

Profitability improves post Zentiva and lower spends

- Q1CY2021 Sales came in at Rs 7251 mn (-8% yoy/+1% qoq), in line with our estimate of Rs 7269 mn.
- Sales for Q1CY2020 include exports to Zentiva of Rs 1000 mn approximately. Adjusted for Zentiva, Sanofi sales grew 6% yoy.
- EBITDA came in at Rs 2157 mn (+7% yoy/+13% qoq), 3% higher than our estimate in view of lower expenses. Employee costs (-12% Rs 1063 mn due to sale of Ankleshwar plant), Other expenses -29% Rs 1051 mn due to lower travel & sales promotion expenses).
- EBITDA margins came in at 26.7% (+360 bps yoy/ +290 bps qoq).
- PBT Rs 1949 mn (+5% yoy/ +20% qoq). PBT margins were at 26.88% (+330 bps yoy/ +433 bps qoq).
- PAT Rs 1459 mn (+7% yoy/+27% qoq), 13% higher than our estimates.
- EPS for the quarter was at Rs 63.6.

Key takeaways from the AGM

- 3 brands (LANTUS, ALLEGRA and Combiflam) part of top 100 brands in the industry.
- Globally Sanofi has proposed the sale of its brands Soframycin and Sofradex. Sanofi India is also looking for opportunities to monetise the brands. The 2 brands generate sales of around Rs 600 mn (2% of sales).
- Domestic Sales to institutions (5%), online sales (10%). 50% of sales from metros, balance from Tier 2 & 3 cities.
- Employee costs lower due to the sale of Ankleshwar plant.
- Exports currently at 15% of sales. Exports to Zentiva upto May 2020 were at Rs 1560 mn.
- NLEM 19% of sales - brands Amaryl, Cardace, Cetapin, Clexane, Avil.
- Cost benefits 2020 may not continue post easing of the lockdown.
- The company plans to expand its product basket in diabetes and cardiology. Sanofi India has grown at 19% in last 5 years compared to 14% growth in insulins.
- Exports to group companies, considered cost effective supplier within group. Sanofi India focus on brand building in the Indian market.

Y/E Mar (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Net sales	27,708	30,706	29,019	30,144	33,629
EBITDA	6,235	6,653	7,161	7,845	9,110
Adjusted net profit	3,806	4,142	4,806	5,776	6,747
Free cash flow	2988	1123	8380	2135	1841
EPS (Rs)	165.5	180.1	209.0	251.1	293.4
growth (%)	17%	24%	10%	11%	17%
P/E (x)	45	42	36	30	26
P/B (x)	0	0	0	0	0
EV/EBITDA (x)	26	24	22	20	17
D/E	0	0	0	0	0
RoIC (%)	27	36	53	59	73
RoE (%)	17	19	25	23	23
Dividend yield (%)	1	5	5	1	1

Source: Company

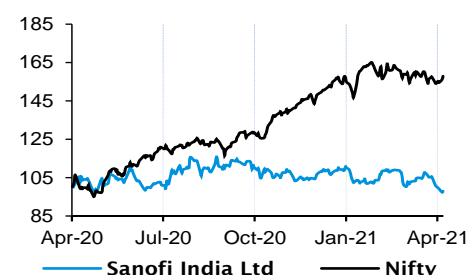
Rating	TP (Rs)	Up/Dn (%)
BUY	8800	18

Market data

Current price	Rs	7,480
Market Cap (Rs.Bn)	(Rs Bn)	172
Market Cap (US\$ Mn)	(US\$ Mn)	2298
Face Value	Rs	10
52 Weeks High/Low	Rs	8999/7322
Average Daily Volume	('000)	41
BSE Code		500674
Bloomberg		SANL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	60.4	60.4
FII	11.54	11.54
DII	17.18	17.44
Others	10.89	10.62
Total	100	100

Source: BSE

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Particulars (Rs mn)	Q1CY21	Q4CY20	Q1CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Net Sales	7251	7203	7845	-8%	1%	29019	30706	-5%
Other Income	263	162	295			898	941	
Total Income	7514	7365	8140	-8%	2%	29917	31647	-5%
Raw Material cost	3243	3160	3402			12506	13474	
Gross Profit	4008	4043	4443	-10%	-1%	16513	17232	-4%
Employee Benefit Expense	1063	1072	1203			4608	4497	
Other Expense	1051	1301	1473			4744	6082	
Total Expenses	5357	5533	6078	-12%	-3%	21858	24053	-9%
EBITDA(Excluding other Income)	1894	1670	1767	7%	13%	7161	6653	8%
Depreciation and Amortisation Expense	204	204	207			822	999	
Finance Cost	4	4	5			18	3	
PBT EXCLUDING EXCEPTIONAL ITEMS	1949	1624	1850	5%	20%	7219	6592	10%
Tax	490	472	492			1996	1857	
Tax rate	25%	29%	27%			28%	28%	
PAT BEFORE EXCEPTIONAL ITEMS	1459	1152	1358	7%	27%	5223	4735	10%
Exceptional Items (Net of Tax)	0	78	-504			-417	-593	
PAT AFTER EXCEPTIONAL ITEMS	1459	1230	854	71%	19%	4806	4142	16%
Equity	230	230	230			230	230	
Face Value	10	10	10			10	10	
Number of shares	23	23	23			23	23	
EPS excluding Exceptional Items	63.4	50.1	59.0			227.1	205.9	
EPS including Exceptional Items	63.4	53.5	37.1			209.0	180.1	

Note: Numbers not strictly comparable due to completion of sale of Ankleshwar plant to ZENTIVA on May 29,2020.

Cost Analysis	Q1CY21	Q4CY20	Q3CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Raw Materials	44.7	43.9	43.4			43.1	43.9	
Employee	14.7	14.9	15.3			15.9	14.6	
Other expenses	14.5	18.1	18.8			16.3	19.8	
% profitability	Q1CY21	Q4CY20	Q3CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Gross margin	55.3	56.1	56.6	-27	-51	56.9	56.1	78
EBITDA (ex OI) margin	26.1	23.2	22.5	162	66	24.7	21.7	301
EBITDA (incl. OI) margin	28.7	24.9	25.3	102	-46	26.9	24.0	294
PBT margin	25.9	22.1	22.7	76	-68	24.1	20.8	330
Adj. PAT margin	19.4	16.7	10.5	527	621	16.1	13.1	298

Valuation & Outlook

Post Zentiva deal and the sale of its Ankleshwar plant (May 29, 2020), Sanofi's profitability has improved due to a better sales mix and lower spends. We have marginally revised our Sales/PAT estimates by -3%/-5% for CY2021 and 0%/-2% for CY2022E.

At Rs 7452, Sanofi trades at 26x CY2022E EPS of Rs 293. We have valued Sanofi at 30x CY22E and arrived at a target price of Rs 8800. **We recommend BUY.**

Financials

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	30,144	33,629	Net Profit	3,806	4,735	5,223	5,776	6,747
Raw materials	11,459	13,474	12,506	13,414	14,965	Add: Dep. & Amort.	1,027	999	822	809	825
Employee costs	4,068	4,497	4,608	4,378	4,596	Cash profits	4,833	5,734	6,045	6,585	7,572
Other Expenses	5,946	6,082	4,744	4,507	4,957	(Inc)/Dec in					
Cost of sales	21,473	24,053	21,858	22,298	24,519	-Inventories	(675)	135	1,016	(862)	(525)
Operating Profit	6,235	6,653	7,161	7,845	9,110	-Trade receivables	367	(656)	760	(585)	(239)
Depreciation	1,027	999	822	809	825	-Loans/advances	(956)	555	(19)	458	412
PBIT	6,105	6,595	7,237	8,042	9,391	-Other Current Financial Assets	(30)	21	(281)	(6)	(6)
Other income	897	941	898	1,006	1,106	-Current Tax assets	(49)	(182)	(139)	(73)	(76)
Interest	7	3	18	20	20	-Trade Payables	169	251	(506)	492	425
Profit before tax	6,098	6,592	7,219	8,022	9,371	-other Financial Liabilities	122	(10)	77	(183)	7
Provision for tax	2,292	1,857	1,996	2,246	2,624	- Employee benefit obligation	(106)	297	134	(237)	70
Reported PAT	3,806	4,735	5,223	5,776	6,747	-Provisions	35	98	103	22	174
Exceptional Items	-	(593)	(417)	-	-	-Current tax Liabilities	17	175	316	108	101
Adjusted PAT	3,806	4,142	4,806	5,776	6,747	Change in working capital	(1,250)	442	2,146	(1,061)	121
						CF from Oper. activities	3,583	6,176	8,191	5,524	7,693
						CF from Inv. activities	(575)	1,381	191	(973)	(405)
						CF from Fin. activities	(1,988)	(2,979)	(8,600)	(2,345)	(2,339)
						Cash generated/(utilised)	1,020	4,578	(218)	2,205	4,950
						Cash at start of the year	7,299	8,319	12,897	12,086	14,885
						Cash at end of the year	8,319	12,897	12,679	14,292	19,834
						Ratios	CY18	CY19	CY20	CY21E	CY22E
Balance Sheet	CY18	CY19	CY20	CY21E	CY22E	OPM	23%	22%	25%	26%	27%
Equity capital	230	230	230	230	230	NPM	13%	15%	17%	19%	19%
Reserves	21,962	24,193	20,960	24,436	28,883	Tax rate	38%	28%	28%	28%	28%
Net worth	22,192	24,423	21,190	24,666	29,113	Growth Ratios (%)					
Deferred Tax Liabilities	921	446	302	257	218	Net Sales	11%	11%	-5%	4%	12%
Employee Benefit Obligation	491	541	646	525	552	Operating Profit	16%	7%	8%	10%	16%
CAPITAL EMPLOYED	23,604	25,410	22,138	25,448	29,883	PAT	17%	24%	10%	11%	17%
Gross block - Tangibles	7,264	7,264	4,893	5,393	5,893	Per Share (Rs.) *					
Accumulated depreciation	1,785	1,785	1,366	2,175	3,000	Net Earnings (EPS)	165.5	180.1	209.0	251.1	293.4
Net block - Tangibles	5,479	5,479	3,527	3,218	2,893	Cash Earnings (CPS)	361.7	560.7	525.5	647.2	862.4
Gross block - Intangibles	731	731	731	731	731	Dividend	86	349	365	100	100
Net block - Intangibles	731	731	731	731	731	Book Value	965	1,062	921	1,072	1,266
Capital WIP	164	127	63	127	127	Free Cash Flow	130	49	364	93	80
Total fixed assets	6,374	6,337	4,321	4,076	3,751	Valuation Ratios					
Intangible Assets under Devt	47	47	37	47	47	P/E(x)	45	42	36	30	26
Other Financial Assets	53	32	32	32	32	P/B(x)	0.2	0.2	0.2	0.2	0.2
Other Non-Current Assets	59	39	44	39	39	EV/EBIDTA(x)	26	24	22	20	17
Loans	5,129	4,602	4,579	4,121	3,709	EV/SALES(x)	6	5	6	5	5
Non Current Investments	2	-	-	-	-	Div. Yield(%)	1	5	5	1	1
Other Intangible Assets	1,118	729	344	189	95	FCF Yield(%)	2%	1%	5%	1%	1%
Non Current Tax Assets	1,135	1,317	1,456	1,529	1,605	Return Ratios (%)					
Asset held for sale	39	-	41	41	-	ROE	17	19	25	23	23
Cash & bank	8,319	12,897	12,086	14,885	19,834	ROCE	26	26	32	32	31
Inventories	4,831	4,696	3,680	4,542	5,067	ROIC	27	36	53	59	73
Debtors	1,584	2,240	1,480	2,065	2,303						
loans	43	15	57	57	57						
Other current Assets	1,106	1,445	708	920	1,197						
Creditors	3,438	3,689	3,183	3,675	4,100						
Other financial Liabilities	259	249	147	143	150						
Other Current Liabilities	119	155	149	161	174						
Provision	1,284	1,382	1,485	1,507	1,681						
Employee Benefit Obligations	716	963	992	876	919						
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	15,374	20,606	Equity	230	230	230	230	230
CAPITAL DEPLOYED	23,604	25,410	22,317	25,448	29,883	Face Value	10	10	10	10	10

Source: Dalal & Broacha Research, Company

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