

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	3QCY2016	2QCY2016	% chg (qoq)	3QCY2015	% chg (yoy)
Net sales	583	565	3.1	553	5.4
Other income	56	59	(4.9)	42	32.5
Operating profit	104	103	0.7	109	(4.7)
Adj. Net profit	81	85	(4.9)	73	11.9

Source: Company, Angel Research

Sanofi India posted results and are below expectations on all fronts. The sales came in at ₹583cr vs. ₹600cr expected, posting a yoy growth of 5.4%. According to AIOCD, secondary sales, growth for Sanofi India was double digit. According to AIOCD, regulatory actions will have negative one-time impact of ~2% on sales of the company. We expect revenue growth to sustain in the coming quarters with improvement in volumes. On the operating front, the EBITDA margin came in at 17.8% vs. 19.0% expected and 19.7% in 3QCY2015. Consequently, the Adj. PAT came in at ₹81cr vs. ₹73cr in 3QCY2015, a yoy growth of 11.9%. This was against the expectations of ₹94cr. **We maintain our Neutral rating on the stock.**

Lower -than-expected results; mainly on sales: Sanofi India posted results and are below expectations on all fronts. The sales came in at ₹583cr vs. ₹600cr expected, posting a yoy growth of 5.4%. According to AIOCD, secondary sales, growth for Sanofi India was double digit. According to AIOCD, regulatory actions will have negative one-time impact of ~2% on sales of the company. On the operating front, the EBITDA margin came in at 17.8% vs. 19.0% expected and 19.7% in 3QCY2015. Consequently, the Adj. PAT came in at ₹81cr vs. ₹73cr in 3QCY2015, a yoy growth of 11.9%. This was against the expectations of ₹94cr.

Outlook and valuation: We expect net sales to post a 12.6% CAGR to ₹2,597cr and EPS to register a 22.2% CAGR to ₹172.1 over CY2015–17. At current levels, the stock is trading at 28.5x and 24.8x its CY2016E and CY2017E earnings, respectively. **Given the rich 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	2,277	2,597
% chg	9.9	9.3	11.1	14.1
Net Profit	197.1	264.9	343.7	395.5
% chg	(17.8)	34.4	29.8	15.1
EPS (₹)	85.6	115.2	149.4	172.0
EBITDA(%)	12.6	15.4	17.3	18.3
P/E (x)	49.7	37.0	28.5	24.8
RoE (%)	14.4	19.3	25.1	28.8
RoCE (%)	10.2	14.8	19.9	25.6
P/BV (x)	6.6	6.0	4.7	3.8
EV/Sales (x)	5.0	4.5	4.0	3.2
EV/EBITDA (x)	39.5	29.2	22.8	17.6

Source: Company, Angel Research; Note: CMP as of November 8, 2016

NEUTRAL

CMP ₹4,277
 Target Price -

Investment Period -

Stock Info

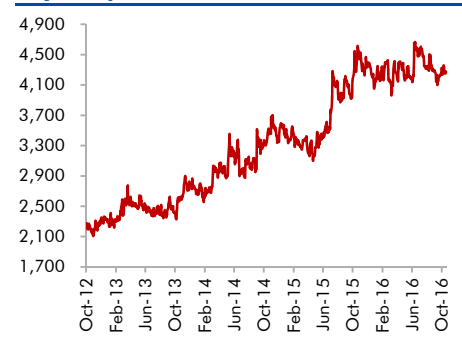
Sector	Pharmaceutical
Market Cap (₹ cr)	9,850
Net debt (₹ cr)	(239)
Beta	0.3
52 Week High / Low	4,770/3,850
Avg. Daily Volume	2,410
Face Value (₹)	10
BSE Sensex	27,591
Nifty	8,544
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)

Promoters	60.4
MF / Banks / Indian Fls	19.3
FII / NRIs / OCBs	15.1
Indian Public / Others	5.2

Abs. (%)	3m	1yr	3yr
Sensex	(2.1)	5.0	33.5
Sanofi India	(4.6)	(0.8)	66.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QCY2016 performance

Y/E Dec (₹ cr)	3QCY2016	2QCY2016	% chg (qoq)	3QCY2015	% chg (yoy)	9MCMY16	9MCMY15	% chg yoy
Net sales	583	565	3.1	553	5.4	1,654	1,527	8.3
Other income	56	59	(4.9)	42	32.5	178	152	17.0
Total income	639	624	2.3	595	7.4	1,832	1,679	9.1
PBITD	104	103	0.7	109	(4.7)	299	249	19.9
OPM (%)	17.8	18.2		19.7		18.0	16.3	
Interest	0.3	0.7		0.1		1	0	
Depreciation & amortisation	30	30	0.0	29	3.4	90	83	8.6
PBT & exceptional items	130	132	(1.4)	122	6.1	385	318	21.1
Less : Exceptional items	0	0		0		0	16	
Profit before tax	130	132	(1.4)	122	6.1	385	302	27.5
Provision for taxation	49	46	5.2	50	(2.2)	139	116	19.6
Net profit	81	85	(4.9)	73	11.9	247	185	33.2
Adj net profit	81	85	(4.9)	73	11.9	247	169	45.9
EPS (₹)	35.3	37.1		31.5		107.2	73.5	

Source: Company, Angel Research

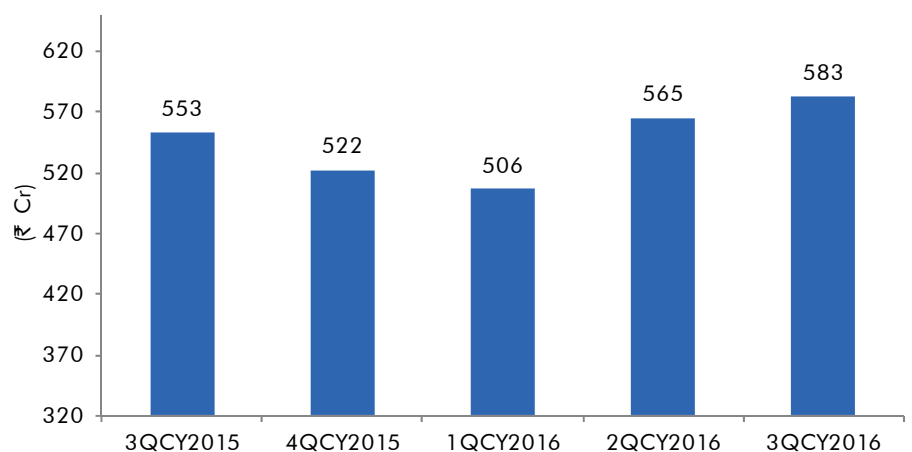
Exhibit 2: 3QCY2016 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net sales	583	600	(2.9)
Other income	56	60	(6.3)
Operating profit	104	114	(9.1)
Tax	49	51	(4.3)
Net profit	81	94	(14.0)

Source: Company, Angel Research

Revenue growth lower than expectation

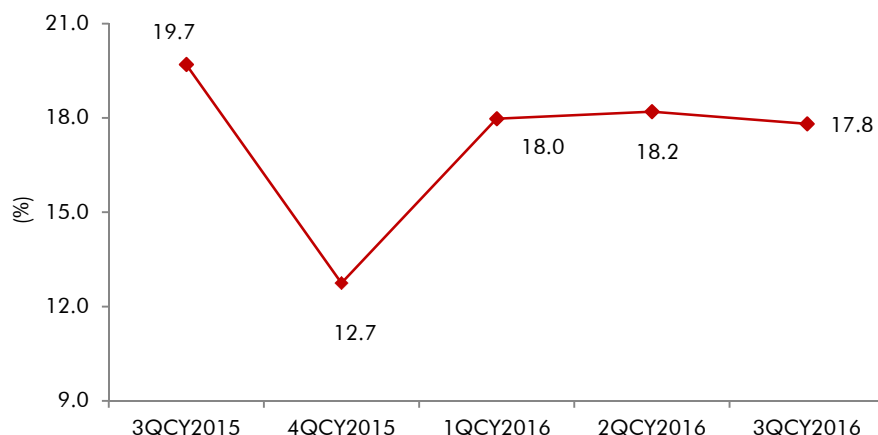
The company posted sales of ₹583cr (vs. an expected ₹600cr), a yoy growth of 5.4%. According to AIOCD, secondary sales, growth for Sanofi India was double digit. According to AIOCD, regulatory actions will have negative one-time impact of ~2% on sales of the company. We expect revenue growth to sustain in the coming quarters with improvement in volumes.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM dips to 17.8%: On the operating front, the gross margin came in at 49.8% vs. an expected 52.4% and vs. 52.0% in the corresponding period of last year. The OPM came in at 17.8% vs. an expected 19.0% and vs. 19.7% in the corresponding period of last year. Other expenses moved down by 5.4%, while employee expenses moved up by 16.1% yoy during the quarter; thus leading dip in the operating margins.

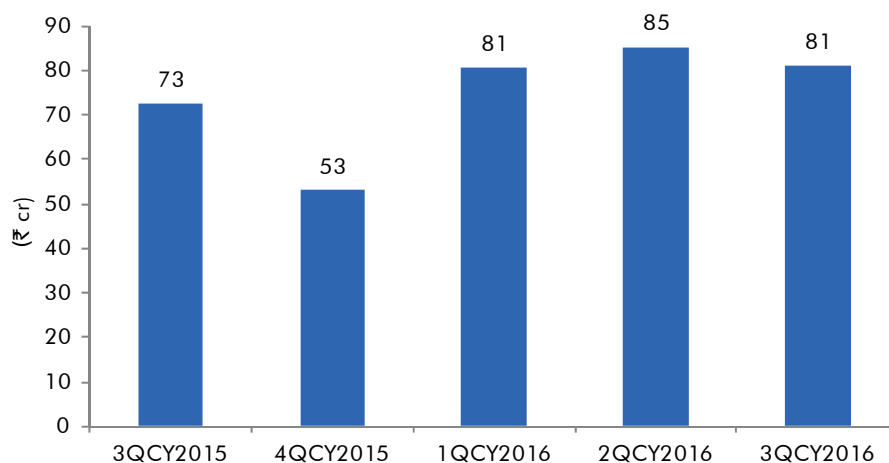
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line lower than estimate: The PAT came in at ₹81cr (vs.an expected ₹94cr), a yoy growth of 11.9%. The other income during the quarter came in at ₹56.5cr vs. ₹42.4cr in 3QCY2015, while tax as a percentage of PBT was at 37.5% vs. 40.7% in 3QCY2015.

Exhibit 5: Adj. net profit trend



Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Sanofi recorded revenue CAGR of 9.1% to ₹1,494cr over CY2006–12. The growth 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.

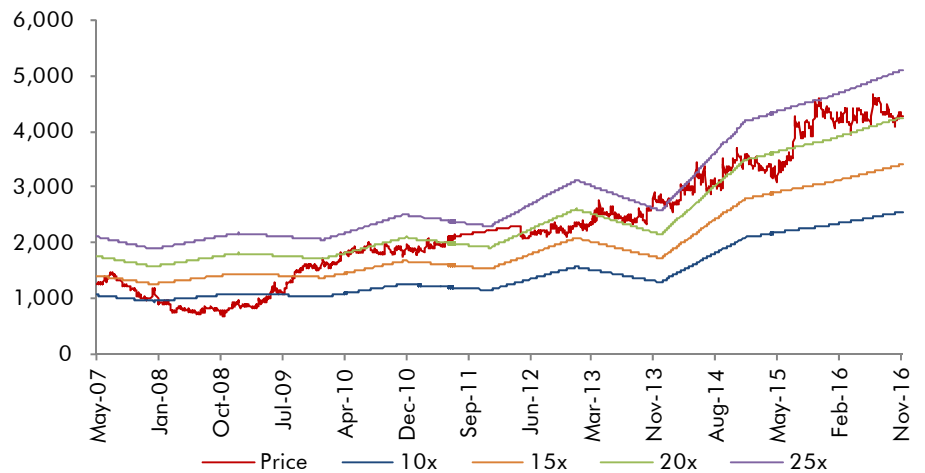
During 2HCY2014 the company's sales were impacted by the July 2014 National Pharmaceutical Pricing Authority (NPPA) order which has brought 80 formulations pertaining to 50 drugs under price control. This severely impacted the company as three of its major products have come under price control. The 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 12.6% CAGR over CY2015–17, with domestic formulation sales expected to post a yoy growth of around 14.3% during the period.

Valuation: We expect net sales to post a 12.6% CAGR to ₹2,597cr and EPS to register a 22.2% CAGR to ₹172.1 over CY2015–17. At current levels, the stock is trading at 28.1x and 24.8x its CY2016E and CY2017E earnings, respectively. **Given the rich valuations, we recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2016E	CY2017E
Net sales growth (%)	11.1	14.1
Domestic sales growth (%)	10.0	15.0
Export sales growth (%)	6.0	10.0
Growth in employee expenses (%)	11.1	14.1
Operating margins (%)	17.4	20.8
Net profit growth (%)	29.8	15.1
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 (%)	FY2018E			FY16-18E		FY2018E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	655	-	-	21.6	2.9	13.5	(10.8)	27.5	25.3	
Aurobindo Pharma	Buy	757	877	15.9	16.0	2.6	11.1	18.1	22.5	26.1	
Cadila Healthcare	Buy	375	-	-	19.5	3.0	13.7	13.4	22.7	25.7	
Cipla	Neutral	536	-	-	19.7	2.5	13.6	20.4	13.5	15.2	
Dr Reddy's	Neutral	3,115	-	-	21.8	2.8	12.5	1.7	16.2	15.9	
Dishman Pharma	Neutral	237	-	-	21.0	2.3	10.3	3.1	10.3	10.9	
GSK Pharma*	Neutral	2,719	-	-	44.7	6.8	32.8	17.3	35.3	32.1	
Indoco Remedies	Reduce	277	240	(13.4)	17.3	2.0	11.1	33.2	19.1	20.1	
Ipca labs	Accumulate	572	613	7.2	29.0	2.0	13.1	36.5	8.8	9.4	
Lupin	Buy	1,509	1,809	19.9	21.8	3.6	13.4	17.2	24.4	20.9	
Sanofi India*	Neutral	4,277	-	-	24.9	3.3	17.8	22.2	24.9	28.8	
Sun Pharma	Buy	635	944	48.6	19.4	3.8	12.2	22.0	33.1	18.9	

Source: Company, Angel Research

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 CY2014.

Profit & loss statement

Y/E Dec. (₹ cr)	CY12	CY3	CY14	CY15	CY16E	CY17E
Gross sales	1,534	1,746	1,915	2,097	2,329	2,653
Less: Excise duty	40	39	40	48	53	56
Net sales	1,494	1,707	1,875	2,049	2,277	2,597
Other operating income	91	102	103	144	144	144
Total operating income	1,585	1,809	1,978	2,193	2,420	2,741
% chg	20.5	14.1	9.3	10.9	10.4	13.2
Total expenditure	1,261	1,411	1,639	1,734	1,882	2,120
Net raw materials	735	820	974	1,012	1,079	1,205
Other mfg costs	74	82	93	106	118	135
Personnel	214	242	288	333	370	422
Other	238	267	283	283	314	358
EBITDA	233	296	236	315	395	477
% 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	18.3
Dep. & amortisation	90	92	97	113	123	125
EBIT	143	203	140	202	272	351
% 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 Asso.	-	-	-	-	-	-
Recurring PBT	262	363	307	481	516	595
% chg	(7.7)	38.7	3.8	4.8	5.8	6.8
Extraordinary Exp./(Inc.)						
PBT (reported)	262	363	307	481	516	595
Tax	85.0	123.3	109.0	159.4	170.3	196.3
(% of PBT)	32.4	33.9	35.6	33.1	33.0	33.0
PAT (reported)	177	240	198	322	346	399
Extra-ordinary items	(0)	(25)	(67)	56	-	-
PAT after MI (reported)	177	266	264	321	344	396
ADJ. PAT	177	240	197	265	344	396
% chg	(7.4)	35.4	(17.8)	34.4	29.8	15.1
(% of Net Sales)	11.8	15.6	14.1	15.7	15.1	15.2
Basic EPS (₹)	77	104	86	115	149	172
Fully Diluted EPS (₹)	77	104	86	115	149	172
% chg	(7.4)	35.4	(17.8)	34.6	29.8	15.1

Balance sheet

Y/E Dec (₹ cr)	CY12	CY3	CY14	CY15	CY16E	CY17E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,181	1,324	1,463	1,604	2,051	2,551
Shareholders funds	1,204	1,347	1,486	1,627	2,074	2,574
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	2,117	2,617
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	1,832	2,521
Cash	429	264	469	572	792	1,427
Loans & advances	208	219	196	301	334	288
Other	191	464	598	373	706	806
Current liabilities	387	435	656	617	664	757
Net current assets	441	512	607	628	1,169	1,764
Deferred tax assets	(21)	(37)	(54)	(120)	(120)	(120)
Total assets	1,223	1,372	1,518	1,668	2,117	2,617

Cash flow statement

Y/E Dec. (₹ cr)	CY12	CY13	CY14	CY15	CY16E	CY17E
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	321	(40)
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	574	215
(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	213	675
Opening Cash balances	234	429	264	469	572	792
Closing Cash balances	429	264	469	572	792	1,427

Key ratios

Y/E Dec.	CY12	CY13	CY14	CY15	CY16E	CY17E
Valuation Ratio (x)						
P/E (on FDEPS)	55.4	40.9	49.7	37.0	28.5	24.8
P/CEPS	36.7	27.4	27.2	22.6	21.0	18.8
P/BV	8.1	7.3	6.6	6.0	4.7	3.8
EV/Sales	6.3	5.6	5.0	4.5	4.0	3.2
EV/EBITDA	40.3	32.3	39.5	29.2	22.8	17.6
Per Share Data (₹)						
EPS (Basic)	76.9	104.1	85.6	115.2	149.4	172.0
EPS (fully diluted)	76.9	104.1	85.6	115.2	149.4	172.0
Cash EPS	115.9	155.4	156.7	188.7	202.8	226.5
DPS	33.0	33.0	33.0	33.0	33.0	33.0
Book Value	522.9	584.8	645.2	707.4	901.9	1,118.9
Returns (%)						
RoCE (Pre-tax)	12.1	15.7	10.2	14.8	19.9	25.6
Angel ROIC (Pre-tax)	17.5	22.4	14.6	21.1	28.3	36.5
ROE	15.3	18.8	14.4	19.3	25.1	28.8
Turnover ratios (x)						
Inventory / Sales (days)	61	31	28	26	23	21
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)