

Margins upbeat despite Covid-19 disturbances...

Sanofi's Q3CY20 revenues de-grew 11.9% YoY to ₹ 687 crore mainly due to the full impact of divestiture of a few products to Zentiva (Ankaleshwar slump sale) and continued impact of Covid-19 on some therapies. EBITDA margins improved 547 bps YoY to 28.0% due to lower other expenditure, better gross margins. Subsequently, EBITDA grew 9.5% YoY to ₹ 192 crore. Reported PAT grew 5% YoY to ₹ 133 crore. Delta vis-a-vis EBITDA was due to lower tax rate in Q3CY19.

"Power brands" continue to grow ahead of industry growth

Sanofi's top five brands (Lantus, Combiflam, Allegra, Amaryl, Clexane) together posted revenue CAGR of 11.5% (MAT September 16-20), leading their combined sales contribution to grow from 37% in September 2016 to nearly 43% in September 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 closes - 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 the 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 ~364 bps to 25.3% in CY19-22E 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 48.4% in CY22E.

Valuation & Outlook

Despite Covid-19, the company posted a decent 9MCY20 operational performance with EBITDA growing 12.1% YoY to ₹ 546 crore mainly on the back of reduced other expenses (down 21% 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 ₹ 9820 (35x CY22E EPS of ₹ 280.5).

Key Financial Summary

₹Crore	CY19	CY20E	CY21E	CY22E	CAGR CY19-22 (%)
Revenues	3070.6	2908.3	3071.5	3367.8	3.1
EBITDA	665.3	739.7	769.9	852.3	8.6
EBITDA margins (%)	21.7	25.4	25.1	25.3	
Net Profit	414.2	495.5	568.2	646.0	16.0
EPS (₹)	205.6	236.6	246.7	280.5	
PE (x)	46.7	39.0	34.0	29.9	
M.Cap/ Revenues (x)	6.3	6.6	6.3	5.7	
EV to EBITDA (x)	27.4	24.8	23.5	20.9	
RoCE (%)	26.0	33.5	30.2	30.1	
ROE (%)	19.4	25.7	23.7	23.6	

Source: ICICI Direct Research; Company

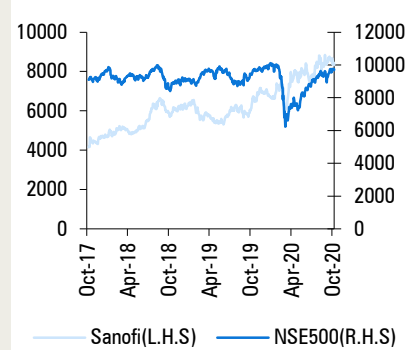


SANOFI

Particulars

Particular	Amount
Market Capitalisation	₹19333 crore
Debt (CY 19)	₹0 crore
Cash (CY 19)	₹1130 crore
EV	₹18204 crore
52 week H/L	8999/5900
Equity capital	₹23.0 crore
Face value	₹10

Price Performance Chart



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Exhibit 1: Power brands (₹ crore)

Brand	Therapy	SEP 16	SEP 17	SEP 18	SEP 19	SEP 20	CAGR 16-20
LANTUS	ANTI DIABETIC	278.2	358.3	421.6	499.4	530.2	17.5
COMBIFLAM	PAIN / ANALGESICS	176.8	201.1	172.0	182.8	196.0	2.6
ALLEGRA	RESPIRATORY	123.3	142.7	166.7	186.7	180.8	10.0
AMARYLM	ANTI DIABETIC	100.5	134.8	139.5	159.8	152.5	11.0
CLEXANE	CARDIAC	102.4	107.9	103.7	113.4	146.4	9.4
Top 5 brands		781.3	944.8	1003.5	1142.1	1206.0	11.5
% of AIOCD sales*		37%	42%	41%	41%	43%	

Source: AIOCD (MAT values), Company; *ex-vaccines

Exhibit 2: Therapeutic break-up (₹ crore)

Therapy	SEP 16	SEP 17	SEP 18	SEP 19	SEP 20	CAGR 16-20
ANTI DIABETIC	565.5	687.7	788.8	942.3	981.9	14.8
CARDIAC	426.2	415.2	436.9	485.6	518.1	5.0
RESPIRATORY	248.0	265.5	311.9	321.3	342.2	8.4
PAIN / ANALGESICS	249.1	271.4	249.5	268.9	268.7	1.9
NEURO / CNS	188.7	187.2	193.8	224.5	217.0	3.6
GASTRO INTESTINAL	156.7	151.6	180.1	210.6	193.3	5.4
VITAMINS / MINERALS	95.4	103.2	127.3	147.4	134.4	8.9
ANTI-INFECTIVES	117.0	101.9	103.4	110.7	98.1	-4.3
Top therapies	2046.7	2183.8	2391.8	2711.1	2753.6	7.7
Total AIOCD sales*	2104.8	2238.8	2448.7	2774.4	2816.9	7.6

Source: AIOCD (MAT values), Company; *ex-vaccines

Exhibit 3: Revenue break-up (₹ crore)

	CY16	CY17	CY18	CY19	CY20E	CY21E	CY22E
Domestic	1,647.8	1,798.4	1,951.5	2,148.6	2,234.5	2,502.7	2,753.0
Export	640.1	665.2	819.3	922.0	666.3	537.1	580.0
Total	2,287.9	2,463.6	2,770.8	3,070.6	2,900.8	3,039.8	3,333.0

Source: AIOCD; Company

Financial Summary

Exhibit 4: Profit & Loss (₹ crore)

(Year-end March)	CY19	CY20E	CY21E	CY22E
Total Operating Income	3,070.6	2,908.3	3,071.5	3,367.8
Growth (%)	10.8	-5.3	5.6	9.6
Raw Material Expenses	1,347.4	1,252.7	1,306.8	1,424.2
Gross Profit	1,723.2	1,655.6	1,764.6	1,943.6
Gross Profit Margins (%)	56.1	56.9	57.5	57.7
Employee Expenses	449.7	462.6	475.2	521.7
Other Expenditure	608.2	453.3	519.5	569.6
Total Operating Expenditure	2,405.3	2,168.7	2,301.6	2,515.5
EBITDA	665.3	739.7	769.9	852.3
Growth (%)	6.7	11.2	4.1	10.7
Interest	0.3	1.8	0.0	0.0
Depreciation	99.9	82.4	87.0	89.6
Other Income	94.1	89.4	76.8	101.0
PBT before Exceptional	659.2	744.8	759.7	863.7
Less: Exceptional Items	59.3	49.5	0.0	0.0
PBT after Exceptional Item	599.9	695.3	759.7	863.7
Total Tax	185.7	199.9	191.4	217.7
PAT before MI	414.2	495.5	568.2	646.0
PAT	414.2	495.5	568.2	646.0
Growth (%)	8.8	19.6	14.7	13.7
EPS (Adjusted)	205.6	236.6	246.7	280.5

Source: ICICI Direct Research

Exhibit 5: Cash Flow Statement (₹ crore)

(Year-end March)	CY19	CY20E	CY21E	CY22E
Profit/(Loss) after taxation	371.6	495.5	568.2	646.0
Add: Depreciation & Amortization	99.9	82.4	87.0	89.6
Net Increase in Current Assets	-83.3	22.0	-52.9	-84.6
Net Increase in Current Liabilities	45.6	14.0	56.4	76.1
Others	-21.5	1.8	0.0	0.0
CF from Operating activities	412.3	615.7	658.7	727.1
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Asset	-75.3	243.0	-23.0	-50.0
Others	143.8	-30.0	-55.0	-60.5
CF from Investing activities	68.5	213.0	-78.0	-110.5
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-183.2	-968.9	-322.4	-299.4
Other	0.0	-1.8	0.0	0.0
CF from Financing activities	-183.2	-970.7	-322.4	-299.4
Net Cash Flow	297.6	-142.1	258.3	317.2
Cash and Cash Equivalent	831.9	1,129.5	987.4	1,245.7
Cash	1,129.5	987.4	1,245.7	1,562.9
Free Cash Flow	337.0	858.7	635.7	677.1

Source: ICICI Direct Research

Exhibit 6: Balance Sheet (₹ crore)

(Year-end March)	CY19	CY20E	CY21E	CY22E
Equity Capital	23.0	23.0	23.0	23.0
Reserve and Surplus	2,419.3	2,098.8	2,371.6	2,718.3
Total Shareholders funds	2,442.3	2,121.8	2,394.6	2,741.3
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	44.6	49.1	54.0	59.4
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	54.1	59.5	65.5	72.0
Source of Funds	2,541.0	2,230.4	2,514.1	2,872.6
Gross Block - Fixed Asset	846.0	896.0	946.0	996.0
Accumulated Depreciation	420.4	502.8	589.8	679.5
Net Block	425.6	393.2	356.2	316.5
Capital WIP	17.4	17.4	17.4	17.4
Goodwill on Consolidation	73.1	73.1	73.1	73.1
Fixed Assets	516.1	483.7	446.7	407.0
Investments	0.0	0.0	0.0	0.0
Other non-Current Assets	7.1	7.8	8.6	9.5
Inventory	469.6	444.8	469.7	515.0
Debtors	224.0	212.2	224.1	245.7
Loans and Advances	1.5	1.65	1.815	1.9965
Other Current Assets	304.7	159.2	175.1	192.6
Cash	1,129.5	987.4	1,245.7	1,562.9
Total Current Assets	2,129.3	1,805.2	2,116.4	2,518.2
Creditors	368.9	349.4	369.0	404.6
Provisions	196.7	216.4	238.0	261.8
Other Current Liabilities	137.8	151.6	166.7	183.4
Total Current Liabilities	703.4	717.4	773.7	849.8
Long Term Loans and Advances	591.9	651.1	716.2	787.8
Net Current Assets	1,425.9	1,087.8	1,342.6	1,668.3
Application of Funds	2,541.0	2,230.4	2,514.1	2,872.6

Source: ICICI Direct Research

Exhibit 7: Key Ratios (₹ crore)

(Year-end March)	CY19	CY20E	CY21E	CY22E
Per share data (₹)				
Reported EPS	179.8	215.1	246.7	280.5
Cash EPS	-215.1	96.6	116.7	150.5
BV per share	1,060.5	921.3	1,039.8	1,190.3
Cash per Share	490.4	428.7	540.9	678.6
Dividend per share	420.7	140.0	130.0	130.0
Operating Ratios (%)				
Gross Profit Margins	56.1	56.9	57.5	57.7
EBITDA margins	21.7	25.4	25.1	25.3
PAT Margins	15.4	18.7	18.5	19.2
Cash Conversion Cycle	38.6	38.6	38.6	38.6
Asset Turnover	3.6	3.2	3.2	3.4
EBITDA conversion Rate	62.0	83.2	85.6	85.3
Return Ratios (%)				
RoE	19.4	25.7	23.7	23.6
RoCE	26.0	33.5	30.2	30.1
RoIC	40.6	53.6	54.6	59.0
Valuation Ratios (x)				
P/E	46.7	39.0	34.0	29.9
EV / EBITDA	27.4	24.8	23.5	20.9
EV / Net Sales	5.9	6.3	5.9	5.3
Market Cap / Sales	6.3	6.6	6.3	5.7
Price to Book Value	7.9	9.1	8.1	7.1
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	1.1	1.1	1.1

Source: ICICI Direct Research

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