

CMP: ₹ 7960

Target: ₹ 9750 (22%)

Target Period: 12 months

July 28, 2021

Decent performance with strong margins...

About the stock: Sanofi offers drugs in therapies like diabetes (insulins & orals), cardiology, thrombosis, anti-infective, CNS, allergy, vitamins, minerals & supplements.

- Lantus, Allegra & Combiflam are in Top 100 pharmaceutical brands in India
- Sanofi is one of the fastest growing companies in India in anti-diabetic therapy

Q2CY21 Results: Sanofi India reported robust Q2CY21 results.

- Sales were up 11.1% YoY to ₹ 789.1 crore
- EBITDA in Q2CY21 was at ₹ 247.1 crore, up 39% YoY with margins at 31.3%
- Consequent PAT was at ₹ 178.3 crore (up 31.9% YoY)

What should investors do? Sanofi's share price has grown by ~1.7x over the past five years (from ~₹ 4447 in June 2016 to ~₹ 7672 levels in June 2021).

- We remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value Sanofi at ₹ 9750 i.e. 35x P/E on FY23E EPS

Key triggers for future price performance:

- Future launches from its global staple along with brand extensions
- Access to innovative molecules from parent like recently launched anti-diabetic drug Toujeo
- Strong balance sheet, good dividend payout track record and comfort on corporate governance
- Consistent performer despite four core brands are under price control

Alternate Stock Idea: Apart from Sanofi, among MNC coverage we like Abbott.

- We continue to believe in Abbott's strong growth track in power brands and capability in new launches on a fairly consistent basis
- BUY with a target price of ₹ 19235

Key Financial Summary

Key Financials (₹ Crore)	CY18	CY19	CY20	5 year CAGR (FY15-20)	CY21E	CY22E	2 year CAGR (FY20-22E)
Revenues	2770.8	3070.6	2901.9	5.8	3045.7	3410.2	8.4
EBITDA	623.5	665.3	713.1	9.2	796.2	871.0	10.5
EBITDA margins (%)	22.5	21.7	24.6		26.1	25.5	
Net Profit	380.6	414.2	477.6	15.0	578.9	641.4	15.9
EPS (₹)	165.3	205.6	225.5		251.4	278.5	
PE (x)	48.2	44.3	38.4		31.7	28.6	
EV to EBITDA (x)	28.1	25.9	24.0		22.0	19.7	
RoCE (%)	25.9	26.0	32.3		39.3	36.4	
ROE (%)	17.2	19.4	24.5		31.2	28.9	

Source: Company, ICICI Direct Research

BUY



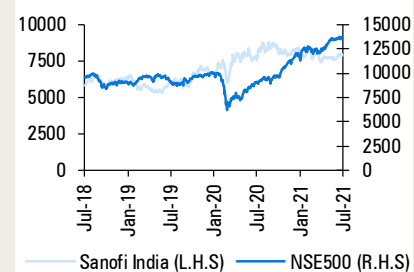
Particulars

Particular	Amount
Market Capitalisation	₹ 18332 crore
Debt (CY20)	₹ 0 crore
Cash (CY20)	₹ 1209 crore
EV	₹ 17124 crore
52 week H/L	8999/7428
Equity capital	₹ 23.0 crore
Face value	₹ 10

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.4	60.4	60.4	60.4	60.4
Others	39.6	39.6	39.6	39.6	39.6

Price Chart



Recent Event & Key risks

- Divestiture of few products to Zentiva (Ankaleshwar slump sale)
- **Key Risk:** (i) Addition of products under price control (ii) Higher therapy concentration

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Key takeaways of recent quarter

Q2CY22 Results: Robust performance

- Sanofi posted robust growth of 8.8% QoQ in topline whereas EBITDA margins improved 519 bps QoQ to 31.3% mainly due to lower employee and other expenditure. Subsequently, EBITDA grew 30.5% QoQ to ₹ 247.1 crore. Adjusted PAT grew 22.2% QoQ to ₹ 178.3 crore. Delta vis-a-vis EBITDA was due to lower other income
- The company posted a strong margin performance in the quarter on the back of reduced other expenses (down 5.4% YoY, 16.2% QoQ) likely stemming from cost rationalisation, reduced marketing & promotional spends. We expect marketing spends to continue to be lower than their historical trends on the back of higher adoption of digital marketing tools amid Covid-19
- We remain positive on the company on the back of its strong anti-diabetic franchise among peers, which constitutes ~30% of the turnover, strong growth track in top brands, measured new launches besides a strong balance sheet position

Exhibit 1: Power Brands

Brand	Therapy	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	GAGR 17-21
LANTUS	ANTI DIABETIC	336.4	400.2	496.5	515.1	563.0	13.7%
CLEXANE	CARDIAC	108.6	105.5	109.4	112.7	221.0	19.4%
COMBIFLAM	PAIN / ANALGESICS	210.5	181.0	172.3	193.3	216.2	0.7%
ALLEGRA	RESPIRATORY	138.1	163.1	180.9	190.0	168.5	5.1%
AMARYL M	ANTI DIABETIC	126.2	137.5	155.3	158.3	150.8	4.5%
Top 5 brands		919.8	987.3	1114.3	1169.3	1319.4	9.4%
% of AIOCD sales		35.7%	35.8%	36.2%	36.5%	37.4%	

Source: ICICI Direct Research

Exhibit 2: Therapeutic Breakup

Therapy	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	GAGR 17-21
ANTI DIABETIC	651.9	754.5	922.8	974.0	1024.3	12.0%
CARDIAC	412.8	426.3	478.2	484.4	608.4	10.2%
VACCINES	367.8	371.2	368.3	407.7	440.8	4.6%
RESPIRATORY	265.1	304.3	316.5	342.7	355.1	7.6%
PAIN / ANALGESICS	279.4	257.5	256.8	269.5	289.3	0.9%
GASTRO INTESTINAL	151.1	176.9	198.7	199.9	286.4	17.3%
NEURO / CNS	182.4	191.5	217.4	221.6	208.1	3.3%
VITAMINS / MINERALS / NUTRIENTS	99.4	120.9	145.0	137.4	142.1	9.4%
ANTI-INFECTIVES	108.4	100.9	108.7	103.7	106.2	-0.5%
DERMA	42.5	45.3	49.1	51.2	57.4	7.8%
Top Therapies	2560.7	2749.3	3061.5	3192.0	3518.0	8.3%
Total AIOCD Sales	2573.5	2760.1	3075.0	3203.3	3528.7	8.2%

Source: ICICI Direct Research

Exhibit 3: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
CY19	3071	10.8	205.6	8.8	44.3	25.9	19.4	26.0
CY20	2902	-5.5	225.5	15.3	38.4	24.0	24.5	32.3
CY21E	3046	5.0	251.4	21.2	31.7	22.0	31.2	39.3
CY22E	3410	12.0	278.5	10.8	28.6	19.7	28.9	36.4

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
Total Operating Income	3,070.6	2,901.9	3,045.7	3,410.2
Growth (%)	10.8	-5.5	5.0	12.0
Raw Material Expenses	1,347.4	1,253.6	1,324.8	1,449.5
Gross Profit	1,723.2	1,648.3	1,721.0	1,960.7
Gross Profit Margins (%)	56.1	56.8	56.5	57.5
Employee Expenses	449.7	460.8	463.3	511.5
Other Expenditure	608.2	474.4	461.4	578.2
Total Operating Expenditure	2,405.3	2,188.8	2,249.5	2,539.2
EBITDA	665.3	713.1	796.2	871.0
Growth (%)	6.7	7.2	11.7	9.4
Interest	0.3	1.8	0.9	0.0
Depreciation	99.9	82.2	83.7	88.4
Other Income	94.1	89.8	66.4	75.0
PBT before Exceptional Items	659.2	718.9	778.0	857.5
Less: Exceptional Items	59.3	41.7	0.0	0.0
PBT after Exceptional Items	599.9	677.2	778.0	857.5
Total Tax	185.7	199.6	199.1	216.1
PAT before MI	414.2	477.6	578.9	641.4
PAT	414.2	477.6	578.9	641.4
Growth (%)	8.8	15.3	21.2	10.8
EPS (Adjusted)	205.6	225.5	251.4	278.5

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
Profit/(Loss) after taxation	371.6	483.9	578.9	641.4
Add: Depreciation & Amortization	99.9	82.2	83.7	88.4
Net Increase in Current Assets	-83.3	49.0	-182.8	-94.3
Net Increase in Current Liabilities	45.6	13.2	84.5	84.3
Others	-21.5	-17.2	0.9	0.0
CF from Operating activities	412.3	611.1	565.1	719.9
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	-75.3	198.4	-50.0	-50.0
Others	143.8	79.6	-49.8	-54.8
CF from Investing activities	68.5	278.0	-99.8	-104.8
(inc)/Dec in Loan	0.0	-4.6	0.0	0.0
Dividend & Dividend tax	-183.2	-803.8	-840.6	-276.4
Other	0.0	-1.6	-0.9	0.0
CF from Financing activities	-183.2	-810.0	-841.5	-276.4
Net Cash Flow	297.6	79.1	-376.2	338.7
Cash and Cash Equivalent	831.9	1,129.5	1,208.6	832.4
Cash	1,129.5	1,208.6	832.4	1,171.1
Free Cash Flow	337.0	809.5	515.1	669.9

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end December)	CY19	CY20	CY21E	CY22E
Equity Capital	23.0	23.0	23.0	23.0
Reserve and Surplus	2,419.3	2,096.0	1,834.3	2,199.4
Total Shareholders funds	2,442.3	2,119.0	1,857.3	2,222.4
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	44.6	30.2	33.2	36.5
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	54.1	82.5	90.8	99.8
Source of Funds	2,541.0	2,231.7	1,981.3	2,358.7
Gross Block - Fixed Assets	846.0	893.6	943.6	993.6
Accumulated Depreciation	420.4	502.6	586.3	674.7
Net Block	425.6	391.0	357.3	318.9
Capital WIP	17.4	10.0	10.0	10.0
Goodwill on Consolidation	73.1	73.1	73.1	73.1
Fixed Assets	516.1	474.1	440.4	402.0
Investments	0.0	0.0	0.0	0.0
Other non-Current Assets	7.1	7.6	8.4	9.2
Inventory	469.6	368.0	465.8	521.5
Debtors	224.0	148.0	222.2	248.8
Loans and Advances	1.5	5.7	6.27	6.897
Other Current Assets	304.7	103.0	113.3	124.6
Cash	1,129.5	1,208.6	832.4	1,171.1
Total Current Assets	2,129.3	1,833.3	1,639.9	2,072.9
Creditors	368.9	318.3	365.9	409.7
Provisions	196.7	238.6	262.5	288.7
Other Current Liabilities	137.8	129.9	142.9	157.2
Total Current Liabilities	703.4	686.8	771.3	855.6
Long Term Loans and Advances	591.9	603.5	663.9	730.2
Net Current Assets	1,425.9	1,146.5	868.6	1,217.3
Application of Funds	2,541.0	2,231.7	1,981.3	2,358.7

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end December)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
Reported EPS	179.8	207.4	251.4	278.5
Cash EPS	-171.7	-103.8	167.7	176.9
BV per share	1,060.5	920.1	806.4	965.0
Cash per Share	490.4	524.8	361.4	508.5
Dividend per share	420.7	365.0	120.0	140.0
Operating Ratios (%)				
Gross Profit Margins	56.1	56.8	56.5	57.5
EBITDA margins	21.7	24.6	26.1	25.5
PAT Margins	15.4	17.9	19.0	18.8
Cash Conversion Cycle	38.6	24.9	38.6	38.6
Asset Turnover	3.6	3.2	3.2	3.4
EBITDA conversion Rate	62.0	85.7	71.0	82.7
Return Ratios (%)				
RoE	19.4	24.5	31.2	28.9
RoCE	26.0	32.3	39.3	36.4
RolC	40.6	62.3	62.6	66.4
Valuation Ratios (x)				
P/E	44.3	38.4	31.7	28.6
EV / EBITDA	25.9	24.0	22.0	19.7
EV / Net Sales	5.6	5.9	5.7	5.0
Market Cap / Sales	6.0	6.3	6.0	5.4
Price to Book Value	7.5	8.7	9.9	8.2
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	0.9	1.0	1.1
Quick Ratio				
Inventory days	55.8	46.3	55.8	55.8
Debtor days	26.6	18.6	26.6	26.6
Creditor days	43.9	40.0	43.9	43.9

Source: Company, ICICI Direct Research

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