

CMP: Rs 6015

Rating: REDUCE

Target: Rs 5500

(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 / 5300
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	8.6	-3.7	4.9
SENSEX	-3.5	5.9	0.9

Source: ACE Equity, Arihant Research

SANOFI v/s SENSEX



Source: ACE Equity, Arihant Research

Mixed operating performance

Sanofi India (SIL) reported mixed operational performance in Q2CY19 as net sales stood at Rs 7.5bn (+9.4% YoY / +4.3% QoQ) led by growth in its flagship brand Lantus (2nd largest brand in IPM) which continued to gain market share. However, gross margins contracted by 540bps to 54.4% mainly led by 24.2% YoY increase in material costs. Gross margins stood at 54.4% (-542bps YoY) was cushioned by high raw material inflation (+24.2% YoY). Net profit was at Rs 974mn (-2.2% YoY / +4.8% QoQ). At CMP of Rs 6015, the stock trades at 27x FY21e. Margin normalization remains a key monitorable over the coming quarters.

EBITDA impacted by higher staff costs and material inflation

EBITDA of Rs 1.6bn (-4.1% YoY / +2.6% QoQ) was impacted by higher staff costs (+24.2% YoY / +10.8 QoQ). The EBITDA margin stood at 21.1% (-296bps YoY / -34bps QoQ). The EBITDA declined sequentially on account of increase in staff costs and material costs inflation.

Strong product portfolio with focus on insulin

SIL derives 75% of its revenues through domestic markets and enjoys leadership with LantusR (50% mkt share), CombiflamR, AmarylR and AllegraR. Diabetic segment (35% of sales) of SIL's branded prescription sales has seen a reasonable ramp up led by the recently launched Toujeo (next-gen insulin). The management is confident on the scale up of Toujeo over the medium term.

Outlook & valuation

We believe the insulin led products (Lantus/Toujeo) are expected to deliver the earnings for SIL over FY19-FY21e. Robust OTC products, marketing presence in India coupled with focus on and strong presence in the fastest growing segments make SIL amongst the best MNC pharma companies in India. However, a recovery in margins led by price hikes in key brands remains key to SIL's bottom-line. At current levels, the stock is trading at rich valuations of 27.3x CY20E thus offers limited margin of safety. We have valued the stock at PE of 25x (27x earlier) to its CY20E EPS of 220, with a target price of Rs 5500 (vs Rs 5946 earlier). We have a REDUCE rating (vs HOLD earlier) on the stock with a downside of 8%.

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)	36.3	30.2	27.3

Source: Arihant Capital Markets

SIL - Quarterly result summary

Standalone (Rs Mn)	Q2CY19	Q2CY18	Q1CY19	% YoY	% QoQ
Net Sales	7,479	6,836	7,173	9.4%	4.3%
Cost of material consumed	2,120	2,003	2,127	5.8%	-0.3%
Purchase of goods	1,207	984	1,330	22.7%	-9.2%
Changes in inventories	85	(239)	(378)	-135.6%	-122.5%
Material costs	3,412	2,748	3,079	24.2%	10.8%
Staff Cost	1,141	1,004	1,036	13.6%	10.1%
Other expenses	1,348	1,439	1,520	-6.3%	-11.3%
Total expenses	5,901	5,191	5,635	13.7%	4.7%
EBITDA	1,578	1,645	1,538	-4.1%	2.6%
Depreciation	260	254	261	2.4%	-0.4%
EBIT	1,318	1,391	1,277	-5.2%	3.2%
Interest	-	-	-	-	-
Other Income	234	208	230	12.5%	1.7%
PBT	1,552	1,599	1,507	-2.9%	3.0%
Current Tax	630	634	590	-0.6%	6.8%
Deferred tax	(52)	(31)	(12)	67.7%	333.3%
Tax	578	603	578	-4.1%	0.0%
PAT	974	996	929	-2.2%	4.8%
EPS	42.35	43.30	40.39	-2.2%	4.8%
Margins	Q2CY19	Q2CY18	Q1CY19	% YoY	% QoQ
Gross margins	54.4%	59.8%	57.1%	-542	-270
EBITDA	21.1%	24.1%	21.4%	-296	-34
PAT	13.0%	14.6%	13.0%	-155	7
Tax Rate	37.2%	37.7%	38.4%	-47	-111

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				
<i>EBITDA Margin</i>	<i>22%</i>	<i>25%</i>	<i>25%</i>	Assets			
Depreciation & Amortization	103	121	127	Fixed Assets			
EBIT	521	632	709	Tangible	548	600	630
Other Income	90	96	97	Intangible	190	200	200
				CWIP	21	33	34
PBT before Exceptional Items	611	727	804	Other Non-current Assets	638	640	644
Exceptional items	0	0	0	Inventory	483	497	552
PBT	611	727	804	Trade Receivables	158	207	230
Provision for Tax	229	269	298	Cash	825	976	1178
Profit After Tax	381	458	507	Other Current Assets	121	112	134
YoY	14%	20%	11%	Total Assets	2984	3265	3604

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)	36.3	30.2	27.3
Changes during year	104	151	202	EV/EBITDA (x)	20.9	17.1	15.1
Closing Cash	825	976	1,178	P/BV (x)	6.2	5.6	5.0

Source: Arianth Capital Markets

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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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