

## Margins upbeat despite Covid-19 disturbances...

Sanofi's Q2CY20 revenues de-grew 5% YoY to ₹ 710 crore mainly due to divestiture of few products to Zentiva and Covid-19 impact on some therapies. Adjusting for Zentiva, continuing operations grew ~1% YoY. EBITDA margins improved 384 bps YoY to 24.9% due to lower other expenditure, better gross margins. Subsequently, EBITDA grew 12.3% YoY to ₹ 177 crore. Adjusted PAT grew 38.8% YoY to ₹ 135 crore. Delta vis-a-vis EBITDA was due to lower depreciation, tax rate and higher other income.

### "Power brands" continue to grow ahead of industry growth

Sanofi's top five brands (Lantus, Combiflam, Allegra, Amaryl and Clexane) together posted revenue CAGR of 12.4% (MAT Jun 16-20), leading their combined sales contribution to grow from 35% in June 2016 to nearly 42% in June 2020. Note that four core brands (Lantus, Amaryl, Clexane, Avil) are under price control. We expect future launches from its global staple along with brand extensions and access to innovative molecules from global parent like the recently launched anti-diabetic Toujeo to drive growth.

### Zentiva transaction closed - margins, return ratios to improve

The company has closed the Zentiva transaction for a total consideration of ~₹ 321 crore of which ~ ₹ 293 crore has been received with balance to be received post complete transfer of products (by end of CY21). Post this divestiture, we expect extended focus on branded formulations business that typically fetches better margins vis-à-vis third party contracts. We expect EBITDA margins to improve ~259 bps to 24.3% over CY19-21E due to a change in product mix, new product launches, volume led growth in top brands and intermittent price hikes in its portfolio. Core RoE (excluding cash) is expected to improve from 26.6% in CY19 to 44.2% in CY21E.

### Valuation & Outlook

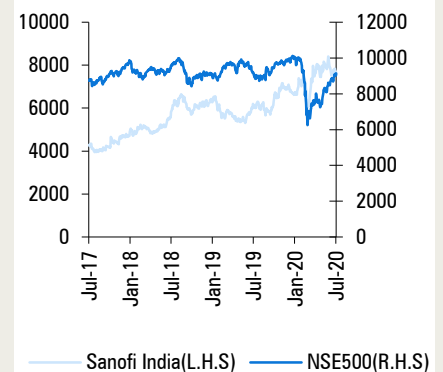
Despite Covid-19, the company posted a decent H1CY20 operational performance with EBITDA growing 13.6% YoY to ₹ 354 crore mainly on the back of reduced other expenses (down 349 bps YoY) likely stemming from cost rationalisation, reduced marketing & promotional spends. Going ahead, we expect marketing spends to be lower than their historical trends on the back of higher adoption of digital marketing tools amid Covid-19. Sanofi remains one of the fastest growing companies in India in anti-diabetic therapy. It launched Toujeo within just three years of its launch in the US, which suggests it is prepared to launch core innovative products in India banking on growth prospects in the anti-diabetic category. A strong growth track in top brands, measured new launches (including innovative launches) besides strong balance sheet and comfort on corporate governance front are some key attributes of MNC pharma companies including Sanofi. We maintain **BUY** with a target price of ₹ 8815 (35x CY21E EPS of ₹ 251.9).



#### Particulars

Particular	Amount
Market Capitalisation	₹17459 crore
Debt (CY 19)	₹0 crore
Cash (CY 19)	₹1130 crore
EV	₹16330 crore
52 week H/L	8329/5440
Equity capital	₹23.0 crore
Face value	₹10

#### Price Performance Graph



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#### Key Financial Summary

₹Crore	CY18	CY19	CY20E	CY21E	CAGR CY19-21 (%)
Revenues	2770.8	3070.6	3014.8	3181.6	1.8
EBITDA	623.5	665.3	752.6	771.7	7.7
EBITDA margins (%)	22.5	21.7	25.0	24.3	
Net Profit	380.6	414.2	535.8	580.1	18.3
EPS (₹)	165.3	205.6	254.1	251.9	
PE (x)	45.9	42.2	32.6	30.1	
M.Cap/ Revenues (x)	6.3	5.7	5.8	5.5	
EV to EBITDA (x)	26.7	24.5	21.9	21.0	
RoCE (%)	25.9	26.0	34.9	30.2	
ROE	17.2	19.4	27.1	23.7	

Source: ICICI Direct Research; Company

**Exhibit 1: Power brands (₹ crore)**

Brand	Therapy	JUN 16	JUN 17	JUN 18	JUN 19	JUN 20	CAGR 16-20
LANTUS	ANTI DIABETIC	267.1	336.4	400.2	496.5	515.1	17.8
COMBIFLAM	PAIN	156.0	210.5	181.0	172.3	193.3	5.5
ALLEGRA	RESPIRATORY	116.0	138.1	163.1	180.9	190.0	13.1
AMARYL M	ANTI DIABETIC	95.4	126.2	137.5	155.3	158.3	13.5
CLEXANE	CARDIAC	98.2	108.6	105.5	109.4	112.7	3.5
<b>Top 5 brands</b>		<b>732.6</b>	<b>919.8</b>	<b>987.3</b>	<b>1114.3</b>	<b>1169.3</b>	<b>12.4</b>
as % of sales		35%	42%	41%	41%	42%	

Source: AIOCD (MAT values); Company

**Exhibit 2: Therapeutic break-up (₹ crore)**

Therapy	JUN 16	JUN 17	JUN 18	JUN 19	JUN 20	CAGR 16-20
ANTI DIABETIC	551.9	651.9	754.5	922.8	974.0	15.3
CARDIAC	429.7	412.8	426.3	478.2	481.8	2.9
RESPIRATORY	235.8	265.1	304.3	316.5	338.4	9.4
PAIN / ANALGESICS	229.6	279.4	257.5	256.1	268.6	4.0
NEURO / CNS	195.1	182.4	191.5	217.4	221.6	3.2
GASTRO INTESTINAL	156.1	151.1	176.9	198.8	201.9	6.6
VMN	93.8	99.4	120.9	145.0	137.4	10.0
ANTI-INFECTIVES	117.2	108.4	100.9	108.7	103.7	-3.0
DERMA	43.7	42.5	45.3	49.1	51.2	4.1
<b>Top therapies</b>	<b>2052.8</b>	<b>2193.0</b>	<b>2378.1</b>	<b>2692.7</b>	<b>2778.3</b>	<b>7.9</b>

Source: AIOCD (MAT values); Company

**Exhibit 3: Revenue break-up (₹ crore)**

₹ crore	CY16	CY17	CY18	CY19	CY20	CY21E
Domestic	1647.8	1798.4	1951.5	2148.6	2277.5	2550.8
Export	640.1	665.2	819.3	922.0	721.6	597.9
<b>Total</b>	<b>2287.9</b>	<b>2463.6</b>	<b>2770.8</b>	<b>3070.6</b>	<b>2999.1</b>	<b>3148.7</b>

Source: AIOCD; Company

## Financial Summary

### Exhibit 4: Profit & Loss (₹ crore)

(Year-end March)/ (₹crore)	CY18	CY19	CY20E	CY21E
Total Operating Income	2,770.8	3,070.6	3,014.8	3,181.6
Growth (%)	12.5	10.8	-1.8	5.5
Raw Material Expenses	1,145.9	1,347.4	1,337.2	1,379.3
Gross Profit	1,624.9	1,723.2	1,677.6	1,802.3
Gross Profit Margins (%)	58.6	56.1	55.6	56.6
Employee Expenses	406.8	449.7	472.0	492.3
Other Expenditure	594.6	608.2	453.1	538.3
Total Operating Expenditure	2,147.3	2,405.3	2,262.2	2,409.9
<b>EBITDA</b>	<b>623.5</b>	<b>665.3</b>	<b>752.6</b>	<b>771.7</b>
Growth (%)	16.1	6.7	13.1	2.5
Interest	0.7	0.3	1.0	0.0
Depreciation	102.7	99.9	77.0	75.7
Other Income	89.7	94.1	115.8	79.5
<b>PBT before Exceptional</b>	<b>609.8</b>	<b>659.2</b>	<b>790.4</b>	<b>775.5</b>
Less: Exceptional Items	0.0	59.3	49.3	0.0
PBT after Exceptional Item	609.8	599.9	741.1	775.5
Total Tax	229.2	185.7	205.2	195.4
PAT before MI	380.6	414.2	535.8	580.1
<b>PAT</b>	<b>380.6</b>	<b>414.2</b>	<b>535.8</b>	<b>580.1</b>
Growth (%)	16.7	8.8	29.4	8.3
<b>EPS (Adjusted)</b>	<b>165.3</b>	<b>205.6</b>	<b>254.1</b>	<b>251.9</b>

Source: ICICI Direct Research

### Exhibit 5: Cash Flow Statement (₹ crore)

(Year-end March)/ (₹crore)	CY18	CY19	CY20E	CY21E
Profit/(Loss) after taxation	365.7	371.6	535.8	580.1
Add: Depreciation & Amortization	102.7	99.9	77.0	75.7
Net Increase in Current Assets	-40.1	-83.3	-2.0	-53.8
Net Increase in Current Liabilities	12.5	45.6	26.7	56.8
Others	-66.9	-21.5	1.0	0.0
<b>CF from Operating activities</b>	<b>373.9</b>	<b>412.3</b>	<b>638.6</b>	<b>658.9</b>
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Asset	-57.0	-75.3	243.0	-23.0
Others	-17.7	143.8	-30.0	-55.0
<b>CF from Investing activities</b>	<b>-74.7</b>	<b>68.5</b>	<b>213.0</b>	<b>-78.0</b>
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-163.6	-183.2	-968.9	-322.4
Other	-33.6	0.0	-1.0	0.0
CF from Financing activities	-197.2	-183.2	-969.9	-322.4
<b>Net Cash Flow</b>	<b>102.0</b>	<b>297.6</b>	<b>-118.4</b>	<b>258.4</b>
Cash and Cash Equivalent	729.9	831.9	1,129.5	1,011.1
<b>Cash</b>	<b>831.9</b>	<b>1,129.5</b>	<b>1,011.1</b>	<b>1,269.5</b>
<b>Free Cash Flow</b>	<b>316.9</b>	<b>337.0</b>	<b>881.6</b>	<b>635.9</b>

Source: ICICI Direct Research

### Exhibit 6: Balance Sheet (₹ crore)

(Year-end March)	CY18	CY19	CY20E	CY21E
Equity Capital	23.0	23.0	23.0	23.0
Reserve and Surplus	2,196.2	2,419.3	2,139.2	2,423.9
Total Shareholders funds	2,219.2	2,442.3	2,162.2	2,446.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	92.1	44.6	49.1	54.0
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	49.1	54.1	59.5	65.5
<b>Source of Funds</b>	<b>2,360.4</b>	<b>2,541.0</b>	<b>2,270.8</b>	<b>2,566.3</b>
Gross Block - Fixed Asset	980.2	846.0	896.0	946.0
Accumulated Depreciation	320.5	420.4	497.4	573.1
Net Block	659.7	425.6	398.6	372.9
Capital WIP	21.1	17.4	17.4	17.4
Goodwill on Consolidation	73.1	73.1	73.1	73.1
Fixed Assets	753.9	516.1	489.1	463.4
Investments	0.2	0.0	0.0	0.0
Other non-Current Assets	9.7	7.1	7.8	8.6
Inventory	483.1	469.6	461.1	486.6
Debtors	158.4	224.0	219.9	232.1
Loans and Advances	74.2	1.5	1.65	1.815
Other Current Assets	44.6	304.7	159.2	175.1
Cash	831.9	1,129.5	1,011.1	1,269.5
Total Current Assets	1,592.2	2,129.3	1,853.0	2,165.1
Creditors	343.8	368.9	362.2	382.2
Provisions	169.4	196.7	216.4	238.0
Other Current Liabilities	110.3	137.8	151.6	166.7
Total Current Liabilities	623.5	703.4	730.1	787.0
Long Term Loans and Advances	627.9	591.9	651.1	716.2
Net Current Assets	968.7	1,425.9	1,122.8	1,378.1
<b>Application of Funds</b>	<b>2,360.4</b>	<b>2,541.0</b>	<b>2,270.8</b>	<b>2,566.3</b>

Source: ICICI Direct Research

### Exhibit 7: Key Ratios (₹ crore)

(Year-end March)	CY18	CY19	CY20E	CY21E
<b>Per share data (₹)</b>				
Reported EPS	165.3	179.8	232.7	251.9
Cash EPS	64.0	-215.1	114.1	121.9
BV per share	963.6	1,060.5	938.8	1,062.4
Cash per Share	361.2	490.4	439.0	551.2
Dividend per share	101.3	420.7	140.0	130.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	58.6	56.1	55.6	56.6
EBITDA margins	22.5	21.7	25.0	24.3
PAT Margins	13.7	15.4	19.4	18.2
Cash Conversion Cycle	39.2	38.6	38.6	38.6
Asset Turnover	2.8	3.6	3.4	3.4
EBITDA conversion Rate	60.0	62.0	84.9	85.4
<b>Return Ratios (%)</b>				
RoE	17.2	19.4	27.1	23.7
RoCE	25.9	26.0	34.9	30.2
RoIC	34.5	40.6	54.4	54.4
<b>Valuation Ratios (x)</b>				
P/E	45.9	42.2	32.6	30.1
EV / EBITDA	26.7	24.5	21.9	21.0
EV / Net Sales	6.0	5.3	5.5	5.1
Market Cap / Sales	6.3	5.7	5.8	5.5
Price to Book Value	7.9	7.1	8.1	7.1
<b>Solvency Ratios</b>				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.4	1.2	1.1

Source: ICICI Direct Research

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