

CMP: ₹ 7001

Target: ₹ 7740 (11%)

Target Period: 12 months

April 27, 2022

Steady Q1 ex-divestments; focus on growth beyond power brands...

About the stock: Sanofi offers drugs in therapies like diabetes (insulins & orals), cardiology, pain, allergy and epilepsy.

- Around 70% of sales stem from top seven brands. Lantus, Allegra & Combiflam are in Top 100 pharmaceutical brands in India
- Sanofi enjoys strong brand recall in anti-diabetic therapy in India

Q1CY22 Results: Sanofi India reported muted numbers this quarter amid divested business in base year.

- Revenues were down 2.5% YoY to ₹ 707 crore
- EBITDA was at ₹ 194.5 crore, up 2.7% YoY with margins at 27.5%
- Consequent adjusted PAT was at ₹ 152 crore (up 4.2% YoY)

What should investors do? Sanofi's share price has grown by ~1.7x over the past five years (from ~₹ 4096 in April 2017 to ~₹ 7001 in April 2022).

- Downgrade from BUY to **HOLD** as we wait for visible growth triggers and ramp up in ex-power brand portfolio.

Target Price and Valuation: Valued at ₹ 7740 i.e. 28x P/E on FY24E EPS on ₹ 276.4

Key triggers for future price performance:

- Focus on high margin portfolio through divestiture of tail brands
- Strong balance sheet, good dividend payout track record and comfort on corporate governance
- Consistent performer in anti-diabetic and cardiac along with increasing contribution from respiratory, analgesics and gastro-intestinal therapies
- Price led growth on back of 10.8% price hike in NLEM portfolio
- Access to innovative molecules from parent like anti-diabetic drug Toujeo

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

- Abbott India is one of the fastest growing listed MNC pharma companies in women's health, GI, metabolic, pain, CNS among others. 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 target price of ₹ 19840

HOLD



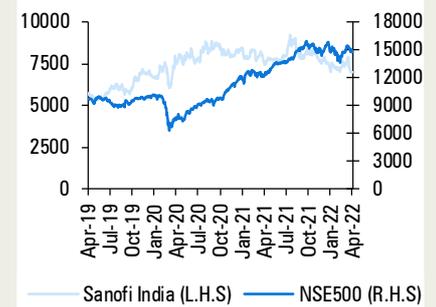
Particulars

Particular	Amount
Market Capitalisation	₹ 16124 crore
Debt (CY21)	₹ 0 crore
Cash (CY21)	₹ 1550 crore
EV	₹ 14573 crore
52 week H/L	9300/6949
Equity capital	₹ 23.0 crore
Face value	₹ 10

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
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

- Sale of Soframycin and Sofradex brands
- **Key Risks:** (i) Better than expected ramp up in new launches (ii) Higher therapy concentration

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Key Financial Summary

Key Financials (₹ Crore)	CY19	CY20	CY21	5 year CAGR (CY16-21)	CY22E	CY23E	2 year CAGR (CY21-23E)
Revenues	3070.6	2901.9	2956.6	4.6	2867.6	3134.2	3.0
EBITDA	665.3	713.1	762.5	7.3	758.6	854.3	5.8
EBITDA margins (%)	21.7	24.6	25.8		26.5	27.3	
Net Profit	414.2	477.6	944.4	25.4	658.0	636.7	-17.9
EPS (₹)	205.6	225.5	250.6		248.2	276.4	
PE (x)	38.9	33.8	17.1		24.5	25.3	
EV to EBITDA (x)	22.5	20.9	19.1		19.8	17.3	
RoCE (%)	26.0	32.3	33.3		42.3	40.8	
ROE (%)	19.4	24.5	25.9		32.6	31.3	

Key takeaways of recent quarter

Q1CY22 Results: Numbers impacted by divestments

- Sanofi's Q1CY22 revenues declined 2.5% YoY, whereas EBITDA margins improved 139 bps YoY to 27.5% due to lower raw material and employee expenditures. Subsequently, EBITDA grew 2.7% YoY to ₹ 194.5 crore. Adjusted PAT increased 4.2% YoY to ₹ 152 crore
- Sanofi India completed the transfer of Soframycin and Sofradex brands this quarter and ex-divestment of nutraceutical business last year, revenues are indicative of steady single digit growth. According to IQVIA MAT Mar,22, Sanofi's top five brands (Lantus, Allegra, Combiflam, Amaryl M and Clexane) has posted YoY growth of 11%
- Sanofi has strong anti-diabetic franchise ~30% of turnover and remains a compelling MNC play with focused approach to 1) accelerate growth in diabetes segment, 2) selective growth in established brands and 3) building key brands in consumer health portfolio.

Exhibit 1: Power Brands

Brand	Therapy	Mar-19	Mar-20	Mar-21	Mar-22	GAGR 19-22
LANTUS	ANTI DIABETIC	441.1	523.2	595.5	649.9	13.8%
ALLEGRA	RESPIRATORY	172.0	196.3	184.3	216.2	7.9%
COMBIFLAM	PAIN / ANALGESICS	148.0	175.4	185.0	204.3	11.3%
AMARYL M	ANTI DIABETIC	142.7	154.7	162.5	164.8	4.9%
CLEXANE	CARDIAC	100.9	114.8	128.9	163.1	17.4%
Top 5 brands		1004.6	1164.4	1256.2	1398.4	11.7%
% of IQVIA sales		39.1%	40.7%	41.9%	42.3%	

Source: IQVIA, MAT TSA Values (in ₹ crore)

Exhibit 2: Therapeutic Breakup

Therapy	Mar-19	Mar-20	Mar-21	Mar-22	GAGR 19-22
ANTI DIABETIC	822.5	944.8	1047.9	1143.3	11.6%
CARDIAC	381.6	416.9	460.5	489.6	8.7%
RESPIRATORY	268.8	311.6	319.5	385.6	12.8%
VACCINES	318.9	320.5	298.4	303.2	-1.7%
GASTRO INTESTINAL	170.2	198.9	218.8	262.8	15.6%
PAIN / ANALGESICS	189.1	218.9	229.5	252.2	10.1%
NEURO / CNS	196.9	203.4	204.1	206.5	1.6%
ANTI-INFECTIVES	129.8	141.6	100.2	134.9	1.3%
VITAMINS/MINERALS/NUTRIENTS	39.4	44.6	48.6	54.7	11.6%
DERMA	47.1	50.3	53.3	53.9	4.6%
Top Therapies	2564.3	2851.4	2980.8	3286.8	8.6%
Total IQVIA Sales	2571.9	2862.0	2994.5	3302.9	8.7%

Source: IQVIA, MAT TSA Values (in ₹ crore)

Exhibit 3: Financial Summary

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
CY20	2902	-5.5	225.5	9.7	33.8	20.9	24.5	32.3
CY21	2957	1.9	250.6	11.1	17.1	19.1	25.9	33.3
CY22E	2868	-3.0	248.2	-1.0	24.5	19.9	32.6	42.3
CY23E	3134	9.3	276.4	11.4	25.4	17.3	31.3	40.8

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Healthcare Coverage Universe

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4529	5,480	Buy	65125	7.9	67.2	81.3	105.5	576.2	67.4	55.7	42.9	6.3	16.4	18.2	20.7	2.5	17.5	18.1	19.9
Narayana Hrudalaya	NARHRU	711	765	Buy	14523	-0.7	-0.7	20.1	22.8	NA	NA	35.3	31.2	1.2	1.2	22.4	21.5	-1.3	-1.3	22.3	20.3
Shalby	SHALIM	130	170	Buy	1408	3.9	3.9	5.7	7.2	33.2	33.2	22.7	18.2	6.5	6.5	9.6	10.5	5.1	5.1	6.7	7.9
Aster DM	ASTDM	198	250	Buy	9895	3.0	3.0	17.6	NA	67.0	67.0	11.2	NA	5.4	9.2	12.9	NA	4.4	13.5	18.4	NA
Healthcare Global	HEAGLO	294	240	Hold	3689	-21.7	6.0	3.5	NA	NA	49.1	83.4	NA	-0.9	5.2	7.7	NA	NA	NA	3.4	NA
MNC Pharma																					
Abbott India	ABBIND	17411	19,840	Buy	36997	325.0	370.4	429.0	496.0	53.6	47.0	40.6	35.1	33.8	35.7	34.4	33.4	26.5	28.1	26.8	25.8
P&G Health	MERLIM	4387	5,365	Hold	7282	106.5	110.9	119.1	134.1	41.2	39.6	36.8	32.7	32.2	35.5	33.3	32.6	25.1	27.4	25.5	24.9
Sanofi India	SANOFI	6998	7,740	Hold	16117	207.4	410.1	285.7	276.4	33.7	17.1	24.5	25.3	32.3	33.3	42.3	40.8	24.5	25.9	32.6	31.3
Pfizer	PFIZER	4188	5,350	Buy	19161	108.8	135.2	133.0	148.6	38.5	31.0	31.5	28.2	27.6	27.4	23.6	22.9	20.8	21.7	18.6	18.1
Pharma																					
Ajanta Pharma	AJAPHA	1721	2,605	Buy	14894	74.0	85.4	87.0	100.4	23.3	20.1	19.8	17.1	29.0	27.0	23.8	23.6	21.8	22.4	19.5	19.2
Alembic Pharma	ALEMPHA	786	770	Hold	15449	59.9	34.0	34.8	38.5	13.1	23.1	22.6	20.4	24.2	12.1	12.3	12.6	23.0	11.9	11.2	11.4
Aurobindo Pharma	AURPHA	628	765	Hold	36785	55.0	55.0	53.4	61.2	11.4	11.4	11.7	10.3	16.9	16.9	14.3	15.2	14.7	14.7	11.5	11.7
Biocon	BIOCON	378	390	Hold	45341	6.1	6.1	8.7	13.8	62.1	62.1	43.6	27.5	7.6	7.6	5.3	7.1	9.6	9.6	4.6	6.8
Zydus Lifesciences	CADHEA	344	475	Hold	35212	21.5	21.5	22.4	25.4	16.0	16.0	15.4	13.5	12.6	12.6	13.7	14.6	16.9	16.9	14.0	14.1
Cipla	CIPLA	973	1,100	Buy	78485	29.9	29.9	39.3	43.5	32.6	32.6	24.7	22.4	16.3	16.3	18.0	18.0	13.1	13.1	13.8	13.6
Dr Reddy's Labs	DRREDD	4088	5,160	Buy	68034	117.3	117.3	190.9	236.0	34.9	34.9	21.4	17.3	13.1	13.1	18.6	22.7	11.1	11.1	14.0	15.1
Glenmark Pharma	GLEPHA	431	550	Hold	12160	32.9	44.2	44.2	49.1	13.1	9.7	9.7	8.8	13.9	15.5	15.2	15.4	13.1	13.1	11.7	11.6
Ipca Laboratories	IPCLAB	989	1,175	Buy	25098	44.9	44.9	42.4	48.2	22.0	22.0	23.4	20.5	27.1	27.1	19.1	18.5	24.2	24.2	16.1	15.6
Jubilant Pharmova	JUBLIF	463	490	Hold	7374	37.4	28.7	32.5	40.8	12.4	16.1	14.2	11.4	13.7	10.1	10.4	12.2	12.6	8.9	9.2	10.4
Lupin	LUPIN	745	960	Hold	33838	26.9	26.9	29.7	39.4	27.7	27.7	25.1	18.9	9.1	9.1	10.3	12.6	8.8	8.8	9.5	11.3
Natco Pharma	NATPHA	784	955	Hold	14305	24.2	24.2	19.6	23.1	32.4	32.4	40.1	34.0	13.1	13.1	9.7	10.7	10.7	10.7	7.8	8.5
Sun Pharma	SUNPHA	909	1,075	Buy	218040	30.0	30.0	33.8	38.6	30.2	30.2	26.9	23.6	14.2	14.2	17.8	17.8	15.5	15.5	14.4	14.3
Torrent Pharma	TORPHA	2695	3,235	Hold	45600	74.0	74.0	94.7	114.5	36.4	36.4	28.4	23.5	17.7	17.7	21.1	23.5	21.4	21.4	20.3	20.7
Indoco Remedies	INDREM	380	510	Buy	3502	10.1	10.1	23.3	28.3	37.6	37.6	16.3	13.4	11.7	11.7	21.5	26.3	12.1	12.1	19.8	20.0
Caplin Point	CAPPOI	728	1,010	Buy	5517	81.7	76.7	55.5	60.4	8.9	9.5	13.1	12.0	25.6	24.1	23.5	0.0	20.4	20.5	18.8	18.3
Advanced Enzymes	ADVENZ	302	380	Buy	3378	13.1	11.3	13.6	15.8	23.1	26.9	22.2	19.1	19.4	15.4	16.7	17.2	15.1	11.6	12.4	12.7
Hester Biosciences	HESPHA	2590	2,780	Hold	2203	44.4	47.2	52.0	71.4	58.4	54.9	49.8	36.3	16.2	12.8	14.3	17.3	16.5	15.5	15.1	17.8
API/CRAMS																					
Divi's Lab	DIVLAB	4433	5,335	Buy	117680	74.7	74.7	108.4	126.4	59.3	59.3	40.9	35.1	27.6	27.6	27.7	27.5	21.3	21.3	21.7	21.6
Hikal	HIKCHE	396	500	Buy	4881	10.8	10.8	17.1	22.6	36.7	36.7	23.1	17.5	15.1	15.1	16.0	19.1	14.3	14.3	16.8	18.8
Syngene Int.	SYNINT	625	710	Buy	25056	10.1	10.1	13.1	17.8	61.8	61.8	47.7	35.1	11.5	11.5	15.0	17.9	13.5	13.5	14.2	16.2
Granules India	GRANUL	283	360	Buy	7028	22.2	16.2	19.4	25.8	12.8	17.5	14.6	11.0	24.0	16.2	17.4	20.2	25.3	15.8	16.1	17.8
Laurus Labs	LAULAB	566	625	Buy	30390	18.3	14.9	20.9	26.4	30.9	38.0	27.0	21.5	31.7	21.1	24.5	26.4	37.9	24.1	26.0	25.3
Suven Pharmaceuticals	SUVPH	604	555	Hold	15380	14.2	18.3	17.7	19.8	42.4	33.1	34.2	30.5	31.2	35.0	28.7	26.6	30.7	29.6	23.2	21.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Total Operating Income	2,901.9	2,956.6	2,867.6	3,134.2	
Growth (%)	-5.5	1.9	-3.0	9.3	
Raw Material Expenses	1,253.6	1,306.8	1,243.2	1,351.5	
Gross Profit	1,648.3	1,649.8	1,624.4	1,782.7	
Gross Profit Margins (%)	56.8	55.8	56.6	56.9	
Employee Expenses	460.8	433.9	414.2	454.5	
Other Expenditure	474.4	453.4	451.5	473.9	
Total Operating Expenditure	2,188.8	2,194.1	2,108.9	2,279.9	
EBITDA	713.1	762.5	758.6	854.3	
Growth (%)	7.2	6.9	-0.5	12.6	
Interest	1.8	1.8	1.8	1.8	
Depreciation	82.2	66.7	43.6	45.3	
Other Income	89.8	74.4	67.6	62.7	
PBT before Exceptional Items	718.9	768.4	780.8	869.8	
Less: Exceptional Items	41.7	-489.2	-118.1	0.0	
PBT after Exceptional Items	677.2	1,257.6	898.9	869.8	
Total Tax	199.6	313.2	241.0	233.1	
PAT	477.6	944.4	658.0	636.7	
Adjusted PAT	519.3	577.0	571.5	636.7	
Growth (%)	9.7	11.1	-1.0	11.4	
EPS (Adjusted)	225.5	250.6	248.2	276.4	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Profit/(Loss) after taxation	483.9	972.7	658.0	636.7	
Add: Depreciation & Amortization	82.2	66.7	43.6	45.3	
Net Increase in Current Assets	49.0	-4.8	-1.7	-53.0	
Net Increase in Current Liabilities	13.2	72.9	18.2	72.2	
Others	-17.2	-548.7	1.8	1.8	
CF from Operating activities	611.1	558.8	719.9	703.0	
Investments	0.0	0.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	198.4	567.7	-25.0	-25.0	
Others	79.6	64.2	-49.0	-53.9	
CF from Investing activities	278.0	631.9	-74.0	-78.9	
(inc)/Dec in Loan	-4.6	-6.6	0.0	0.0	
Dividend & Dividend tax	-803.8	-840.6	-1,128.5	-357.0	
Other	-1.6	-1.8	-1.8	-1.8	
CF from Financing activities	-810.0	-849.0	-1,130.3	-358.8	
Net Cash Flow	79.1	341.7	-484.4	265.3	
Cash and Cash Equivalent	1,129.5	1,208.6	1,550.3	1,065.9	
Cash	1,208.6	1,550.3	1,065.9	1,331.1	
Free Cash Flow	809.5	1,126.5	694.9	678.0	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Equity Capital	23.0	23.0	23.0	23.0	
Reserve and Surplus	2,096.0	2,202.6	1,732.1	2,011.8	
Total Shareholders funds	2,119.0	2,225.6	1,755.1	2,034.8	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	30.2	6.3	6.9	7.6	
Long-Term Provisions	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	82.5	79.5	87.5	96.2	
Source of Funds	2,231.7	2,311.4	1,849.5	2,138.6	
Gross Block - Fixed Assets	784.5	554.6	579.6	604.6	
Accumulated Depreciation	393.5	220.5	264.1	309.4	
Net Block	391.0	334.1	315.5	295.2	
Capital WIP	10.0	12.8	12.8	12.8	
Goodwill on Consolidation	73.1	0	0	0	
Fixed Assets	474.1	346.9	328.3	308.0	
Investments	0.0	0.0	0.0	0.0	
Other non-Current Assets	7.6	7.7	8.5	9.3	
Inventory	368.0	392.4	374.7	407.3	
Debtors	148.0	142.9	157.1	171.7	
Loans and Advances	5.7	4.5	4.95	5.445	
Other Current Assets	103.0	47.8	52.6	57.8	
Cash	1,208.6	1,550.3	1,065.9	1,331.1	
Total Current Assets	1,833.3	2,137.9	1,655.2	1,973.4	
Creditors	318.3	376.7	357.6	388.8	
Provisions	238.6	236.7	260.4	286.4	
Other Current Liabilities	129.9	136.2	149.8	164.8	
Total Current Liabilities	686.8	749.6	767.8	840.0	
Long Term Loans and Advances	603.5	568.5	625.4	687.9	
Net Current Assets	1,146.5	1,388.3	887.4	1,133.4	
Application of Funds	2,231.7	2,311.4	1,849.5	2,138.6	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end December)	CY20	CY21	CY22E	CY23E	
Per share data (₹)					
Reported EPS	207.4	410.1	285.7	276.4	
Cash EPS	-103.8	-210.5	112.1	141.1	
BV per share	920.1	966.4	762.1	883.5	
Cash per Share	524.8	673.1	462.8	578.0	
Dividend per share	365.0	490.0	155.0	155.0	
Operating Ratios (%)					
Gross Profit Margins	56.8	55.8	56.6	56.9	
EBITDA margins	24.6	25.8	26.5	27.3	
PAT Margins	17.9	19.5	19.9	20.3	
Cash Conversion Cycle	33.1	22.0	25.0	25.0	
Asset Turnover	3.7	5.3	4.9	5.2	
EBITDA conversion Rate	85.7	73.3	94.9	82.3	
Return Ratios (%)					
RoE	24.5	25.9	32.6	31.3	
RoCE	32.3	33.3	42.3	40.8	
RolC	62.3	93.0	92.8	101.8	
Valuation Ratios (x)					
P/E	33.8	17.1	24.5	25.4	
EV / EBITDA	20.9	19.1	19.9	17.3	
EV / Net Sales	5.1	4.9	5.3	4.7	
Market Cap / Sales	5.6	5.5	5.6	5.2	
Price to Book Value	7.6	7.3	9.2	7.9	
Solvency Ratios					
Debt / EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.9	0.8	0.8	0.8	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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ANALYST CERTIFICATION

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