

Sanofi India

15 April 2019

Reuters: SANO.BO; Bloomberg: SANL IN

Exports outpace domestic markets sales growth

Sanofi India's (SIL) revenues in CY18 stood at Rs27,708mn, showing a growth of 11% compared to a year ago. The revenue mix witnessed a sharp change in favour of exports. The share of exports in total revenues increased to 30% from 26%. Exports grew 25% YoY, while the domestic business underperformed because of price cuts and potentially a correction in channel inventory. We believe the 100bps decline in gross margin on YoY basis can be primarily attributed to a higher share of export sales, which are associated with higher raw material costs. Apart from a rising share of exports, the company also went for price cut of Amaryl, which is one of the top brands in SIL's portfolio. Amaryl witnessed price cuts in some of its extension brands (Amaryl MV). Plain Amaryl (Glimepiride) is already under price control. SIL has given guidance of maintaining its export volume and hopes to grow in line with Indian Pharmaceutical Market (IPM) in the domestic market. We have assigned Accumulate rating (from BUY earlier) to SIL with a target price of Rs6,411 (from Rs7,570 earlier).

Uncertainty over export sales portfolio put to rest: A large part of exports from SIL is to European generic operations of the parent entity – Sanofi. As Sanofi has divested the European generic business to a private equity player called Advent, and there was uncertainty over sustenance of export sales for SIL. However, the same has been taken care of as a five-year supply contract has been negotiated with Advent. Meanwhile, the company is looking to work around a long-term strategy to continue leveraging its manufacturing capacity. SIL has given guidance of maintaining its export business volume over the next year (CY19).

Capex: During the year, the company invested Rs590mn in fixed assets that led to an increase in manufacturing capacity relating to granulation, compression and packaging lines. The company has also invested in a second co-generation plant to reduce energy costs at its Ankleshwar API unit.

Forex exposure: During the year, the company's foreign exchange earnings were Rs7,587mn and the foreign exchange outgo was Rs7,150mn.

Extension of the tenure of long-term loans and advances to fellow subsidiaries: During the year, SIL extended the tenure of its loan to one of the fellow subsidiaries (Shantha Biotechnics) till 15 April 2020 (from April 2019 earlier) and also extended additional advances to the tune of Rs450mn, which took the total loan liability on Shantha Biotechnics to Rs4,450mn as against Rs4,000mn as of December 2017 and Rs3,100mn as of December 2016. During the year, the company extended an advance of Rs600mn to another subsidiary – Sanofi Pasteur. Although the loans to Shantha are secured by a corporate guarantee, we are concerned with a growing exposure every year and extension of tenure.

Bi-annual review of NLEM portfolio by Standing Committee on Medicines poses ongoing risk: During the year, the government set up a Standing National Committee on Medicines (SNCM), which will meet every six months to consider changes to the list.

Outlook and valuation: We have revised our estimates. The key reasons for this change being potential price controls happening in some of its core assets and also accounting for the change in gross margin. Based on the revised estimates, we recommend Accumulate rating (from BUY earlier) to SIL with a target price of Rs6,411 (from Rs7,570 earlier). We expect SIL's revenues to clock 9% revenue CAGR while net earnings should grow 18% over CY18-CY20E. Earnings should outpace revenue growth as the high-margin portfolio is growing faster than the rest of the business. The key growth drivers for the company include its insulin portfolio (led by flagship brand Lantus), Allegra and recently launched Combiflam topical pain relief gel/spray.

Key financials (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	23,686	24,914	27,708	30,459	33,075
EBITDA	5,281	5,372	6,235	7,384	8,254
Net profit	2,970	3,260	3,806	4,626	5,273
EPS (Rs)	129	142	165	201	229
EPS growth (%)	(7.6)	9.8	16.7	21.6	14.0
EBITDA margin (%)	22.3	21.6	22.5	24.2	25.0
PER (x)	44.5	40.6	34.7	28.6	25.1
P/BV (x)	7.0	6.5	6.0	5.5	5.0
EV/EBITDA (x)	24.0	23.2	19.9	16.6	14.6
RoCE (%)	21.8	22.3	24.5	27.6	28.8
RoE (%)	16.3	16.7	17.9	20.0	20.9

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Pharmaceuticals

CMP: Rs5,740

Target Price: Rs6,411

Upside: 12%

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Key Data

Current Shares O/S (mn)	23.0
Mkt Cap (Rsb/US\$bn)	131.9/1.9
52 Wk H / L (Rs)	6,840/4,706
Daily Vol. (3M NSE Avg.)	14,657

Price Performance (%)

	1 M	6 M	1 Yr
Sanofi India	(0.1)	(3.7)	13.0
Nifty Index	3.0	11.2	11.3

Source: Bloomberg

Growth of key brands

Diabetic care: The insulin portfolio (Lantus, Apidra and Insuman) of the company showed double-digit growth in 2018. The company launched Toujeo™ (Glargine 300) in 2018. Lantus grew 16% during the year as compared to 24% last year, in value terms. It continues to be the top brand in the basal analog insulin market. Amaryl showed lower growth at 7% vis-a-vis 17% a year ago because of significant price cuts on line extensions (Amarly MV), as per an NPPA order.

Cardiology: In 2018, the flagship brand in cardiology, Cardace® group, grew 8% in value terms and continues to be the number 1 brand in ACE inhibitor category.

Anti-epilepsy: Leading brands like Valparin® and Frisium® continue to grow in volume terms. In 2017, Frisium grew 12% in volume terms post DPCO-mandated price cuts.

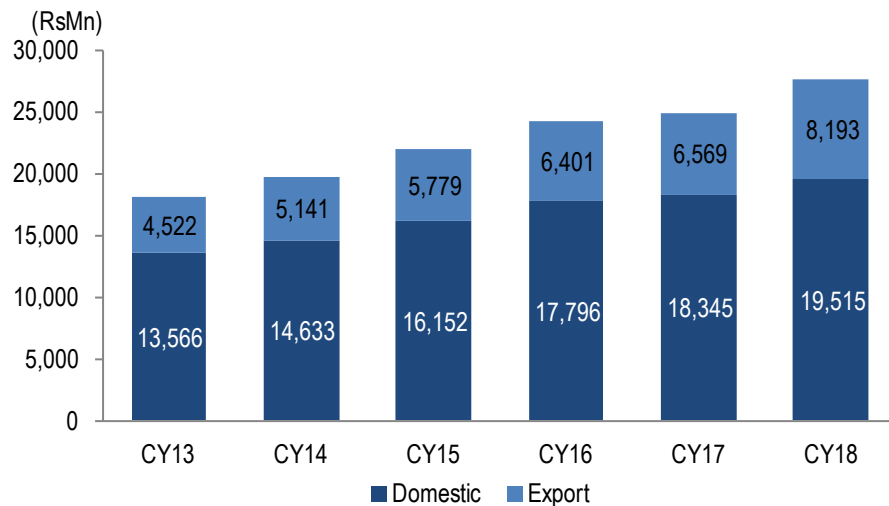
Allegra: Retained its number 1 position in the antihistamine category in Indian pharmaceuticals market, registering a growth of 13% in 2018 vis-a-vis 10% in value terms in 2017.

Combiflam: Efforts were made to stabilise the brand's sales during the year as the brand is losing to competition and had declined 5% in CY17.

DePura from Sanofi registered value growth of 41% in 2018 vis-à-vis 49% in 2017, and climbed to the fourth position in the highly competitive Vitamin D market.

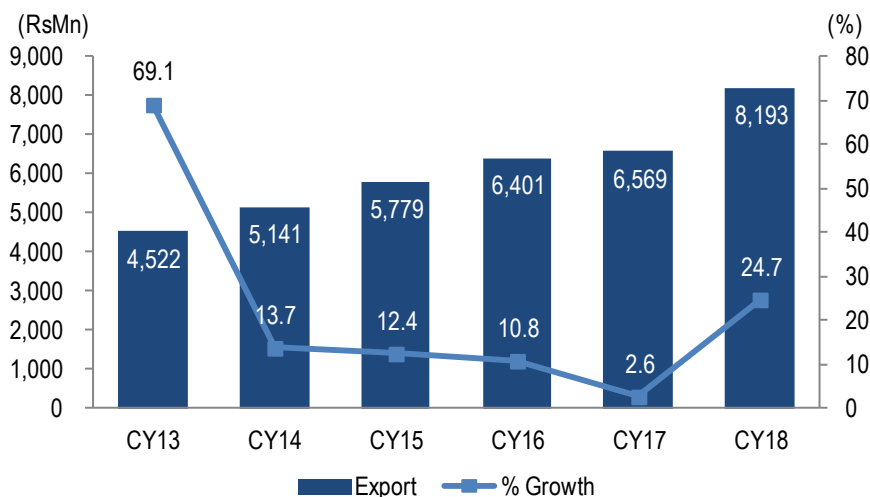
Revenue mix

Exhibit 1: Export and domestic sales



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Export sales growth



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in Our Estimates

(Rsmn)	New Estimates		Old Estimates		Change (%)	
	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Net Sales	30,459	33,075	30,434	33,715	0.1	(1.9)
EBITDA	7,384	8,254	8,214	9,665	(10.1)	(14.6)
Margin (%)	24.2	25.0	27.0	28.7	(275) bps	(371) bps
PAT	4,626	5,273	5,087	6,143	(9.1)	(14.2)
Margin (%)	15.2	15.9	16.7	18.2	(153) bps	(228) bps
EPS (Rs)	200.9	229.0	220.9	266.7	(9.1)	(14.2)

Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 4: Income statement

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	23,686	24,914	27,708	30,459	33,075
Growth (%)	8.0	5.2	11.2	9.9	8.6
Raw material expenses	13,036	14,873	16,249	18,018	19,684
Employee expenses	3,592	3,685	4,068	4,393	4,921
Other expenses	4,163	5,816	5,946	6,241	6,509
Total expenditure	18,405	19,542	21,473	23,076	24,821
EBITDA	5,281	5,372	6,235	7,384	8,254
Growth (%)	15.0	1.7	16.1	18.4	11.8
EBITDA margin (%)	22.3	21.6	22.5	24.2	25.0
Other income	708	807	897	907	1,050
Interest costs	15	11	7	7	7
Gross profit	10,650	10,041	11,459	12,441	13,391
% growth	(9.9)	(5.7)	14.1	8.6	7.6
Depreciation	1,313	1,022	1,027	981	973
Exceptional items	-	-	-	-	-
PBT	4,661	5,146	6,098	7,303	8,324
% growth	(3.1)	10.4	18.5	19.8	14.0
Tax	1,691	1,886	2,292	2,677	3,051
Effective tax rate (%)	36.3	36.6	37.6	36.6	36.6
PAT	2,970	3,260	3,806	4,626	5,273
Growth (%)	(7.6)	9.8	16.7	21.6	14.0
Adjusted EPS (Rs)	129	142	165	201	229
EPS growth (%)	(7.6)	9.8	16.7	21.6	14.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Equity	230	230	230	230	230
Reserves	18,600	20,034	21,962	23,915	26,140
Net worth	18,830	20,264	22,192	24,145	26,370
Total loans	-	-	-	-	-
Deferred tax liabilities	1,013	1,031	921	921	921
Other non-current liabilities	548	465	491	569	617
Total liabilities	20,391	21,760	23,604	25,634	27,909
Fixed assets including CWIP	5,851	5,705	5,643	5,628	5,562
Goodwill & intangible assets	2,654	2,286	1,896	2,286	2,286
Long-term loans & advances	56	4,055	5,129	5,129	5,129
Other non-current assets	1,098	1,292	1,249	1,579	1,715
Inventories	4,931	4,156	4,831	5,149	5,543
Debtors	1,448	1,944	1,584	2,377	2,581
Cash and cash equivalents	5,610	7,299	8,319	9,625	11,721
Other current assets	3,764	1,033	1,188	1,263	1,371
Total current assets	15,753	14,432	15,922	18,414	21,215
Creditors	2,308	3,269	3,438	4,050	4,360
Other current liabilities/provisions	2,713	2,741	2,797	3,351	3,639
Total current liabilities	5,021	6,010	6,235	7,402	7,999
Net current assets	10,732	8,422	9,687	11,012	13,217
Total assets	20,391	21,760	23,604	25,634	27,909

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
PBT	4,804	5,146	6,098	7,303	8,324
(Inc./dec. in working capital)	(12)	803	(276)	(20)	(109)
Cash flow from operations	4,792	5,949	5,822	7,283	8,215
Other income	(604)	(647)	(676)	(907)	(1,050)
Depreciation	1,188	1,022	1,027	981	973
Interest	23	11	7	7	7
Tax paid (-)	(2,178)	(1,984)	(2,441)	(2,677)	(3,051)
Net cash from operations	3,221	4,351	3,739	4,687	5,095
Capital expenditure (-)	(687)	(565)	(570)	(1,356)	(908)
Net cash after capex	2,534	3,786	3,169	3,332	4,187
Other investment activities	(863)	(222)	(161)	577	914
Cash from financial activities	(1,802)	(1,884)	(1,972)	(2,603)	(3,006)
Change in cash balance	(131)	1,680	1,036	1,306	2,096
Opening cash balance	5,666	5,535	7,215	8,319	9,625
Closing cash balance	5,535	7,215	8,251	9,625	11,721

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

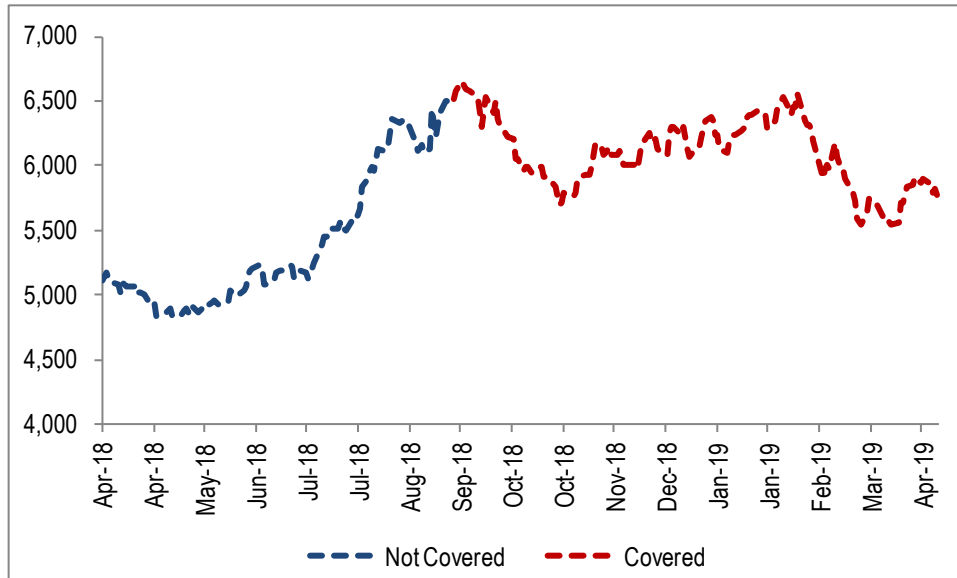
Y/E December	CY16	CY17	CY18	CY19E	CY20E
Profitability & return ratios					
EBITDA margin (%)	22.3	21.6	22.5	24.2	25.0
EBIT margin (%)	16.8	17.5	18.8	21.0	22.0
Net profit margin (%)	12.5	13.1	13.7	15.2	15.9
RoE (%)	16.3	16.7	17.9	20.0	20.9
RoCE (%)	21.8	22.3	24.5	27.6	28.8
Working capital & Liquidity ratios					
Receivables (days)	22.3	24.8	23.2	23.7	27.4
Inventory (days)	166.6	165.2	143.1	146.4	145.7
Payables (days)	76.8	101.4	106.8	109.8	114.6
Working capital days	112.0	88.6	59.5	60.3	58.5
Current ratio (x)	3.1	2.4	2.6	2.5	2.7
Quick ratio (x)	2.2	1.7	1.8	1.8	2.0
Valuation ratios					
EV/Sales (x)	5.5	5.1	4.6	4.1	3.7
EV/EBITDA (x)	24.5	23.8	20.3	17.0	14.9
P/E (x)	45.5	41.4	35.5	29.2	25.6
P/BV (x)	7.2	6.7	6.1	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
15 April 2019	Accumulate	5,740	6,411

Rating track graph



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SELL < -5%

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