. PAT came in at ₹116cr v/s. ₹83cr in 3QCY2016, a yoy growth of 40.3%. This was against the expectations of ₹77cr.

**Outlook and valuation:** We expect net sales to post 10.6% CAGR to ₹2,692cr and EPS to register 12.8% CAGR to ₹163.9 over CY2016–18E. At current levels, stock is trading at 27.4x its CY2018E earnings. **We maintain our 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>2,411</b>	<b>2,698</b>
% chg	9.3	7.7	9.3	11.9
<b>Net Profit</b>	<b>264.9</b>	<b>296.5</b>	<b>348.7</b>	<b>377.1</b>
% chg	34.4	11.9	17.6	8.1
<b>EPS (₹)</b>	<b>115.2</b>	<b>128.9</b>	<b>151.6</b>	<b>163.9</b>
EBITDA (%)	15.4	16.6	18.8	18.8
P/E (x)	38.9	34.8	29.6	27.4
RoE (%)	19.3	21.6	25.4	27.5
RoCE (%)	14.8	17.1	22.4	25.8
P/BV (x)	6.3	5.9	4.6	3.7
EV/Sales (x)	4.8	4.4	3.8	3.2
EV/EBITDA (x)	30.9	26.7	20.4	17.1

Source: Company, Angel Research; Note: CMP as of November 17, 2017

## NEUTRAL

CMP ₹4,007

Target Price -

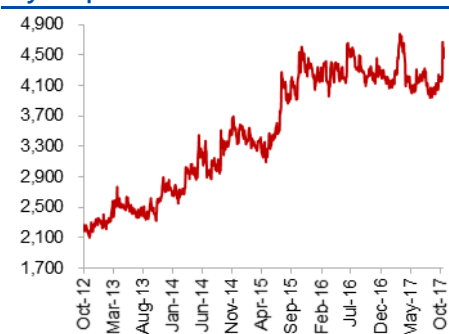
Investment Period 12 months

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	10,328
Net debt (₹ cr)	(519)
Beta	0.5
52 Week High / Low	4,930/3,901
Avg. Daily Volume	2,069
Face Value (₹)	10
BSE Sensex	33,343
Nifty	10,284
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian FIs	18.0
FII / NRIs / OCBs	16.0
Indian Public / Others	5.6

Abs. (%)	3m	1yr	3yr
Sensex	6.7	27.1	18.3
Sanofi India	12.3	7.2	29.4

#### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 3QCY2017 performance**

Y/E Dec (` cr)	3QCY2017	2QCY2017	% chg (qoq)	3QCY2016	% chg (yoy)	9MCY17	9MCY16	% chg yoy
<b>Net sales</b>	<b>627</b>	<b>556</b>	<b>12.7</b>	<b>597</b>	<b>5.0</b>	<b>1,695</b>	<b>1,693</b>	<b>0.1</b>
Other income	62	73	(15.7)	56	9.8	191	173	10.1
<b>Total income</b>	<b>688</b>	<b>629</b>	<b>9.4</b>	<b>653</b>	<b>5.4</b>	<b>1,886</b>	<b>1,866</b>	<b>1.1</b>
<b>PBIDT</b>	<b>143</b>	<b>71</b>	<b>102.3</b>	<b>105</b>	<b>36.3</b>	<b>275</b>	<b>304</b>	<b>(9.7)</b>
<b>OPM (%)</b>	<b>22.8</b>	<b>12.7</b>		<b>17.6</b>		<b>16.2</b>	<b>18.0</b>	
Interest	0.3	0.0		0.3		0	0	
Depreciation & amortization	26	26	0.8	27	(4.5)	77	81	(5.2)
PBT & exceptional items	179	118	50.9	134	33.4	389	396	(1.9)
Less : Exceptional items	0	0		0		0	0	
Profit before tax	179	118	50.9	134	33.4	389	396	(1.9)
Provision for taxation	63	45	40.1	51	22.8	139	144	(3.6)
<b>Net profit</b>	<b>116</b>	<b>74</b>	<b>57.8</b>	<b>83</b>	<b>40.3</b>	<b>250</b>	<b>252</b>	<b>(0.7)</b>
<b>Adj net profit</b>	<b>116</b>	<b>74</b>	<b>57.8</b>	<b>83</b>	<b>40.3</b>	<b>250</b>	<b>252</b>	<b>(0.7)</b>
<b>EPS (`)</b>	<b>50.6</b>	<b>32.0</b>		<b>36.0</b>		<b>108.7</b>	<b>109.4</b>	

Source: Company, Angel Research

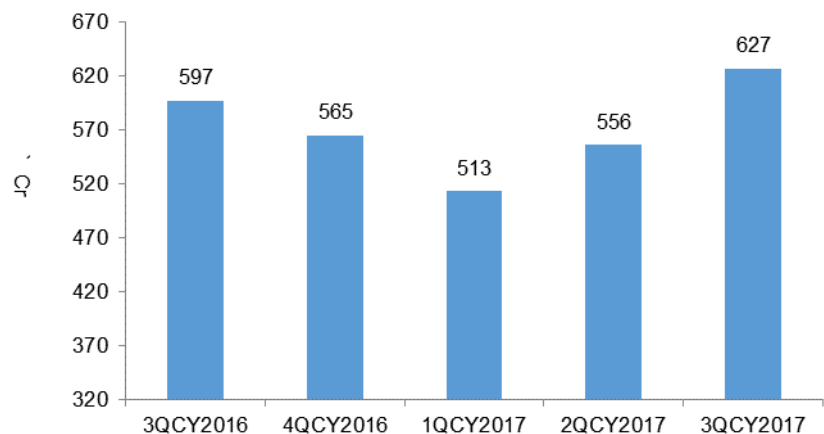
**Exhibit 2: 3QCY2017 – Actual Vs Angel estimates**

` cr	Actual	Estimates	Variation (%)
<b>Net sales</b>	<b>627</b>	<b>590</b>	<b>6.2</b>
Other income	62	56	9.8
Operating profit	143	93	54.4
Tax	63	41	51.3
<b>Net profit</b>	<b>116</b>	<b>77</b>	<b>50.8</b>

Source: Company, Angel Research

**Revenue growth better than expectation**

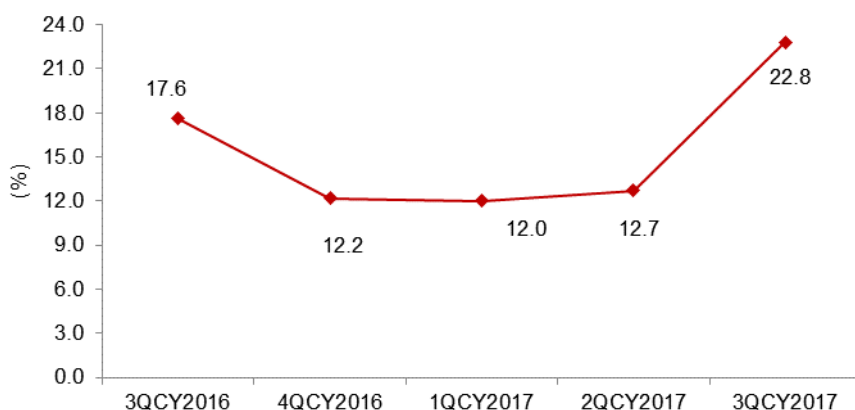
The sales came in at `627cr v/s. `590cr expected, posting a yoy growth of 6.0%, mainly on the back of the GST, and much better than our expectations. According to AIOCD, secondary sales growth for Sanofi India Ltd., stood at 6% YoY, higher than industry, which saw flattish growth of 1%. The company's key therapeutic areas posted strong growth during the quarter.

**Exhibit 3: Sales trend**


Source: Company, Angel Research

**OPM expands to 22.8%:** On the operating front, the EBITDA margin came in at 22.8% (15.7% expected) v/s. 17.6% in 3QCY2016. GPM (Gross Profit Margin) was better at 60.3% v/s. 51.0% in 3QCY2016, whereas, the EBIDTA margin was higher, despite employee expenses rose by 3.5% yoy.

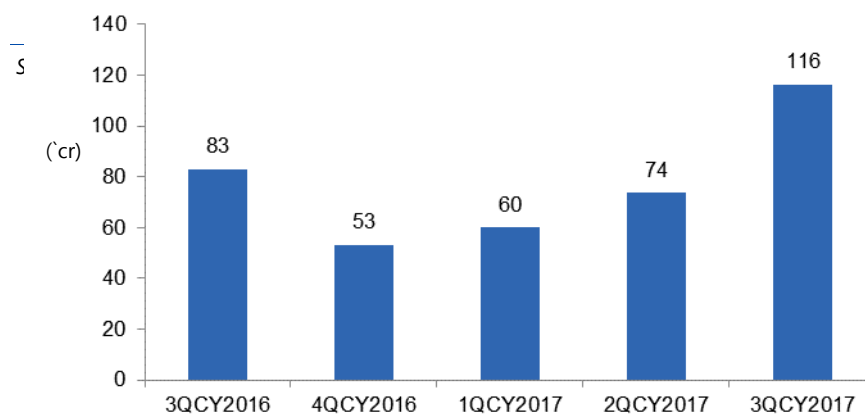
**Exhibit 4: OPM trend**



Source: Company, Angel Research

**Bottom-line much higher than estimates:** Consequently, the Adj. PAT came in at `116cr v/s. `83cr in 3QCY2016, a yoy growth of 40.3%. This was against the expectations of `77cr. Other income at `62cr, was up 9.8% yoy.

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



### 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.

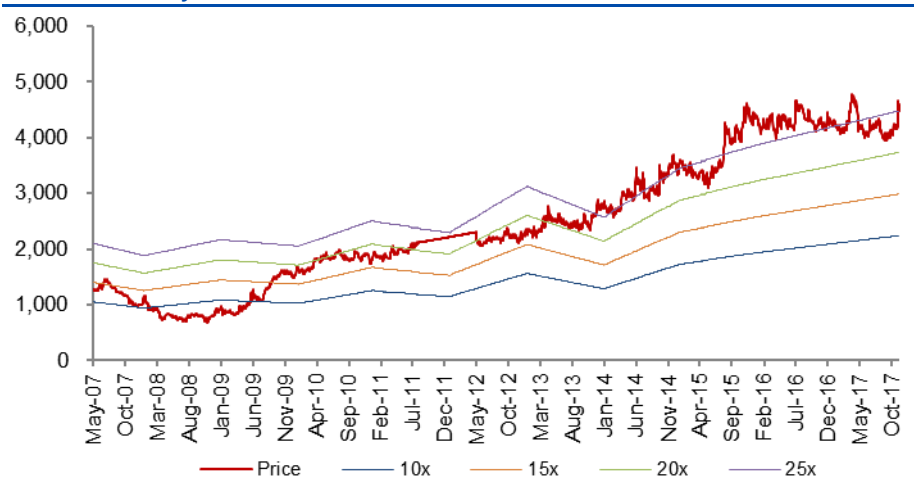
**Valuation:** We expect net sales to post 10.6% CAGR to `2,698cr and EPS to register 12.8% CAGR to `163.9 over CY2016–18E. At current levels, the stock is trading at 29.6x and 27.4x its CY2017 and CY2018E earnings respectively. **Given the rich valuations, we maintain our Neutral rating.**

### Exhibit 6: Key assumptions

	CY2017E	CY2018E
Net sales growth (%)	9.3	11.9
Growth in employee expenses (%)	9.3	11.9
Operating margins (%)	18.8	18.8
Net profit growth (%)	17.6	8.1
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 (%)	FY2019E			FY17-19E	FY2019E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	514	600	16.8	21.5	2.5	12.9	5.7	20.6	18.4
Aurobindo Pharma	Buy	708	823	16.3	13.8	2.1	9.6	14.2	25.3	22.7
Cadila Healthcare	Reduce	446	411	(7.9)	21.7	3.5	17.3	18.9	16.5	22.2
Cipla	Sell	609	426	(24.1)	25.0	2.7	16.0	39.3	10.9	13.1
Dr Reddy's	Reduce	2,325	2,040	(12.3)	22.8	2.8	13.7	18.5	10.8	12.4
Dishman Pharma	Under Review	301	-	-	19.3	2.7	11.5	23.3	4.5	4.4
GSK Pharma	Sell	2,511	2000	(20.4)	51.4	6.4	37.7	19.3	25.8	23.5
Indoco Remedies	Sell	267	153	(42.8)	16.7	2.1	14.9	16.2	10.1	14.5
Ipca labs	Neutral	529	-	-	22.1	1.7	11.2	24.7	12.4	11.0
Lupin	Buy	829	1,091	31.6	16.7	2.1	9.7	(6.6)	13.7	13.7
<b>Sanofi India*</b>	<b>Neutral</b>	<b>4,485</b>	<b>-</b>	<b>-</b>	<b>27.4</b>	<b>3.2</b>	<b>17.1</b>	<b>12.8</b>	<b>25.8</b>	<b>27.5</b>
Sun Pharma	Accumulate	517	558	7.9	20.9	3.5	15.4	(12.9)	12.3	15.2

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>2,467</b>	<b>2,755</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>2,411</b>	<b>2,698</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>2,574</b>	<b>2,860</b>
% chg	14.1	9.3	10.9	8.0	8.7	11.1
Total expenditure	1,411	1,639	1,734	1,841	1,957	2,190
Net raw materials	820	974	1,012	1,065	1,109	1,241
Other mfg costs	82	93	106	115	125	140
Personnel	242	288	333	359	393	439
Other	267	283	283	302	330	369
<b>EBITDA</b>	<b>296</b>	<b>236</b>	<b>315</b>	<b>366</b>	<b>455</b>	<b>509</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	18.8	18.8
Dep. & amortisation	92	97	113	131	147	155
<b>EBIT</b>	<b>203</b>	<b>140</b>	<b>202</b>	<b>234</b>	<b>308</b>	<b>354</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	81	81
(% 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>551</b>	<b>597</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>551</b>	<b>597</b>
Tax	123.3	109.0	159.4	169.1	199.6	216.2
(% 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>352</b>	<b>381</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>349</b>	<b>377</b>
<b>ADJ. PAT</b>	<b>240</b>	<b>197</b>	<b>265</b>	<b>297</b>	<b>349</b>	<b>377</b>
% chg	35.4	(17.8)	34.4	11.9	17.6	8.1
(% of Net Sales)	15.6	14.1	15.7	13.4	14.5	14.0
<b>Basic EPS (₹)</b>	<b>104</b>	<b>86</b>	<b>115</b>	<b>129</b>	<b>152</b>	<b>164</b>
<b>Fully Diluted EPS (₹)</b>	<b>104</b>	<b>86</b>	<b>115</b>	<b>129</b>	<b>152</b>	<b>164</b>
% chg	35.4	(17.8)	34.6	11.9	17.6	8.1

**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	2,222	2,759
<b>Shareholders funds</b>	<b>1,347</b>	<b>1,486</b>	<b>1,627</b>	<b>1,736</b>	<b>2,245</b>	<b>2,782</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>2,288</b>	<b>2,826</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	2,206	2,906
Cash	264	469	572	559	1,061	1,625
Loans & advances	219	196	337	363	396	444
Other	464	598	336	646	748	837
Current liabilities	435	656	617	668	730	817
<b>Net current assets</b>	<b>512</b>	<b>607</b>	<b>628</b>	<b>900</b>	<b>1,476</b>	<b>2,089</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>2,287</b>	<b>2,826</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	74	49
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>350</b>	<b>332</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)	269	347
<b>Cash Flow from Financing</b>	<b>(496)</b>	<b>(1)</b>	<b>(257)</b>	<b>(470)</b>	<b>108</b>	<b>187</b>
Inc./Dec.) in Cash	(164)	204	103	(13)	502	564
<b>Opening Cash balances</b>	<b>429</b>	<b>264</b>	<b>469</b>	<b>572</b>	<b>559</b>	<b>1,061</b>
<b>Closing Cash balances</b>	<b>264</b>	<b>469</b>	<b>572</b>	<b>559</b>	<b>1,061</b>	<b>1,625</b>



**Key ratios**

Y/E Dec.	CY13	CY14	CY15	CY16	CY17E	CY18E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	43.1	52.4	38.9	34.8	29.6	27.4
P/CEPS	28.9	28.6	23.8	24.1	20.8	19.4
P/BV	7.7	7.0	6.3	5.9	4.6	3.7
EV/Sales	5.9	5.3	4.8	4.4	3.8	3.2
EV/EBITDA	34.1	41.7	30.9	26.7	20.4	17.1
<b>Per Share Data (₹)</b>						
EPS (Basic)	104.1	85.6	115.2	128.9	151.6	163.9
EPS (fully diluted)	104.1	85.6	115.2	128.9	151.6	163.9
Cash EPS	155.4	156.7	188.7	186.0	215.4	231.2
DPS	33.0	33.0	33.0	68.0	68.0	68.0
Book Value	584.8	645.2	707.4	754.6	975.9	1,209.6
<b>Returns (%)</b>						
RoCE (Pre-tax)	15.7	10.2	14.8	17.1	22.4	25.8
Angel ROIC (Pre-tax)	22.4	14.6	21.1	24.4	32.0	36.8
ROE	18.8	14.4	19.3	21.6	25.4	27.5
<b>Turnover ratios (x)</b>						
Inventory / Sales (days)	31	28	26	24	22	20
Receivables (days)	9	8	7	7	7	6
Payables (days)	24	21	20	19	18	16

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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

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15)