

Sanofi India

13 November 2019

Reuters: SANO.BO; Bloomberg: SANL IN

Gross margin improves QoQ

Sanofi India's (SIL) revenue in 3QCY19 stood at Rs7,791mn, above our estimate by 2%. Revenue grew by 5% YoY and 4% QoQ, respectively. Net profit at Rs1,266mn was above our/consensus estimate by 7% and 36%, respectively. Net profit benefitted from the new tax regulation. The effective tax rate for the quarter stood at 4% as excess tax expense booked in previous quarters was written back. The write back effectively helped net profit by Rs380mn. However, the company also took an impairment charge of Rs394mn related to its Ankleshwar facility. The impairment charge has been taken considering the discontinuation of supply contract with Zentiva. Adjusting for the one-offs reported profit would have been Rs1280mn.

EBITDA for the quarter stood at Rs1755mn, which was 9% ahead of our estimate. EBITDA margin stood at 22.5%, which represents an improvement of 143bps QoQ and a 266bps decline YoY. The QoQ improvement largely comes from a 230bps improvement in gross margin. The improvement is probably driven by a favorable shift in business mix. The domestic sales share in the total pie seems higher in the current quarter versus the previous quarter (Q2CY19), as exports sales should have plateaued. We estimate that export volume surged immediately post renegotiation of supply contract last year (In 4QCY18) with Zentiva. The renegotiation of supply contract probably led to higher volume and lower prices and the same was evident in a steep decline in gross margin in subsequent quarters. A favorable shift in gross margin during the quarter did help the EBITDA, but the same was partially offset by an increase in other expenses. The other expenses line increased 10% QoQ and 5% YoY. The increase in other expenses may be attributable to higher advertisement expenses pertaining to higher promotion towards Combiflam lcy Hot and Combiflam Plus brands.

Domestic Formulation Business - Sanofi domestic brand sales grew in line with IPM during the quarter and its flagship brand Lantus continues to gain market share. Lantus has moved up in ranking to become the 2nd largest brand in IPM. Toujeo, which is a follow on to Lantus and was launched last year, is also ramping up well, having garnered Rs.240mn on a MAT basis as per most recent data. Lantus monthly run rate as per AIOCD AWACS exceeds Rs400mn. We expect Lantus to emerge as the largest brand in IPM over the next few quarters.

Outlook and valuation: We expect SIL's revenue to clock 2.8% revenue CAGR while net profit should grow 23.7% over CY18-CY21E. Earnings growth should outpace revenue growth as the high-margin portfolio is growing faster than the rest of the business and tax benefit should also help earnings. Revenue growth is low single digit, reflecting divestment of Ankleshwar facility and resultant discontinuation of supplies to Zentiva. The key growth drivers for the company include its insulin portfolio (led by flagship brand Lantus), next generation insulin (Toujeo), Allegra and recently launched Combiflam topical pain relief gel/spray. Owing to the recent run up in SIL stock price, we recommend an Accumulate rating with a target price of Rs7,280.

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs6,606

Target Price: Rs7,280

Upside: 10%

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Key Data

Current Shares O/S (mn)	23.0
Mkt Cap (Rsbn/US\$bn)	151.3/2.1
52 Wk H / L (Rs)	6,950/5,280
Daily Vol. (3M NSE Avg.)	14,461

Price Performance (%)

	1 M	6 M	1 Yr
Sanofi India	11.8	21.4	6.4
Nifty Index	5.4	5.6	12.5

Source: Bloomberg

Y/E December (Rsmn)	3QCY18	2QCY19	3QCY19	YoY (%)	QoQ (%)	9MCY18	9MCY19	YoY (%)
Revenue from operations	7,438	7,479	7,791	4.7	4.2	20,451	22,443	9.7
Raw Material Costs	3,093	3,412	3,380	9.3	(0.9)	8,338	9,871	18.4
% of revenue	41.6	45.6	43.4	180 bps	(224) bps	40.8	44.0	321 bps
Staff costs	1,046	1,141	1,170	11.9	2.5	3,006	3,347	11.3
% of revenue	14.1	15.3	15.0	95 bps	(24) bps	14.7	14.9	21 bps
Other expenses	1,426	1,348	1,486	4.2	10.2	4,245	4,354	2.6
% of revenue	19.2	18.0	19.1	(10) bps	105 bps	20.8	19.4	(136) bps
EBITDA	1,873	1,578	1,755	(6.3)	11.2	4,862	4,871	0.2
EBITDA margin (%)	25.2	21.1	22.5	(266) bps	143 bps	23.8	21.7	(207) bps
Other income	262	234	229	(12.6)	(2.1)	696	693	(0.4)
Interest costs	0	0	0	-	-	0	0	-
Depreciation	260	260	263	1.2	1.2	768	784	2.1
PBT before exceptionals	1,875	1,552	1,721	(8.2)	10.9	4,790	4,780	(0.2)
Exceptional Items	0	0	(394)	-	-	0	(394)	-
PBT	1,875	1,552	1,327	(29.2)	(14.5)	4,790	4,386	-
Tax	683	578	61	(91.1)	(89.4)	1,777	1,217	(31.5)
Tax rate (%)	36.4	37.2	3.5	-	-	37.1	25.5	(1164) bps
PAT	1,192	974	1,266	6.2	30.0	3,013	3,169	5.2
PAT Margin (%)	16.0	13.0	16.2	22 bps	323 bps	14.7	14.1	(61) bps

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Actual performance versus our estimates, Bloomberg consensus estimates

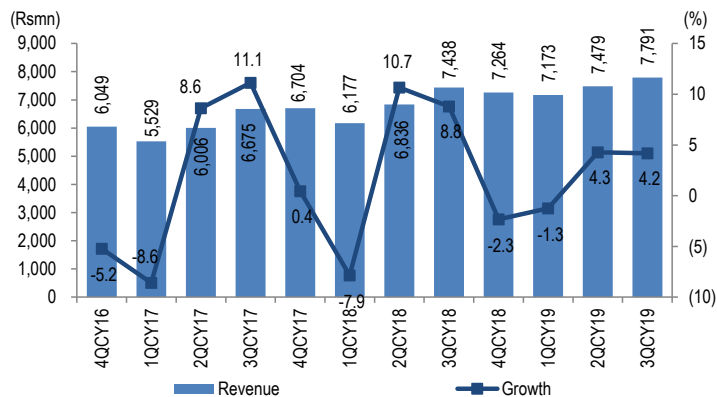
(Rsmn)	Actual	NBIE estimate	Var.(%)	Consensus estimate	Var.(%)
Revenues	7,791	7,637	2.0	7,926	(1.7)
EBITDA	1,755	1,606	9.3	1,792	(2.1)
EBITDA margin (%)	22.5	21.0	149 bps	22.6	(8) bps
PAT	1,266	1,183	7.1	926	36.8
PAT margin (%)	16.2	15.5	76 bps	11.7	457 bps

Source: Company, Nirmal Bang Institutional Equities Research

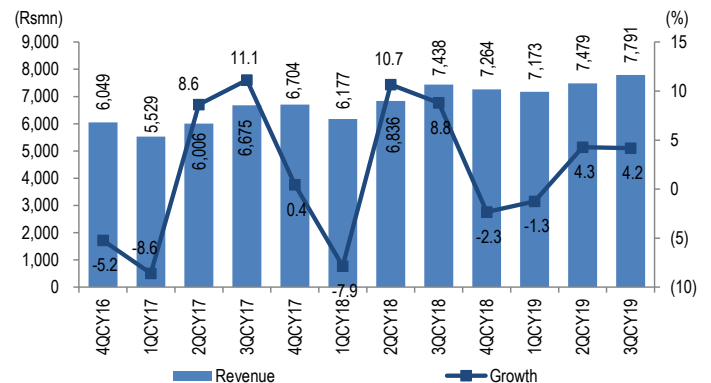
Exhibit 2: Key financials

Y/E December (Rsmn)	CY17	CY18	CY19E	CY20E	CY21E
Net sales	24,914	27,708	29,318	27,888	30,158
EBITDA	5,372	6,235	7,149	7,548	8,496
Net profit	3,260	3,806	5,076	6,206	7,207
Adjusted EPS (Rs)	142	165	220	269	313
EPS growth (%)	9.8	16.7	33.4	22.3	16.1
EBITDA margin (%)	21.6	22.5	24.4	27.1	28.2
P/E (x)	46.7	40.0	30.0	24.5	21.1
P/BV (x)	7.5	6.9	6.3	5.6	5.1
EV/EBITDA (x)	27.0	23.1	19.5	18.1	15.7
RoCE (%)	22.3	24.5	26.5	26.8	27.8
RoE (%)	16.7	17.9	21.8	24.2	25.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Revenue and growth trend


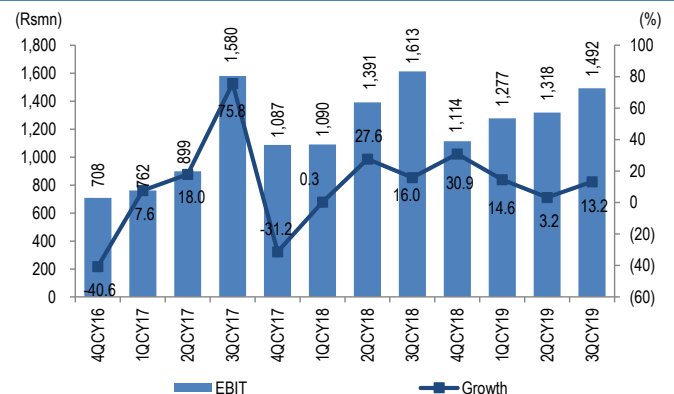
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Gross profit and growth trend


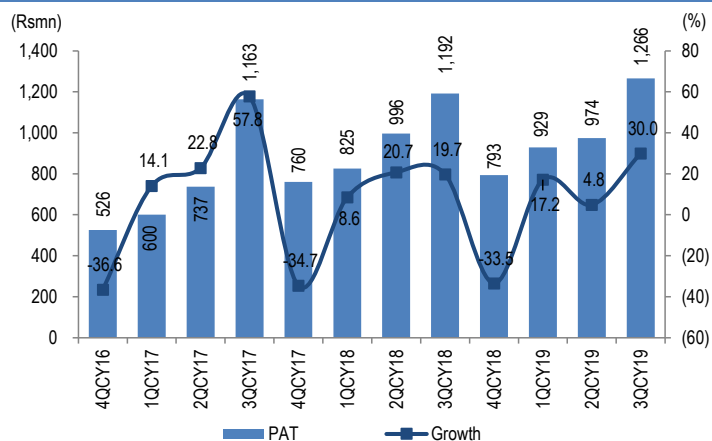
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: EBITDA and growth trend

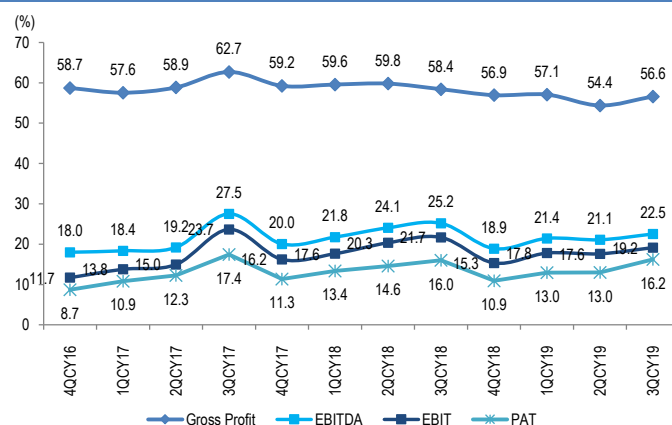

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: EBIT and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: PAT and growth trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Margin Trend


Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 9: Income statement

Y/E December (Rsmn)	CY17	CY18	CY19E	CY20E	CY21E
Net Sales	24,914	27,708	29,318	27,888	30,158
Growth (%)	5.2	11.2	5.8	(4.9)	8.1
Raw Materials	14,873	16,249	17,461	17,747	19,202
Employee Expenses	3,685	4,068	4,293	4,309	4,610
Other expenses	5,816	5,946	6,019	5,890	6,096
Total expenditure	19,542	21,473	22,169	20,339	21,662
EBITDA	5,372	6,235	7,149	7,548	8,496
Growth (%)	1.7	16.1	14.7	5.6	12.6
EBITDA margin (%)	21.6	22.5	24.4	27.1	28.2
Other income	807	897	907	1,403	1,690
Interest Costs	11	7	7	7	7
Depreciation	1,022	1,027	981	670	570
Exceptional Items	0	0	300	0	0
PBT	5,146	6,098	6,768	8,274	9,609
Tax	1,886	2,292	1,692	2,069	2,402
Effective tax rate (%)	36.6	37.6	25.0	25.0	25.0
PAT	3,260	3,806	5,076	6,206	7,207
Growth (%)	9.8	16.7	33.4	22.3	16.1
Adjusted EPS (Rs)	142	165	220	269	313
EPS growth (%)	9.8	16.7	33.4	22.3	16.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance sheet

Y/E December (Rsmn)	CY17	CY18	CY19E	CY20E	CY21E
Equity	230	230	230	230	230
Reserves	20,034	21,962	24,105	26,724	29,766
Net worth	20,264	22,192	24,335	26,954	29,996
Total loans	0	0	0	0	0
Deferred tax liabilities	1,031	921	921	921	921
Other non-current liabilities	465	491	547	521	563
Total liabilities	21,760	23,604	25,803	28,395	31,480
Fixed assets including CWIP	5,705	5,643	2,468	2,484	2,499
Goodwill & intangible assets	2,286	1,896	2,286	2,286	1,979
Long-term loans & advances	4,055	5,129	5,129	5,129	5,129
Other non-current assets	1,292	1,249	1,520	1,446	1,564
Inventories	4,156	4,831	4,908	4,197	4,535
Debtors	1,944	1,584	2,288	2,176	2,353
Cash and cash equivalents	7,299	8,319	13,075	15,890	19,056
Other current assets	1,033	1,188	1,216	1,156	1,250
Total current assets	14,432	15,922	21,486	23,420	27,194
Creditors	3,269	3,438	3,860	3,302	3,567
Other current liabilities/provisions	2,741	2,797	3,226	3,068	3,318
Total current liabilities	6,010	6,235	7,086	6,370	6,885
Net current assets	8,422	9,687	14,400	17,050	20,309
Total assets	21,760	23,604	25,803	28,395	31,480

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Cash flow

Y/E December (Rsmn)	CY17	CY18	CY19E	CY20E	CY21E
PBT	5,146	6,098	6,768	8,274	9,609
(Inc.)/dec. in working capital	803	(276)	43	165	(93)
Cash flow from operations	5,949	5,822	6,811	8,439	9,516
Other income	(647)	(676)	(907)	(1,403)	(1,690)
Depreciation	1,022	1,027	981	670	570
Interest	11	7	7	7	7
Tax paid (-)	(1,984)	(2,441)	(1,692)	(2,069)	(2,402)
Net cash from operations	4,351	3,739	5,199	5,645	6,000
Capital expenditure (-)	(565)	(570)	1,804	(687)	(278)
Net cash after capex	3,786	3,169	7,004	4,958	5,722
Other investing activities	(222)	(161)	636	1,477	1,573
Cash from financial activities	(1,884)	(1,972)	(2,884)	(3,620)	(4,130)
Change in cash balance	1,680	1,036	4,756	2,815	3,166
Opening cash balance	5,535	7,215	8,319	13,075	15,890
Closing cash balance	7,215	8,251	13,075	15,890	19,056

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Key ratios

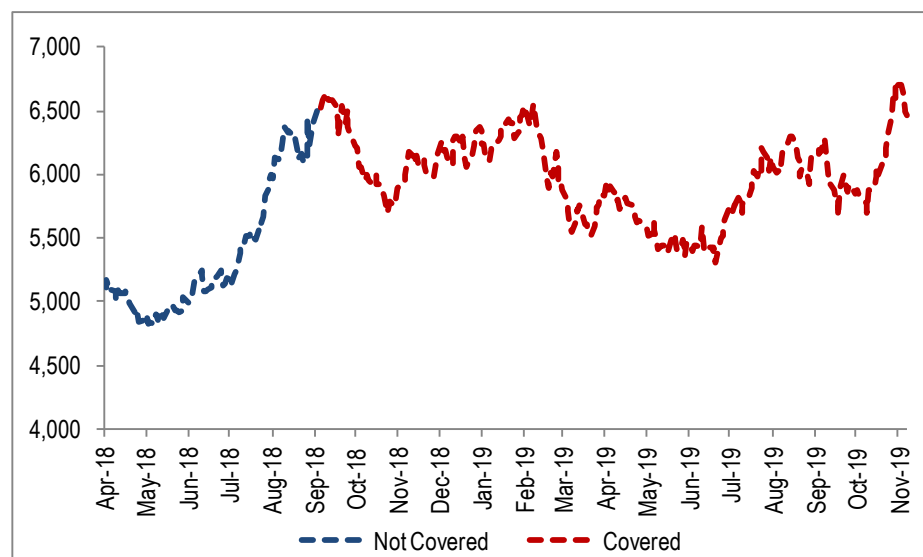
Y/E December	CY17	CY18	CY19E	CY20E	CY21E
Profitability & return ratios					
EBITDA margin (%)	21.6	22.5	24.4	27.1	28.2
EBIT margin (%)	17.5	18.8	21.0	24.7	26.3
Net profit margin (%)	13.1	13.7	17.3	22.3	23.9
RoE (%)	16.7	17.9	21.8	24.2	25.3
RoCE (%)	22.3	24.5	26.5	26.8	27.8
Working capital & liquidity ratios					
Receivables (days)	25	23	24	29	27
Inventory (days)	165	143	150	164	145
Payables (days)	101	107	112	129	114
Working capital days	89	60	62	64	58
Current ratio (x)	2.4	2.6	3.0	3.7	3.9
Quick ratio (x)	1.7	1.8	2.3	3.0	3.3
Valuation ratios					
EV/Sales (x)	5.8	5.2	4.7	4.9	4.4
EV/EBITDA (x)	27.0	23.1	19.5	18.1	15.7
P/E (x)	46.7	40.0	30.0	24.5	21.1
P/BV (x)	7.5	6.9	6.3	5.6	5.1

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
6 September 2018	Buy	6,516	7,570
26 October 2018	Buy	5,785	7,570
27 February 2019	Buy	6,070	7,039
12 April 2019	Buy	5,740	6,411
8 May 2019	Buy	5,611	6,471
30 July 2019	Accumulate	6,111	6,471
23 September 2019	Buy	5,918	7,280
13 November 2019	Accumulate	6,606	7,280

Rating track graph



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