

BSE SENSEX	S&P CNX
38,277	11,498
Bloomberg	SANL IN
Equity Shares (m)	23
M.Cap.(INRb)/(USDb)	129.7 / 1.9
52-Week Range (INR)	6840 / 4706
1, 6, 12 Rel. Per (%)	-3/-15/8
12M Avg Val (INR M)	79
Free float (%)	39.6

CMP: INR5,611 TP: INR6,930 (+23%) Buy

Execution superiority reflecting in earnings

- Outperformance driven by robust revenue growth:** Sales increased 16% YoY to INR7.2b (our estimate: INR6.8b) in 1QCY19. Gross margin shrank 250bp YoY to 57% due to the change in the product mix. However, EBITDA margin contracted at a much lower rate of 30bp YoY to 21.4% (our estimate: 20%), supported by lower other expenses (-110bp YoY to 21.2% of sales) and employee cost (-110bp YoY to 14.4%). Absolute EBITDA increased 14% YoY to INR1.6b (our estimate: INR1.4b). PAT grew 12.6% YoY to INR929m (our estimate: INR828m).
- Anti-diabetic, Cardiac and Neuro take center stage:** Revenue growth was largely driven by the Anti-Diabetic (~23% of sales) portfolio, particularly by its top brand (rank-1) Lantus (+24% YoY). According to the AIOCD, secondary sales growth in Anti-Diabetic stood at 24% YoY for the quarter. SANL also maintained momentum in Cardiac (15% of sales) and Neuro (7% of sales) with secondary sales growth of 16% YoY and 18% YoY, respectively. However, growth was somewhat offset by the muted performances at Vaccines (+4.7% YoY; 12% of sales) and Respiratory (+1.6% YoY; 11% of sales). Notably, the top vaccines brand Hexaxim (rank 5) was down 16% YoY, while the top respiratory brand Avil (rank 8) was down 23% YoY. Allegra (rank-2), however, grew by 14% YoY and supported respiratory therapy growth.
- Valuation and view:** We cut our CY19/20 earnings estimates by 5%/4.5% to factor in the lower gross margin and the higher tax rate. We roll our target price to a 12-month forward earnings basis and continue valuing SANL at 32x P/E to arrive at a price target of INR6,930 (prior: INR7,000). However, we re-iterate our **Buy** rating on the stock, given (1) good prospects in the chronic categories like cardiac, respiratory, diabetes, (2) volume rather than pricing led growth and (3) industry outperformance by the top brands, despite a high base.

Financials & Valuations (INR b)

Y/E Dec	2019E	2020E	2021E
Net Sales	31.6	34.7	38.3
EBITDA	7.1	7.9	9.1
PAT	4.3	4.8	5.5
EPS (INR)	187.5	208.9	239.4
Gr. (%)	13.3	11.4	14.6
BV/Sh (INR)	1,055	1,172	1,321
RoE (%)	17.8	17.8	18.1
RoCE (%)	17.5	17.8	18.3
P/E (x)	29.9	26.9	23.4
P/BV (x)	5.3	4.8	4.0

Estimate change



TP change



Rating change



Quarterly Performance

Y/E December	(INR M)										Est. 1QE	Var. vs Est
	CY18				CY19E				CY18	CY19E		
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	6,177	6,836	7,438	7,264	7,173	7,731	8,275	8,451	27,715	31,630	6,810	5.3%
YoY Change (%)	11.7	13.8	11.4	8.4	16.1	13.1	11.3	16.3	11.2	14.1		
EBITDA	1,344	1,645	1,873	1,373	1,538	1,678	1,928	1,910	6,235	7,054	1,362	12.9%
Margins (%)	21.8	24.1	25.2	18.9	21.4	21.7	23.3	22.6	22.5	22.3	20.0	
Depreciation	254	254	260	259	261	270	275	286	1,027	1,092	292	
Interest	0	0	0	7	0	3	3	2	7	7	2	
Other Income	226	208	262	201	230	236	236	242	897	945	236	
PBT before EO Items	1,316	1,599	1,875	1,308	1,507	1,641	1,887	1,865	6,098	6,900	1,304	15.5%
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT after EO Items	1,316	1,599	1,875	1,308	1,507	1,641	1,887	1,865	6,098	6,900	1,304	15.5%
Tax	491	603	683	515	578	615	704	690	2,292	2,587	476	
Effective tax Rate (%)	37.3	37.7	36.4	39.4	38.4	37.5	37.3	37.0	37.6	37.5	36.5	
Reported PAT	825	996	1,192	793	929	1,026	1,183	1,175	3,806	4,312	828	12.2%
Adj PAT	825	996	1,192	793	929	1,026	1,183	1,175	3,806	4,312	828	12.2%
YoY Change (%)	37.5	35.1	2.5	4.3	12.6	3.0	-0.8	48.1	16.7	13.3	0.4	
Margins (%)	13.4	14.6	16.0	10.9	13.0	13.3	14.3	13.9	13.7	13.6	12.2	

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Sanofi India

Exhibit 1: Top 10 Drugs

Sanofi's secondary sales grew ~11% YoY in Mar'19 (+14% in Feb'19).

Drug	Therapy	MAT Mar 19			Gr. (%)	
		Value (INR m)	Gr. (%)	Mkt Sh. (%)	Last 3M	Mar-19
Sanofi India		29,991	10.2	100.0	13.6	10.9
Lantus	Anti Diabetic	4,851	26.6	16.2	24.3	23.6
Allegra	Respiratory	1,786	14.0	6.0	13.9	12.6
Combiflam	Pain / Analgesics	1,678	(10.5)	5.6	2.8	5.8
Amaryl M	Anti Diabetic	1,492	7.6	5.0	12.9	12.2
Hexaxim	Vaccines	1,453	(19.5)	4.8	(16.0)	(26.9)
Clexane	Cardiac	1,055	(0.6)	3.5	9.6	30.3
Cardace	Cardiac	1,037	19.6	3.5	9.3	4.1
Avil	Respiratory	1,010	1.9	3.4	(23.4)	(28.7)
Enterogermina	Gastro Intestinal	996	8.3	3.3	13.2	1.6
Targocid	Anti-Infectives	822	25.2	2.7	9.1	7.3

Source: AIOCD, MOSL

Exhibit 2: Therapy Mix (%)

Anti-diabetic portfolio continued growing at a high rate of ~23% YoY in Mar'19. Growth in cardiac stood in mid-teens, while neuro saw high growth of 19% YoY. Overall growth was dragged by respiratory, vaccines and pain therapies during the month.

	Share	MAT Gr. (%)	3M*	Mar 19 Gr. (%)
Total	100.0	10.2	13.6	10.9
Anti Diabetic	29.8	22.4	23.8	22.7
Cardiac	15.6	10.5	15.5	18.1
Vaccines	11.9	(7.6)	4.7	(8.0)
Respiratory	10.7	10.7	1.6	(3.4)
Pain / Analgesics	8.3	(4.5)	6.4	8.1
Neuro / Cns	7.0	9.8	18.3	19.2

Source: AIOCD, MOSL

Exhibit 3: Brand-wise growth distribution

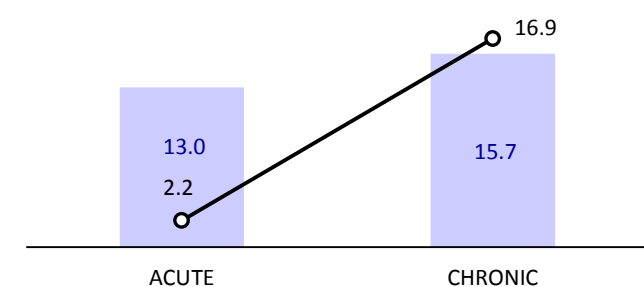
Overall volume growth stood at 4.9% in Mar'19 v/s 5.9% in Feb-19. Price growth accelerated to 3% from 2.3% in Feb'19.

	% of sales	MAT growth (%)	Gr. Contribution (%)
Total	100.0	10.2	100.0
Top 10 Brands	53.9	8.2	44.0
11 to 25 Brands	23.6	23.3	48.0
26 to 50 Brands	16.2	5.3	8.9
Above 50 Brands	6.2	(1.3)	(0.9)

Source: AIOCD, MOSL

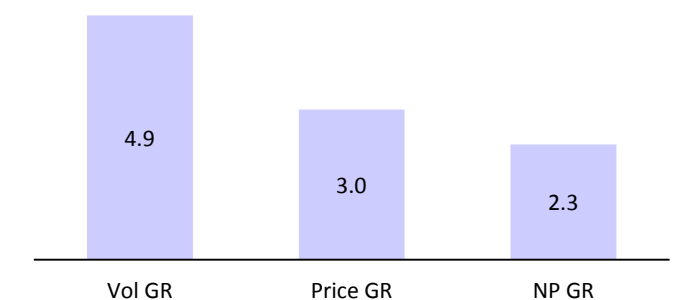
Exhibit 4: Acute v/s Chronic (MAT growth)

■ MATVALUE MAR 19 ● MATVALUE GR MAR 19



Source: AIOCD, MOSL

Exhibit 5: Growth distribution (%) (MAT Mar'19)



Source: AIOCD, MOSL

Operating metrics

Exhibit 6: Key operating metrics

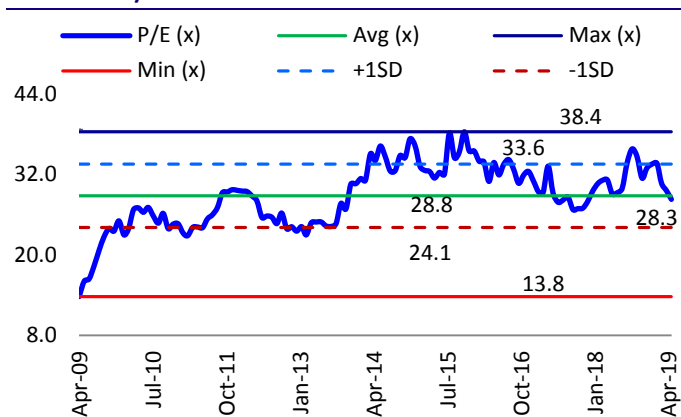
	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19
Revenue Gr. (%)	11.4	10.6	6.6	4.1	1.6	-1.2	6.9	13.2	11.7	13.8	11.4	8.4	16.1
As % of sales													
Raw material	44.6	46.1	46.9	42.2	42.4	41.1	37.3	40.8	40.4	40.2	41.6	43.1	42.9
Staff cost	15.4	14.1	15.2	16.3	16.0	15.8	14.5	13.6	15.5	14.7	14.1	14.2	14.4
Other expenses	16.3	15.8	14.8	23.4	23.2	23.8	20.7	25.6	22.3	21.1	19.2	23.8	21.2
Tax Rate	32.5	35.1	37.6	37.6	34.6	37.7	35.0	39.6	37.3	37.7	36.4	39.4	38.4
Margins (%)													
EBITDA Margins	23.7	24.0	23.2	18.1	18.4	19.2	27.5	20.0	21.8	24.1	25.2	18.9	21.4
EBIT Margins	19.6	20.5	19.7	12.0	14.9	16.2	25.2	17.2	18.9	21.8	23.0	16.5	19.2
PAT margins	15.9	15.1	13.8	9.2	11.7	13.3	18.6	12.0	14.3	15.6	17.0	11.7	14.0

Source: Company, MOSL

Valuation and view

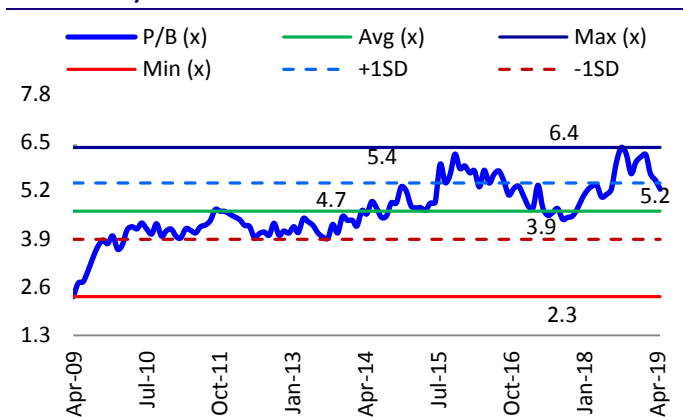
We cut our CY19/20 earnings estimates by 5%/4.5% to factor in the lower gross margin and the higher tax rate. We roll our target price to a 12-month forward earnings basis and continue valuing SANL at 32x P/E to arrive at a price target of INR6,930 (prior: INR7,000). However, we re-iterate our **Buy** rating on the stock, given (1) good prospects in the chronic categories like cardiac, respiratory, diabetes, (2) volume rather than pricing led growth and (3) industry outperformance by the top brands, despite a high base.

Exhibit 7: P/E band



Source: MOSL, Company

Exhibit 8: P/B band



Source: MOSL, Company

Financials and Valuations

Income Statement

(INR M)

Y/E December	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	19,774	21,931	23,686	24,914	27,708	31,630	34,732	38,296
Change (%)	9.9	9.3	7.7	5.5	11.5	13.8	9.8	10.9
EBITDA	3,388	4,591	5,281	5,372	6,235	7,054	7,919	9,076
Change (%)	-15.0	35.5	15.0	1.7	16.1	13.1	12.3	14.6
Margin (%)	17.1	20.9	22.3	21.6	22.5	22.3	22.8	23.7
Depreciation	966	1,130	1,313	1,022	1,027	1,092	1,180	1,258
EBIT	2,422	3,461	3,968	4,350	5,208	5,962	6,739	7,818
Int. and Finance Charges	5	4	15	11	7	7	7	7
Other Income - Rec.	643	514	708	807	897	945	956	957
PBT & EO Items	3,060	3,971	4,661	5,146	6,098	6,900	7,688	8,768
Change (%)	-15.7	29.8	17.4	10.4	18.5	13.1	11.4	14.0
Extra Ordinary Income/(Exp)	666	838	0	0	0	0	0	0
PBT after EO Items	3,726	4,809	4,661	5,146	6,098	6,900	7,688	8,768
Tax	1,090	1,594	1,691	1,886	2,292	2,587	2,883	3,262
Tax Rate (%)	29.3	33.1	36.3	36.6	37.6	37.5	37.5	37.2
Reported PAT	2,636	3,215	2,970	3,260	3,806	4,312	4,805	5,506
PAT Adj for EO Items	1,970	2,377	2,970	3,260	3,806	4,312	4,805	5,506
Change (%)	-17.8	20.7	24.9	9.8	16.7	13.3	11.4	14.6
Margin (%)	10.0	10.8	12.5	13.1	13.7	13.6	13.8	14.4

Balance Sheet

(INR M)

Y/E December	2014	2015	2016	2017	2018	2019E	2020E	2021E
Equity Share Capital	230	230	230	230	230	230	230	230
Preference Share Capital								
Reserves	14,594	16,038	17,123	20,051	21,959	24,030	26,737	30,146
Revaluation Reserves	35	3	3	3	3	3	3	3
Net Worth	14,858	16,271	17,356	20,284	22,192	24,263	26,970	30,379
Deferred Tax Liabilities	539	1203	966	1496	1412	1412	1412	1412
Capital Employed	15,397	17,588	18,441	21,780	23,604	25,675	28,382	31,791
Gross Block	5,997	9,218	9,767	9,216	9,849	10,599	11,349	12,099
Less: Accum. Deprn.	3,152	3,553	4,127	2,201	3,205	3,797	4,477	5,235
Net Fixed Assets	2,846	5,665	5,640	7,015	6,644	6,802	6,872	6,864
Capital WIP	2,099	221	336	244	164	164	164	164
Investments	2	2	2	2	2	2	2	2
Goodwill	3,638	3,106	2,458	731	731	231	-269	-769
Curr. Assets	13,691	15,052	16,964	19,777	22,298	27,369	31,290	36,262
Inventory	4,781	4,792	4,931	4,156	4,831	5,983	6,659	7,385
Account Receivables	1,152	1,441	1,448	1,944	1,584	2,021	2,308	2,560
Cash and Bank Balance	4,688	5,715	5,585	7,299	8,319	12,537	15,236	18,717
Others	3,070	3,104	5,000	6,378	7,564	6,829	7,087	7,600
Curr. Liability & Prov.	6,879	6,458	6,959	6,010	6,235	8,893	9,677	10,732
Account Payables	4,369	3,317	3,534	4,761	4,951	4,851	5,238	5,809
Provisions	2,510	3,141	3,425	1,249	1,284	4,042	4,439	4,923
Net Current Assets	6,812	8,594	10,005	13,767	16,063	18,476	21,613	25,530
Appl. of Funds	15,397	17,588	18,441	21,780	23,604	25,675	28,382	31,791

Financials and Valuations

Ratios

Y/E December	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	85.5	103.3	129.1	141.7	165.5	187.5	208.9	239.4
Cash EPS	127.5	152.5	186.2	186.2	210.1	235.0	260.2	294.1
BV/Share	643.7	707.3	754.5	881.8	964.7	1,054.8	1,172.5	1,320.7
DPS	45.0	65.1	68.1	68.1	84.0	84.0	84.0	84.0
Payout (%)	46.9	56.0	63.5	57.8	58.9	52.0	43.7	38.1

Valuation (x)

P/E	65.6	54.3	43.5	39.6	33.9	29.9	26.9	23.4
Cash P/E	44.0	36.8	30.1	30.1	26.7	23.9	21.6	19.1
P/BV	8.7	7.9	7.4	6.4	5.8	5.3	4.8	4.2
EV/Sales	6.3	5.6	5.2	4.9	4.4	3.7	3.3	2.9
EV/EBITDA	36.7	26.9	23.4	22.7	19.4	16.5	14.4	12.2
Dividend Yield (%)	0.8	1.2	1.2	1.2	1.5	1.5	1.5	1.5

Return Ratios (%)

RoE	13.3	14.6	17.1	16.1	17.2	17.8	17.8	18.1
RoCE	14.8	16.1	16.5	16.2	16.8	17.5	17.8	18.3
RoIC	18.6	22.8	20.9	20.6	22.1	26.5	32.5	37.9

Working Capital Ratios

Fixed Asset Turnover (x)	7.0	5.2	4.2	3.9	4.1	4.7	5.1	5.6
Debtor (Days)	21	24	22	28	21	23	24	24
Inventory (Days)	88	80	76	61	64	69	70	70
Working Capital (Days)	39	48	68	95	102	69	67	65

Leverage Ratio (x)

Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR M)

Y/E December	2014	2015	2016	2017	2018	2019E	2020E	2021E
OP/(Loss) before Tax	3,388	4,591	5,281	5,372	6,235	7,054	7,919	9,076
Interest/Dividends Recd.	643	514	708	807	897	945	956	957
Direct Taxes Paid	-918	-930	-1,928	-1,356	-2,376	-2,587	-2,883	-3,262
(Inc)/Dec in WC	698	-755	-1,541	-2,048	-1,276	1,805	-438	-436
CF from Operations	3,811	3,420	2,520	2,775	3,480	7,216	5,555	6,336
EO Items	666	838	0	0	0	0	0	0
CF from Ope (EO items)	4,477	4,258	2,520	2,775	3,480	7,216	5,555	6,336
(Inc)/Dec in FA	-1,243	-1,571	-755	-578	-576	-750	-750	-750
Free Cash Flow	3,233	2,687	1,765	2,197	2,904	6,466	4,805	5,586
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
CF from Investments	-1,243	-1,571	-755	-578	-576	-750	-750	-750
Interest Paid	-5	-4	-15	-11	-7	-7	-7	-7
Dividend Paid	-1,237	-1,802	-1,885	-1,884	-2,241	-2,241	-2,098	-2,098
CF from Fin. Activity	-1,188	-1,661	-1,895	-462	-1,905	-2,248	-2,105	-2,105
Inc/Dec of Cash	2,045	1,027	-130	1,735	999	4,218	2,700	3,481
Add: Beginning Balance	2,644	4,688	5,715	5,585	7,299	8,319	12,537	15,236
Closing Balance	4,689	5,715	5,585	7,299	8,319	12,537	15,236	18,717

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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