

Sanofi India Q3CY2021 results were marginally below estimates. Other expenses (+12%) muted EBITDA growth. The sequential decline in revenues and profits was due to lower Covid related sales for its gastrointestinal brands Dulcoflex and its vaccine FluQuadri.

- Sales came in at Rs 7545 mn (+10% yoy/-4% qoq), 3% lower than our estimate.
- EBITDA came in at Rs 1988 mn (+3% yoy/-20% qoq), due to 12% increase in other expenses.
- EBITDA margins at 26.3% (-170 bps yoy/ -500 bps qoq).
- PBT Rs 1987 mn (+7% yoy/ -18% qoq). PBT margins were at 26.34% (-80 bps yoy/ -440 bps qoq).
- Exceptional income was at Rs 4892 mn, relating to gain on sale of nutraceutical business.
- Adjusting for tax on exceptional @20%, PAT came in at Rs 1384 mn (+4% yoy/-22% qoq).
- PAT including exceptional income came in at Rs 6276 mn.
- EPS (Adj PAT) for the quarter was at Rs 60.2. Including exceptional EPS was at Rs 272.9.

Key Developments

- Sanofi's largest product in India (LANTUS - Glargine and TOUJEO) has been added to NLEM. LANTUS generates MAT of ~ Rs 5500 mn.
- The NPPA has yet not fixed the ceiling price for LANTUS.
- Sanofi has during the pandemic widened its network to cover 100,000 pharmacies and 2500 distributors. The company's digitization network for COMBIFLAM covers 650,000 pharmacies.
- Sanofi has plans to introduce new products in diabetes and cardiology.
- From November 1, 2021 Sanofi India has appointed Ms. Radhika Shah as Company Secretary. She has prior experience related to mergers & acquisitions at Asian Paints.

Y/E Mar (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Net sales	27,708	30,706	29,019	30,144	33,146
EBITDA	6,235	6,653	7,161	8,277	9,309
Adjusted net profit	3,806	4,142	4,806	10,901	6,754
Free cash flow	2988	1123	8380	-2147	1842
EPS (Rs)	165.5	180.1	209.0	261.3	293.6
growth (%)	17%	24%	10%	15%	12%
P/E (x)	50	46	39	31	28
P/B (x)	0	0	0	0	0
EV/EBITDA (x)	29	26	25	20	18
D/E	0	0	0	0	0
RoIC (%)	27	36	53	104	68
RoE (%)	17	19	25	20	20
Dividend yield (%)	1	4	4	1	1

Source: Company

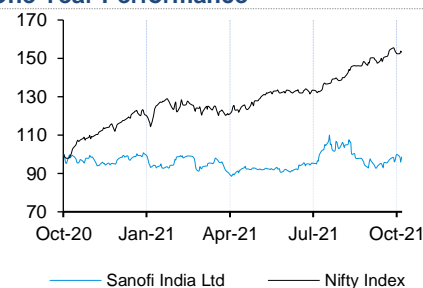
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	9,267	12

Market data

Current price	Rs	8,269
Market Cap (Rs.Bn)	(Rs Bn)	190
Market Cap (US\$ Mn)	(US\$ Mn)	2,541
Face Value	Rs	10
52 Weeks High/Low	Rs	9,300 / 7,056
Average Daily Volume	('000)	33
BSE Code		500674
Bloomberg		SANLI.N

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	60.40	60.40
Public	39.60	39.60
Total	100	100

Source: Bloomberg

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Quarterly Financials

Particulars (Rs mn)	Q3CY21	Q2CY21	Q3CY20	% yoy	% qoq	9MCY21	9MCY20	% yoy
Net Sales	7545	7891	6866	10%	-4%	22687	21816	4%
Other Income	147	171	149	-1%	-14%	581	736	
Total Income	7692	8062	7015	10%	-5%	23268	22552	3%
Raw Material cost	3322	3419	2809			9984	9376	
Gross Profit	4223	4472	4057	4%	-6%	12703	12440	2%
Employee Benefit Expense	1074	1120	1096	-2%	-4%	3257	3536	
Other Expense	1161	881	1039	12%	32%	3093	3443	
Total Expenses	5557	5420	4944	12%	3%	16334	16355	0%
EBITDA(Excluding other Income)	1988	2471	1922	3%	-20%	6353	5461	16%
Depreciation and Amortisation Expense	143	211	206			558	618	
Finance Cost	5	5	4			14	14	
PBT EXCLUDING EXCEPTIONAL ITEMS	1987	2426	1861	7%	-18%	6362	5565	14%
Tax	602.6	643	530			1735.6	1524	
<i>Tax rate</i>	<i>30%</i>	<i>27%</i>	<i>28%</i>			<i>27%</i>	<i>27%</i>	
PAT BEFORE EXCEPTIONAL ITEMS	1384.4	1783	1331	4%	-22%	4626.4	4041	14%
Exceptional Items (Net of Tax)	4892	0	-2			4892	-495	
PAT AFTER EXCEPTIONAL ITEMS	6276.4	1783	1329	372%	252%	9518.4	3546	168%
Equity	230	230	230			230.0	230	
Face Value	10	10	10			10	10	
Number of shares	23	23	23			23	23	
EPS excluding Exceptional Items	60.2	77.5	57.9			201.1	175.7	
EPS including Exceptional Items	272.9	77.5	57.8			413.8	154.2	

Qoq degrowth due to lower Covid sales

Other expenses back to pre Covid levels

Exceptional income due to gain on sale of nutraceuticals business.

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

Cost Analysis	Q3CY21	Q2CY21	Q3CY20		9MCY21	9MCY20		
Raw Materials	44.0	43.3	40.9		44.0	43.0		
Employee	14.2	14.2	16.0		14.4	16.2		
Other expenses	15.4	11.2	15.1		13.6	15.8		
% profitability	Q3CY21	Q2CY21	Q3CY20	bps %	% qoq	9MCY21	9MCY20	% yoy
Gross margin	56.0	56.7	59.1	-312	-70	56.0	57.0	-103
EBITDA (ex OI) margin	26.3	31.3	28.0	-164	-497	28.0	25.0	297
EBITDA (incl. OI) margin	27.8	32.8	29.5	-177	-501	29.8	27.5	232
PBT margin	25.8	30.1	26.5	-70	-426	27.3	24.7	267
Adj. PAT margin	18.0	22.1	19.0	-98	-412	19.9	17.9	196

9MCY21 profitability improves due to Covid and stocking.

Valuation & Outlook

At Rs 8200, Sanofi India trades at 28x FY23E EPS of Rs 293.5 and 18x EV/EBITDA. We have valued Sanofi India as weighted average (65:35) of 32x P/E and 21x EV/EBITDA and arrived at a **target price of Rs 9267, indicating an upside of 13%**.

The gain on sale of nutraceuticals business (Rs 4892 mn) has weeded out slow moving sales and sharpened focus on its core strengths for Sanofi. In view of the inclusion of Insulin Glargine under NLEM, we expect impact on sales, which can be minimized through higher volume growth with digitisation.

We maintain ACCUMULATE.

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	33,146	Net Profit	3,806	4,735	5,223	6,009	6,754
Raw materials	11,459	13,474	12,506	13,263	14,584	Add: Dep. & Amort.	1,027	999	822	809	825
Employee costs	4,068	4,497	4,608	4,239	4,451	Cash profits	4,833	5,734	6,045	6,818	7,579
Other Expenses	5,946	6,082	4,744	4,364	4,801	(Inc)/Dec in					
Cost of sales	21,473	24,053	21,858	21,867	23,836	-Inventories	(675)	135	1,016	(862)	(452)
Operating Profit	6,235	6,653	7,161	8,277	9,309	-Trade receivables	367	(656)	760	(585)	(206)
Depreciation	1,027	999	822	809	825	-Loans/advances	(956)	555	(19)	458	412
PBIT	6,105	6,595	7,237	8,366	9,400	-Other Current Financial Assets	(30)	21	(281)	(6)	(6)
Other income	897	941	898	898	916	-Current Tax assets	(49)	(182)	(139)	(73)	(76)
Interest	7	3	18	20	20	-Trade Payables	169	251	(506)	451	362
Profit before tax	6,098	6,592	7,219	8,346	9,380	-other Financial Liabilities	122	(10)	77	(183)	7
Provision for tax	2,292	1,857	1,996	2,337	2,627	-Employee benefit obligation	(106)	297	134	(281)	68
Reported PAT	3,806	4,735	5,223	6,009	6,754	-Provisions	35	98	103	22	150
Exceptional Items	-	(593)	(417)	4,892.0	-	-Current tax Liabilities	17	175	316	108	101
Adjusted PAT	3,806	4,142	4,806	10,901	6,754	Change in working capital	(1,250)	442	2,146	(1,147)	138
Balance Sheet	CY18	CY19	CY20	CY21E	CY22E	CF from Oper. activities	3,583	6,176	8,191	5,671	7,716
Equity capital	230	230	230	230	230	CF from Inv. activities	(575)	1,381	191	(973)	(405)
Reserves	21,962	24,193	20,960	29,561	34,015	CF from Fin. activities	(1,988)	(2,979)	(8,600)	2,547	(2,339)
Net worth	22,192	24,423	21,190	29,791	34,245	Cash generated/(utilised)	1,020	4,578	(218)	7,245	4,973
Deferred Tax Liabilities	921	446	302	257	218	Cash at start of the year	7,299	8,319	12,897	12,086	19,331
Employee Benefit Obligation	491	541	646	509	534	Cash at end of the year	8,319	12,897	12,679	19,331	24,304
CAPITAL EMPLOYED	23,604	25,410	22,138	30,556	34,997	Ratios	CY18	CY19	CY20	CY21E	CY22E
Gross block - Tangibles	7,264	7,264	4,893	5,393	5,893	OPM	22.5%	21.7%	24.7%	27.5%	28.1%
Accumulated depreciation	1,785	1,785	1,366	2,175	3,000	NPM	13.3%	15.0%	17.5%	19.4%	19.8%
Net block - Tangibles	5,479	5,479	3,527	3,218	2,893	Tax rate	37.6%	28.2%	27.6%	28.0%	28.0%
Gross block - Intangibles	731	731	731	731	731	Growth Ratios (%)					
Net block - Intangibles	731	731	731	731	731	Net Sales	11%	11%	-5%	4%	10%
Capital WIP	164	127	63	127	127	Operating Profit	16%	7%	8%	16%	12%
Total fixed assets	6,374	6,337	4,321	4,076	3,751	PAT	17%	24%	10%	15%	12%
Intangible Assets under Devt	47	47	37	47	47	Per Share (Rs.) *					
Other Financial Assets	53	32	32	32	32	Net Earnings (EPS)	165.5	180.1	209.0	261.3	293.6
Other Non-Current Assets	59	39	44	39	39	Cash Earnings (CPS)	361.7	560.7	525.5	840.5	1,056.7
Loans	5,129	4,602	4,579	4,121	3,709	Dividend	86	349	365	100	100
Non Current Investments	2	-	-	-	-	Book Value	965	1,062	921	1,295	1,489
Other Intangible Assets	1,118	729	344	189	95	Free Cash Flow	130	49	364	(93)	80
Non Current Tax Assets	1,135	1,317	1,456	1,529	1,605	Valuation Ratios					
Asset held for sale	39	-	41	41	-	P/E(x)	50	46	39	31	28
Cash & bank	8,319	12,897	12,086	19,331	24,304	P/B(x)	8	8	9	6	6
Inventories	4,831	4,696	3,680	4,542	4,995	EV/EBIDTA(x)	29	26	25	20	18
Debtors	1,584	2,240	1,480	2,065	2,270	EV/SALES(x)	7	6	6	6	5
loans	43	15	57	57	57	Div. Yield(%)	1	4	4	1	1
Other current Assets	1,106	1,445	708	920	1,197	FCF Yield(%)	2%	1%	5%	-1%	1%
Creditors	3,438	3,689	3,183	3,634	3,996	Return Ratios (%)					
Other financial Liabilities	259	249	147	143	150	ROE	17	19	25	20	20
Other Current Liabilities	119	155	149	161	174	ROCE	26	26	32	27	27
Provision	1,284	1,382	1,485	1,507	1,657	ROIC	27	36	53	104	68
Employee Benefit Obligations	716	963	992	848	890	Asset turn	3.8	4.2	5.9	5.6	5.6
Liab with assets held for sale	9	11	11	11	11	Equity	230	230	230	230	230
Current tax liabilities	410	585	901	1,009	1,110	Face Value	10	10	10	10	10
Working capital	9,648	14,259	11,424	19,890	25,127						
CAPITAL DEPLOYED	23,604	25,410	22,317	30,556	34,997						

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