

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	4QCY2016	3QCY2016	% chg (qoq)	4QCY2015	% chg (yoy)
Net sales	552	583	(5.3)	522	5.6
Other income	55	56	(1.4)	59	(5.9)
Operating profit	67	104	(35.4)	67	0.8
Adj. Net profit	51	81	(37.7)	53	(3.8)

Source: Company, Angel Research

For 4QCY2016, Sanofi India posted results which were below expectations on the sales front. The sales came in at ₹552cr v/s. ₹570cr expected, posting a yoy growth of 5.6%. On the operating front, the EBITDA margin came in at 12.2% (12.3% expected) v/s. 12.7% in 4QCY2015. This came in spite of GPM (Gross Profit Margin), which came in at 54.7% V/s 51.5% in 4QCY2016, as the other expenses rose by 28.5% yoy. Consequently, the Adj. PAT came in at ₹51cr v/s. ₹53cr in 4QCY2015, a yoy de-growth of 3.8%. This was against the expectations of ₹50cr. **We maintain our Neutral rating on the stock.**

Results lower than expectations, mainly on sales: Sanofi India's results were below expectations on the sales front for the quarter. The sales came in at ₹552cr v/s. ₹570cr expected, posting a yoy growth of 5.6%. On the operating front, the EBITDA margin came in at 12.2% (12.3% expected) v/s. 12.7% in 4QCY2015. This came in spite of GPM (Gross Profit Margin), which came in at 54.7% V/s 51.5% in 4QCY2016, as the other expenses rose by 28.5% yoy. Consequently, the Adj. PAT came in at ₹51cr v/s. ₹53cr in 4QCY2015, a yoy de-growth of 3.8%. This was against the expectations of ₹50cr.

Outlook and valuation: We expect net sales to post a 12.6% CAGR to ₹2,597cr and EPS to register 16.8% CAGR to ₹157.2 over CY2015–17. At current levels, the stock is trading at 33.4x and 27.4x its CY2016 and CY2017E earnings respectively. **Given the rich valuations, we recommend a Neutral rating.**

Key financials

Y E Dec (₹ cr)	CY2014	CY2015	CY2016E	CY2017E
Net Sales	1,875	2,049	2,206	2,597
% chg	9.9	9.3	7.7	17.7
Net Profit	197.1	264.9	296.5	361.5
% chg	(17.8)	34.4	11.9	21.9
EPS (₹)	85.6	115.2	128.9	157.2
EBITDA (%)	12.6	15.4	16.6	17.4
P/E (x)	50.3	37.3	33.4	27.4
RoE (%)	14.4	19.3	21.6	26.4
RoCE (%)	10.2	14.8	17.1	22.5
P/BV (x)	6.7	6.1	5.7	4.4
EV/Sales (x)	5.0	4.5	4.2	3.4
EV/EBITDA (x)	39.9	29.6	25.5	19.4

Source: Company, Angel Research; Note: CMP as of March 9, 2017

NEUTRAL

CMP ₹4,301
 Target Price -

Investment Period -

Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	9,906
Net debt (₹ cr)	(518.9)
Beta	0.3
52 Week High / Low	4,770/3,850
Avg. Daily Volume	2,061
Face Value (₹)	10
BSE Sensex	28,929
Nifty	8,927
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	18.7
FII / NRIs / OCBs	15.5
Indian Public / Others	5.4

Abs. (%)	3m	1yr	3yr
Sensex	8.3	17.2	31.9
Sanofi India	(0.7)	(2.8)	57.8

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QCY2016 performance

Y/E Dec (₹ cr)	4QCY2016	3QCY2016	% chg (qoq)	4QCY2015	% chg (yoy)	CY2016	CY2015	% chg yoy
Net sales	552	583	(5.3)	522	5.6	2,206	2,049	7.7
Other income	55	56	(1.4)	59	(5.9)	233	223	4.6
Total income	607	639	(5.0)	581	4.5	2,439	2,272	7.4
PBIDT	67	104	(35.4)	67	0.8	366	315	16.0
OPM (%)	12.2	17.8		12.7		16.6	15.4	
Interest	0.4	0.3		0.1		2	0	
Depreciation & amortization	41	30	37.3	30	39.2	131	113	16.2
PBT & exceptional items	81	130	(37.6)	96	(15.6)	466	425	9.7
Less : Exceptional items	0	0		0		0	(56)	
Profit before tax	81	130	(37.6)	96	(15.6)	466	481	(3.1)
Provision for taxation	30	49	(37.4)	43	(29.8)	169	159	6.1
Net profit	51	81	(37.7)	53	(3.8)	297	322	(7.6)
Adj net profit	51	81	(37.7)	53	(3.8)	297	265	11.9
EPS (₹)	22.0	35.3		22.8		128.9	115.2	

Source: Company, Angel Research

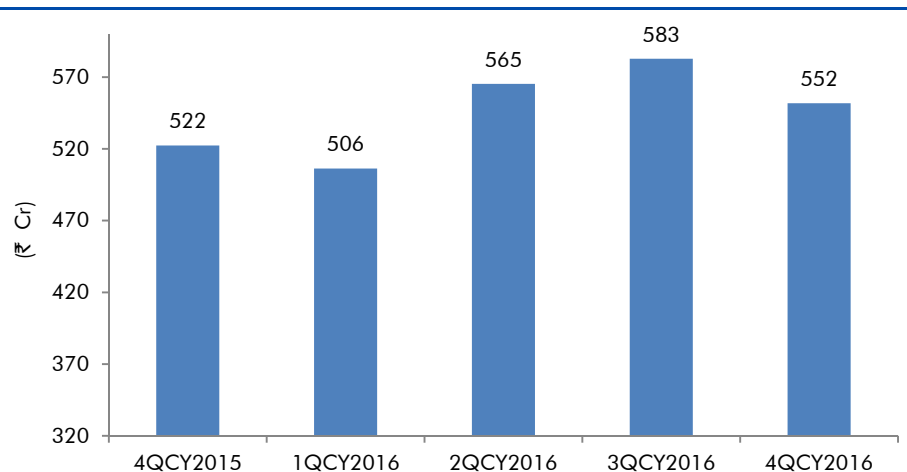
Exhibit 2: 4QCY2016 – Actual Vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net sales	552	570	(3.2)
Other income	55	60	(7.7)
Operating profit	67	70	(4.0)
Tax	30	49	(37.4)
Net profit	51	50	1.2

Source: Company, Angel Research

Revenue growth lower than expectation

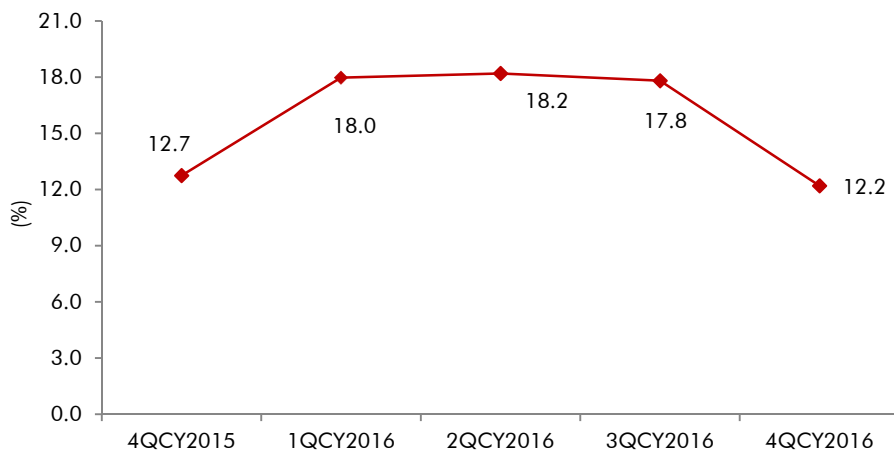
The company posted sales of ₹552cr (v/s. an expected ₹570cr), registering a yoy growth of 5.6%. Growth is likely to have been impacted by the demonetization measures undertaken during the quarter. According to AIOCD, average industry growth stood at ~10% yoy in 4QFY2016 v/s ~14% in the last year.

Exhibit 3: Sales trend


Source: Company, Angel Research

OPM dips to 12.2%: On the operating front, the EBITDA margin came in at 12.2% (12.3% expected) v/s. 12.7% in 4QCY2015. This came in spite of GPM (Gross Profit Margin), which came in at 54.7% V/s 51.5% in 4QCY2016, as the other expenses rose by 28.5% yoy. Employee expenses rose only by 1.8% yoy.

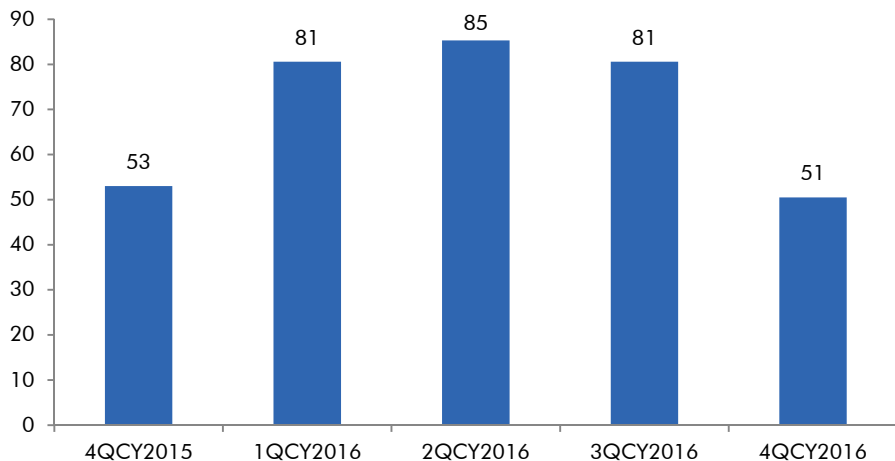
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line just in-line with estimates: Consequently, the Adj. PAT came in at ₹51cr v/s. ₹53cr in 4QCY2015, a yoy de-growth of 3.8%. This was against the expectations of ₹50cr. Tax as a percentage of PBT was at 37.6% v/s. 45.2% in 4QCY2015, however the depreciation posted yoy growth was 39.2%.

Exhibit 5: Adj. net profit trend



Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Sanofi recorded revenue CAGR of 12.6% to ₹2,206cr over CY2010–16. The growth was impacted by a lower-than-expected growth in domestic formulations and loss of distribution rights of *Rabipur* vaccine. Going forward, in order to grow in-line with the industry’s average growth rate in the domestic segment, the company has rolled out a project - *Prayas*, an initiative to increase its penetration in rural areas. Under the project, the company would launch low-priced products in the anti-infective and NSAID therapeutic segments and increase its field force. Sanofi also launched CVS and vaccine products in the domestic market post the acquisition of Shantha Biotech by its parent company. Further, during CY2011, the company acquired the nutraceutical business of Universal Medicare Pvt. Ltd, which led the company’s foray into the nutraceutical business, thus aiding it in diversifying and boosting overall growth of its domestic formulation business. We expect the company’s net sales to log a 12.6% CAGR over CY2015–17, mainly driven by domestic formulation.

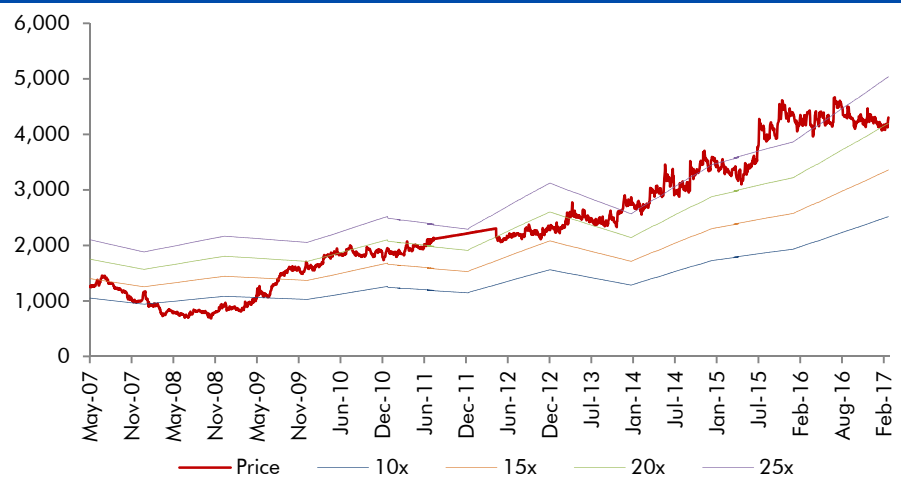
Valuation: We expect net sales to post a 12.6% CAGR to ₹2,597cr and EPS to register a 16.8% CAGR to ₹157.2 over CY2015–17. At current levels, the stock is trading at 33.4x and 27.4x its CY2016E and CY2017E earnings, respectively. **Given the rich valuations, we recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2016E	CY2017E
Net sales growth (%)	7.7	17.7
Growth in employee expenses (%)	7.7	17.7
Operating margins (%)	16.6	17.4
Net profit growth (%)	11.9	21.9
Capex (₹ cr)	78.0	30.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco.	CMP (₹)	Tgt Price (₹)	Upside (%)	PE (x)	FY2018E		FY16-18E	FY2018E	
						EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma	Accumulate	603	689	14.3	17.9	2.5	11.9	(10.8)	27.5	25.3
Aurobindo Pharma	Buy	658	877	14.1	13.9	2.3	9.7	18.1	22.5	26.1
Cadila Healthcare	Neutral	439	-	-	22.9	3.6	16.6	13.5	23.6	27.1
Cipla	Sell	590	465	(21.1)	24.1	2.7	16.2	14.2	12.2	13.9
Dr Reddy's	Neutral	2,709	-	-	20.7	2.6	10.7	(2.7)	15.3	15.2
Dishman Pharma	Sell	235	143	(39.3)	20.8	2.3	10.2	16.3	13.0	13.5
GSK Pharma	Neutral	2,693	-	-	44.7	6.8	32.9	16.9	37.5	34.5
Indoco Remedies	Reduce	260	240	(7.7)	16.3	1.9	10.7	33.2	19.1	20.1
Ipca labs	Accumulate	549	613	11.6	28.6	2.0	12.8	34.8	8.6	9.5
Lupin	Buy	1,450	1,809	24.8	20.9	3.4	12.9	17.2	24.4	20.9
Sanofi India*	Neutral	4,301	-	-	27.4	3.4	19.4	16.8	22.5	26.4
Sun Pharma	Buy	685	847	23.6	19.4	4.1	12.4	26.5	18.9	20.1

Source: Company, Angel Research, *-Note December ending company

Company Background

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Private Ltd and Shantha Biotechnics. Sanofi India focuses its activities on seven major therapeutic areas, namely – Cardiovascular diseases, Metabolic Disorders, Thrombosis, Oncology, Central Nervous System disorders, Internal Medicine and Vaccines. Predominately a domestic company, the company exports to semi-regulated markets; exports of ~₹500cr, contributed around 26% of sales in CY2016E.

Profit & loss statement

Y/E Dec. (₹ cr)	CY12	CY13	CY14	CY15	CY16E	CY17E
Gross sales	1,534	1,746	1,915	2,097	2,259	2,653
Less: Excise duty	40	39	40	48	53	56
Net sales	1,494	1,707	1,875	2,049	2,206	2,597
Other operating income	91	102	103	144	162	162
Total operating income	1,585	1,809	1,978	2,193	2,369	2,759
% chg	20.5	14.1	9.3	10.9	8.0	16.5
Total expenditure	1,261	1,411	1,639	1,734	1,841	2,144
Net raw materials	735	820	974	1,012	1,065	1,231
Other mfg costs	74	82	93	106	115	135
Personnel	214	242	288	333	359	423
Other	238	267	283	283	302	355
EBITDA	233	296	236	315	366	453
% chg	32.2	27.0	7.3	8.3	9.3	10.3
(% of Net Sales)	15.6	17.3	12.6	15.4	16.6	17.4
Dep. & amortisation	90	92	97	113	131	144
EBIT	143	203	140	202	234	309
% chg	(1.5)	42.4	5.7	6.7	7.7	8.7
(% of Net Sales)	9.6	11.9	10.2	11.2	12.2	13.2
Interest & other charges	1	0	-	-	-	-
Other income	30	58	64	135	71	100
(% of PBT)	11.4	15.9	18.6	19.6	20.6	21.6
Share in profit of Asso.	-	-	-	-	-	-
Recurring PBT	262	363	307	481	468	571
% chg	(7.7)	38.7	3.8	4.8	5.8	6.8
Extraordinary Exp./(Inc.)						
PBT (reported)	262	363	307	481	468	571
Tax	85.0	123.3	109.0	159.4	169.1	206.8
(% of PBT)	32.4	33.9	35.6	33.1	36.2	36.2
PAT (reported)	177	240	198	322	299	365
Extra-ordinary items	(0)	(25)	(67)	56	-	-
PAT after MI (reported)	177	266	264	321	297	362
ADJ. PAT	177	240	197	265	297	362
% chg	(7.4)	35.4	(17.8)	34.4	11.9	21.9
(% of Net Sales)	11.8	15.6	14.1	15.7	13.4	13.9
Basic EPS (₹)	77	104	86	115	129	157
Fully Diluted EPS (₹)	77	104	86	115	129	157
% chg	(7.4)	35.4	(17.8)	34.6	11.9	21.9

Balance sheet

Y/E Dec (₹ cr)	CY12	CY13	CY14	CY15	CY16E	CY17E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	1,181	1,324	1,463	1,604	1,713	2,234
Shareholders funds	1,204	1,347	1,486	1,627	1,736	2,257
Long term provisions	19	25	32	40	40	40
Other long term liabilities	-	-	-	-	-	-
Total loans	-	-	-	-	-	-
Total liabilities	1,223	1,372	1,518	1,668	1,778	2,300
APPLICATION OF FUNDS						
Gross block	889	1,075	1,195	1,349	1,427	1,457
Less: Acc. depreciation	315	409	506	619	750	894
Net block	574	666	690	730	677	562
Goodwill	125	125	125	125	125	125
Capital Work-in-Progress	43	43	43	43	43	43
Long term loan and adv.	61	62	106	262	129	129
Investments	0.4	0.2	0.2	0.2	0.2	0.2
Current assets	827	947	1,263	1,245	1,567	2,323
Cash	429	264	469	572	559	1,090
Loans & advances	208	219	196	337	363	427
Other	191	464	598	336	646	806
Current liabilities	387	435	656	617	668	786
Net current assets	441	512	607	628	900	1,537
Deferred tax assets	(21)	(37)	(54)	(120)	(97)	(97)
Total assets	1,223	1,372	1,518	1,668	1,778	2,300

Cash flow statement

Y/E Dec. (₹ cr)	CY12	CY13	CY14	CY15	CY16E	CY17E
Profit before tax	282	285	291	292	293	294
Depreciation	90	92	97	113	123	125
(Inc)/Dec in Working Capital	(147)	236	(64)	73	321	(40)
Less: Other income	91	102	66	67	68	69
Direct taxes paid	93	91	93	94	95	96
Cash Flow from Operations	41	420	164	317	574	215
(Inc./)Dec.in Fixed Assets	(67)	(186)	(120)	(154)	(30)	(30)
(Inc./)Dec. in Investments	-	0	0	-	-	1
Other income	91	102	66	67	68	69
Cash Flow from Investing	24	(84)	41	42	43	44
Issue of Equity	-	-	-	-	-	-
Inc./Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(88)	(104)	(104)	(104)	(104)	(104)
Others	218	(397)	102	(153)	(301)	519
Cash Flow from Financing	130	(501)	(1)	(257)	(404)	415
Inc./Dec.) in Cash	195	(164)	204	103	213	675
Opening Cash balances	234	429	264	469	572	792
Closing Cash balances	429	264	469	572	792	1,427

Key ratios

Y/E Dec.	CY12	CY13	CY14	CY15	CY16E	CY17E
Valuation Ratio (x)						
P/E (on FDEPS)	55.9	41.3	50.3	37.3	33.4	27.4
P/CEPS	37.1	27.7	27.5	22.8	23.1	19.6
P/BV	8.2	7.4	6.7	6.1	5.7	4.4
EV/Sales	6.3	5.6	5.0	4.5	4.2	3.4
EV/EBITDA	40.7	32.6	39.9	29.6	25.5	19.4
Per Share Data (₹)						
EPS (Basic)	76.9	104.1	85.6	115.2	128.9	157.2
EPS (fully diluted)	76.9	104.1	85.6	115.2	128.9	157.2
Cash EPS	115.9	155.4	156.7	188.7	186.0	219.9
DPS	33.0	33.0	33.0	33.0	33.0	33.0
Book Value	522.9	584.8	645.2	707.4	754.6	981.5
Returns (%)						
RoCE (Pre-tax)	12.1	15.7	10.2	14.8	17.1	22.5
Angel ROIC (Pre-tax)	17.5	22.4	14.6	21.1	24.4	32.1
ROE	15.3	18.8	14.4	19.3	21.6	26.4
Turnover ratios (x)						
Inventory / Sales (days)	61	31	28	26	24	21
Receivables (days)	23	9	8	7	7	6
Payables (days)	44	24	21	20	19	16

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Sanofi India

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)