

Higher base effect and growth in key therapies 27th February 2019

CMP: Rs. 5984
Target Price: Rs. 6600
Recommendation: HOLD

Sanofi India Ltd. reported a strong growth for the quarter

Sanofi India Ltd. posted a revenue of 726 crore, increase of 8% YoY. PAT for the quarter stood at 79 crores, increase of 4% YoY.

Stock Info

BSE Group	A
BSE Code	500674
NSE Symbol	SANOFI
Bloomberg	SANL IN
Reuters	SANO.BO
BSE Sensex	35,941
NSE Nifty	10,806

Market Info

Market Capital	13,569 Cr
Equity Capital	23 Cr
6M Avg. Trading Vol.	13,480
52 Wk High/ Low	6840/4,705
Face Value	Rs 10

EBITDA margins decreased substantially due to seasonal effect

EBITDA for the quarter increased by 2% yoy to Rs.137 crores. EBITDA margin for the quarter stood at 19% vs 25 % QoQ. This margin contraction was mainly due to increase in raw material cost and higher other expenses.

Growth was largely driven by volumes. Growth in Chronic segment (contributed around half of sales) exceeded that in Acute segment. Sanofi's secondary sales grew 12% YoY compare to the industry growth of 9.5% YoY, led by the Anti-diabetic portfolio up 26% YoY; ~28% of sales. Lantus, its largest product, grew by ~32% YoY. Gastrointestinal portfolio which contributes 9% of sales grew by ~61% YoY for the quarter. Enterogermina and Dulcoflex particularly grew sharply. Vaccines which contributes 13% of sales/Respiratory (~11% of sales) segments exhibited a decline, while Cardiac (~15% of sales) showed subdued growth.

Valuation

Indian pharma industry has seen a tepid growth of 5% in the past few years and its expected to grow at ~ 9%. Company expects to outperform the industry. 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. We have valued the stock at PE of 30x to its CY20E EPS of 220, with a Target Price of Rs 6600. We have a **HOLD** rating on the stock.

Shareholding Pattern (%)	(Dec 2018)
Promoters	60.40
Domestic Institutions	17.28
Foreign Institutions	11.79
Public & Others	10.53

Financial Snapshot:

Price Chart:



	2018	2019E	2020E
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)	36.6	30.5	27.6

Quarterly Results:

Quarterly Results					
Particulars (Rs Cr)	Q4CY18	Q3CY18	Q4CY17	YoY	QoQ
Revenue	726	744	670	8%	-2%
Total Expenditure	589	557	536	10%	6%
EBITDA	137	187	134	2%	-27%
EBITDA Margin	19%	25%	20%		
Other Income	20	26	18	10%	-23%
Interest	1	0	1	-36%	
Depreciation	26	26	26	1%	0%
PBT	131	188	126	4%	-30%
Tax	52	68	50	3%	-25%
PAT	79	119	76	4%	-33%
EPS	34	52	33	4%	-33%

Profit and Loss Account				Balance Sheet			
Particulars (Rs crore)	2018	2019E	2020E	Particulars (Rs crore)	2018	2019E	2020E
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.	141.2	150	150
Other Expenses	597	635	705	Current Liabilities	623.5	645	685
Total Expenditure	2,148	2,272	2,522	Total Equity and Liabilities	2984	3265	3604
EBITDA	624	753	836				
EBITDA Margin	22%	25%	25%	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)	2018	2019E	2020E		2018	2019E	2020E
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 + Taxes paid	(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)	36.6	30.5	27.6
Changes during year	104	151	202	EV/EBITDA (x)	21.1	17.2	15.3
Closing Cash	825	976	1,178	P/BV (x)	6.3	5.7	5.0

Source: - Ace Equity, Arihant Research

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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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