

Focus on diabetes, established brands and consumer healthcare

- Sanofi India has strategized on priority to increase its diabetes portfolio (~ 30% of sales) through wider reach and new launches.
- The company will grow its established brands through improved efficiencies and move some brands (Allegra) to Consumer healthcare.
- The company plans to widen reach without increasing its MRs (2200) and with digital initiatives.
- The company benefitted from lower costs in view of the lockdown. Going forward, we have baked in increased costs due to the resumption of travel and digitization expenses.

Lower sales impact due to chronic focus

- Sanofi India CY2020 sales at Rs 27.2 bn including exports at Rs 5.7 bn.
- The company currently has a reach of 100,000 pharmacies with 2500 distributors across India.
- 70% of sales come from top 7 brands namely **LANTUS, Toujeo, Amaryl, Combiflam, Allegra, Cardace, Frisium and Targocid**. Of the 7 brands **Lantus- Toujeo, Combiflam, Allegra and Cardace have grown better than the represented market**.
- Sanofi India Allegra sales were impacted in CY2020 due to the lower footfalls at OPDs. Targocid sales were lower due to decrease in patients at the hospitals.
- Post the closure of the Zentiva deal and the sale of its Ankleshwar plant, profitability has improved 364 bps in operating margins, due to better sales mix. Further the working capital cycle has also improved in CY2020, with a reduction in inventories (46 days Vs 55 earlier), debtors (19 days Vs 26) and payables (92 Vs 100).

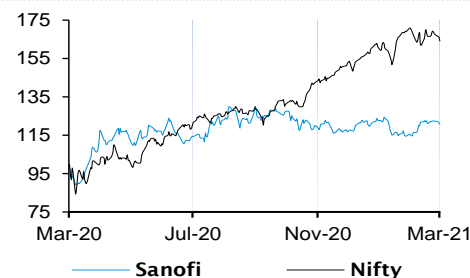
Rating	TP (Rs)	Up/Dn (%)
BUY	9000	10

Market data

Current price	Rs	8,202
Market Cap (Rs.Bn)	(Rs Bn)	189
Market Cap (US\$ Mn)	(US \$ Mn)	2602
Face Value	Rs	10
52 Weeks High/Low	Rs	8999/5900
Average Daily Volume	('000)	22
BSE Code		500674
Bloomberg		SANL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	60.40	60.40
Public	39.60	39.60
Others	0.00	0.00
Total	100	100

Source: BSE

Y/E Mar (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Net sales	27,708	30,706	29,019	31,223	33,541
Adjusted net profit	3,806	4,142	4,806	6,078	6,853
Free cash flow	5442	11298	2710	11080	12586
EPS (Rs)	165.5	180.1	209.0	264.3	297.9
growth (%)	17%	24%	10%	16%	13%
P/E (x)	50	46	39	31	28
P/B (x)	0	0	0	0	0
EV/EBITDA (x)	29	26	25	22	19
D/E	0	0	0	0	0
RoIC (%)	27	36	53	64	76
RoE (%)	17	19	25	24	23
Dividend yield (%)	1	4	4	1	1

Source: Company

Charulata Gaidhani
(022) 67141446
charulata.gaidhani@dalal-broacha.com

Key Risks

- Any product coming under price control (NLEM).
- Any cap on margins from the Government.

Valuation & Outlook

CY20 has seen the closure of Sanofi India's deal with Zentiva along with the Ankleshwar plant and termination of its 5 year generics manufacturing contract which was up to 2023. Post the elimination of exports to Zentiva, Sanofi India has seen a significant improvement in profitability.

The company has plans to grow through wider reach for diabetes and established products, expansion of its diabetes portfolio and addition of brands to Consumer healthcare.

At Rs 8202, Sanofi India trades at 28x CY22E EPS of Rs 297. We have valued Sanofi India as a weighted average of 31x P/E (65%) and 21x EV/EBITDA (35%) **and arrived at a target price of Rs 9000 per share.**

We maintain BUY.

Financial

P&L (Rs mn)	CY18	CY19	CY20	CY21E	CY22E	Cash Flow St. (Rs. mn)	CY18	CY19	CY20	CY21E	CY22E
Net Sales	27,708	30,706	29,019	31,223	33,541	Net Profit	3,806	4,735	5,223	6,078	6,853
Raw materials	11,459	13,474	12,506	13,114	13,919	Add: Dep. & Amort.	1,027	999	822	841	859
Employee costs	4,068	4,497	4,608	4,838	5,080	Cash profits	4,833	5,734	6,045	6,919	7,712
Other Expenses	5,946	6,082	4,744	5,218	5,740	(Inc)/Dec in					
Cost of sales	21,473	24,053	21,858	23,171	24,740	-Inventories	(675)	135	1,016	(1,025)	(349)
Operating Profit	6,235	6,653	7,161	8,053	8,801	-Trade receivables	367	(656)	760	(659)	(159)
Depreciation	1,027	999	822	841	859	-Loans/advances	(956)	555	(19)	458	412
PBIT	6,105	6,595	7,237	8,462	9,538	-Other Current Financial Assets	(30)	21	(281)	(6)	(6)
Other income	897	941	898	1,250	1,596	-Current Tax assets	(49)	(182)	(139)	(73)	(76)
Interest	7	3	18	20	20	-Trade Payables	169	251	(506)	410	221
Profit before tax	6,098	6,592	7,219	8,442	9,518	-other Financial Liabilities	122	(10)	77	(183)	7
Provision for tax	2,292	1,857	1,996	2,364	2,665	-Employee benefit obligation	(106)	297	134	(90)	77
Reported PAT	3,806	4,735	5,223	6,078	6,853	-Provisions	35	98	103	76	116
Exceptional Items	-	(593)	(417)	-	-	-Current tax Liabilities	17	175	316	108	101
Adjusted PAT	3,806	4,142	4,806	6,078	6,853	Change in working capital	(1,250)	442	2,146	(1,178)	122
						CF from Oper. activities	3,583	6,176	8,191	5,740	7,834
						CF from Inv. activities	(575)	1,381	191	(651)	(405)
						CF from Fin. activities	(1,988)	(2,979)	(8,600)	(2,345)	(2,339)
						Cash generated/(utilised)	1,020	4,578	(218)	2,744	5,090
						Cash at start of the year	7,299	8,319	12,897	12,086	15,423
						Cash at end of the year	8,319	12,897	12,679	14,830	20,513
Balance Sheet	CY18	CY19	CY20	CY21E	CY22E	Ratios	CY18	CY19	CY20	CY21E	CY22E
Equity capital	230	230	230	230	230	OPM	23%	22%	25%	26%	26%
Reserves	21,962	24,193	20,960	24,738	29,291	NPM	13%	15%	17%	19%	20%
Net worth	22,192	24,423	21,190	24,968	29,521	Tax rate	38%	28%	28%	28%	28%
Deferred Tax Liabilities	921	446	302	257	218	Growth Ratios (%)					
Employee Benefit Obligation	491	541	646	581	610	Net Sales	11%	11%	-5%	8%	7%
CAPITAL EMPLOYED	23,604	25,410	22,138	25,805	30,349	Operating Profit	16%	7%	8%	12%	9%
Gross block - Tangibles	7,264	6,311	6,811	7,311	7,811	PAT	17%	24%	10%	16%	13%
Accumulated depreciation	1,785	2,784	3,606	4,447	5,306	Per Share (Rs.) *					
Net block - Tangibles	5,479	3,527	3,205	2,864	2,505	Net Earnings (EPS)	165.5	180.1	209.0	264.3	297.9
Gross block - Intangibles	731	731	731	731	731	Cash Earnings (CPS)	361.7	560.7	525.5	670.6	891.9
Net block - Intangibles	731	731	731	731	731	Dividend	86	349	365	100	100
Capital WIP	164	127	63	127	127	Book Value	965	1,062	921	1,086	1,284
Total fixed assets	6,374	4,385	3,999	3,722	3,363	Free Cash Flow	237	491	118	482	547
Intangible Assets under Devt	47	47	37	47	47	Valuation Ratios					
Other Financial Assets	53	32	32	32	32	P/E(x)	50	46	39	31	28
Other Non-Current Assets	59	39	44	39	39	P/B(x)	0.2	0.2	0.2	0.2	0.2
Loans	5,129	4,602	4,579	4,121	3,709	EV/EBIDTA(x)	29	26	25	22	19
Non Current Investments	2	-	-	-	-	EV/SALES(x)	7	6	6	6	5
Other Intangible Assets	1,118	729	344	189	95	Div. Yield(%)	1	4	4	1	1
Non Current Tax Assets	1,135	1,317	1,456	1,529	1,605	FCF Yield(%)	3%	7%	2%	6%	7%
Asset held for sale	39	-	41	41	-	Return Ratios (%)					
Cash & bank	8,319	12,897	12,086	15,423	20,513	ROE	17	19	25	24	23
Inventories	4,831	4,696	3,680	4,705	5,054	ROCE	26	26	32	33	31
Debtors	1,584	2,240	1,480	2,139	2,297	ROIC	27	36	53	64	76
loans	43	15	57	57	57						
Other current Assets	1,106	1,445	708	920	1,197	Equity	230	230	230	230	230
Creditors	3,438	3,689	3,183	3,593	3,814	Face Value	10	10	10	10	10
Other financial Liabilities	259	249	147	143	150						
Other Current Liabilities	119	155	149	161	174						
Provision	1,284	1,382	1,485	1,561	1,677						
Employee Benefit Obligations	716	963	992	968	1,016						
Liab with assets held for sale	9	11	11	11	11						
Current tax liabilities	410	585	901	1,009	1,110						
Working capital	9,648	14,259	11,424	16,086	21,459						
CAPITAL DEPLOYED	23,604	25,410	22,317	25,805	30,349						

Source: Dalal & Broacha Research, Company

Disclaimer

Dalal & Broacha Stock Broking Pvt Ltd, hereinafter referred to as D&B (CINU67120MH1997PTC111186) was established in 1997 and is an integrated financial services player offering an extensive range of financial solutions and services to a wide spectrum of customers with varied needs ranging from equities to mutual funds to depository services. D&B is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). D&B along with its affiliates offers the most comprehensive avenues for investments and is engaged in the securities businesses including stock broking (Institutional and retail), depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. www.dalal-broacha.com

D&B is registered as Research Analyst with SEBI bearing registration Number INH000001246 as per SEBI (Research Analysts) Regulations, 2014.

D&B hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in any time in the past. It has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time. SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on D&B for certain operational deviations in routine course of business.

D&B offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by D&B (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

D&B or its associates may have financial interest in the subject company.

D&B or its associates do not have any material conflict of interest in the subject company.

The Research Analyst or Research Entity (D&B) has not been engaged in market making activity for the subject company.

D&B or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Disclosures in respect of Research Analyst:

Whether Research Analyst or his/her relatives have a actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report:	No
Whether the Research Analyst or his/her relative's financial interest in the subject company.	No
Whether the research Analyst has served as officer, director or employee of the subject company	No
Whether the Research Analyst has received any compensation from the subject company in the past twelve months	No
Whether the Research Analyst has managed or co-managed public offering of securities for the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
Whether the Research Analyst has received any compensation or other benefits from the subject company or third party in connection with the research report	No

D&B and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject D&B or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to D&B. None of the material, nor its content, nor any

copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of D&B. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of D&B or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read “Risk Disclosure Document for Capital Market and Derivatives Segments” as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name	Designation	Email	Phone	Sector
Mr. Kunal Bhatia	HOR	kunal.bhatia@dalal-broacha.com	022 67141442	Auto Auto Ancillary FMCG
Mrs.Charulata Gaidhani	Sr. Analyst	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma Healthcare
Mr. Mayank Babla	Sr. Analyst	mayank.babla@dalal-broacha.com	022 67141412	IT Telecom Media
Mr. Avinash Tanawade	Sr. Analyst	avinash.tanawade@dalal-broacha.com	022 67141449	BFSI
Mr. Akshay Ashok	Analyst	akshay.ashok@dalal-broacha.com	022 67141486	BFSI
Mr. Suraj Nandu	Analyst	suraj.nandu@dalal-broacha.com	022 67141438	FMCG Retail
Ms. Timshar Dhamodiwala	Associate	timshar.dhamodiwala@dalal-broacha.com	022 67141441	IT Telecom Media

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400021.

Tel: 91-22-2282 2992, 2287 6173, Fax: 91-22-2287 0092

E-mail: equity.research@dalal-broacha.com