

# Sanofi India

8 May 2019

Reuters: SANO.BO; Bloomberg: SANL IN

## API Price Inflation Impacts Margins

Sanofi India's (SIL) revenues in 1QCY19 stood at Rs7,173mn, above our/consensus estimate by 2.9%/3.3%, respectively. Revenues grew 16.1% YoY and decreased 1.3% QoQ. The company has not disclosed the break-up of its revenues between domestic and export markets. Cost of sales at 42.9% was higher by 250bps YoY because of the combined impact of a changing business mix with higher exports, price inflation in APIs and depreciation of the Indian rupee or INR. We tweak our forecasts for India brand business to account for WPI inflation of 4.5% in essential drug category and arrive at revised price target of Rs6,471 (from Rs6,411 earlier) retaining the Buy rating.

### Expenses:

**COGS:** Rs3,079mn, up 23.3% YoY and down 1.6% QoQ. Gross margin declined 250bps YoY.

**Staff costs:** Rs1,036mn, up 0.1%/8.4% QoQ /YoY, respectively.

**Other expenses:** Rs1,520mn, down 12% QoQ and up 10.1% YoY.

**EBITDA:** At Rs1,538mn, EBITDA was below our/consensus estimate by 14.7%/1.3%, respectively. EBITDA increased 12.0%/14.4% on QoQ/YoY basis, respectively. EBITDA margin of 21.4% showed an appreciation of 254bps QoQ and a contraction of 32bps YoY. The sequential EBITDA increase has been on account of lower other expenses and flat employee costs.

**PAT:** At Rs929mn, PAT was below our/consensus estimate by 19.2%/3.5%, respectively. PAT was up 17.2%/12.6% QoQ/YoY, respectively. PAT margin stood at 13.0%, showing an appreciation of 203bps QoQ and a decline of 40bps YoY.

**EPS:** For the quarter, it stood at Rs40.3.

**Outlook and valuation:** We expect SIL's revenues to clock 9.26% revenue CAGR while net earnings should grow 17.7% over CY18-CY20E. Earnings growth 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), next generation insulin (Toujeo), Allegra and recently launched Combiflam topical pain relief gel/spray. We have retained our rating on SIL with a revised target price of Rs6,471 (from Rs6,411 earlier).

## BUY

**Sector:** Pharmaceuticals

**CMP:** Rs5,611

**Target Price:** Rs6,471

**Upside:** 15%

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### Key Data

Current Shares O/S (mn)	23.0
Mkt Cap (Rsb/US\$bn)	129.7/1.9
52 Wk H / L (Rs)	6,840/4,706
Daily Vol. (3M NSE Avg.)	17,300

### Price Performance (%)

	1 M	6 M	1 Yr
Sanofi India	(4.7)	(6.1)	16.6
Nifty Index	(1.4)	8.5	7.3

Source: Bloomberg

Y/E December (Rsmn)	1QCY18	4QCY18	1QCY19	YoY (%)	QoQ (%)	CY17	CY18	YoY (%)
<b>Revenues from operations</b>	<b>6,177</b>	<b>7,264</b>	<b>7,173</b>	<b>16.1</b>	<b>(1.3)</b>	<b>24,914</b>	<b>27,715</b>	<b>11.2</b>
Raw material costs	2,497	3,128	3,079	23.3	(1.6)	10,041	11,466	14.2
% of revenues	40.4	43.1	42.9	250 bps	(14bps)	40.3	41.4	107bps
Staff costs	956	1,035	1,036	8.4	0.1	3,711	4,041	8.9
% of revenues	15.5	14.2	14.4	(103bps)	19 bps	14.9	14.6	(31bps)
Other expenses	1,380	1,728	1,520	10.1	(12.0)	5,812	5,973	2.8
% of revenues	22.3	23.8	21.2	(115bps)	(260bps)	23.3	21.6	(178bps)
<b>EBITDA</b>	<b>1,344</b>	<b>1,373</b>	<b>1,538</b>	<b>14.4</b>	<b>12.0</b>	<b>5,350</b>	<b>6,235</b>	<b>16.5</b>
<b>EBITDA margin (%)</b>	<b>21.8</b>	<b>18.9</b>	<b>21.4</b>	<b>(32bps)</b>	<b>254bps</b>	<b>21.5</b>	<b>22.5</b>	<b>102bps</b>
Other income	226	201	230	1.8	14.4	833	897	7.7
Interest costs	-	7	-	-	-	15	7	(53.3)
Depreciation	254	259	261	2.8	0.8	1,022	1,027	0.5
<b>PBT</b>	<b>1,316</b>	<b>1,308</b>	<b>1,507</b>	<b>14.5</b>	<b>15.2</b>	<b>5,146</b>	<b>6,098</b>	<b>18.5</b>
Tax	491	515	578	17.7	12.2	1,886	2,292	21.5
Tax rate (%)	37.3	39.4	38.4	104bps	(102bps)	36.6	37.6	94bps
<b>PAT</b>	<b>825</b>	<b>793</b>	<b>929</b>	<b>12.6</b>	<b>17.2</b>	<b>3,260</b>	<b>3,806</b>	<b>16.7</b>
<b>PAT margin (%)</b>	<b>13.4</b>	<b>10.9</b>	<b>13.0</b>	<b>(40bps)</b>	<b>203bps</b>	<b>13.1</b>	<b>13.7</b>	<b>65bps</b>

Source: Company, Nirmal Bang Institutional Equities Research

## AGM highlights

### Exports

The company's exports showed a staggering growth of 25% in CY18. We believe that exports will continue to maintain volume growth over the coming years given that SIL has signed a five-year contract with Advent (which took over Sanofi's European generics business in October 2018). The revenues from Advent currently represent 60% of export revenues and the remaining export revenues come from Sanofi group companies.

### Gross margin

The company will enjoy good hedging as most of its imports as well as exports are linked to the euro. But the management did highlight that if the INR was to depreciate significantly, then raw material prices could go up and result in lower margins. The margins in 2018 were lower because of a changing business mix with higher exports, API price inflation, and depreciation of the INR.

### Business mix

Nutraceutical business accounts for around 10% of business revenues and insulin forms around 25% of business revenues. The management gave guidance that 1.5% to 2% of the revenues come from new products launched. In CY18, the company launched Combiflam (spray and gel) and Toujeo.

### Price regulation impact in domestic market

Domestic business of the company has shown 6% growth because of some products coming under the price cut by the NPPA. Amaryl brand witnessed a price cut of 25% to 30%. Amaryl MV saw a price cut of 28% to 43% on different stock-keeping units or SKUs. The brand is growing 10% to 12% post price cut.

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

(Rsmn)	Actual	NBIE estimate	Var.(%)	Consensus estimate	Var.(%)
Revenues	7,173	6,969	2.9	6,941	3.3
EBITDA	1,538	1,802	(14.7)	1,558	(1.3)
EBITDA margin (%)	21.4	25.9	(442bps)	22.4	(100bps)
PAT	929	1,149	(19.2)	962	(3.5)
PAT margin (%)	13.0	16.5	(354bps)	13.9	(91bps)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Key financials

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	23,686	24,914	27,708	30,518	33,205
EBITDA	5,281	5,372	6,235	7,418	8,332
Net profit	2,970	3,260	3,806	4,648	5,323
Adjusted EPS (Rs)	129	142	165	202	231
EPS growth (%)	(7.6)	9.8	16.7	22.1	14.5
EBITDA margin (%)	22.3	21.6	22.5	24.3	25.1
P/E (x)	43.5	39.6	34.0	27.8	24.3
P/BV (x)	6.9	6.4	5.8	5.4	4.9
EV/EBITDA (x)	23.4	22.7	19.4	16.1	14.1
RoCE (%)	21.8	22.3	24.5	27.8	29.1
RoE (%)	16.3	16.7	17.9	20.1	21.1

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Quarterly trends

Particulars (Rsmn)	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19
Revenues	6,675	6,704	6,177	6,836	7,438	7,264	7,173
Gross profit	4,185	4,185	3,680	4,088	4,345	4,136	4,094
EBITDA	1,837	1,837	1,344	1,645	1,873	1,373	1,538
EBIT	1,580	1,087	1,090	1,391	1,613	1,114	1,277
PBT	1,788	1,258	1,316	1,599	1,875	1,308	1,507
PAT	1,163	1,163	825	996	1,192	793	929
Margin (%)	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19
Gross profit	62.7	62.7	59.6	59.8	58.4	56.9	57.1
EBITDA	27.5	27.5	21.8	24.1	25.2	18.9	21.4
EBIT	23.7	23.7	17.6	20.3	21.7	15.3	17.8
PBT	26.8	26.8	21.3	23.4	25.2	18.0	21.0
PAT	18.6	18.6	14.3	15.6	17.0	11.7	13.0

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Change in our estimates

(Rsmn)	New estimate		Old estimate		Change (%)	
	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Net sales	30,518	33,205	30,459	33,075	0.2	0.4
EBITDA	7,418	8,332	7,384	8,254	0.5	0.9
Margin (%)	24.3	25.1	24.2	25.0	7 bps	14 bps
PAT	4,648	5,323	4,626	5,273	0.5	0.9
Margin (%)	15.2	16.0	15.2	15.9	4 bps	9 bps
EPS	201.8	231.1	200.9	229.0	0.5	0.9

Source: Nirmal Bang Institutional Equities Research

## Financial statements

### Exhibit 5: Income statement

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
<b>Net Sales</b>	<b>23,686</b>	<b>24,914</b>	<b>27,708</b>	<b>30,518</b>	<b>33,205</b>
Growth (%)	8.0	5.2	11.2	10.1	8.8
Raw Materials	13,036	14,873	16,249	18,059	19,775
Employee Expenses	3,592	3,685	4,068	4,393	4,921
Other expenses	4,163	5,816	5,946	6,248	6,523
Total expenditure	18,405	19,542	21,473	23,100	24,873
<b>EBITDA</b>	<b>5,281</b>	<b>5,372</b>	<b>6,235</b>	<b>7,418</b>	<b>8,332</b>
Growth (%)	15.0	1.7	16.1	19.0	12.3
EBITDA margin (%)	22.3	21.6	22.5	24.3	25.1
Other income	708	807	897	907	1,051
Interest Costs	15	11	7	7	7
Depreciation	1,313	1,022	1,027	981	973
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>4,661</b>	<b>5,146</b>	<b>6,098</b>	<b>7,338</b>	<b>8,402</b>
Tax	1,691	1,886	2,292	2,689	3,079
Effective tax rate (%)	36.3	36.6	37.6	36.6	36.6
<b>PAT</b>	<b>2,970</b>	<b>3,260</b>	<b>3,806</b>	<b>4,648</b>	<b>5,323</b>
Growth (%)	(7.6)	9.8	16.7	22.1	14.5
<b>Adjusted EPS (Rs)</b>	<b>129</b>	<b>142</b>	<b>165</b>	<b>202</b>	<b>231</b>
<b>EPS growth (%)</b>	<b>(7.6)</b>	<b>9.8</b>	<b>16.7</b>	<b>22.1</b>	<b>14.5</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Equity	230	230	230	230	230
Reserves	18,600	20,034	21,962	23,924	26,171
Net worth	18,830	20,264	22,192	24,154	26,401
Total loans	-	-	-	-	-
Deferred tax liabilities	1,013	1,031	921	921	921
Other non-current liabilities	548	465	491	570	620
<b>Total liabilities</b>	<b>20,391</b>	<b>21,760</b>	<b>23,604</b>	<b>25,645</b>	<b>27,941</b>
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	1,582	1,721
Inventories	4,931	4,156	4,831	5,157	5,559
Debtors	1,448	1,944	1,584	2,381	2,591
Cash and cash equivalents	5,610	7,299	8,319	9,630	11,742
Other current assets	3,764	1,033	1,188	1,265	1,377
<b>Total current assets</b>	<b>15,753</b>	<b>14,432</b>	<b>15,922</b>	<b>18,433</b>	<b>21,268</b>
Creditors	2,308	3,269	3,438	4,056	4,372
Other current liabilities/provisions	2,713	2,741	2,797	3,358	3,653
<b>Total current liabilities</b>	<b>5,021</b>	<b>6,010</b>	<b>6,235</b>	<b>7,414</b>	<b>8,026</b>
Net current assets	10,732	8,422	9,687	11,020	13,243
<b>Total assets</b>	<b>20,391</b>	<b>21,760</b>	<b>23,604</b>	<b>25,645</b>	<b>27,941</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 6: Cash flow

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
PBT	4,804	5,146	6,098	7,338	8,402
(Inc./dec. in working capital)	(12)	803	(276)	(22)	(111)
<b>Cash flow from operations</b>	<b>4,792</b>	<b>5,949</b>	<b>5,822</b>	<b>7,316</b>	<b>8,291</b>
Other income	(604)	(647)	(676)	(907)	(1,051)
Depreciation	1,188	1,022	1,027	981	973
Interest	23	11	7	7	7
Tax paid (-)	(2,178)	(1,984)	(2,441)	(2,689)	(3,079)
<b>Net cash from operations</b>	<b>3,221</b>	<b>4,351</b>	<b>3,739</b>	<b>4,707</b>	<b>5,141</b>
Capital expenditure (-)	(687)	(565)	(570)	(1,356)	(908)
<b>Net cash after capex</b>	<b>2,534</b>	<b>3,786</b>	<b>3,169</b>	<b>3,352</b>	<b>4,233</b>
Other investing activities	(863)	(222)	(161)	574	911
Cash from financial activities	(1,802)	(1,884)	(1,972)	(2,615)	(3,033)
Change in cash balance	(131)	1,680	1,036	1,311	2,112
Opening cash balance	5,666	5,535	7,215	8,319	9,630
Closing cash balance	5,535	7,215	8,251	9,630	11,742

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Key ratios

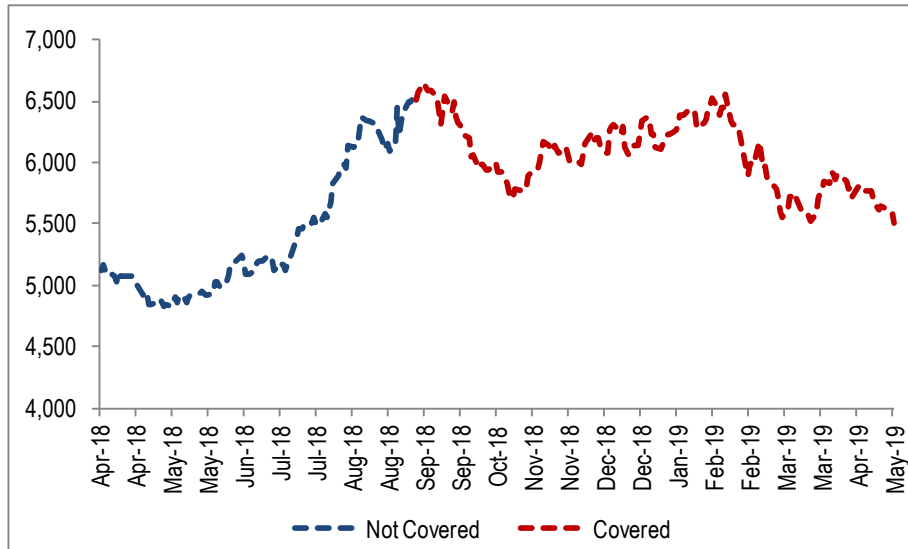
Y/E December	CY16	CY17	CY18	CY19E	CY20E
<b>Profitability &amp; return ratios</b>					
EBITDA margin (%)	22.3	21.6	22.5	24.3	25.1
EBIT margin (%)	16.8	17.5	18.8	21.1	22.2
Net profit margin (%)	12.5	13.1	13.7	15.2	16.0
RoE (%)	16.3	16.7	17.9	20.1	21.1
RoCE (%)	21.8	22.3	24.5	27.8	29.1
<b>Working capital &amp; liquidity ratios</b>					
Receivables (days)	22.3	24.8	23.2	23.7	27.3
Inventory (days)	166.6	165.2	143.1	146.3	145.6
Payables (days)	76.8	101.4	106.8	109.8	114.5
Working capital days	112.0	88.6	59.5	60.2	58.4
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
<b>Valuation ratios</b>					
EV/Sales (x)	5.2	4.9	4.4	3.9	3.5
EV/EBITDA (x)	23.4	22.7	19.4	16.1	14.1
P/E (x)	43.5	39.6	34.0	27.8	24.3
P/BV (x)	6.9	6.4	5.8	5.4	4.9

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

**Rating track graph**



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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