

CMP: ₹ 5860

Target: ₹ 6270 (7%)

Target Period: 12 months

February 27, 2023

HOLD

Weak Q4; power brands growth, future divestitures to be keenly watched...

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

Q4CY22 Results: Sanofi India reported weak numbers in-line with our expectations

- Sanofi's Q4CY22 revenues declined by 2.9% QoQ to ₹672 crore
- EBITDA de-grew 8.2% QoQ to ₹ 167 crore while EBITDA margins declined 145 bps QoQ to 24.8%
- Adjusted Profit for the quarter decreased 14.5% QoQ to ₹ 112 crore

What should investors do? Sanofi's share price has grown at -7.1% CAGR over the past 3 years.

- Maintain **HOLD** as we wait for visible growth triggers in power brands portfolio especially in the anti-diabetic and cardiovascular therapies

Target Price and Valuation: Valued at ₹ 6270 i.e. 23x P/E on CY24E EPS of ₹ 272.7

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
- Performance of flagship Lantus (~20% of the sales), especially on the volumes front since its inclusion in the NLEM list
- Access to innovative molecules from parent like anti-diabetic drug Toujeo

Alternate Stock Idea: Besides Sanofi, in our MNC coverage we like P&G Health.

- Procter & Gamble Health is a leading pharma cum OTC company with key focus on vitamins, minerals, supplement (VMS). Its recent earnings reflect sustained efforts to regain momentum via improved mix and productivity initiatives
- BUY with a target price of ₹ 5315

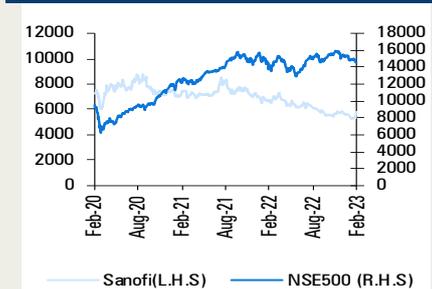
Particulars

Particular	Amount
Market Capitalisation	₹ 13443 crore
Debt (CY22)	₹ 0 crore
Cash (CY22)	₹ 1017 crore
EV	₹ 12426 crore
52 week H/L	7939/5202
Equity capital	₹ 23.0 crore
Face value	₹ 10

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promote	60.4	60.4	60.4	60.4
Others	39.6	39.6	39.6	39.6

Price Chart



Recent Event & Key risks

- Sale of Soframycin, Sofradex brands
- **Key Risks:** (i) Better than expected ramp up in new launches (ii) Continued muted Lantus sales

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Key Financial Summary

Key Financials (₹ Crore)	CY19	CY20	CY21	5 year CAGR (CY16-21)	CY22	CY23E	CY24E	2 year CAGR (CY22-24E)
Revenues	3070.6	2901.9	2956.6	4.6	2770.1	2974.5	3224.5	7.9
EBITDA	665.3	713.1	762.5	7.3	704.4	758.0	821.8	8.0
EBITDA margins (%)	21.7	24.6	25.8		25.4	25.5	25.5	
Net Profit	414.2	477.6	944.4	25.4	620.6	578.1	627.2	0.5
EPS (₹)	205.9	225.8	250.9		228.6	251.4	272.7	
PE (x)	32.6	28.2	14.3		21.7	23.3	21.5	
EV to EBITDA (x)	18.6	17.2	15.6		17.7	16.1	14.5	
RoCE (%)	26.0	32.3	33.3		55.1	49.6	45.0	
ROE (%)	19.4	24.5	25.9		41.2	36.9	33.3	

Key takeaways of recent quarter

Q4CY22 Result: Weak numbers in-line with expectations

- Sanofi's Q4CY22 revenues declined by 2.9% QoQ to ₹672 crore. Domestic sales growth on comparable basis stood at 3.8%, exports grew at 26%. The revenues are not comparable with the previous year due to the sale of the Nutraceutical business and sale of the distribution business of Soframycin and Sofradex. On operational front during the quarter EBITDA de-grew 8.2% QoQ to ₹ 167 crore while EBITDA margins declined 145 bps QoQ to 24.8%. Adjusted Profit for the quarter decreased 14.5% QoQ to ₹ 112 crore.
- Numbers were sequentially lower as expected and in line with the IQVIA data. Despite having more than ~50% contribution from chronic therapies such as Diabetology and Cardiology, the company has underperformed (domestic sales CAGR of 7% from FY17-22) the IPM due to below-par performances of some tail brands. The growth momentum in both Power brands such as Lantus, Clexane etc and ex- power brands is yet to reach to the pre-Covid level. Company continues to maintain healthy dividend payout during the quarter.

ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	9.8	24.2	24.2
Social	19.2	19.2	15.1
Governance	78.6	78.6	78.6
Overall ESG Score	35.9	40.7	39.3

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG

Exhibit 1: Power Brands

Brand	Therapy	Dec-19	Dec-20	Dec-21	Dec-22	GAGR 19-22	YoY
LANTUS	ANTI DIABETIC	490.7	587.7	648.1	625.9	8.4%	-3.4%
ALLEGRA	RESPIRATORY	187.3	189.1	208.4	235.4	7.9%	13.0%
COMBIFLAM	PAIN / ANALGESICS	169.6	182.9	200.0	202.5	6.1%	1.2%
AMARYL M	ANTI DIABETIC	150.0	161.4	166.7	166.0	3.4%	-0.4%
ENTEROGERMINA	GASTRO INTESTINAL	98.7	96.4	132.1	150.4	15.1%	13.9%
CLEXANE	CARDIAC	111.6	123.1	164.9	137.7	7.3%	-16.5%
HEXAXIM	Vaccine	126.3	112.3	100.2	106.4	-5.6%	6.1%
AVIL	ANTI-INFECTIVES	64.4	78.2	92.8	97.2	14.7%	4.8%
CARDACE	CARDIAC	91.7	96.7	94.5	90.8	-0.3%	-3.9%
FRISIUM	NEURO / CNS	74.1	71.6	77.6	82.8	3.7%	6.6%
Top 10 brands		1564.4	1699.4	1885.2	1895.1	6.6%	0.5%
% of IQVIA sales		58.7%	60.0%	60.1%	60.8%		
Ex-Top 10 brands		1098.6	1132.4	1252.5	1219.4	3.5%	-2.6%

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

Exhibit 2: Therapeutic breakup

Therapy	Dec-20	Dec-21	Dec-22	GAGR 19-22	YoY
ANTI DIABETIC	1034.1	1136.6	1136.5	8.2%	0.0%
CARDIAC	448.5	497.4	450.5	3.6%	-9.4%
RESPIRATORY	322.9	370.1	408.9	11.4%	10.5%
GASTRO INTESTINAL	205.4	257.4	288.2	14.0%	12.0%
VACCINES	300.6	305.2	285.9	-5.1%	-6.3%
PAIN / ANALGESICS	190.5	213.1	212.0	6.2%	-0.5%
NEURO / CNS	204.7	207.1	205.2	0.6%	-0.9%
ANTI-INFECTIVES	108.3	129.9	102.1	-10.1%	-21.4%
OTHERS	8.1	11.0	11.2	18.8%	1.6%
ANTINEOPLAST/IMMUNOMODULATOR	3.9	6.7	10.2	60.7%	50.5%
Top 5 Therapies	2311.5	2566.7	2569.9	6.5%	0.1%
Total IQVIA Sales	2831.8	3137.7	3114.5	5.4%	-0.7%
Top 5 Therapies % sales	81.6%	81.8%	82.5%		

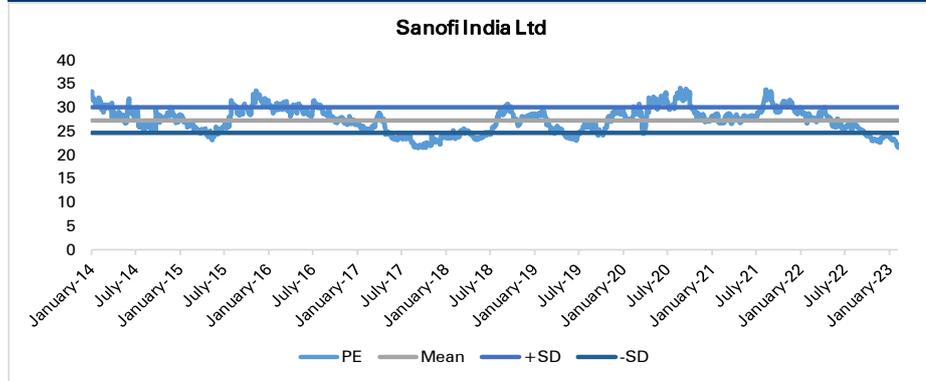
Source: IQVIA, MAT TSA Values (in ₹ crore)

Exhibit 3: Financial Summary

	Revenues (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
CY20	2902	-5.5	225.8	9.7	28.2	17.2	24.5	32.3
CY21	2957	1.9	250.9	11.1	14.3	15.6	25.9	33.3
CY22	2770	-6.3	228.6	-8.9	21.7	17.7	41.2	55.1
CY23E	2974	7.4	251.4	9.9	23.3	16.1	36.9	49.6
CY24E	3224	8.4	272.7	8.5	21.5	14.5	33.3	45.0

Source: ICICI Direct Research

Exhibit 4: PE Band



Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end December)	CY21	CY22	CY23E	CY24E
Total Operating Income	2,956.6	2,770.1	2,974.5	3,224.5
Growth (%)	1.9	-6.3	7.4	8.4
Raw Material Expenses	1,306.8	1,189.6	1,301.5	1,410.8
Gross Profit	1,649.8	1,580.5	1,673.0	1,813.7
Gross Profit Margins (%)	55.8	57.1	56.2	56.2
Employee Expenses	433.9	405.9	442.8	480.0
Other Expenditure	453.4	470.2	472.3	511.9
Total Operating Expenditure	2,194.1	2,065.7	2,216.5	2,402.7
EBITDA	762.5	704.4	758.0	821.8
Growth (%)	6.9	-7.6	7.6	8.4
Interest	1.8	1.7	1.7	1.7
Depreciation	66.7	41.9	27.9	29.8
Other Income	74.4	71.5	76.8	83.2
PBT before Exceptional It	768.4	732.3	805.1	873.5
Less: Exceptional Items	-489.2	-132.0	0.0	0.0
PBT after Exceptional Items	1,257.6	864.3	805.1	873.5
Total Tax	313.2	243.7	227.0	246.3
PAT	944.4	620.6	578.1	627.2
Adjusted PAT	577.0	525.8	578.1	627.2
Growth (%)	11.1	-8.9	9.9	8.5
EPS (Adjusted)	250.9	228.6	251.4	272.7

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end December)	CY21	CY22	CY23E	CY24E
Profit/(Loss) after taxation	972.7	603.6	578.1	627.2
Add: Depreciation & Amortization	66.7	41.9	27.9	29.8
Net Increase in Current Assets	-4.8	-16.5	9.7	-54.4
Net Increase in Current Liabilities	72.9	-29.1	-34.1	45.6
Others	-548.7	-201.2	1.7	1.7
CF from Operating activities	558.8	398.7	583.4	649.9
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	567.7	147.0	-25.0	-25.0
Others	63.1	503.9	-8.6	-9.4
CF from Investing activities	630.8	650.9	-33.6	-34.4
(inc)/Dec in Loan	-6.6	-8.0	0.0	0.0
Dividend & Dividend tax	-840.6	-1,573.0	-287.5	-310.5
Other	-1.8	-1.7	-1.7	-1.7
CF from Financing activities	-849.0	-1,582.7	-289.2	-312.2
Net Cash Flow	340.6	-533.1	260.6	303.3
Cash and Cash Equivalent	1,197.4	1,538.0	1,016.9	1,277.5
Cash	1,538.0	1,004.9	1,277.5	1,580.8
Free Cash Flow	1,126.5	545.7	558.4	624.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end December)	CY21	CY22	CY23E	CY24E
Equity Capital	23.0	23.0	23.0	23.0
Reserve and Surplus	2,202.6	1,252.8	1,543.4	1,860.1
Total Shareholders funds	2,225.6	1,275.8	1,566.4	1,883.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	6.3	4.9	5.9	7.1
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	79.5	50.4	52.9	55.6
Source of Funds	2,311.4	1,331.1	1,625.2	1,945.7
Gross Block - Fixed Assets	400.8	347.4	372.4	397.4
Accumulated Depreciation	66.7	41.9	69.8	99.6
Net Block	334.1	305.5	302.6	297.8
Capital WIP	12.8	23.6	23.6	23.6
Goodwill on Consolidation	0	0	0	0
Fixed Assets	346.9	329.1	326.2	321.4
Investments	0.0	0.0	0.0	0.0
Other non-Current Assets	20.1	22.4	23.5	24.7
Inventory	392.4	408.0	392.2	425.2
Debtors	142.9	129.1	134.5	145.8
Loans and Advances	4.5	9	4.95	9.90
Other Current Assets	47.8	47.3	52.0	57.2
Cash	1,550.3	1,016.9	1,277.5	1,580.8
Total Current Assets	2,137.9	1,610.3	1,861.1	2,218.8
Creditors	376.7	356.4	303.1	328.5
Provisions	236.7	232.7	244.3	256.6
Other Current Liabilities	136.2	151.5	159.1	167.0
Total Current Liabilities	749.6	740.6	706.5	752.1
Long Term Loans and Advances	556.1	109.9	120.9	133.0
Net Current Assets	1,388.3	869.7	1,154.6	1,466.7
Application of Funds	2,311.4	1,331.1	1,625.2	1,945.7

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end December)	CY21	CY22	CY23E	CY24E
Per share data (₹)				
Reported EPS	410.6	269.8	251.4	272.7
Cash EPS	-210.1	-437.1	138.5	150.7
BV per share	967.7	554.7	681.0	818.7
Cash per Share	674.0	442.1	555.4	687.3
Dividend per share	490.0	683.9	125.0	135.0
Operating Ratios (%)				
Gross Profit Margins	55.8	57.1	56.2	56.2
EBITDA margins	25.8	25.4	25.5	25.5
PAT Margins	19.5	19.0	19.4	19.5
Cash Conversion Cycle	22.0	32.8	41.5	41.5
Asset Turnover	7.4	8.0	8.0	8.1
EBITDA conversion Rate	73.3	56.6	77.0	79.1
Return Ratios (%)				
RoE	25.9	41.2	36.9	33.3
RoCE	33.3	55.1	49.6	45.0
RoIC	93.0	228.0	225.2	232.0
Valuation Ratios (x)				
P/E	14.3	21.7	23.3	21.5
EV / EBITDA	15.6	17.7	16.1	14.5
EV / Net Sales	4.0	4.5	4.1	3.7
Market Cap / Sales	4.6	4.9	4.5	4.2
Price to Book Value	6.1	10.6	8.6	7.2
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.8	0.8	0.8	0.8
Quick Ratio				
Inventory days	109.6	125.2	110.0	110.0
Debtor days	17.6	17.0	16.5	16.5
Creditor days	105.2	109.4	85.0	85.0

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				EV/EBITDA(x)				RoCE (%)			RoE (%)				
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4426	5,460	Buy	63638	7.8	59.1	61.6	80.2	57.7	29.8	29.3	24.6	6.3	15.1	14.3	16.6	2.5	15.1	14.0	15.9
Narayana Hrudalaya	NARHRU	750	870	Buy	15321	-0.7	16.7	28.8	28.9	86.0	23.8	18.1	16.4	1.2	20.5	24.2	21.0	-1.3	23.0	28.6	22.5
Shalby	SHALIM	124	180	Buy	1342	3.9	5.4	6.9	9.5	17.6	13.3	9.4	7.2	6.5	8.4	11.5	13.9	5.1	6.7	8.0	10.1
Aster DM	ASTDM	229	280	Buy	11414	3.0	10.5	9.5	18.0	16.0	11.5	10.6	7.2	5.4	9.0	9.2	13.5	4.4	13.3	10.7	16.9
Healthcare Global	HEAGLO	281	385	Buy	3906	-13.9	3.9	2.2	6.0	39.4	20.1	14.9	12.0	-0.9	5.0	8.7	12.7	-0.9	5.0	3.4	8.4
Company																					
MNC Pharma																					
Abbott India	ABBIND	20181	21,025	Hold	42883	328.9	380.3	476.5	519.3	61.4	53.1	42.3	38.9	33.8	36.6	39.7	35.6	26.5	28.3	30.9	27.5
P&G Health	MERLIM	4632	5,315	Buy	7689	106.5	116.0	150.0	163.6	43.5	39.9	30.9	28.3	32.2	39.8	42.5	38.0	25.1	31.2	32.0	28.5
Sanofi India	SANOFI	5860	6,270	Hold	12351	410.6	269.8	255.8	272.7	14.3	21.7	22.9	21.5	33.3	55.1	50.2	45.0	25.9	41.2	38.1	33.3
Pfizer	PFIZER	3800	4,505	Hold	17384	108.8	133.2	150.5	149.3	34.9	28.5	25.2	25.4	27.6	26.1	25.0	23.7	20.8	21.4	18.8	18.2
Pharma																					
Ajanta Pharma	AJAPHA	1172	1,385	Buy	15016	51.1	55.7	51.2	67.9	22.9	21.0	22.9	17.3	29.0	27.0	21.5	24.3	21.8	21.8	17.5	19.7
Alembic Pharma	ALEMPHA	510	550	Hold	10026	62.6	27.7	15.3	23.2	8.1	18.4	33.4	21.9	25.1	10.6	7.1	9.8	24.1	10.4	5.6	8.0
Aurobindo Pharma	AURPHA	459	525	Hold	26889	55.0	47.4	34.8	46.2	8.3	9.7	13.2	9.9	16.9	12.9	10.2	12.6	14.7	11.3	7.7	9.3
Biocon	BIOCON	230	230	Hold	27578	6.3	6.3	4.9	3.1	36.7	36.2	46.5	73.0	7.7	7.5	3.3	5.1	9.9	8.1	2.7	6.2
Zydus Lifesciences	CADHEA	456	500	Buy	46136	23.3	21.0	22.6	27.0	19.5	21.7	20.2	16.9	13.8	12.0	12.3	12.3	18.4	12.6	12.1	12.8
Cipla	CIPLA	950	1,290	Buy	76707	29.9	32.9	38.3	45.5	31.8	28.9	24.8	20.9	17.0	16.7	18.4	19.1	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4415	5,210	Buy	73521	117.6	127.2	262.2	215.5	37.6	34.7	16.8	20.5	13.1	13.0	24.2	20.8	11.1	11.0	18.9	13.8
Glenmark Pharma	GLEPHA	432	440	Hold	12202	32.9	42.7	33.3	47.4	13.2	10.1	13.0	9.1	13.9	14.8	14.9	15.7	13.1	13.2	9.4	11.9
Ipsca Laboratories	IPCLAB	811	885	Hold	20584	44.9	34.8	20.8	31.4	18.1	23.3	39.0	25.8	27.1	17.4	12.1	15.7	24.2	16.1	8.9	12.1
Jubilant Pharmova	JUBLIF	309	395	Hold	4922	37.4	26.0	22.5	32.8	8.3	11.9	13.7	9.4	13.7	9.0	7.8	9.7	12.6	7.8	6.4	8.6
Lupin	LUPIN	654	725	Hold	29751	26.9	11.9	8.3	25.6	24.4	55.1	78.7	25.5	9.6	3.4	5.7	11.0	8.8	4.4	3.0	8.6
Natco Pharma	NATPHA	543	565	Hold	9909	24.1	9.3	36.4	40.3	22.5	58.4	14.9	13.5	13.1	4.6	16.0	16.5	10.7	4.0	13.9	13.6
Sun Pharma	SUNPHA	965	1,210	Buy	231548	30.1	32.0	34.9	38.6	32.1	30.2	27.6	25.0	14.2	18.2	17.2	18.1	15.5	16.0	15.2	14.7
Torrent Pharma	TORPHA	1478	1,720	Hold	50034	37.0	32.0	36.3	45.1	40.0	46.1	40.7	32.8	17.6	19.7	17.1	20.4	21.4	18.2	17.9	19.0
Indoco Remedies	INDREM	374	440	Buy	3445	10.1	16.8	17.9	26.7	37.0	22.3	20.8	14.0	11.7	17.5	15.6	21.9	12.1	17.1	15.9	19.8
Caplin Point	CAPPOI	663	865	Buy	5035	31.9	39.5	48.8	47.9	20.8	16.8	13.6	13.9	25.4	25.3	23.5	22.4	20.4	20.2	20.2	16.7
Advanced Enzymes	ADVENZ	274	265	Reduce	3067	13.1	10.7	9.6	13.3	21.0	25.6	28.7	20.6	19.4	14.3	10.9	14.0	15.1	11.0	9.0	11.3
Hester Biosciences	HESPHA	1783	1,830	Hold	1517	44.4	45.7	35.6	49.7	40.2	39.0	50.0	35.9	16.2	10.9	9.9	10.9	16.5	15.0	10.7	13.5
API/CRAMS																					
Divi's Lab	DIVLAB	2852	2,945	Hold	75720	74.7	111.5	72.8	77.4	38.2	25.6	39.2	36.9	27.6	30.2	18.2	18.3	18.8	21.3	25.2	15.0
Hikal	HIKCHE	315	375	Hold	3883	10.8	13.0	5.7	14.6	29.2	24.2	55.3	21.6	15.1	13.6	7.2	14.3	14.3	15.0	6.3	14.1
Syngene Int.	SYNINT	564	610	Hold	22657	10.1	9.9	12.1	14.7	55.7	57.1	46.6	38.3	11.5	11.7	13.4	14.4	13.5	12.9	13.0	13.7
Granules India	GRANUL	293	355	Buy	7102	22.2	16.6	21.4	24.0	13.2	17.6	13.7	12.2	24.0	15.6	20.0	20.5	25.3	16.0	18.7	17.6
Laurus Labs	LAULAB	331	400	Buy	17823	18.3	15.4	16.5	19.1	18.1	21.5	20.0	17.3	31.7	21.3	21.8	21.5	37.9	24.7	21.4	20.2
Suven Pharmaceuticals	SUVPH	484	530	Buy	12318	14.2	17.8	14.7	17.7	34.0	27.2	32.8	27.4	31.2	37.5	26.0	25.6	30.7	29.7	20.6	20.5

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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