

CMP: ₹ 6428

Target: ₹ 6885 (7%)

Target Period: 12 months

July 27, 2022

Q2 muted on high base of Covid and divestments...

About the stock: Sanofi offers drugs in therapies like diabetes (insulins & orals), cardiology, pain, allergy and epilepsy.

- Around 70% of sales stem from top 7 brands. Lantus, Allegra & Combiflam are in Top 100 pharmaceutical brands in India
- Sanofi enjoys strong brand recall in anti-diabetic therapy in India

Q2CY22 Results: Sanofi India reported muted numbers this quarter amid divested business and Covid sales in base year.

- Revenues were down 11.4% YoY to ₹ 699.3 crore
- EBITDA was at ₹ 161.1 crore, down 34.8% YoY with margins at 23%
- Consequent PAT was at ₹ 120.4 crore (down 32.5% YoY)

What should investors do? Sanofi's share price has remained flat over the past three years (from ~₹ 6182 in July 2019 to ~₹ 6413 in July 2022).

- We maintain HOLD rating on the stock due to lack of visible growth triggers and ramp up in ex-power brand portfolio.

Target Price and Valuation: Valued at ₹6885 i.e. 26x P/E on FY24E EPS on ₹ 264.8

Key triggers for future price performance:

- Focus on high margin portfolio through divestiture of tail brands
- Strong balance sheet, good dividend pay-out track record and comfort on corporate governance
- Consistent performer in Anti-Diabetic and Cardiac along with increasing contribution from Respiratory, Analgesics and Gastro-Intestinal therapies
- Price led growth in H2CY22 on back of 10.8% price hike in NLEM portfolio
- Access to innovative molecules from parent like anti-diabetic drug Toujeo

Alternate Stock Idea: Apart from Sanofi, among MNC coverage we like Abbott.

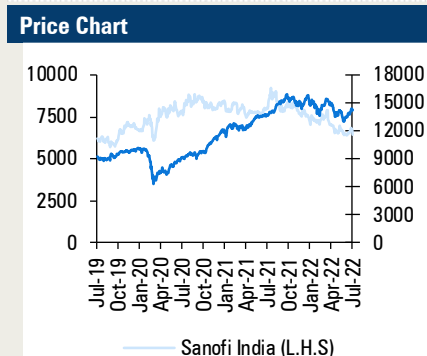
- Abbott India is one of the fastest growing listed MNC pharma companies in women's health, GI, metabolic, pain, CNS among others. We continue to believe in Abbott's strong growth track in power brands and capability in new launches on a fairly consistent basis.
- BUY with target price of ₹ 20560

HOLD



Particulars	
Particular	Amount
Market Capitalisation	₹ 14804 crore
Debt (CY21)	₹ 0 crore
Cash (CY21)	₹ 1550 crore
EV	₹ 13254 crore
52 week H/L	9300/6321
Equity capital	₹ 23.0 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.4	60.4	60.4	60.4
Others	39.6	39.6	39.6	39.6



- ### Recent Event & Key risks
- Sale of Soframycin and Sofradex brands
 - **Key Risks:** (i) Better than expected ramp up in new launches (ii) Higher therapy concentration

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Raunak Thakur
raunak.thakur@icicisecurities.com

Kush Mehta
kush.mehta@icicisecurities.com

Key Financial Summary

Key Financials (₹ Crore)	CY19	CY20	CY21	5 year CAGR (CY16-21)	CY22E	CY23E	2 year CAGR (CY21-23E)
Revenues	3070.6	2901.9	2956.6	4.6	2864.9	3130.2	2.9
EBITDA	665.3	713.1	762.5	7.3	707.3	802.8	2.6
EBITDA margins (%)	21.7	24.6	25.8		24.7	25.6	
Net Profit	414.2	477.6	944.4	25.4	622.9	609.8	-19.6
EPS (₹)	205.6	225.5	250.6		233.0	264.8	
PE (x)	35.7	31.0	15.7		23.8	24.3	
EV to EBITDA (x)	20.6	19.1	17.4		19.5	16.8	
RoCE (%)	26.0	32.3	33.3		41.1	50.7	
ROE (%)	19.4	24.5	25.9		31.2	38.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2CY22 Results: Numbers impacted by divestments

- Sanofi's Q2CY22 revenues declined by 11% YoY, while EBITDA margins contracted 828 bps YoY to 23% due to lower gross margins (down 166 bps YoY) and higher other expenditures. Subsequently, EBITDA de-grew 35% YoY to ₹ 161 crore. Profit for the quarter decreased 32% YoY to ₹ 120 crore. The board of directors has declared one-time special interim dividend of ₹ 193 per equity share for CY22.
- Sanofi India's numbers appear optically weak due to sale of Nutraceutical business, sale of distribution business for Soframycin and Sofradex brands and Covid led higher sales in Q2CY21. Sanofi has strong anti-diabetic franchise ~30% of the turnover but lacking growth in both top 5 therapies and brands. However quarterly gyrations aside, Sanofi remains a compelling MNC play with focussed approach to 1) accelerate growth in diabetes segment, 2) selective growth in established brands and 3) building key brands in consumer health portfolio.

Exhibit 1: Variance Analysis

	Q2CY22	Q2CY21	YoY (%)	Q1CY22	QoQ (%)	Comments
Revenue	699.3	789.1	-11.4	707.0	-1.1	YoY degrowth due to sale of Nutraceutical business, sale of distribution business for Soframycin and Sofradex brands and Covid led higher sales in Q2CY21
Raw Material Expenses	319.5	341.9	-6.6	299.7	6.6	
Employee Expenses	104.1	112.0	-7.1	100.9	3.2	
Other Expenditure	114.6	88.1	30.1	111.9	2.4	
Total Operating Expenditure	538.2	542.0	-0.7	512.5	5.0	
EBITDA	161.1	247.1	-34.8	194.5	-17.2	
EBITDA (%)	23.0	31.3	-828 bps	27.5	-447 bps	YoY decline mainly due to higher other expenditure due to normal operations in Q2CY22 vis-à-vis Covid affected operations in Q2CY21
Interest	0.4	0.5	-20.0	0.4	0.0	
Depreciation	10.6	21.1	-49.8	10.9	-2.8	
Other income	15.7	17.1	-8.2	24.4	-35.7	
PBT before EO	165.8	242.6	-31.7	207.6	-20.1	
Less: Exceptional Items	0.0	0.0	0.0	-118.1	0.0	
PBT	165.8	242.6	-31.7	325.7	-49.1	
Tax	45.4	64.3	-29.4	87.3	-48.0	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	120.4	178.3	-32.5	152.0	-20.8	Profitability largely in-line with operational parameters

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	CY22E		CY23E		Comments		
	Old	New % Change	Old	New % Change			
Revenue	2,887.3	2,864.9	-0.8	3,154.8	3,130.2	-0.8	
EBITDA	763.8	707.3	-7.4	859.9	802.8	-6.6	
EBITDA Margin (%)	26.5	24.7	-177 bps	27.3	25.6	-161 bps	Chenged due to higher raw material cost and likely marketing expenses to drive growth
Adj. PAT	575.7	536.7	-6.8	641.1	609.8	-4.9	
Adj. EPS (₹)	250.0	233.0	-6.8	278.4	264.8	-4.9	

Source: ICICI Direct Research

Exhibit 3: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
CY20	2902	-5.5	225.5	9.7	31.0	19.1	24.5	32.3
CY21	2957	1.9	250.6	11.1	15.7	17.4	25.9	33.3
CY22E	2865	-3.1	233.0	-7.0	23.8	19.5	31.2	41.1
CY23E	3130	9.3	264.8	13.6	24.3	16.8	38.7	50.7

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Healthcare Coverage Universe

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
MNC Pharma																					
Abbott India	ABBIND	19662	20,560	Buy	41779	325.0	375.9	439.8	514.0	60.5	52.3	44.7	38.3	33.8	36.6	37.9	36.3	26.5	28.3	29.5	28.1
PGG Health	MERLIM	4314	4,955	Hold	7161	106.5	121.5	130.5	141.6	40.5	35.5	33.1	30.5	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6416	6,885	Hold	14776	207.4	410.1	270.5	264.8	30.9	15.6	23.7	24.2	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4140	4,810	Hold	18938	108.8	133.9	140.4	160.3	38.1	30.9	29.5	25.8	27.6	26.1	23.5	23.0	20.8	21.4	19.2	18.7
Pharma																					
Ajanta Pharma	AJAPHA	1281	1,305	Hold	16416	51.0	55.6	55.6	65.2	25.1	23.0	23.1	19.7	29.0	27.0	23.3	23.5	21.8	21.8	18.7	18.8
Alembic Pharma	ALEMPHA	702	720	Hold	13807	62.8	27.8	29.7	35.9	11.2	25.3	23.6	19.6	25.1	10.6	11.2	13.8	24.1	10.4	10.3	11.3
Aurobindo Pharma	AURPHA	534	610	Hold	31260	55.0	47.4	45.6	51.0	9.7	11.3	11.7	10.5	16.9	12.9	12.5	13.1	14.7	11.3	9.9	10.0
Biocon	BIOCON	321	380	Hold	38545	6.3	5.7	6.1	11.7	51.3	56.4	53.0	27.5	7.7	7.5	5.0	6.9	9.9	8.1	3.2	5.9
Zydus Lifesciences	CADHEA	351	475	Hold	35949	23.3	21.0	20.2	24.0	15.0	16.7	17.4	14.6	13.8	12.0	11.2	12.4	18.4	12.6	11.0	11.7
Cipla	CIPLA	971	1,095	Buy	78313	29.9	32.9	36.2	42.5	32.5	29.5	26.8	22.8	16.3	16.7	16.7	17.7	13.1	12.7	12.6	13.3
Dr Reddy's Labs	DRREDD	4236	4,960	Buy	70499	117.3	127.9	187.1	218.0	36.1	33.1	22.6	19.4	13.1	13.0	17.8	20.2	11.1	11.1	14.3	14.7
Glenmark Pharma	GLEPHA	369	460	Hold	10412	32.9	42.7	41.0	48.3	11.2	8.6	9.0	7.6	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	983	1,000	Hold	24938	44.9	34.8	32.7	39.9	21.9	28.2	30.1	24.6	27.1	17.4	16.2	17.4	24.2	16.1	13.4	14.4
Jubilant Pharmova	JUBLIF	357	410	Hold	5678	37.4	26.0	24.2	31.4	9.5	13.7	14.7	11.3	13.7	9.0	7.7	9.4	12.6	7.8	6.8	8.2
Lupin	LUPIN	635	610	Hold	28843	26.9	11.9	18.7	30.5	23.6	53.4	33.9	20.8	9.6	3.4	7.6	11.2	8.8	4.4	6.6	9.8
Natco Pharma	NATPHA	671	820	Hold	12243	24.2	9.3	28.3	33.2	27.8	72.0	23.7	20.2	13.1	4.6	13.3	14.1	10.7	4.0	11.0	11.6
Sun Pharma	SUNPHA	887	1,070	Buy	212749	30.0	32.0	32.6	38.3	29.5	27.7	27.2	23.2	14.2	18.2	17.7	18.2	15.5	16.0	14.3	14.7
Torrent Pharma	TORPHA	1486	1,615	Hold	50300	37.0	32.0	43.4	53.9	40.2	46.4	34.3	27.6	17.6	19.7	24.3	29.1	21.4	18.2	20.8	21.6
Indoco Remedies	INDREM	380	510	Buy	3502	10.1	16.8	21.8	28.4	37.6	22.6	17.4	13.4	11.7	17.5	18.8	24.9	12.1	17.1	18.7	20.2
Caplin Point	CAPPOI	769	895	Buy	5829	81.7	85.3	68.3	70.8	9.4	9.0	11.3	10.9	25.3	23.7	22.5	0.0	20.4	20.2	18.5	17.5
Advanced Enzymes	ADVENZ	281	290	Hold	3146	13.1	10.7	10.2	13.2	21.5	26.3	27.5	21.4	19.4	14.3	12.6	14.7	15.1	11.0	9.6	11.1
Hester Biosciences	HESPHA	2206	2,445	Hold	1877	44.4	45.7	41.3	63.2	49.7	48.2	53.4	34.9	16.2	10.9	9.9	13.4	16.5	15.0	12.2	16.3
API/CRAMS																					
Divi's Lab	DIVLAB	3778	4,655	Buy	100293	74.7	111.5	105.7	122.5	50.5	33.9	35.8	30.8	27.6	30.2	25.8	25.5	21.3	25.2	20.3	20.0
Hikal	HIKCHE	252	340	Buy	3103	10.8	13.0	11.1	19.0	23.3	19.3	22.7	13.3	15.1	13.6	10.9	16.3	14.3	15.0	11.5	16.8
Syngene Int.	SYNINT	574	710	Buy	23022	10.1	9.9	11.5	14.6	56.7	58.2	49.7	39.4	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	299	345	Buy	7408	22.2	16.6	19.6	24.6	13.5	17.9	15.2	12.1	24.0	15.6	16.8	18.6	25.3	16.0	16.0	16.9
Laurus Labs	LAULAB	495	690	Buy	26599	18.3	15.4	20.6	26.5	27.0	32.1	24.0	18.7	31.7	21.3	22.6	24.7	37.9	24.7	25.5	25.3
Suven Pharmaceuticals	SUVPH	471	555	Hold	11982	14.2	17.8	17.0	18.5	33.1	26.4	27.7	25.4	31.2	37.5	28.5	26.0	30.7	29.7	23.0	20.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Total Operating Income	2,901.9	2,956.6	2,864.9	3,130.2	
Growth (%)	-5.5	1.9	-3.1	9.3	
Raw Material Expenses	1,253.6	1,306.8	1,271.9	1,369.3	
Gross Profit	1,648.3	1,649.8	1,592.9	1,760.9	
Gross Profit Margins (%)	56.8	55.8	55.6	56.3	
Employee Expenses	460.8	433.9	422.1	461.2	
Other Expenditure	474.4	453.4	463.5	496.8	
Total Operating Expenditure	2,188.8	2,194.1	2,157.6	2,327.3	
EBITDA	713.1	762.5	707.3	802.8	
Growth (%)	7.2	6.9	-7.2	13.5	
Interest	1.8	1.8	1.7	1.7	
Depreciation	82.2	66.7	43.2	45.3	
Other Income	89.8	74.4	72.8	79.6	
PBT before Exceptional Items	718.9	768.4	735.2	835.4	
Less: Exceptional Items	41.7	-489.2	-118.1	0.0	
PBT after Exceptional Items	677.2	1,257.6	853.3	835.4	
Total Tax	199.6	313.2	230.4	225.5	
PAT	477.6	944.4	622.9	609.8	
Adjusted PAT	519.3	577.0	536.7	609.8	
Growth (%)	9.7	11.1	-7.0	13.6	
EPS (Adjusted)	225.5	250.6	233.0	264.8	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Profit/(Loss) after taxation	483.9	972.7	622.9	609.8	
Add: Depreciation & Amortization	82.2	66.7	43.2	45.3	
Net Increase in Current Assets	49.0	-4.8	-421.1	395.7	
Net Increase in Current Liabilities	13.2	72.9	-73.0	41.7	
Others	-17.2	-548.7	1.7	1.7	
CF from Operating activities	611.1	558.8	173.7	1,094.3	
Investments	0.0	0.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	198.4	567.7	-25.0	-25.0	
Others	79.6	64.2	420.6	-8.3	
CF from Investing activities	278.0	631.9	395.6	-33.3	
(inc)/Dec in Loan	-4.6	-6.6	0.0	0.0	
Dividend & Dividend tax	-803.8	-840.6	-1,128.5	-755.4	
Other	-1.6	-1.8	-1.7	-1.7	
CF from Financing activities	-810.0	-849.0	-1,130.2	-757.1	
Net Cash Flow	79.1	341.7	-560.9	303.9	
Cash and Cash Equivalent	1,129.5	1,208.6	1,550.3	989.4	
Cash	1,208.6	1,550.3	989.4	1,293.3	
Free Cash Flow	809.5	1,126.5	148.7	1,069.3	

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet		₹ crore			
(Year-end December)	CY20	CY21	CY22E	CY23E	
Equity Capital	23.0	23.0	23.0	23.0	
Reserve and Surplus	2,096.0	2,202.6	1,697.0	1,551.4	
Total Shareholders funds	2,119.0	2,225.6	1,720.0	1,574.4	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	30.2	6.3	9.5	11.3	
Long-Term Provisions	0.0	0.0	0.0	0.0	
Other Non Current Liabilities	82.5	79.5	62.0	65.1	
Source of Funds	2,231.7	2,311.4	1,791.5	1,650.9	
Gross Block - Fixed Assets	784.5	554.6	579.6	604.6	
Accumulated Depreciation	393.5	220.5	263.7	309.1	
Net Block	391.0	334.1	315.9	295.5	
Capital WIP	10.0	12.8	12.8	12.8	
Goodwill on Consolidation	73.1	0	0	0	
Fixed Assets	474.1	346.9	328.7	308.3	
Investments	0.0	0.0	0.0	0.0	
Other non-Current Assets	7.6	7.7	16.2	17.0	
Inventory	368.0	392.4	383.3	412.7	
Debtors	148.0	142.9	129.5	141.5	
Loans and Advances	5.7	4.5	446.9	4.95	
Other Current Assets	103.0	47.8	49.0	53.9	
Cash	1,208.6	1,550.3	989.4	1,293.3	
Total Current Assets	1,833.3	2,137.9	1,998.1	1,906.3	
Creditors	318.3	376.7	296.2	318.9	
Provisions	238.6	236.7	241.4	253.5	
Other Current Liabilities	129.9	136.2	138.9	145.9	
Total Current Liabilities	686.8	749.6	676.6	718.3	
Long Term Loans and Advances	603.5	568.5	125.1	137.6	
Net Current Assets	1,146.5	1,388.3	1,321.6	1,188.0	
Application of Funds	2,231.7	2,311.4	1,791.5	1,650.9	

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end December)	CY20	CY21	CY22E	CY23E	
Per share data (₹)					
Reported EPS	207.4	410.1	270.5	264.8	
Cash EPS	-103.8	-210.5	-76.2	129.5	
BV per share	920.1	966.4	746.8	683.6	
Cash per Share	524.8	673.1	429.6	561.5	
Dividend per share	365.0	490.0	328.0	155.0	
Operating Ratios (%)					
Gross Profit Margins	56.8	55.8	55.6	56.3	
EBITDA margins	24.6	25.8	24.7	25.6	
PAT Margins	17.9	19.5	18.7	19.5	
Cash Conversion Cycle	33.1	22.0	41.5	41.5	
Asset Turnover	3.7	5.3	4.9	5.2	
EBITDA conversion Rate	85.7	73.3	24.6	136.3	
Return Ratios (%)					
RoE	24.5	25.9	31.2	38.7	
RoCE	32.3	33.3	41.1	50.7	
RoIC	62.3	93.0	84.1	219.7	
Valuation Ratios (x)					
P/E	31.0	15.7	23.8	24.3	
EV / EBITDA	19.1	17.4	19.5	16.8	
EV / Net Sales	4.7	4.5	4.8	4.3	
Market Cap / Sales	5.1	5.0	5.2	4.7	
Price to Book Value	7.0	6.7	8.6	9.4	
Solvency Ratios					
Debt / EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	0.9	0.8	1.5	0.9	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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