

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	1QCY2016	4QCY2015	% chg (qoq)	1QCY2015	% chg (yoy)
Net sales	506	522	(3.1)	460	10.1
Other income	64	59	8.1	49	30.0
Operating profit	91	67	36.6	54	68.5
Adj. Net profit	81	53	53.5	48	67.9

Source: Company, Angel Research

Sanofi India (Sanofi)'s 1QCY2016 results have come in lower than our expectation; the company posted a 10.1% yoy growth in revenue to ₹506cr V/s an expected ₹593cr. On the operating front, the gross margin came in at 52.1%, almost in line with our expectation, and V/s 47.8% in the corresponding period of last year. The OPM came in at 18.0% V/s an expected 20.0% and V/s 11.7% in the corresponding period of last year. Consequently, the PAT came in at ₹81cr (V/s an expected ₹88cr), a yoy growth of 67.9%. **We recommend an Accumulate rating on the stock.**

Lower-than-expected results: The company posted a 10.1% yoy growth in revenue to ₹506cr (V/s an expected ₹593cr). We expect revenue growth to sustain in the coming quarters with improvement in volumes along with likely price hikes in DPCO products. On the operating front, the gross margin came in at 52.1%, almost in line with our expectation, and V/s 47.8% in the corresponding period of last year. The OPM came in at 18.0% V/s an expected 20.0% and V/s 11.7% in the corresponding period of last year. Consequently, the PAT came in at ₹81cr (V/s an expected ₹88cr), a yoy growth of 67.9%. Tax as % of PBT was 35.3% V/s 26.5% in 1QCY2015. Other income for the quarter grew 30.0% yoy to ₹64cr.

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 current levels, the stock is trading at 28.7x and 26.1x its CY2016E and CY2017E earnings, respectively. **Given the valuations, we recommend an Accumulate 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)	51.5	38.3	28.7	26.1
RoE (%)	14.4	19.3	25.8	28.4
RoCE (%)	10.2	14.8	20.9	24.9
P/BV (x)	6.8	6.2	4.9	3.9
EV/Sales (x)	5.2	4.7	4.0	3.2
EV/EBITDA (x)	41.0	30.4	22.9	18.7

Source: Company, Angel Research; Note: CMP as of May 4, 2016

ACCUMULATE

CMP	₹ 4,410
Target Price	₹ 4,738

Investment Period	12 Months
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	10,156
Net debt (₹ cr)	(531)
Beta	0.4
52 Week High / Low	4,691/3,091
Avg. Daily Volume	2090.0
Face Value (₹)	10
BSE Sensex	25,102
Nifty	7,707
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian FIs	20.9
FII / NRIs / OCBs	13.5
Indian Public / Others	5.2

Abs. (%)	3m	1yr	3yr
Sensex	3.1	(8.7)	28.2
Sanofi India	5.4	31.6	75.0

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 1QCY2016 performance

Y/E Dec (` cr)	1QCY2016	4QCY2015	% chg (qoq)	1QCY2015	% chg (yoy)	CY15	CY14	% chg yoy
Net sales	506	522	(3.1)	460	10.1	2,049	1,875	9.3
Other income	64	59	8.1	49	30.0	223	167	33.5
Total income	570	581	(1.9)	509	12.0	2,272	2,042	11.3
PBIDT	91	67	36.6	54	68.5	315	236	33.5
OPM (%)	18.0	12.7		11.7		15.4	12.6	
Interest	0.1	0.1		0.1		0	1	
Depreciation & amortisation	30	30	1.7	26	15.8	113	97	16.5
PBT & exceptional items	125	96	30.0	77	61.9	425	306	38.8
Less : Exceptional items	0	(68)		(16)		(56)	(67)	
Profit before tax	125	164	(23.9)	92	35.3	481	372	29.2
Provision for taxation	44	43	1.4	28	56.8	159	109	46.2
Net profit	81	120	(32.9)	65	25.0	322	264	21.9
Adj net profit	81	53	53.5	48	67.9	265	197	34.8
EPS (`)	35.0	22.8		20.9		115.4	85.7	

Source: Company, Angel Research

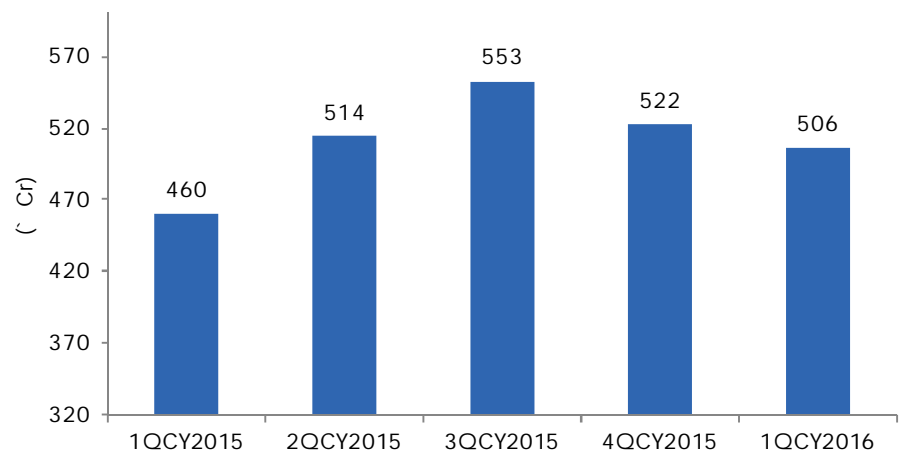
Exhibit 2: 1QCY2016 – Actual Vs Angel estimates

` cr	Actual	Estimates	Variation (%)
Net sales	506	593	(14.6)
Other income	64	49	31.3
Operating profit	91	119	(23.2)
Tax	44	49	(11.0)
Net profit	81	88	(8.0)

Source: Company, Angel Research

Revenue growth lower than expectation

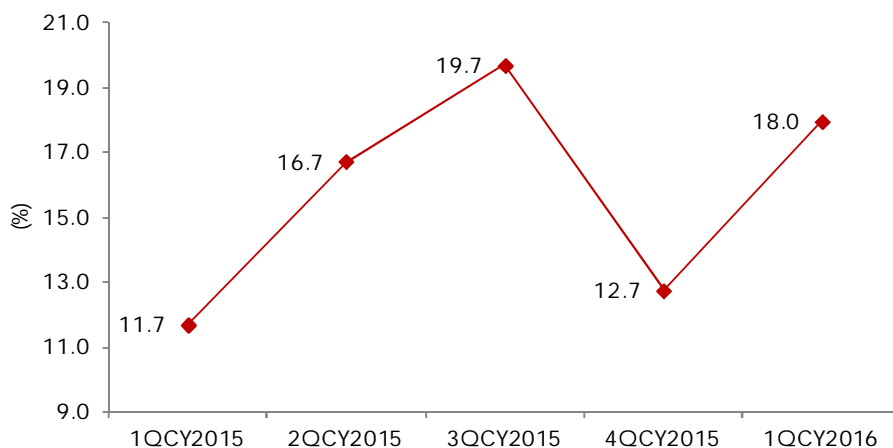
The company posted a 10.1% yoy growth in sales of `506cr (V/s an expected `593cr). We expect revenue growth to sustain in the coming quarters with improvement in volumes along with likely price hikes in DPCO products.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM expands to 18%: On the operating front, the gross margin came in at 52.1%, almost in line with our expectation, and V/s 47.8% in the corresponding period of last year. The expansion in the gross margin came on the back of price hikes. The OPM came in at 18% V/s an expected 20.0% and V/s 11.7% in the corresponding period of last year.

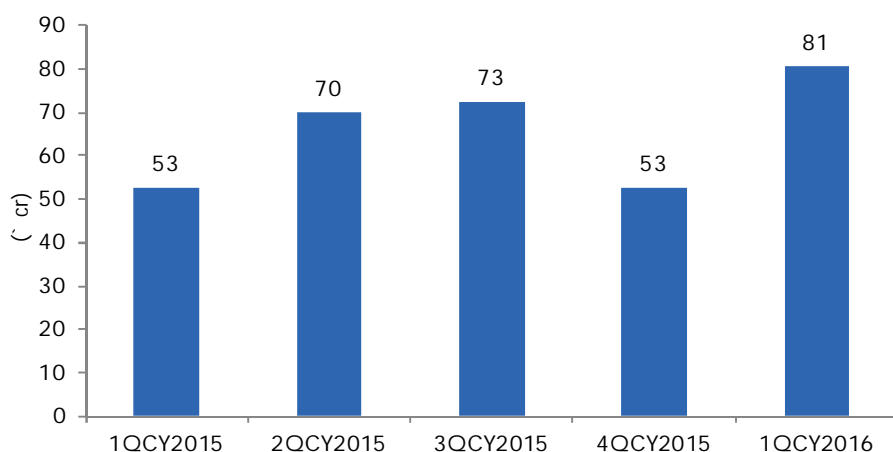
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line lower than estimate: The PAT came in at `81cr (V/s an expected `88cr), a yoy growth of 67.9%. The other income during the quarter came in at `64cr V/s `49cr in 1QCY2015, while tax as a % of PBT was at 35.3% V/s 26.5% in 1QCY2015.

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.

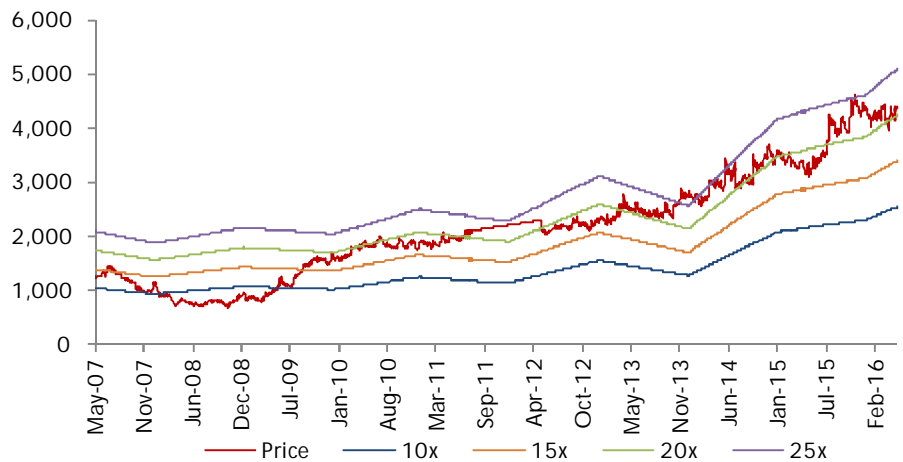
During 2H CY2014 the company's sales were impacted by the July 2014 National Pharmaceutical Pricing Authority (NPPA) order which has brought 80 formulations pertaining to 50 drugs under price control. This severely impacted the company as three of its major products came under price control. The company is estimated to suffer a value loss of ₹120cr on an annualized basis. However, on the positive side the government has revoked the order, which should aid a recovery in the domestic formulation sales of the company, going forward. 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 ₹2,720cr and EPS to register a 21.2% CAGR to ₹169.2 over CY2015–17. At current levels, the stock is trading at 28.7x and 26.1x its CY2016E and CY2017E earnings, respectively. **Given the valuations, we recommend an Accumulate 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 (%)	FY2017E			FY15-17E		FY2017E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	600	-	-	20.9	2.9	14.8	38.2	31.3	31.2	
Aurobindo Pharma	Accumulate	812	856	5.4	19.0	3.0	13.2	15.6	23.5	30.2	
Cadila Healthcare	Accumulate	322	352	9.2	18.3	3.6	16.5	24.6	25.2	29.0	
Cipla	Accumulate	533	605	13.4	19.4	3.2	16.1	18.3	16.7	16.1	
Dr Reddy's	Buy	2,933	3,933	34.1	16.4	2.4	10.6	17.2	19.1	20.4	
Dishman Pharma	Neutral	165	-	-	16.5	1.8	8.2	15.9	9.4	11.0	
GSK Pharma	Neutral	3,623	-	-	53.0	9.3	42.1	6.6	33.7	34.3	
Indoco Remedies	Neutral	271	-	-	19.9	2.2	11.9	23.0	19.7	19.7	
Ipca labs	Buy	487	750	54.2	17.4	1.8	9.7	17.9	11.8	14.9	
Lupin	Neutral	1,578	-	-	23.1	3.9	14.6	13.1	29.6	24.7	
Sanofi India*	Accumulate	4,410	4,738	7.4	28.7	4.7	22.9	34.2	21.0	25.6	
Sun Pharma	Neutral	803	950	18.3	29.8	5.2	17.1	8.4	15.8	16.6	

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)	57.4	42.4	51.5	38.3	28.7	26.1
P/CEPS	38.1	28.4	28.1	23.4	21.3	19.7
P/BV	8.4	7.5	6.8	6.2	4.9	3.9
EV/Sales	6.5	5.8	5.2	4.7	4.0	3.2
EV/EBITDA	41.8	33.5	41.0	30.4	22.9	18.7
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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Disclosure of Interest Statement	Sanofi India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

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%)