

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	2QCY2017	1QCY2017	% chg (qoq)	2QCY2016	% chg (yoy)
Net sales	556	513	8.4	578	(3.8)
Other income	73	56	30.5	54	36.8
Operating profit	71	61	15.2	108	(34.3)
Adj. Net profit	74	60	22.8	86	(14.4)

Source: Company, Angel Research

For 2QCY2017, Sanofi India posted results which were below expectations on all fronts. The sales came in at ₹556cr v/s. ₹520cr expected, registering a yoy de-growth of 3.8%. On the operating front, the EBITDA margin came in at 12.7% (17.6% expected) v/s. 18.6% in 2QCY2016. Despite better GPM (Gross Profit Margin), which came in at 55.5% v/s. 51.5% in 2QCY2016, the EBITDA margin was lower, as the other expenses rose by 35.7% yoy, while employee expenses rose by 12.4% yoy. Consequently, the Adj. PAT came in at ₹74cr v/s. ₹86cr in 2QCY2016, a yoy de-growth of 14.4%. This was against the expectations of ₹82cr. **We maintain our Neutral rating.**

Results lower than expectations on all fronts: The sales came in at ₹556cr v/s. ₹520cr expected, registering a yoy de-growth of 3.8%. On the operating front, the EBITDA margin came in at 12.7% (17.6% expected) v/s. 18.6% in 2QCY2016. Despite better GPM (Gross Profit Margin), which came in at 55.5% v/s. 51.5% in 2QCY2016, the EBITDA margin was lower, as the other expenses rose by 35.7% yoy, while employee expenses rose by 12.4% yoy. Consequently, the Adj. PAT came in at ₹74cr v/s. ₹86cr in 2QCY2016, a yoy de-growth of 14.4%.

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 26.1x its CY2018E earnings. **We recommend a Neutral rating.**

Key financials

Y E Dec (₹ cr)	CY2015	CY2016	CY2017E	CY2018E
Net Sales	2,049	2,206	2,508	2,862
% chg	9.3	7.7	13.7	14.1
Net Profit	264.9	296.5	289.8	353.8
% chg	34.4	11.9	(2.2)	22.1
EPS (₹)	115.2	128.9	126.0	153.8
EBITDA (%)	15.4	16.6	14.8	16.8
P/E (x)	34.8	31.1	31.8	26.1
RoE (%)	19.3	21.6	21.1	25.8
RoCE (%)	14.8	17.1	16.5	23.9
P/BV (x)	5.7	5.3	4.2	3.4
EV/Sales (x)	4.2	3.9	3.3	2.7
EV/EBITDA (x)	27.4	23.7	22.1	16.0

Source: Company, Angel Research; Note: CMP as of August 24, 2017

NEUTRAL

CMP ₹4,007
 Target Price -

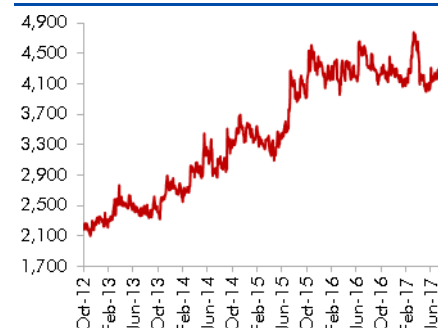
Investment Period 12 months

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	9,229
Net debt (₹ cr)	(519)
Beta	0.5
52 Week High / Low	4,930/3,944
Avg. Daily Volume	2,081
Face Value (₹)	10
BSE Sensex	31,596
Nifty	9,857
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	6.5	12.6	19.5
Sanofi India	(8.7)	(7.1)	30.7

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QCY2017 performance

Y/E Dec (` cr)	2QCY2017	1QCY2017	% chg (qoq)	2QCY2016	% chg (yoy)	1HCY17	1HCY16	% chg yoy
Net sales	556	513	8.4	578	(3.8)	1,069	1,096	(2.5)
Other income	73	56	30.5	54	36.8	129	117	10.4
Total income	629	569	10.6	631	(0.3)	1,198	1,213	(1.3)
PBIDT	71	61	15.2	108	(34.3)	132	199	(33.9)
OPM (%)	12.7	12.0		18.6		12.3	18.2	
Interest	0.0	0.4		0.7		0	0	
Depreciation & amortization	26	25	0.8	27	(5.2)	51	54	(5.6)
PBT & exceptional items	118	92	29.0	133	(11.3)	210	262	(19.9)
Less : Exceptional items	0	0		0		0	0	
Profit before tax	118	92	29.0	133	(11.3)	210	262	(19.9)
Provision for taxation	45	32	40.7	47	(5.7)	76	93	(18.0)
Net profit	74	60	22.8	86	(14.4)	134	169	(21.0)
Adj net profit	74	60	22.8	86	(14.4)	134	169	(21.0)
EPS (`)	32.0	26.1		37.4		58.1	73.6	

Source: Company, Angel Research

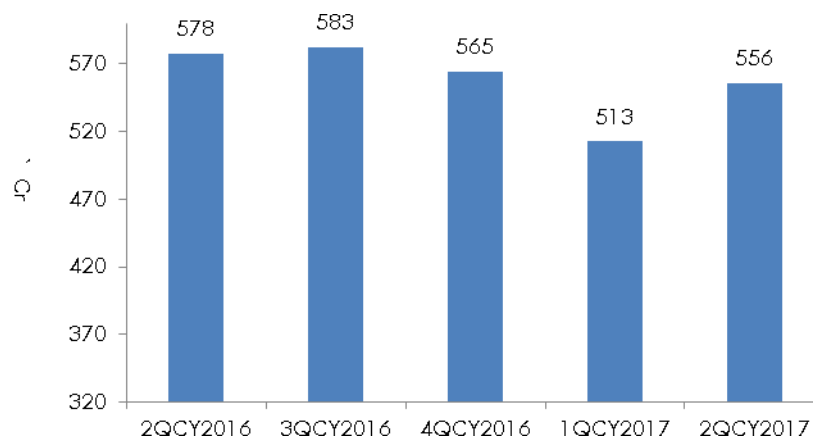
Exhibit 2: 2QCY2017 – Actual Vs Angel estimates

` cr	Actual	Estimates	Variation (%)
Net sales	556	520	6.9
Other income	73	56	30.5
Operating profit	71	69	2.9
Tax	45	44	0.9
Net profit	74	82	(10.3)

Source: Company, Angel Research

Revenue growth better than expectation

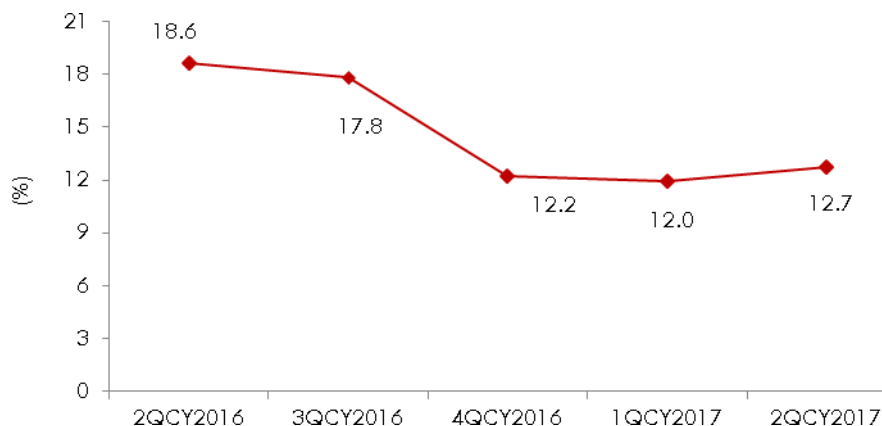
The sales came in at `556cr v/s. `520cr expected, posting a yoy de-growth of 3.8%, mainly on the back of the GST, though much better than our expectations. According to AIOCD, secondary sales growth for the company stood at ~14% yoy, higher than average industry growth of 7.6%.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM dips to 12.7%: On the operating front, the EBITDA margin came in at 12.7% (17.6% expected) v/s. 18.6% in 2QCY2016. Despite better GPM (Gross Profit Margin), which came in at 55.5% v/s. 51.5% in 2QCY2016, the EBITDA margin was lower, as the other expenses rose by 35.7% yoy, while employee expenses rose by 12.4% yoy.

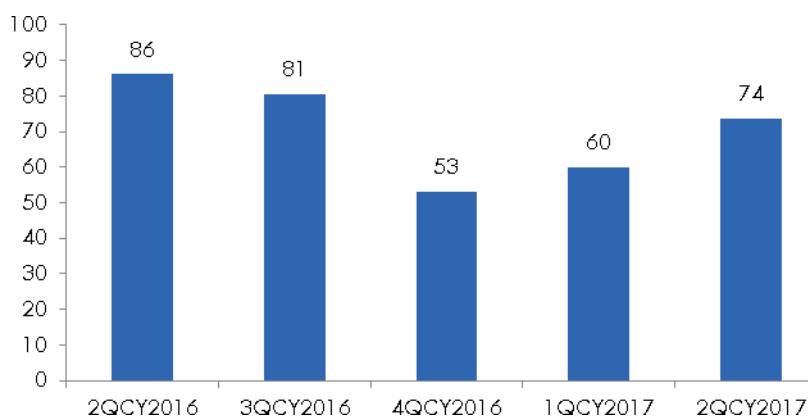
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line much lower than estimates: Consequently, the Adj. PAT came in at `74cr v/s. `86cr in 2QCY2016, a yoy de-growth of 14.4%. This was against the expectations of `82cr. Other income, which came in at `73.2cr, was up 36.8% 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.

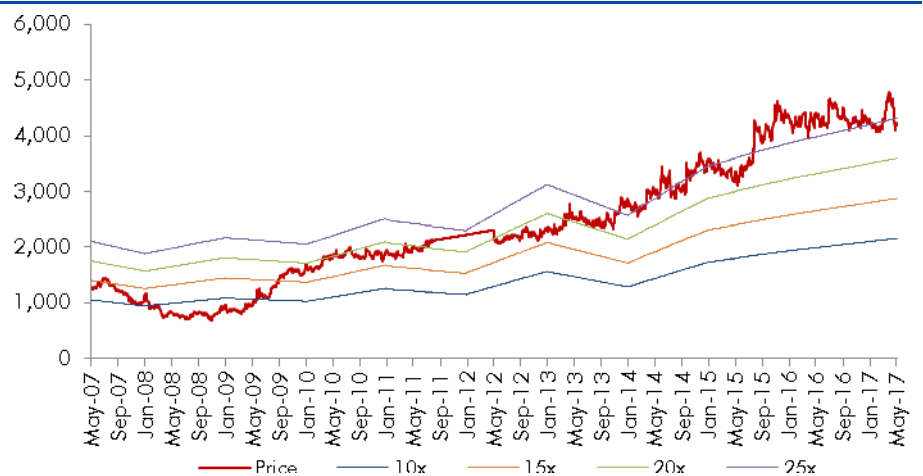
Valuation: We expect net sales to post 13.9% CAGR to ₹2,862cr and EPS to register 9.2% CAGR to ₹153.8 over CY2016–18. At current levels, the stock is trading at 29.9x and 27.2x its CY2017 and CY2018E earnings respectively. **Given the rich valuations, we recommend a reduce rating.**

Exhibit 6: Key assumptions

	CY2017E	CY2018E
Net sales growth (%)	13.7	14.1
Growth in employee expenses (%)	13.7	14.1
Operating margins (%)	14.8	16.8
Net profit growth (%)	(2.2)	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		FY2019E		FY17-19E	FY2019E	
				(%)	PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Buy	510	600	17.4	18.7	2.1	10.9	12.8	24.3	20.6
Aurobindo Pharma	Accumulate	733	823	12.3	14.2	2.2	10.0	14.2	25.3	22.7
Cadila Healthcare	Reduce	495	426	(13.9)	23.3	3.8	18.4	21.0	17.3	22.9
Cipla	Sell	573	458	(20.1)	23.8	2.5	15.3	38.7	10.9	13.1
Dr Reddy's	Accumulate	2,088	2,219	6.3	18.8	2.1	11.7	23.6	11.2	13.0
Dishman Pharma	Under Review	301	-	-	18.9	1.3	10.1	(7.2)	2.9	2.5
GSK Pharma	Neutral	2,385	-	-	40.7	5.5	30.5	30.6	28.9	26.5
Indoco Remedies	Sell	190	153	(19.6)	14.9	1.5	10.0	23.0	11.3	15.6
Ipca labs	Buy	414	540	30.3	17.3	1.3	8.8	24.7	12.4	11.0
Lupin	Buy	992	1,467	47.8	14.9	2.0	8.7	8.2	20.5	17.5
Sanofi India*	Neutral	4,007	-	-	26.1	2.7	16.0	9.2	23.9	25.8
Sun Pharma	Buy	483	558	16.0	19.5	3.2	14.3	8.0	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
Gross sales	1,745	1,916	2,093	2,253	2,564	2,919
Less: Excise duty	38	41	44	47	56	57
Net sales	1,707	1,875	2,049	2,206	2,508	2,862
Other operating income	102	103	144	162	162	162
Total operating income	1,809	1,978	2,193	2,369	2,671	3,025
% chg	14.1	9.3	10.9	8.0	12.8	13.2
Total expenditure	1,411	1,639	1,734	1,841	2,136	2,380
Net raw materials	820	974	1,012	1,065	1,254	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
EBITDA	296	236	315	366	372	482
% chg	27.0	7.3	8.3	9.3	10.3	11.3
(% of Net Sales)	17.3	12.6	15.4	16.6	14.8	16.8
Dep. & amortisation	92	97	113	131	147	155
EBIT	203	140	202	234	226	328
% 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
Recurring PBT	363	307	481	468	459	561
% chg	38.7	3.8	4.8	5.8	6.8	7.8
Extraordinary Exp./(Inc.)						
PBT (reported)	363	307	481	468	459	561
Tax	123.3	109.0	159.4	169.1	166.2	203.0
(% of PBT)	33.9	35.6	33.1	36.2	36.2	36.2
PAT (reported)	240	198	322	299	293	358
Extra-ordinary items	(25)	(67)	56	-	-	-
PAT after MI (reported)	266	264	321	297	290	354
ADJ. PAT	240	197	265	297	290	354
% chg	35.4	(17.8)	34.4	11.9	(2.2)	22.1
(% of Net Sales)	15.6	14.1	15.7	13.4	11.6	12.4
Basic EPS (₹)	104	86	115	129	126	154
Fully Diluted EPS (₹)	104	86	115	129	126	154
% chg	35.4	(17.8)	34.6	11.9	(2.2)	22.1

Balance sheet

Y/E Dec (₹ cr)	CY13	CY14	CY15	CY16	CY17E	CY18E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,324	1,463	1,604	1,713	2,163	2,677
Shareholders funds	1,347	1,486	1,627	1,736	2,186	2,700
Long term provisions	25	32	40	40	40	40
Other long term liabilities	-	-	-	-	-	-
Total loans	-	-	-	-	-	-
Total liabilities	1,372	1,518	1,668	1,778	2,229	2,744
APPLICATION OF FUNDS						
Gross block	1,075	1,195	1,349	1,427	1,507	1,587
Less: Acc. Depreciation	409	506	619	750	897	1,051
Net block	666	690	730	677	610	535
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
Investments	0.2	0.2	0.2	0.2	0.2	0.2
Current assets	947	1,263	1,245	1,567	2,177	2,874
Cash	264	469	572	559	986	1,515
Loans & advances	219	196	337	363	412	471
Other	464	598	336	646	778	888
Current liabilities	435	656	617	668	759	866
Net current assets	512	607	628	900	1,418	2,007
Deferred tax assets	(37)	(54)	(120)	(97)	(97)	(97)
Total assets	1,372	1,518	1,668	1,778	2,229	2,744

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
Cash Flow from Operations	415	164	317	414	366	344
(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
Cash Flow from Investing	(84)	41	42	43	44	45
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(104)	(104)	(104)	(160)	(160)	(160)
Others	(393)	102	(153)	(310)	178	(758)
Cash Flow from Financing	(496)	(1)	(257)	(470)	17	(918)
Inc./Dec.) in Cash	(164)	204	103	(13)	428	(529)
Opening Cash balances	429	264	469	572	559	986
Closing Cash balances	264	469	572	559	986	1,515

Key ratios

Y/E Dec.	CY13	CY14	CY15	CY16	CY17E	CY18E
Valuation Ratio (x)						
P/E (on FDEPS)	38.5	46.8	34.8	31.1	31.8	26.1
P/CEPS	25.8	25.6	21.2	21.5	21.1	18.1
P/BV	6.9	6.2	5.7	5.3	4.2	3.4
EV/Sales	5.3	4.7	4.2	3.9	3.3	2.7
EV/EBITDA	30.3	37.1	27.4	23.7	22.1	16.0
Per Share Data (₹)						
EPS (Basic)	104.1	85.6	115.2	128.9	126.0	153.8
EPS (fully diluted)	104.1	85.6	115.2	128.9	126.0	153.8
Cash EPS	155.4	156.7	188.7	186.0	189.8	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	950.3	1,173.8
Returns (%)						
RoCE (Pre-tax)	15.7	10.2	14.8	17.1	16.5	23.9
Angel ROIC (Pre-tax)	22.4	14.6	21.1	24.4	23.5	34.0
ROE	18.8	14.4	19.3	21.6	21.1	25.8
Turnover ratios (x)						
Inventory / Sales (days)	31	28	26	24	21	19
Receivables (days)	9	8	7	7	6	6
Payables (days)	24	21	20	19	16	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)