Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Sanofi India Ltd

Strong Q1CY22; focus on core biz to drive growth

Pharmaceuticals	Sharekhan code: SANOFI
Reco/View: Buy ↔	CMP: **Rs. 7,051** / Price Target: **Rs. 9,250** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 44.39

Updated Feb 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 16239 cr
52-week high/low:	Rs. 9300 / 6949
NSE volume: (No of shares)	17,292
BSE code:	500674
NSE code:	SANOFI
Free float: (No of shares)	91.2 cr

Shareholding (%)

Promoters	60.4
FII	10.3
DII	19.1
Others	10.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	-0.7	-12.9	-5.2
Relative to Sensex	-4.0	0.2	-6.3	-23.8

Sharekhan Research, Bloomberg

Summary

- We retain our Buy recommendation on Sanofi India (Sanofi) with an unchanged PT of Rs. 9,250.
- Sanofi reported strong results for Q1CY22 with operating margins expanding 139 bps y-o-y and PAT coming in ahead of estimates. Revenues de-grew by 2.5% yoy while the PAT was up 2.7% yoy.
- Sanofi has identified three growth areas, which include accelerating growth in the diabetology space, fortifying presence in established/top brands, and focusing on building brands in consumer products.
- High-growth visibility from the chronic space , strong, and debt-free balance sheet, sturdy dividends, and healthy cash position are the key positives for Sanofi.

Sanofi India Limited (Sanofi) Sanofi reported a strong performance for the quarter with the margins coming in ahead of estimates driven by savings in raw material costs, though the numbers are not comparable on a y-o-y basis due to the hiving off the nutraceuticals business. The revenues declined 2.5% y-o-y while the adjusted PAT was up 2.7% y-o-y driven by a 139 BPS y-o-y OPM expansion. The company's focus on core areas of diabetology (insulin products & orals), cardiology, and brand building in consumer products could propel the growth ahead, the divestment of the slow-moving business – Nutraceuticals and Soframycin and Sofradex, recently could enable achieve a linear cost structure, and aid OPM expansion.

Key positives

- Gross margins for the quarter at 57.6% expanded strongly by 230 bps y-o-y
- The operating margins expanded by 139 bps y-o-y to 27.5% and were ahead of estimates.

Key negatives

- Revenue declined by 2.5% y-o-y to Rs.707 crores, thus underperforming the IPM growth.

Revision in estimates – Sanofi's operating margins for Q1CY22 expanded by 139 bps and was better than estimates, leading to adjusted PAT growing by 2.7% y-o-y and was ahead of estimates, however, the revenues declined marginally by 2.5% y-o-y. Basis this we have fine-tuned our estimates for CY22E/CY23E.

Our Call

Valuation: Diabetology to be a key growth driver; Retain Buy: Sanofi reported strong results for Q1CY22 with operating margins expanding 139 bps y-o-y and were better than estimated, leading to a PAT ahead of estimates. Sanofi's plan to emphasize on threeareas - accelerating growth in the diabetology space, fortifying presence in established/top brands, focusingon building brands in consumer products, could drive the growth ahead. Also expected strong growth in insulin products and portfolio expansion in cardiology could add to the growth. Emphasis on leveraging the digital platform and divestment of the slow-moving business is expected to drive OPM expansion, leading to a double-digit 10% PAT CAGR over the next two years. At the CMP, the stock trades at 26.8x/23.6x, respectively, its CY22E/CY23E estimates. High-growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, and healthy cash position are the key positives for Sanofi, hence we retain our Buy recommendation on the stock with an unchanged PT of Rs. 9,250.

Key Risks

1) Inclusion of the company's products in the National List of Essential Medicines could hurt earnings performance; and 2) Slow growth in top brands.

Valuation Rs cr

Particulars	CY2020	CY2021	CY2022E	CY2023E
Total Sales	2901.9	2956.6	3054.8	3318.9
EBITDA	802.9	836.9	887.0	987.5
OPM (%)	24.6	25.8	26.6	27.4
Adjusted PAT	519.3	568.2	606.1	686.9
EPS (Rs)	225.8	247.0	263.5	298.7
PER (x)	31.2	28.5	26.8	23.6
EV/Ebitda(x)	18.1	17.0	15.8	13.8
P/BV (x)	7.7	7.3	6.5	5.9
ROCE (%)	32.2	33.2	31.7	31.9
RONW (%)	22.5	42.5	24.5	24.9

Source: Company, Sharekhan research

Q1CY22 margins better than estimates: Sanofi reported a strong performance for the quarter with the margins coming in ahead of estimates driven by savings in raw material costs, though the numbers are not comparable on a y-o-y basis due to the hiving off of the nutraceuticals business. The revenues at Rs 707 cr declined by 2.5% y-o-y, whilst improving 2.8% sequentially, reflecting the growth in the chronic therapies. The operating margins surprised positively by expanding 139 bps y-o-y to 27.5% and were ahead of ours as well as streets estimates. The margins expansion can be attributable to savings in raw material costs. The gross margins at 57.6% expanded 230 bps y-o-y. Consequently, the EBITDA at Rs 194.5cr was up by 2.7% y-o-y and was ahead of estimates. During the quarter the company reported an exceptional income amounting to Rs 118 crore towards the transfer of certain assets relating to soframycin and Sofradex business which were hived off. Adjusting for this, PAT stood at Rs 149.8cr up 2.7% y-o-y, and was ahead of estimates.

IPM expected to sustain double-digit growth: Sanofi is an India-focused pharmaceutical company. Hence,growth is reflective of IPM growth. The Indian Pharmaceutical Market (IPM) growth averaged around 10% up to 2019, while it dropped to 4% in January-December 2020 attributable to Covid -19 impact. However considering a period from January to December 2021, the IPM growth bounced back to 18% as per the IQVIA Prognosis report and the sharp improvement could be attributable to an increase in the demand for acute therapies (anti-infectives, respiratory, gastro, and pain). In addition to this also the contribution from the Covid-related products drove the growth in the IPM. During this period of January to December 2021, the growth from the chronic areas - like Diabetes and Cardiovascular treatments remained relatively steady. Going ahead the IPM is expected to grow at a double-digit CAGR of around 10-12% over 2020-25. The growth is likely to be driven by improved access to healthcare, an increase in awareness and diagnosis of non-communicable diseases, new product launches, and an expansion of hospital infrastructure. In addition to these aspects, new co-marketing agreements, and expansion of pharmacy chains /online models would also drive the growth of the IPM. Also Emerging lifestyle diseases are likely to drive demand for chronic medicines upwards. This bodes well for chronic-heavy companies such as Sanofi.

Diabetology, and Cardiology to drive the growth: Sanofi derives a high share of revenues from the chronic focused therapies of diabetology (present in both insulins and orals) and cardiology. In addition to this, it is also present in the areas of thrombosis, epilepsy, allergies, and infections. Its three key products – Lantus, Allegra, and Combiflam have retained leadership in their respective segments and are also amongst the top 100 pharmaceutical brands in India. Sanofi has a wide portfolio of anti-diabetic medicines, with a larger portion of insulins followed by oral solids. In India, Sanofi is among the leading players in the anti-diabetic category.The company looks to fortify its presence further,backed by likely faster growth in key brands such as Lantus.The insulins portfolio has staged a strong digit double-digit growth in 2021 and is ranked in the top 3 in the IPM. Also in July 2021, the company launched Toujeo in a unique Toustar pen. The concept of the dedicated pen is pioneered by Sanofi. In addition to the insulins, orals – which include brands like Amaryl and Amaryl MV too have been amongst the leading the their respective categories. Both cardiologyand anti-diabetes segments have been amongthe consistentlygrowing therapy areas in IPM andas the demand is stiure the outlook stays strong. Going ahead, expected traction in key brands – Allegra, La,nuts, and Combiflam coupled with new launccarriesexpected to support the growthof Sanofi.

Sanofi to focus on the three areas to propel growth ahead: Sanofi has identified three areas, which would propel growth ahead, these include – acceleration in the diabetology (insulins) portfolio, fortifyingits presence in the established products through profitable growth, and concentratingefforts on building brands for the consumer portfolio. Further, post divestment of the slow-moving business (Neutraceuticals, Soframycin, and Sofradex), the company is progressing well towards a liner cost structure and has freed up ample bandwidth to focus on core growth areas. Sanofi targets to grow ahead of the industry's growth in covered products, while it is expected to stage 7-8% growth in the established products.

OPMs to expand leading to a digit digit double-digit PAT CAGR: Backed by savings in raw material costs and other expenses, Sanofi reported a 139 bps y-o-y expansion in operating margins to 27.5% which was ahead of estimates. Further, margin outlook is also stronglydriven by a slew of factors. Sanofi is looking to enhance its geographical presence by leveraging the digital platform partly to engage with physicians and is accordingly investing to build the same. We expect the shift to a hybrid model (to expand reach) to yield operational efficiencies. Moreover, the company has divested its slow-growing nutraceuticals business as well as two brands (Soframycin and Sofradex), which were a drag on overall growth and this bodes well. Collectively these factors could drive the expansion in operating margins. We expect OPMs to expand by 160 bps to 27.4%, leading to a strong 10% earnings CAGR over CY2021-CY2023E.

Results (Standalone) Rs cr

Particulars	Q1CY22	Q1CY21	YoY-o-y %	Q4CY21	QoQ %
Revenues	707.0	725.1	-2.5	687.9	2.8
Expenditure	512.5	535.7	-4.3	560.7	-8.6
Operating Profits	194.5	189.4	2.7	127.2	52.9
Other income	24.4	26.3	-7.2	16.3	49.7
Interest	0.4	0.4	0.0	0.4	0.0
Depreciation	10.9	20.4	-46.6	10.9	0.0
PBT	207.6	194.9	6.5	132.2	57.0
Taxes	57.8	49.0	17.9	-41.8	-238.2
Adjusted PAT	149.8	145.9	2.7	90.4	65.7
Reported PAT	238.4	145.9	63.4	90.4	163.7
Adj. EPS	65.1	63.4	2.7	39.3	65.7
Margins			**BPS**		**BPS**
OPM %	27.5	26.1	139	18.5	902
Adj PAT Margins (%)	21.2	20.1	107	13.1	805
Tax Rate (%)	27.8	25.1	269	-31.6	5,945

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Growth prospects look better

Indian pharmaceutical companies are better placed to harness opportunities and reporthealthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), rise in product approvals,and plant resolutions by the USFDA,and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharmaceutical companies.

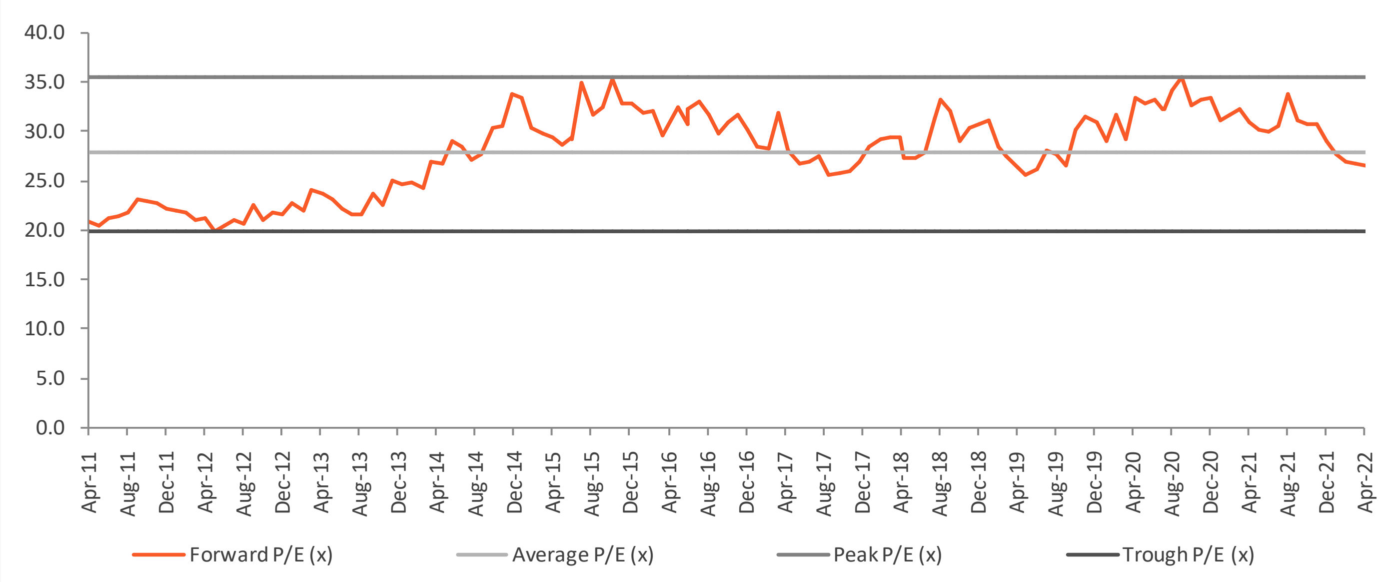
■ Company outlook - Healthy earnings growth

Sanofi is an MNC pharmaceutical company focused on the Indian market. Diabetology is the company's forte and it is among India's fastest-growing companies in this space. New launches in diabetology and a strong parentage point to healthy growth prospects. In addition to anti-diabetic, cardiology is one of the key segments for the company. Sanofi is also present in the respiratory space, which is also a fast-growing segment in the IPM. A higher share of chronic (that fetches more than half of the revenues) points to stable revenue growth going ahead due to sticky demand for products. Moreover, in the overall industry, the chronic segment has staged a steady growth, and going ahead the growth momentum is expected to pick up largely driven by a likely emergency of lifestyle diseases. Strong growth in the top brands and OPM expansion point to sturdy earnings growth. Further, post the divesture of the Ankaleshwar unit, the company as a part of a strategic review has also divested its nutraceuticals business along with its slow-moving brands (Soframycin and Sofradex) and this would help Sanofi set a higher focus on its key growth pillars.

■ Valuation - Diabetology to be a key growth driver; Retain Buy

Sanofi reported strong results for Q1CY22 with operating margins expanding 139 bps y-o-y and were better than estimated, leading to a PAT ahead of estimates. Sanofi's plan to emphasize on three areas - accelerating growth in the diabetology space, fortifying presence in established/top brands, focusing on building brands in consumer products, could drive the growth ahead. Also expected strong growth in insulin products and portfolio expansion in cardiology could add to the growth. Emphasis on leveraging the digital platform and divestment of the slow-moving business is expected to drive OPM expansion, leading to a double-digit 10% PAT CAGR over the next two years. At the CMP, the stock trades at 26.8x/23.6x, respectively, its CY22E/CY23E estimates. High-growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, and healthy cash position are the key positives for Sanofi, hence we retain our Buy recommendation on the stock with an unchanged PT of Rs. 9,250.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV / EBITDA (x)			RoE (%)		
				CY21	CY22E	CY23E	CY21	CY22E	CY23E	CY21	CY22E	CY23E
Sanofi India	7,051	2.3	16,239	28.5	26.8	23.6	17.0	15.8	13.8	42.5	24.5	24.9
Abbott India*	17,555	2.1	37,304	54.0	46.1	40.6	35.0	29.8	25.9	26.5	26.6	25.6

*Source: Company, Sharekhan Research; * Nos for FY21/FY22E/FY23E*

About company

Sanofi was incorporated in 1956 with the name of Hoechst Fedco Pharma Pvt. Ltd. Sanofi is a subsidiary company of MNC pharma giant, Sanofi SA, based in France. In India, the Groupoperates through three main companies – Sanofi India, Shantha Biotechnics through Sanofi Pasteur (the R&D and vaccine business unit),and Sanofi Genzyme, which provides diagnostics and testing services. Of all the three group companies, Sanofi is the largest subsidiary of Sanofi SA and is one of the leading pharma companies in India present in multiple therapies.The companyoffers a wide array of medicines across therapies such as diabetology and cardiology, vaccines, respiratory, pain, CNS, gastrointestinal, anti-infectives, and dermatology. Sanofi has a manufacturing facility located in Goa. Sanofi primarily derives a chunk of its revenue from domestic markets (~70% as of CY2018), while the balance is generated from exports markets. However, post the recent divesture of the Ankaleshwar plant to Zentiva, revenue share from exports is expected to fall drastically as the Ankaleshwar plant contribu to around 40% to total exports.The company's top five brands, including Lantus, Combiflam, Allegra, Ameryl, and Hexaxim, constitute 38-40% of the company's revenue.

Investment theme

Sanofi is one of the leading pharma MNCs focused on the Indian market. Diabetology is the company's forte, andthe company is among the fastest-growing companies in India in this space. Sanofi has a strong parentage from Sanofi SA, which is an MNC pharma major. A higher share of chronics points to stable revenue growth going ahead due to the sticky/inelastic demand for products. Strong growth in the top five brands coupled with OPM expansion points to sturdy earnings growth. High-growth visibility from chronics, low exposure to highly regulated US markets, strong balance sheet with no debt, minimal CAPEX, healthy cash position, and sturdy cash conversion cycle are key drivers that would enable to sustain premium valuations.

Key Risks

- The National List of Essential Medicines is expected to be revised in CY2020; and if in case, any of Sanofi's products are included under this, it would adversely impact growth.
- Any negative impact on the top brands/high-growth products would impact earnings.

Additional Data

Key management personnel

Mr Aditya Narayan	Chairman
Mr. Rodolfo Hrosz*	Managing Director
Mr. Vaibhav Karandikar	Whole Time Director & CFO

*Source: Company; *appointment with effect from 1st June 2022*

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp Of india	5.94
2	Aditya Birla Sunlife Trustee Co	2.93
3	Nippon Life India Asset management	2
4	ICICI Prudential Asset management Co	1.93
5	HDFC Life Insurance Co	1.17
6	Bajaj Allianz Life Insurance Co	1.13
7	UTI Asset Management Co	1.12
8	Vangaurd Group Inc	1.07
9	SBI Funds management	0.86
10	Mathews International Capital management	0.81

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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