Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Sanofi India Ltd

Strong margin uptick in weak quarter

Pharmaceuticals	Sharekhan code: SANOFI		
Reco/View: Buy ↔	CMP: Rs. 5,607	Price Target: Rs. 5,795 ↓	

↑ 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 Oct 08, 2022

Severe Risk

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

Source: Morningstar

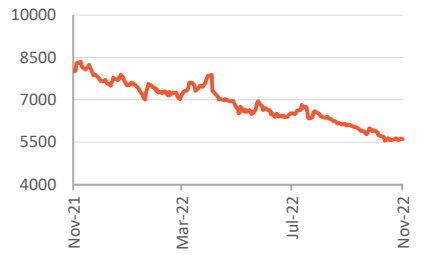
Company details

Market cap:	Rs. 12,913 cr
52-week high/low:	Rs. 8,634 / 5,520
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	9.4
DII	18.3
Others	11.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	-12.5	-13.9	-29.9
Relative to Sensex	-10.0	-15.4	-26.7	-30.9

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Sanofi with a revised PT of Rs 6,795. The stock has corrected by 13% in last three months and trading at attractive valuations of 24x/22x its CY2022E/23E earnings.
- Sanofi has reported a weak result for Q3CY22. Revenues and PAT decreased by 8% and 14% respectively in Q3. However, OPM was flat at 26%, which was ahead of our as well as street expectation
- Emphasis on leveraging digital platform and divestment of the slow-moving business is expected to maintain OPM expansion, leading to a high single-digit PAT CAGR over the next two years.
- High-growth visibility from chronics, strong and debt-free balance sheet, sturdy dividends, and healthy cash position are the key positives.

Sanofi India Limited (Sanofi) has reported yet another weak quarter in Q3CY22 though results are not comparable on y-o-y basis due to the sale of its nutraceuticals business as well as the sales & distribution business of Soframycin and Sofradex. Revenues declined by 8% y-o-y while the PAT declined by 14% y-o-y. In addition to the divesture of businesses, a high base in Q3CY21 due to COVID-led demand has also resulted in a y-o-y decline in topline. The company's focus on core areas of diabetology, 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 to achieve a linear cost structure, and aid in sustained OPM expansion, leading to a high single digit PAT CAGR over the next two years.

Key positives

- OPM was flat on y-o-y basis and improved q-o-q by 324 bps to 26.3% led by an exit from non-profitable businesses.

Key negatives

- Revenues declined by 8.3% y-o-y to Rs 691.3 crore and missed estimates.
- Other income fell by 14% leading to double digit decline in PAT.

Revision in estimates – Sanofi reported a weak result for Q3CY22, though numbers are not comparable on a y-o-y basis due to the divesture of business. Given the double-digit decline in topline and PAT for the quarter, we have cut estimates for CY22E and CY23E respectively. We have introduced CY24E estimates through this note.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 6,795: Sanofi's plan to emphasize on three areas - accelerating growth in the diabetology space, fortifying presence in established/top brands, and focusing on building brands in consumer products, could be key growth drivers ahead. Performance of flagship Lantus (~20% of the sales), especially on the volumes front since its inclusion in the NLEM list would be keenly monitored. Established presence in chronic therapies, likely growth in insulin products and portfolio expansion in cardiology could also 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 high single-digit PAT CAGR over the next two years. High-growth visibility from chronics, strong balance sheet and cashflows, and sturdy dividends are key positives. The stock price has corrected by 13% in last three months and 33% from 52-week highs making valuations look reasonable at 24.3X and 22.4x its CY22E and CY23E EPS. We retain a Buy recommendation on the stock with a revised PT of Rs. 6,795.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	CY2020	CY2021	CY2022E	CY2023E	CY2024E
Total Sales	2901.9	2956.6	2757.7	2986.1	3212.7
EBIDTA	802.9	836.9	780.4	848.5	917.3
EBITDA Margin (%)	24.6	25.8	25.6	25.8	26.0
Adjusted PAT	519.3	568.2	530.5	577.0	625.2
EPS (Rs)	225.8	247.0	230.6	250.9	271.8
PER (x)	24.9	22.8	24.4	22.4	20.7
EV/Ebidta (x)	14.1	13.1	14.4	12.9	11.7
P/BV (x)	6.1	5.8	6.7	6.0	5.3
ROCE (%)	32.2	33.2	35.5	34.4	33.4
RONW (%)	22.5	42.5	27.5	26.6	25.8

Source: Company; Sharekhan estimates

Weak Q3CY22: Sanofi India (Sanofi) reported a weak performance in Q3CY2022. The revenues at Rs. 691.9 crore declined by 8.3% y-o-y and were lower than our and average street estimates of Rs. 728-734 crore. EBITDA margins stood flat y-o-y at 26.3% and were higher than our as well as average street expectation of 24.1%. EBITDA stood at Rs. 181.9 crore down by 8.5% y-o-y. Reflecting weak operating performance, adjusted PAT at Rs. 130.9 crore declined by 14.4% y-o-y and was in-line with our as well as average street estimates of Rs. 131-134 crore.

Momentum in chronic therapies bodes well: 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. 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 in their respective categories. Both cardiology and anti-diabetes segments have been among the consistently growing therapy areas in IPM and as the demand outlook stays strong. Going ahead, expected traction in key brands – Allegra, Lantus, and Combiflam coupled with new launches is expected to support the growth of Sanofi.

Results (Standalone) **Rs cr**

Particulars	Q3CY22	Q3CY21	Y-o-Y %	Q2CY22	Q-o-Q %
Revenues	691.9	754.5	-8.3	699.3	-1.1
Expenditure	510.0	555.7	-8.2	538.1	-5.2
Operating Profits	181.9	198.8	-8.5	161.2	12.8
Other income	11.4	14.7	-22.4	15.7	-27.4
Interest	0.5	0.5	0.0	0.4	25.0
Depreciation	10.4	14.3	-27.3	10.6	-1.9
PBT	182.4	198.7	-8.2	165.9	9.9
Taxes	51.5	45.7	12.7	-45.4	-
Adjusted PAT	130.9	153.0	-14.4	120.5	8.6
Reported PAT	130.9	529.7	-75.3	120.5	8.6
Adj. EPS	56.9	66.5	-14.4	52.4	8.6
			BPS		**BPS**
OPM %	26.3	26.3	-6	23.1	324
Adj PAT Margins (%)	18.9	20.3	-136	17.2	169
Tax Rate (%)	28.2	23.0	523	-27.4	-

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, and 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 the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharmaceutical companies.

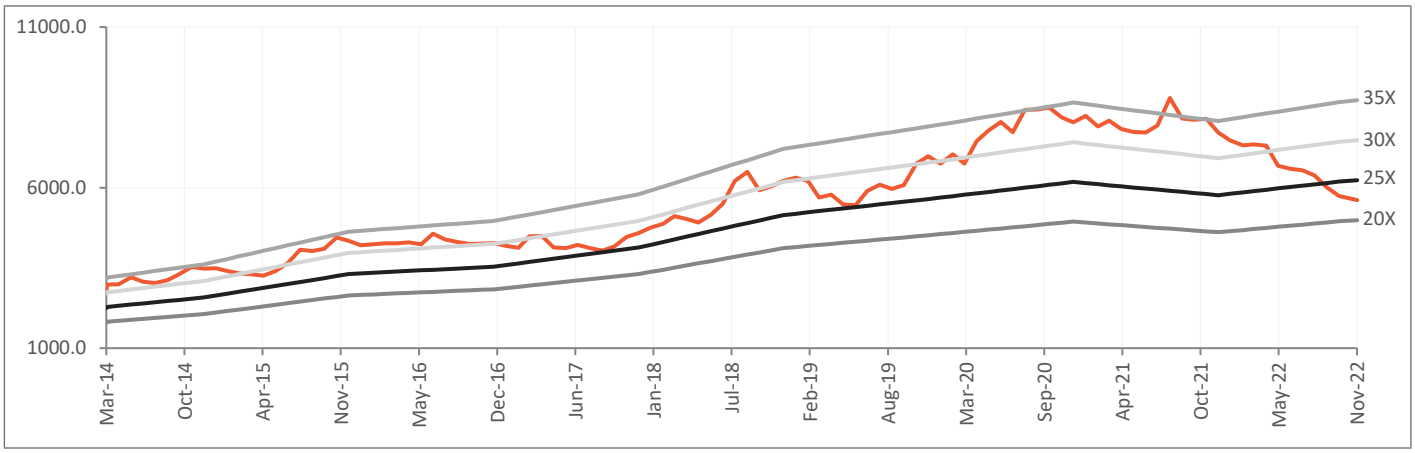
■ Company Outlook – Healthy earnings growth

Sanofi is a pharmaceutical MNC 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 key 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 Ankleshwar 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 – Retain Buy with a revised PT of Rs. 6,795

Sanofi's plan to emphasize on three areas - accelerating growth in the diabetology space, fortifying presence in established/top brands, and focusing on building brands in consumer products, could be the key growth drivers ahead. Performance of flagship Lantus (~20% of the sales), especially on the volumes front since its inclusion in the NLEM list would be keenly monitored. Established presence in the chronic therapies, likely growth in insulin products and portfolio expansion in cardiology could also 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 high single-digit PAT CAGR over the next two years. High-growth visibility from chronics, strong balance sheet and cashflows, and sturdy dividends are key positives. The stock price has corrected by 12% in last three months and 33% from 52-week highs making valuations look reasonable at 24.3X and 22.4x its CY22E and CY23E EPS. We retain a Buy recommendation on the stock with a revised PT of Rs. 6,795.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer valuation

Particulars	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	5,607.0	2.3	12,913.3	22.7	24.3	22.4	13.0	14.3	12.9	42.5	27.5	26.6
Abbott India*	19,149.0	2.1	40,690.3	50.9	44.9	39.1	32.7	29.1	25.3	28.3	29.2	29.5

*Source: Company, Sharekhan estimates; * Nos for FY22/FY23E/FY24E*

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 export 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 contributes 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, 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. A higher share of chronic 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

- Inclusion of Sanofi's products in the National List of Essential Medicines could 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
Ms. Radhika Shah	Company Secretary

Source: BSE; Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp India	5.95
2	Aditya Birla Sun Life AMC	2.73
3	Nippon Life India AMC	1.99
4	abrdn plc	1.88
5	SBI Funds Management	1.63
6	Bajaj Allianz Life Insurance	1.61
7	Vanguard Group Inc	1.28
8	ICICI Prudential AMC	1.25
9	HDFC Life Insurance	1.15
10	General Insurance Corp of India	1.04

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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