

Profitability improves post Zentiva and lower spends

- **Q2CY2021 Sales came in at Rs 7891 mn (+11%yoy/+9% qoq)**, 4% lower than our estimate of Rs 8188 mn.
- **Sales for Q2CY2020 include exports to Zentiva of Rs 1000 mn approximately.** Adjusted for Zentiva, Sanofi sales grew 29% yoy.
- **EBITDA came in at Rs 2471 mn (+39% yoy/+30% qoq)**, 8% higher than our estimate in view of lower other expenses. Employee costs (-9% Rs 1120 mn due to sale of Ankleshwar plant), Other expenses -5% Rs 881 mn due to lower travel & sales promotion expenses).
- **EBITDA margins came in at 33.5% (+450 bps yoy/ +353 bps qoq)**, highest so far.
- **PBT Rs 2426 mn (+34% yoy/ +31% qoq)**. PBT margins were at 30.74% (+465 bps yoy/ +386 bps qoq).
- **PAT Rs 1783 mn (+32% yoy/+22% qoq)**, 6% higher than our estimates.
- **EPS for the quarter was at Rs 63.6.**

Key Highlights

- Sanofi has seen consistent growth in India in cardio and diabetes.
- During the quarter, **Sanofi's growth brands were Clextane (Cardio), Enterogermina (Gastrointestinal), Combiflam (Pain) and Avil (Respiratory).** Clextane was used in hospitals for the treatment of Covid patients in the second wave.
- Sanofi announced the sale of its nutraceuticals business to Universal Nutriscience Pvt. Ltd. for a consideration of Rs 5870 mn.
- With nutraceuticals sales at Rs 1282 mn in CY20 (5% of sales), the transaction is valued at 4.5x sales.
- The management wants to sharpen focus on its growth pillars. The company expects the transaction to close in 3 months.

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	11,670	6,774
Free cash flow	2988	1123	8380	-3735	1841
EPS (Rs)	165.5	180.1	209.0	252.2	294.5
growth (%)	17%	24%	10%	11%	17%
P/E (x)	49	45	39	32	28
P/B (x)	0	0	0	0	0
EV/EBITDA (x)	29	26	24	21	18
D/E	0	0	0	0	0
RoIC (%)	27	36	53	119	73
RoE (%)	17	19	25	19	19
Dividend yield (%)	1	4	4	1	1

Source: Company

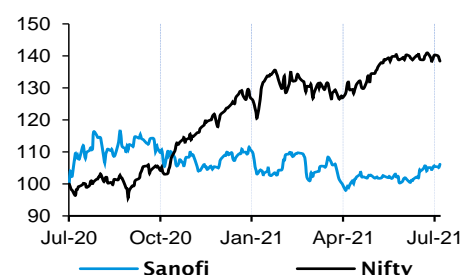
Rating	TP (Rs)	Up/Dn (%)
BUY	9221	14

Market data

Current price	Rs	8103
Market Cap (Rs.Bn)	(Rs Bn)	188
Market Cap (US\$ Mn)	(US\$ Mn)	2528
Face Value	Rs	10
52 Weeks High/Low	Rs	8999/7428
Average Daily Volume	('000)	168
BSE Code		500674
Bloomberg		SANL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	60.40	60.40
FII	10.87	11.54
DII	17.35	17.18
Others	11.33	10.89
Total	100	100

Source: BSE

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Quarterly Financials

Particulars (Rs mn)	Q2CY21	Q1CY21	Q2CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Net Sales	7891	7251	7105	11%	9%	29019	30706	-5%
Other Income	171	263	292	-41%	-35%	898	941	
Total Income	8062	7514	7397	9%	7%	29917	31647	-5%
Raw Material cost	3419	3243	3165			12506	13474	
Gross Profit	4472	4008	3940	14%	12%	16513	17232	-4%
Employee Benefit Expense	1120	1063	1237			4608	4497	
Other Expense	881	1051	931			4744	6082	
Total Expenses	5420	5357	5333	2%	1%	21858	24053	-9%
EBITDA(Excluding other Income)	2471	1894	1772	39%	30%	7161	6653	8%
Depreciation and Amortisation Expense	211	204	205			822	999	
Finance Cost	5	4	5			18	3	
PBT EXCLUDING EXCEPTIONAL ITEMS	2426	1949	1854	31%	24%	7219	6592	10%
Tax	643	490	502			1996	1857	
Tax rate	27%	25%	27%			28%	28%	
PAT BEFORE EXCEPTIONAL ITEMS	1783	1459	1352	32%	22%	5223	4735	10%
Exceptional Items (Net of Tax)	0	0	11			-417	-593	
PAT AFTER EXCEPTIONAL ITEMS	1783	1459	1363	31%	22%	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	77.5	63.4	58.8			227.1	205.9	
EPS including Exceptional Items	77.5	63.4	59.3			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	Q2CY21	Q1CY21	Q2CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Raw Materials	43.3	44.7	44.5			43.1	43.9	
Employee	14.2	14.7	17.4			15.9	14.6	
Other expenses	11.2	14.5	13.1			16.3	19.8	
% profitability	Q2CY21	Q1CY21	Q2CY20	% yoy	% qoq	CY2020	CY2019	% yoy
Gross margin	56.7	55.3	55.5	-27	-51	56.9	56.1	78
EBITDA (ex OI) margin	31.3	26.1	24.9	162	66	24.7	21.7	301
EBITDA (incl. OI) margin	32.8	28.7	27.9	102	-46	26.9	24.0	294
PBT margin	30.1	25.9	25.1	76	-68	24.1	20.8	330
Adj. PAT margin	22.1	19.4	18.4	527	621	16.1	13.1	298

Source: Dalal & Broacha Research, Company

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. With the sale of nutraceuticals business, the management has sharpened focus on its growth pillars.

At Rs 8148, Sanofi trades at 28x CY22E EPS of Rs 293. We have valued Sanofi as a weighted average of 32x CY22E EPS and 21x EV/EBITDA and have arrived at a **target price of Rs 9221**.

We maintain 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	5,800	6,774
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	6,609	7,599
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)
						-Trade receivables	367	(656)	760	(585)	(239)
						-Loans/advances	(956)	555	(19)	458	412
Operating Profit	6,235	6,653	7,161	7,845	9,110	-Other Current Financial Assets	(30)	21	(281)	(6)	(6)
Depreciation	1,027	999	822	809	825	-Current Tax assets	(49)	(182)	(139)	(73)	(76)
PBIT	6,105	6,595	7,237	8,075	9,428	-Trade Payables	169	251	(506)	492	425
Other income	897	941	898	1,039	1,143	-other Financial Liabilities	122	(10)	77	(183)	7
Interest	7	3	18	20	20	-Employee benefit obligation	(106)	297	134	(237)	70
						-Provisions	35	98	103	22	174
Profit before tax	6,098	6,592	7,219	8,055	9,408	-Current tax Liabilities	17	175	316	108	101
Provision for tax	2,292	1,857	1,996	2,255	2,634	Change in working capital	(1,250)	442	2,146	(1,061)	121
Reported PAT	3,806	4,735	5,223	5,800	6,774	CF from Oper. activities	3,583	6,176	8,191	5,548	7,720
Exceptional Items	-	(593)	(417)	5,870.0	-	CF from Inv. activities	(575)	1,381	191	(973)	(405)
Adjusted PAT	3,806	4,142	4,806	11,670	6,774	CF from Fin. activities	(1,988)	(2,979)	(8,600)	3,525	(2,339)
						Cash generated/(utilised)	1,020	4,578	(218)	8,099	4,976
						Cash at start of the year	7,299	8,319	12,897	12,086	20,779
						Cash at end of the year	8,319	12,897	12,679	20,186	25,754
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%	27%
Reserves	21,962	24,193	20,960	30,330	34,803	NPM	13%	15%	17%	19%	19%
Net worth	22,192	24,423	21,190	30,560	35,033	Tax rate	38%	28%	28%	28%	28%
Deferred Tax Liabilities	921	446	302	257	218	Growth Ratios (%)					
Employee Benefit Obligation	491	541	646	525	552	Net Sales	11%	11%	-5%	4%	12%
CAPITAL EMPLOYED	23,604	25,410	22,138	31,342	35,803	Operating Profit	16%	7%	8%	10%	16%
						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	252.2	294.5
Net block - Tangibles	5,479	5,479	3,527	3,218	2,893	Cash Earnings (CPS)	361.7	560.7	525.5	903.4	1,119.8
Gross block - Intangibles	731	731	731	731	731	Dividend	86	349	365	100	100
						Book Value	965	1,062	921	1,329	1,523
Net block - Intangibles	731	731	731	731	731	Free Cash Flow	130	49	364	(162)	80
Capital WIP	164	127	63	127	127	Valuation Ratios					
Total fixed assets	6,374	6,337	4,321	4,076	3,751	P/E(x)	49	45	39	32	28
						P/B(x)	0.2	0.2	0.2	0.2	0.2
Intangible Assets under Devt	47	47	37	47	47	EV/EBIDTA(x)	29	26	24	21	18
Other Financial Assets	53	32	32	32	32	EV/SALES(x)	6	6	6	6	5
Other Non-Current Assets	59	39	44	39	39	Div. Yield(%)	1	4	4	1	1
Loans	5,129	4,602	4,579	4,121	3,709	FCF Yield(%)	2%	1%	5%	-2%	1%
Non Current Investments	2	-	-	-	-	Return Ratios (%)					
Other Intangible Assets	1,118	729	344	189	95	ROE	17	19	25	19	19
Non Current Tax Assets	1,135	1,317	1,456	1,529	1,605	ROCE	26	26	32	26	26
Asset held for sale	39	-	41	41	-	ROIC	27	36	53	119	73
Cash & bank	8,319	12,897	12,086	20,779	25,754						
Inventories	4,831	4,696	3,680	4,542	5,067	Equity	230	230	230	230	230
Debtors	1,584	2,240	1,480	2,065	2,303	Face Value	10	10	10	10	10
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	21,268	26,526						
CAPITAL DEPLOYED	23,604	25,410	22,317	31,342	35,803						

Source: Dalal & Broacha Research, Company

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