

Strong operational performance but misses estimates

CMP: Rs 5548

Rating: Hold

Target: Rs 5946

(NR-Not Rated)

Stock Info

INDEX	
BSE	500674
NSE	SANOFI
Bloomberg	SANL IN
Reuters	SANO.BO
Sector	Pharma
Face Value (Rs)	10
Equity Capital (Rs Cr)	23
Mkt Cap (Rs Cr)	12,922
52w H/L (Rs)	6840 / 4779
Avg Weekly Vol (BSE+NSE)	193,355

Shareholding Pattern

	%
(As on March, 2019)	
Promoters	60.4
Public & Others	39.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
SANOFI	-12.8	-6.1	16.6
SENSEX	7.7	11.6	5.4

Source: ACE Equity, Arihant Research

SANOFI v/s SENSEX



Source: ACE Equity, Arihant Research

Sanofi India Ltd. reported a strong growth for the quarter

Sanofi India Ltd. posted a revenue of 717 crore (our estimate of Rs 756 crore), increase of 16% YoY on account of inferior product mix. PAT for the quarter stood at Rs 93 crores (our estimate of Rs 115 crore) an increase of 13% YoY.

Growth led by anti-diabetic, cardiac and neuro

EBITDA largely driven by the Anti-Diabetics and Lantus (+24 % YoY). In Q1CY19, secondary sales growth in Anti-Diabetic was up by 24 % YoY. Growth was also seen in neuro (+18% YoY) and cardiac (+16% YoY) which was offset by weak growth in respiratory (+1.6% YoY) and vaccines (+4.7% YoY). Major brands like Hexaxim (down 16% YoY) and Anvil (down 23% YoY) saw muted performances whereas strong growth was seen in Allegra (+14% YoY).

Valuation

Indian pharma industry has seen a tepid growth of 5% in the past few years and it's expected to grow at ~ 9%. Company expects to outperform the industry backed by strong presence in diabetics, respiratory and cardiac. A strong marketing presence in India, strategy to aggressively invest in growth, and strong presence in fast growing segments make Sanofi one of the more promising MNC pharma companies in India. We believe that a recovery in margins, price hikes in key brands, will drive its earnings. At CMP, the stock is trading at 25.6x CY20E. We have valued the stock at PE of 27x to its CY20E EPS of 220, with a Target Price of Rs 5946. We have a **HOLD** rating on the stock with an upside of 7%.

Quarterly performance

Particulars (Rs cr)	CY18	CY19E	CY20E
Income from Operations	2772	3025	3358
EBITDA	624	753	836
EBITDA%	22	25	25
Profit After Tax	381	458	507
EPS	166	199	220
ROE	17.9	19.5	19.3
P/E (x)	34.0	28.3	25.6

Quarterly result summary

Particulars (Rs cr)	Q1CY19	Q1CY18	Q4CY18	YoY %	QoQ %
Net Sales	717.3	617.7	726.4	16%	-1%
(Increase) / Decrease In Stocks	-37.8	-18.2	-9.2	108%	311%
Purchase of Finished Goods	133.0	105.8	104.6	26%	27%
Cost of Services & Raw Materials	212.7	162.1	217.4	31%	-2%
Employee Cost	103.6	95.60	103.5	8%	0%
Other expenses	152.0	138.00	172.8	10%	-12%
Total Operating expenses	563.5	483.3	589.1	17%	-4%
EBITDA	153.8	134.4	137.3	14%	12%
EBITDA margin (%)	21.4%	21.8%	18.9%	-32	254
Depreciation	26.1	25.4	25.9	3%	1%
Other Income	23.0	22.6	20.1	2%	14%
Interest	0.0	0	0.7	-	-
PBT	150.7	131.6	130.8	15%	15%
Tax	57.8	49.1	51.5	18%	12%
Net Profit (after Extraordinary Items)	92.9	82.5	79.3	13%	17%
EPS (Rs)	40.4	35.9	34.5	13%	17%

Source: Company, Arianth Capital Markets

Profit and Loss Account				Balance Sheet			
Particulars (Rs crore)	CY18	CY19E	CY20E	Particulars (Rs crore)	CY18	CY19E	CY20E
Income from Operations	2,772	3,025	3,358	Equity & Liabilities			
YoY	11%	9%	11%	(a) Share Capital	23	23	23
Raw Material Cost	801	790	876	(b) Reserves & Surplus	2196	2447	2747
Employee Cost	404	454	504	Shareholders' Funds	2219	2470	2770
Other Manufacturing Expense	406	393	437	Non-current Liabilities & Prov.	141	150	150
Other Expenses	597	635	705	Current Liabilities	624	645	685
Total Expenditure	2,148	2,272	2,522	Total Equity and Liabilities	2984	3265	3604
EBITDA	624	753	836	Assets			
EBITDA Margin	22%	25%	25%	Fixed Assets			
Depreciation & Amortization	103	121	127	Tangible	548	600	630
EBIT	521	632	709	Intangible	190	200	200
Other Income	90	96	97	CWIP	21	33	34
				Other Non-current Assets	638	640	644
PBT before Exceptional Items	611	727	804	Inventory	483	497	552
Exceptional items	0	0	0	Trade Receivables	158	207	230
PBT	611	727	804	Cash	825	976	1178
Provision for Tax	229	269	298	Other Current Assets	121	112	134
Profit After Tax	381	458	507	Total Assets	2984	3265	3604
YoY	14%	20%	11%				

Cash Flow Statement				Ratio Analysis			
Particulars (Rs crore)	CY18	CY19E	2020E		CY18	CY19E	CY20E
Operating Activities				Profitability			
PBT before Exceptional Items	611	727	804	EBITDA%	22.5	24.9	24.9
Add Depr	103	121	127	EBIT%	18.8	20.9	21.1
Others	(23)	(27)	(30)	PAT%	13.8	15.1	15.1
CFO before Working Capital Changes	690	821	902				
Changes in Working Capital	(120)	(135)	(135)	Du Pont ROAE breakup			
Cash Flow from Operations	448	485	539	PAT / Sales	13.8	15.1	15.1
				Sales / Assets	1.0	1.0	1.0
Investing Activities				Assets / Equity	1.3	1.3	1.3
Capex	(73)	(63)	(66)	ROE	17.9	19.5	19.3
Other Investing Activities	(64)	(64)	(64)				
Cash Flow from Investing	(137)	(127)	(130)	Other Ratios			
				Current Ratio	2.5	2.8	3.1
Financing Activities				Debt / Equity	0.0	0.0	0.0
Dividends (incl tax)	(207)	(207)	(207)	EPS	165.8	199.0	220.2
Other financing activities	0.0	0.0	0.0	DPS	75.0	75.0	75.0
Cash Flow from Financing	(207)	(207)	(207)				
				Valuation Ratios			
Opening Cash	721	825	976	P/E (x)	34.0	28.3	25.6
Changes during year	104	151	202	EV/EBITDA (x)	19.4	15.9	14.1
Closing Cash	825	976	1,178	P/BV (x)	5.8	5.2	4.7

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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