



Powered by the Sharekhan 3R Research Philosophy

Sanofi India Ltd

Focus on core biz to drive growth

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 37.92
Updated Jan 08, 2022

High Risk

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

Source: Morningstar

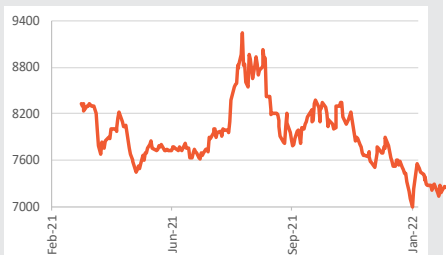
Company details

Market cap:	Rs. 16,676 cr
52-week high/low:	Rs. 9,300 / 6,946
NSE volume: (No of shares)	0.2 lakh
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	-3.8	-8.3	-18.8	-13.0
Relative to Sensex	3.1	-3.2	-14.7	-23.3

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: SANOFI

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 7,241

Price Target: Rs. 9,250

Summary

- Sanofi India Limited (Sanofi) had hosted an investors' call to discuss business updates and the commentary was positive, pointing towards a healthy growth outlook.
- Sanofi's three focus areas – accelerating growth in diabetology, fortify its presence in established products & build brands in consumer products are the key growth drivers. Sanofi aims to outpace growth in the covered therapy areas, while overall the company expects to grow in line with the industry, which bodes well.
- Divestment of slow moving business, which were a drag on the growth and leveraging digital to expand reach would drive OPM expansion leading to a double digit earnings CAGR.
- High growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, are key positives. We retain Buy with an unchanged PT of Rs. 9,250.

Sanofi India Limited (Sanofi) had hosted an investors' call to discuss business updates and the commentary was positive, pointing towards a healthy growth outlook for the company. The company's focus on core areas of – diabetology (insulin products), cardiology, and brand building in consumer products is likely to propel growth ahead. While divestment of the slow-moving business – Nutraceuticals and Soframycin and Sofradex point towards a linear cost structure, leading to operating profit margin (OPM) expansion. Also it would enable higher focus on core areas of growth. Therefore, earnings are expected to stage a 10% CAGR over CY2021-CY2023E.

- Sanofi to focus on three areas to propel growth ahead:** Sanofi has identified three areas, which would propel growth ahead, these include – acceleration in the diabetology (insulins) portfolio, fortify its presence in established products through profitable growth, and concentrate efforts on building brands for the consumer products. Further, due to the divestment of slow moving products, the company has freed up its bandwidth to be able to focus on core growth areas. Overall, Sanofi aims to outpace industry growth in the covered therapy areas, while overall the company expects to grow in line with the industry, which bodes well.
- New launches in diabetes and cardiology to fuel growth:** Diabetology has been one of the focus areas of growth for Sanofi. The company looks to grow faster than its peers in this therapy. Recently, the company has launched toujeo, (insulin glargine injection) in pen format and given lower (16%) penetration levels for insulin products in India. Sanofi sees ample headroom for growth. Moreover, the company is evaluating new launches in the cardiology space. In addition to the above, the established/top brands of the company are expected to sustain their strong growth trajectory and are likely to outperform the industry's growth in their respective therapy areas.
- OPM expansion to drive earnings growth:** Sanofi's CY2021 OPM has expanded by 120 bps to 25.8% despite challenges because of the pandemic. The margin outlook, however, stays strong, backed by a slew of factors, which include – leveraging the digital platform partly to engage with physicians and divestiture of the slow-moving business, which were a drag on overall growth. Based on this, OPM is expected to expand by ~160 bps to 27.4% by CY2023E.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 9,250: Sanofi has identified three areas for growth, which include accelerating growth in the diabetology portfolio, fortifying presence in established/top brands, and focus on building brands in consumer products. In addition to the above, expected strong growth in insulin products and portfolio expansion in cardiology would be key growth drivers. Emphasis on leveraging the digital platform and divestment of the slow-moving business are expected to drive OPM expansion, leading to double-digit 10% PAT CAGR over the next two years. At the CMP, the stock trades at 26.9x/24.1x, respectively, its CY2022E/ CY2023E estimates. Considering its high-growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, and healthy cash position, premium valuations are expected to sustain. We retain our Buy recommendation on the stock with unchanged price target (PT) of Rs. 9,250.

Key Risks

- Inclusion of the company's products in the National List of Essential Medicines could have an adverse impact on earnings performance; and 2) Slow growth in top brands.

Valuation (Consolidated)

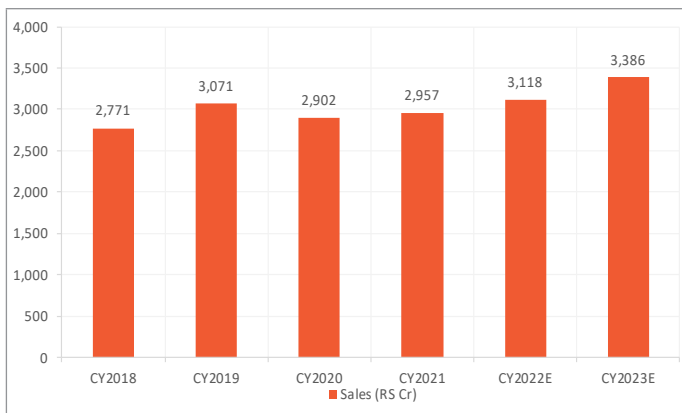
Particulars	CY2019	CY2020	CY2021	CY2022E	CY2023E
Total Sales	3070.6	2901.9	2956.6	3117.8	3385.8
EBIDTA	759.4	802.9	836.9	903.7	1005.8
OPM (%)	21.7	24.6	25.8	26.6	27.4
Adjusted PAT	473.5	519.3	568.2	618.6	691.6
EPS (Rs.)	205.9	225.8	247.0	269.0	300.7
PER (x)	35.2	32.1	29.3	26.9	24.1
EV/EBIDTA (x)	19.8	18.7	17.5	15.9	14.0
ROCE (%)	26.0	32.2	33.2	32.3	32.5
RONW (%)	17.0	22.5	42.5	24.9	25.0

Source: Company; Sharekhan estimates

- ◆ **Sanofi to focus on the three areas to propel growth ahead:** After a 5.5% y-o-y decline in revenue in CY2020, Sanofi's revenue has staged meager 2% y-o-y growth in CY2021. Numbers are not comparable on a y-o-y basis due to divestment of the nutraceutical business and performance reflects the same. Moreover, the company has completed a divestiture of Soframycin and Sofradex brands in January 2022. Going ahead, the company has identified three areas, which would propel growth ahead, these include – acceleration in the diabetology (insulins) portfolio, fortify its presence in the established products through profitable growth, and concentrate efforts 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 therapy, while it is expected to stage 7-8% growth in the established products. However, on an overall basis, the company is expected to stage in-line growth with the IPM (Indian Pharmaceutical Markets), but aims to outpace growth in the covered portfolio.
- ◆ **New launches in diabetes and cardiology to fuel growth, top brands to sustain growth momentum:** Diabetology has been one of the focus areas for growth for Sanofi and the company looks to grow faster than its peers in this therapy. Recently, the company has launched – toujeo (insulin glargine injection) in pen format and is the first of its kind product. In addition to this, existing brands – Lantus and Amaryl – are expected to sustain the growth traction and add to growth. On the cardiology side, the company/group has products in the overseas markets, which have garnered good response and management is evaluating an India launch for the same. Being chronic in nature, cardiology medicines tend to have sticky demand. Both cardiology and anti-diabetes segments, though have underperformed the industry's growth, but due to the chronic nature of the medicines, demand is expected to grow at a healthy pace. In addition to the above, the established/top brands of the company are expected to sustain their strong growth trajectory and are likely to outperform the industry's growth in their respective therapy areas. Overall, Sanofi's top 10 products constitute around 80% plus of overall revenue and command a dominating share in their respective categories.
- ◆ **Healthy outlook for IPM:** Sanofi is an India-focused pharmaceutical company. Hence, growth is reflective of IPM growth. After modest 1.6% y-o-y growth for FY2021, IPM growth has bounced back; and for 9MFY22, IPM grew by 19% y-o-y, largely backed by low base in the corresponding period of the previous year. YTD growth is supported by 9.6% growth in volumes, while the share of pricing and new products stands at ~4.4% and 5.4%, respectively. Adjusted for the high growth months of April and May 2021, IPM growth stood at 10.7% y-o-y, which is encouraging. Going ahead, industry reports point that pricing growth and the share of products is expected to sustain and would be well supported by volume growth. Overall, industry reports indicate that IPM is expected to report double-digit growth in FY2022 and is likely to sustain momentum in FY2023 as well. While in the near term, acute therapies have increasingly contributed to IPM's growth (due to a significantly low base as demand was impacted in the pandemic times). Going ahead, chronic is also expected to catch up. Emerging lifestyle diseases are likely to drive demand for chronic medicines upwards. This bodes well for chronic-heavy companies such as Sanofi.
- ◆ **OPM expansion to drive earnings growth:** Sanofi's CY2021 OPM has expanded by 120 bps to 25.8% despite challenges due to the pandemic. Margin outlook, however, stays strong, backed 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. Therefore, we expect OPM to expand by 160 bps to 27.4%, leading to a strong 10% earnings CAGR over CY2021-CY2023E.

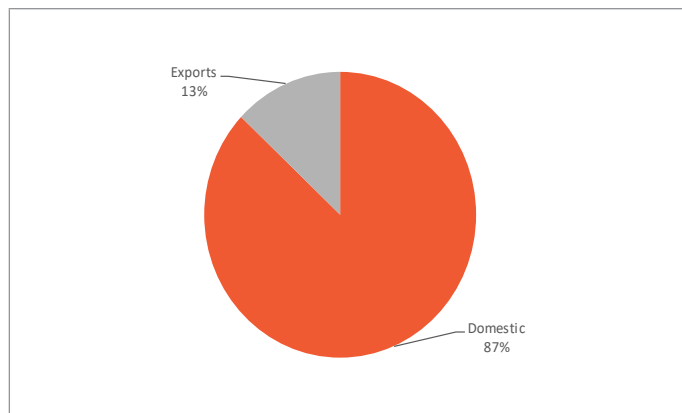
Financials in charts

Sales Trends



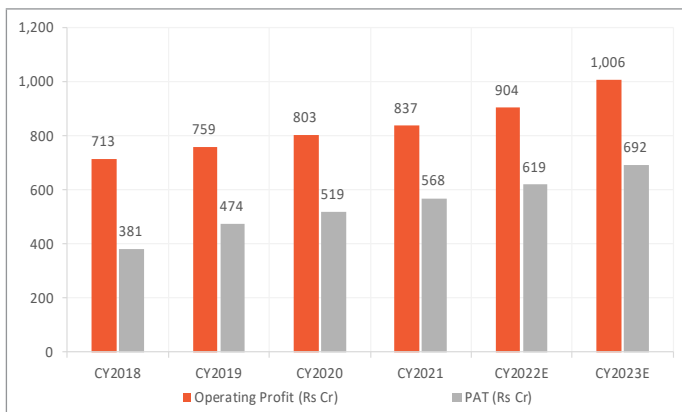
Source: Company, Sharekhan Research

Revenue Mix



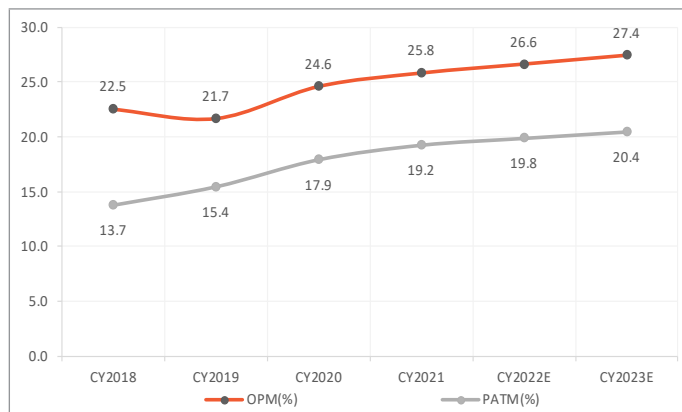
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



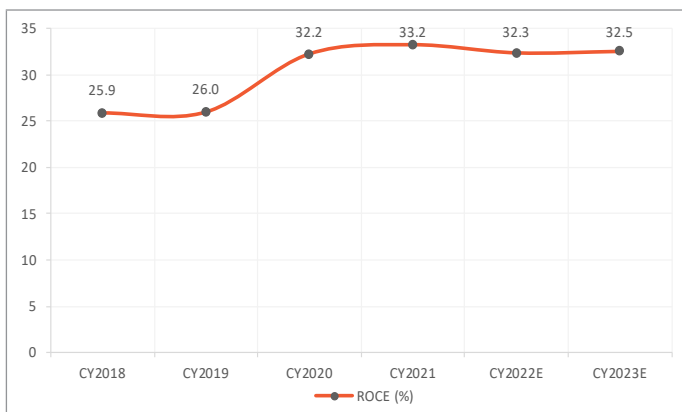
Source: Company, Sharekhan Research

Margin Trends



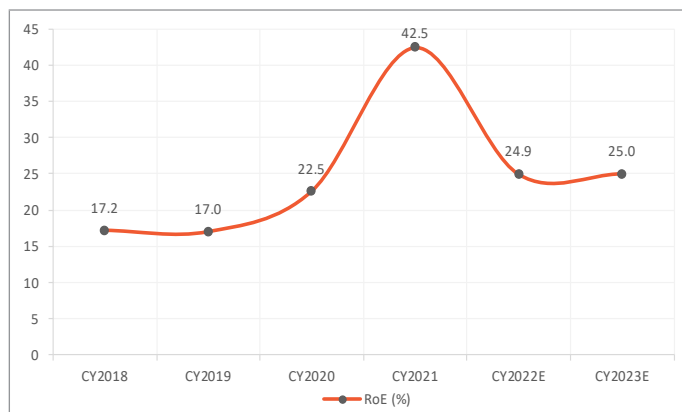
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

RoE (%) Trends



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Growth prospects look better

Indian pharmaceutical companies are better placed to harness opportunities and report healthy 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, plant resolutions by the USFDA, 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 commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharmaceutical companies.

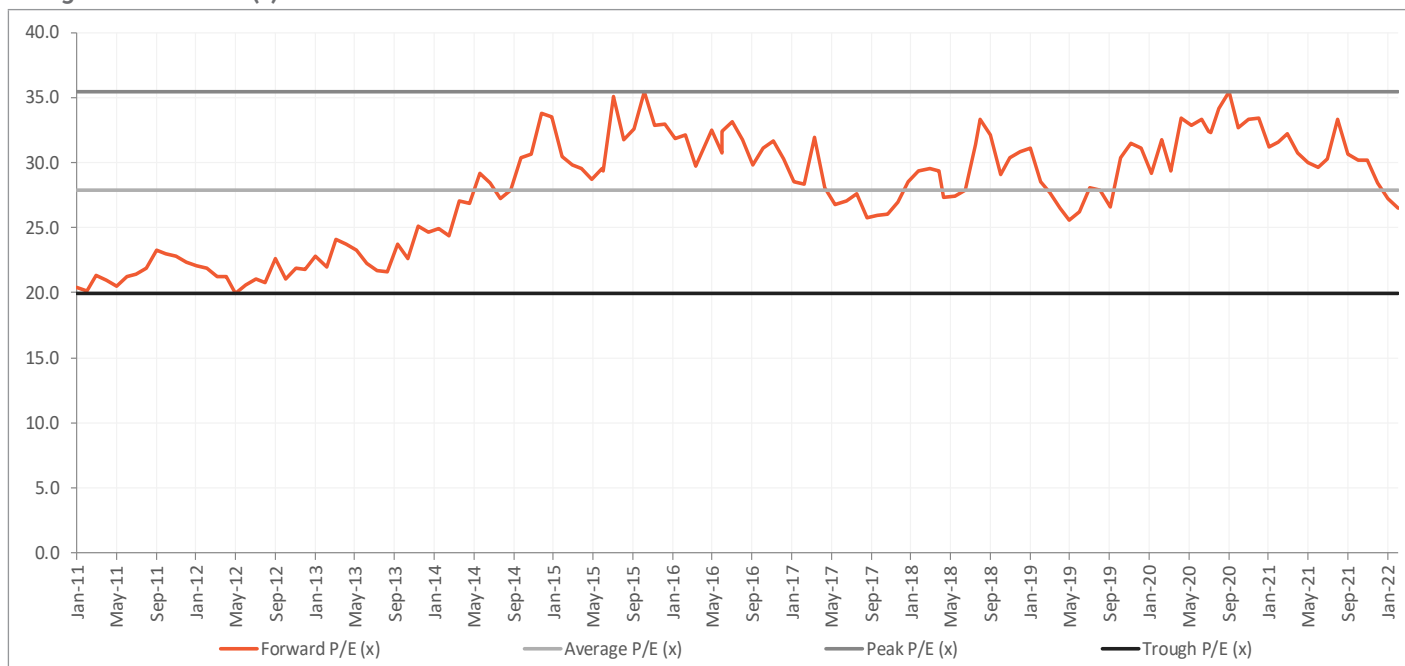
■ Company outlook – Healthy earnings growth

Sanofi is an MNC pharmaceutical companies 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 at healthy growth prospects. In addition to anti-diabetics, 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 fetch more than half of the revenue) points at stable revenue growth going ahead due to sticky demand for products. Moreover, in the overall industry, the chronic segment is a leading growth driver, and this bodes well for Sanofi. Strong growth in the top brands and OPM expansion point at sturdy earnings growth. Further, post the divestiture of the Ankaleshwar unit, the company as part of the strategic review has also divested the 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 – Retain Buy with unchanged PT of Rs. 9,250

Sanofi has identified three areas, which include accelerating growth in the diabetology space, fortifying presence in established/top brands, and focus on building brands in consumer products. In addition to the above, expected strong growth in insulin products and portfolio expansion in cardiology would be key growth drivers. Emphasis on leveraging the digital platform and divestment of the slow-moving business is expected to drive OPM expansion, leading to double-digit 10% PAT CAGR over the next two years. At the CMP, the stock trades at 26.9x/24.1x, respectively, its CY2022E/CY2023E estimates. Considering its high-growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, and healthy cash position, premium valuations are expected to sustain. We retain our Buy recommendation on the stock with unchanged PT of Rs. 9,250.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				CY21	CY22E	CY23E	CY21	CY22E	CY23E	CY21	CY22E	CY23E
Sanofi India	7,241.0	2.3	16,676.0	29.3	26.9	24.1	17.5	15.9	14.0	42.5	24.9	25.0
Abbott India*	17,187.0	2.1	36,520.0	52.9	45.1	39.8	34.2	29.1	25.3	26.5	26.6	25.6

Source: Company, Sharekhan estimates; * 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 group operates 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 company offers 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 divestiture of the Ankaleshwar plant to Zentiva, revenue share from exports is expected to fall drastically as Ankaleshwar plant contributed 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 the leading pharma MNCs focused on the Indian market. Diabetology is the company's forte; and the 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. Higher share of chronics points at 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 at 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 Rajaram Narayan	Managing Director
Mr Vaibhav Karandikar	Whole Time Director & CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Standard Life Aberdeen PLC	3.38
2	Aditya Birla Sunlife Trustee Co	2.97
3	PineBridge Investments	2.79
4	UTI Asset Management Co	2.12
5	Reliance Capital Trustee Co	2.01
6	SBI Funds Management	1.63
7	L&T Mutual Fund trustee Ltd / India	1.13
8	Bajaj Allianz Life Insurance Co	1.10
9	HDFC Life Insurance Co	1.05
10	Vanguard Group PLC	0.81

Source: Bloomberg

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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 deteriorating 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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