Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Sanofi India Ltd

Soft quarter; Continues to pay sturdy dividend

Pharmaceuticals	Sharekhan code: SANOFI	
Reco/View: Buy ↔	CMP: **Rs. 5,563**	Price Target: **Rs. 6,200** ↓

↑ 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 26.41

Updated Dec 08, 2022

Medium Risk

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

Source: Morningstar

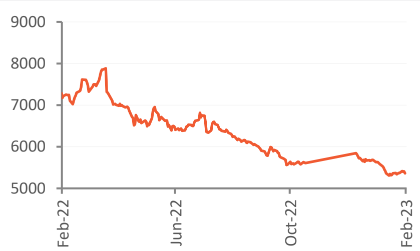
Company details

Market cap:	Rs. 12,913 cr
52-week high/low:	Rs. 7,929 / 5,202
NSE volume: (No of shares)	0.1 lakh
BSE code:	500674
NSE code:	SANOFI
Free float: (No of shares)	91.2 cr

Shareholding (%)

Promoters	60.4
FII	7.0
DII	19.2
Others	13.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.1	1.2	-10.7	-22.4
Relative to Sensex	0.1	6.0	-11.8	-28.9

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on Sanofi with a revised PT of Rs. 6,200. The stock has corrected by 14% in the last six months and is trading at reasonable valuations of 22.3x its CY2024E earnings.
- Sanofi has reported soft numbers for Q4CY2022. Revenue declined by 2.3% y-o-y and PAT grew by strong 44.8%. This was due to a 635-bps YoY expansion in EBITDA margin to 24.8%, which was below streets' expectation though.
- We believe the emphasis on leveraging the digital platform and divestment of the slow-moving business have led to OPM expansion. We expect a high single-digit PAT CAGR over the next three years.
- High-growth visibility from chronic, a strong and debt-free balance sheet, sturdy dividends, and healthy cash position are the key positives. The company has announced dividend of Rs. 377 (including second special dividend); for CY2022, it has declared Rs. 570 per share of dividend.

Sanofi India Limited (Sanofi) has reported a soft quarter, marginally below street's expectations. Revenue declined at a lower rate of 2.3% y-o-y, while PAT grew at a strong pace of 44.8% y-o-y. The divesture of nutraceutical businesses and Soframycin and Sofradex brands and a high base in Q4CY2021 due to COVID-19-led demand resulted in a y-o-y decline in the topline. The company's focus on core areas of diabetology, cardiology, and brand building in consumer products should continue to propel the growth ahead. Moreover, we believe the divestment of the slow-moving business – nutraceuticals and Soframycin and Sofradex brands have enabled it to improve gross margins. As a result, we expect a high single-digit PAT CAGR over the next three years. The company has also declared a dividend of Rs. 570 per share for CY2022, which implies a dividend yield of 11%.

Key positives

- OPM increased at a strong 635 bps y-o-y (-145 bps q-o-q) to 24.8%.
- The company has declared a final dividend of Rs. 194 per share and a second special dividend of Rs. 183 per share for CY2022. The total dividend, including two interim dividends, was Rs. 570 per share for CY2022 on a Face Value of Rs. 10.

Key negatives

- Revenue declined by 2.3% y-o-y to Rs. 671.9 crore.

Our Call

Valuation: Retain Buy with a revised PT of Rs. 6,200: Sanofi India's established presence in chronic therapies, likely growth in insulin products, and portfolio expansion in cardiology continue to be the profitability drivers. We believe the emphasis on leveraging the digital platform and divestment of the slow-moving business have led to OPM expansion in Q4Y2022. High-growth visibility from chronics, strong balance sheet and cashflows, and sturdy dividends are key positives. The stock price has corrected by 14% in the last six months and by 8% YTD, making valuations reasonable at 22.3x its CY2024E. We retain our Buy recommendation on the stock with a revised price target (PT) of Rs. 6,200.

Key Risks

1) Inclusion of products in the National List of Essential Medicines could hurt earnings performance; and 2) Slower growth in sales than the Indian Pharms Market (IPM).

Valuation (Standalone) Rs cr

Particulars	CY2021	CY2022	CY2023E	CY2024E
Total Sales	2956.6	2770.1	3025.2	3254.2
EBIDTA	836.9	775.9	845.7	907.8
EBITDA Margin (%)	25.8	25.4	25.5	25.5
Adjusted PAT	568.2	488.6	535.2	574.8
EPS (Rs)	247.0	212.4	232.7	249.9
PER (x)	22.5	26.2	23.9	22.3
EV/Ebidta (x)	12.9	15.2	13.7	12.5
P/BV (x)	5.7	10.0	8.5	7.4
ROCE (%)	33.2	54.8	51.5	47.9
RONW (%)	42.5	48.6	35.7	33.1

Source: Company; Sharekhan estimates

- **Soft Q4CY2022:** Sanofi reported a soft performance in Q4CY2022. Revenue stood at Rs. 671.9 crore, which declined at a smaller pace of 2.3% y-o-y compared to Q2FY2023 and was marginally lower than the street's estimates of Rs. 688 crore. Nevertheless, the company posted 300-bps y-o-y and flat growth q-o-q in gross margins to 58.2%, reflecting in the favourable products mix and lower raw-materials costs. The company has divested its nutraceutical business and a few key brands such as Soframycin and Sofradex in Q1CY2022. EBITDA margin increased by 635 bps y-o-y to 24.8%; however, it was below street's expectation of 26.7%. EBITDA stood at Rs. 166.9 crore (which was also below the street's estimate of Rs. 184 crore), up 31.2% y-o-y. The improved gross margin and reduced other expenses helped in strong growth in operating profit. Reflecting the strong operating performance, reported PAT at Rs. 130.9 crore rose by sharp 44.8% y-o-y on a reported basis (and 29.4% y-o-y to Rs. 117 crore on an adjusted basis) and was marginally below the street's estimate of Rs. 137.4 crore.
- **Key products performance:** Sanofi's key products include Allegra, Enterogermina, Amaryl M, Clexane (cardiac drug), Avil, and Lantus (its long-acting glargine insulin product). The company also has other key products such as Targocid (an antibiotic injection) and Combiflam (a pain management drug). It is believed that Allegra and Enterogermina have been growing at a double-digit rate and Amaryl M, Clexane, and Avil are growing at a single-digit rate, while Lantus has been growing at a flat pace. Lantus has been affected by its inclusion in NLEM 2022. We believe the company's products are strong brands (60% chronic and rest in the acute segment). It is believed that with the recovery in acute business, the company's sales growth will resume back, giving further impetus to its profitability.

Results (Standalone) Rs cr

Particulars	Q4CY22	Q4CY21	YoY %	Q3CY22	QoQ %
Revenue	671.9	687.9	-2.3	691.9	-2.9
Expenditure	505.0	560.7	-9.9	510.0	-1.0
EBITDA	166.9	127.2	31.2	181.9	-8.2
Depreciation	10.0	10.9	-8.3	10.4	-3.8
EBIT	156.9	116.3	34.9	171.5	-8.5
Interest	0.4	0.4	0.0	0.5	-20.0
Other income	20.0	16.3	22.7	11.4	75.4
PBT	176.5	132.2	33.5	182.4	-3.2
Taxes	59.5	41.8	42.3	51.5	15.5
Adjusted PAT	117.0	90.4	29.4	130.9	-10.6
Reported PAT	130.9	90.4	44.8	130.9	0.0
			BPS		**BPS**
OPM %	24.8	18.5	635	26.3	-145
Adj. PAT Margin(%)	17.4	13.1	427	18.9	-151
Tax Rate (%)	33.7	31.6	209	28.2	548

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Improved growth prospects

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 U.S. generics market), a rise in product approvals, and plant resolutions by the USFDA coupled with 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 revenue) points to stable revenue growth going ahead due to sticky demand for products. Moreover, in the overall industry, the chronic segment has staged steady growth. Going ahead, 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 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. 6,200

Sanofi India's established presence in chronic therapies, likely growth in insulin products, and portfolio expansion in cardiology continue to be the profitability drivers. We believe the emphasis on leveraging the digital platform and divestment of the slow-moving business have led to OPM expansion in Q4Y2022. High-growth visibility from chronics, strong balance sheet and cashflows, and sturdy dividends are key positives. The stock price has corrected by 14% in the last six months and by 8% YTD, making valuations reasonable at 22.3x its CY2024E. We retain our Buy recommendation on the stock with a revised PT of Rs. 6,200.

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E
Sanofi India	5,563.2	2.3	12,812.3	23.9	22.3	20.7	13.7	12.5	11.4	35.7	33.1	31.0
Abbott India*	20,250.0	2.1	43,029.8	43.0	38.2	33.7	28.3	25.0	21.7	31.3	30.4	29.3

*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 around 40% to the 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 the 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 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 and CFO
Ms. Radhika Shah	Company Secretary

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation	5.95
2	Aditya Birla Sun Life Trustee	2.79
3	Nippon Life India Trustee Ltd.	2.09
4	HDFC Life Insurance Corp	1.91
5	SBI Contra Fund	1.78
6	General Insurance Corp	1.42
7	ICICI Prudential Pharma Health	1.22

Source: BSE

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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