

Sanofi India

06 September, 2021

Reuters: SANO.BO; Bloomberg: SANL IN

Insulin Glargine NLEM inclusion – Short term pain

We have revised our earnings estimates on Sanofi India to account for the adverse impact of Insulin Glargine's inclusion under NLEM 2021 and announced divestment of its Nutraceuticals portfolio to Universal Nutriscience. We have also raised our operating margins estimates based on the recent performance trends. With Lantus coming in DPCO, there is very little incremental risk of NLEM on the earnings. Potential NLEM inclusion of Lantus has for long been an overhang on the stock and with the event behind us, the uncertainty is over. Based on our revised estimates, we have cut our target price to Rs9,652 (from Rs9,954 earlier) but reiterate our 'Buy' rating.

Impact of Insulin Glargine's inclusion under NLEM 2021 – just a blip: The NLEM inclusion will lead to a price ceiling on Glargine, which we expect to be 15% lower compared to the existing price of Lantus (see Exhibit 2). We estimate Lantus' annual sales in India for Sanofi at ~Rs4,500mn. The impact of price reduction could be cushioned if the parent company, which supplies Lantus to its Indian subsidiary, lowers supply prices.

Lantus remains a secular growth opportunity - Insulin Glargine is underpenetrated in India: We estimate that ~80% of insulin users in India are on human insulin and these patients would eventually transition to Insulin Glargine/other modern insulins. Post the NLEM inclusion, Insulin Glargine would become more affordable relative to other modern insulins and hence lead to better adoption. Apart from the impact of transition, the diabetes burden is increasing due to unhealthy lifestyle habits and a higher rate of diagnosis. The improved volume should partially offset the decline in the annual price inflation that Sanofi may be able to take on Lantus going forward.

Lower price differential among brands should help Lantus market share: There are 5 major brands in the Insulin Glargine space in India – Lantus (Sanofi), Basaglar (Eli Lilly), Basalog (Biocon), Basugine (Lupin) and Glaritus (Wockhardt). Lantus, Basaglar and Basalog have been approved by the USFDA. At the revised ceiling price, the price gap among brands will narrow and in such a situation, we should see doctors preferring the innovator product (Lantus) over its competitors.

Divestment of Vitamin, Mineral and Nutraceuticals Portfolio: Sanofi has divested its Vitamin & Mineral/Nutraceuticals Portfolio to Universal Nutriscience Pvt Ltd for Rs5,870mn. Annual sales of the divested portfolio stand at Rs1,280mn, valuing it at 4.6x sales. The divestment should close in the next 3 months. We understand that the divested portfolio was a low growth business and hence was a drag on company's overall growth rate. The divestment should allow Sanofi to grow faster and put desired focus on its key segments - Pain, Allergy and Diabetes, which represent a large head room for growth. The deal proceeds should also mean third consecutive year of strong dividends for the shareholders. For the last 2 years, the company has been paying a hefty special dividend (including special dividend, the dividend yield has been >5%).

Aiming at leaner cost structure going forward: As Sanofi prunes its portfolio, the organization is getting leaner and more focused. Last year, the company also sold its Ankleshwar plant to Zentiva, which has translated into lower operational costs in 1HCY21. With these divestments, Sanofi would be more focused on its core therapies – Diabetes, Pain and Allergy, which should enable superior execution.

BUY

Sector: Pharmaceuticals

CMP: Rs8,420

Target Price: Rs9,652

Upside: 15%

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Key Data

| | |
|--------------------------|-------------|
| Current Shares O/S (mn) | 23.0 |
| Mkt. Cap (Rsbn/US\$bn) | 193.9/2.7 |
| 52 Wk H / L (Rs) | 9,300/7,057 |
| Daily Vol. (3M NSE Avg.) | 32,889 |

Price Performance (%)

| | 1 M | 6 M | 1 Yr |
|--------------|-------|------|------|
| Sanofi India | (4.1) | 5.5 | 3.7 |
| Nifty Index | 7.0 | 16.3 | 53.0 |

Source: Bloomberg

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[Latest Results](#)

| Y/E March (Rsmn) | CY18 | CY19 | CY20 | CY21E | CY22E |
|-------------------|--------|--------|--------|--------|--------|
| Net sales | 27,708 | 30,706 | 29,019 | 29,958 | 31,176 |
| EBITDA | 6,235 | 6,653 | 7,131 | 7,794 | 8,610 |
| Net profit | 3,806 | 4,142 | 4,776 | 9,768 | 6,946 |
| EPS (Rs) | 165 | 180 | 207 | 424 | 302 |
| EPS growth (%) | 16.7 | 8.8 | 15.3 | 104.5 | (28.9) |
| EBITDA margin (%) | 22.5 | 21.7 | 24.6 | 26.0 | 27.6 |
| P/E (x) | 51.0 | 46.8 | 40.6 | 19.9 | 27.9 |
| P/BV (x) | 8.7 | 7.9 | 9.2 | 9.3 | 8.2 |
| EV/EBITDA (x) | 29.8 | 27.4 | 25.5 | 23.5 | 20.9 |
| RoCE (%) | 24.5 | 24.3 | 27.7 | 33.9 | 36.8 |
| RoE (%) | 17.9 | 17.8 | 20.9 | 46.5 | 31.1 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Revised Estimates

| (Rsmn) | New estimates | | Old estimates | | Change (%) | |
|------------|---------------|--------|---------------|--------|------------|----------|
| | CY21E | CY22E | CY21E | CY22E | CY21E | CY22E |
| Net sales | 29,958 | 31,176 | 29,915 | 32,837 | 0.1 | -5.1 |
| EBITDA | 7,794 | 8,610 | 7,705 | 9,256 | 1.2 | -7.0 |
| Margin (%) | 26.0 | 27.6 | 25.8 | 28.2 | 26 bps | (57) bps |
| PAT | 9,768 | 6,946 | 5,928 | 7,164 | 64.8 | -3.0 |
| Margin (%) | 32.6 | 22.3 | 19.8 | 21.8 | 1279 bps | 46 bps |
| EPS | 424 | 302 | 257 | 311 | 65.0 | -3.0 |

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Major players in the Insulin Glargine market in India (100IU / 3ml cartridge)

| Brand Name | Distributor | MRP (INR) |
|------------|-------------|-----------|
| Lantus | Sanofi | 723 |
| Basaglar | Eli Lilly | 665 |
| Basalog | Biocon | 611 |
| Basugine | Lupin | 595 |
| Glaritus | Wockhardt | 462 |
| Average | - | 611 |

Source: Tata 1mg, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 3: Income statement

| Y/E March (Rsmn) | CY18 | CY19 | CY20 | CY21E | CY22E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Net sales | 27,708 | 30,706 | 29,019 | 29,958 | 31,176 |
| % growth | 11.2 | 10.8 | (5.5) | 3.2 | 4.1 |
| Raw material costs | 11,459 | 13,474 | 12,536 | 13,139 | 13,363 |
| Staff costs | 4,068 | 4,497 | 4,608 | 4,424 | 4,601 |
| Other expenditure | 5,946 | 6,082 | 4,744 | 4,602 | 4,602 |
| Total expenditure | 21,473 | 24,053 | 21,888 | 22,165 | 22,566 |
| EBITDA | 6,235 | 6,653 | 7,131 | 7,794 | 8,610 |
| % growth | 16.1 | 6.7 | 7.2 | 9.3 | 10.5 |
| EBITDA margin (%) | 22.5 | 21.7 | 24.6 | 26.0 | 27.6 |
| Other income | 897 | 941 | 898 | 905 | 1,090 |
| Interest costs | 7 | 3 | 18 | 18 | 18 |
| Gross profit | 16,249 | 17,232 | 16,483 | 16,819 | 17,812 |
| % growth | 9.3 | 6.0 | (4.3) | 2.0 | 5.9 |
| Gross Margins | 58.6 | 56.1 | 56.8 | 56.1 | 57.1 |
| Depreciation | 1,027 | 999 | 822 | 670 | 400 |
| Exceptional Items | 0 | (593) | (417) | 4,700 | 0 |
| Profit before tax | 6,098 | 5,999 | 6,772 | 12,711 | 9,283 |
| Tax | 2,292 | 1,857 | 1,996 | 2,943 | 2,337 |
| Effective tax rate (%) | 37.6 | 31.0 | 29.5 | 23.2 | 25.2 |
| Net Profit | 3,806 | 4,142 | 4,776 | 9,768 | 6,946 |
| % growth | 16.7 | 8.8 | 15.3 | 104.5 | (28.9) |
| Adjusted EPS (Rs) | 165 | 180 | 207 | 424 | 302 |
| % growth | 16.7 | 8.8 | 15.3 | 104.5 | (28.9) |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

| Y/E March (Rsmn) | CY18 | CY19 | CY20 | CY21E | CY22E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity | 230 | 230 | 230 | 230 | 230 |
| Reserves | 21,962 | 24,193 | 20,960 | 20,621 | 23,553 |
| Net worth | 22,192 | 24,423 | 21,190 | 20,851 | 23,783 |
| Total debt | 0 | 0 | 0 | 0 | 0 |
| Net deferred tax liabilities | 921 | 446 | 302 | 302 | 302 |
| Other non-current liabilities | 491 | 541 | 825 | 846 | 873 |
| Liabilities | 23,604 | 25,410 | 22,317 | 21,999 | 24,958 |
| Fixed assets including CWIP | 5,643 | 3,654 | 3,036 | 3,079 | 3,070 |
| Goodwill & Intangible Assets | 1,896 | 1,507 | 1,112 | 1,634 | 1,995 |
| Long Term Loans & Advances | 5,129 | 4,602 | 4,579 | 4,579 | 4,579 |
| Other non-current assets | 1,249 | 1,388 | 2,125 | 2,175 | 2,239 |
| Inventories | 4,831 | 4,696 | 3,680 | 3,857 | 3,923 |
| Debtors | 1,584 | 2,240 | 1,480 | 1,528 | 1,590 |
| Cash | 8,319 | 11,295 | 12,086 | 11,082 | 13,649 |
| Other current assets | 1,188 | 3,062 | 1,087 | 1,122 | 1,168 |
| Total current assets | 15,922 | 21,293 | 18,333 | 17,590 | 20,329 |
| Creditors | 3,438 | 3,689 | 3,183 | 3,679 | 3,742 |
| Other current liabilities | 2,797 | 3,345 | 3,685 | 3,378 | 3,513 |
| Total current liabilities | 6,235 | 7,034 | 6,868 | 7,057 | 7,255 |
| Net current assets | 9,687 | 14,259 | 11,465 | 10,533 | 13,075 |
| Total assets | 23,604 | 25,410 | 22,317 | 21,999 | 24,958 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash flow

| Y/E March (Rsmn) | CY18 | CY19 | CY20 | CY21E | CY22E |
|---------------------------------------|----------------|----------------|----------------|-----------------|----------------|
| PBT | 6,098 | 5,999 | 6,772 | 12,711 | 9,283 |
| (Inc.)/Dec in working capital | (276) | (377) | 622 | (72) | 25 |
| Cash flow from operations | 5,822 | 5,622 | 7,394 | 12,639 | 9,308 |
| Other income | (676) | (797) | (607) | (905) | (1,090) |
| Depreciation | 1,027 | 999 | 822 | 670 | 400 |
| Interest | 7 | 3 | 18 | 18 | 18 |
| Tax paid | (2,441) | (2,283) | (1,933) | (2,943) | (2,337) |
| Net cash from operations | 3,739 | 3,544 | 5,694 | 9,479 | 6,298 |
| Capital expenditure | (570) | (753) | (410) | (431) | (251) |
| Net cash after CapEx | 3,169 | 2,791 | 5,284 | 9,048 | 6,047 |
| Other investing activities | (161) | 1,410 | 3,174 | 52 | 524 |
| Cash from Financial Activities | (1,972) | (1,832) | (8,100) | (10,104) | (4,005) |
| Change in Cash | 1,036 | 2,369 | 358 | (1,004) | 2,566 |
| Opening cash balance | 7,215 | 8,251 | 11,199 | 12,086 | 11,082 |
| Closing cash balance | 8,251 | 10,620 | 11,557 | 11,082 | 13,649 |

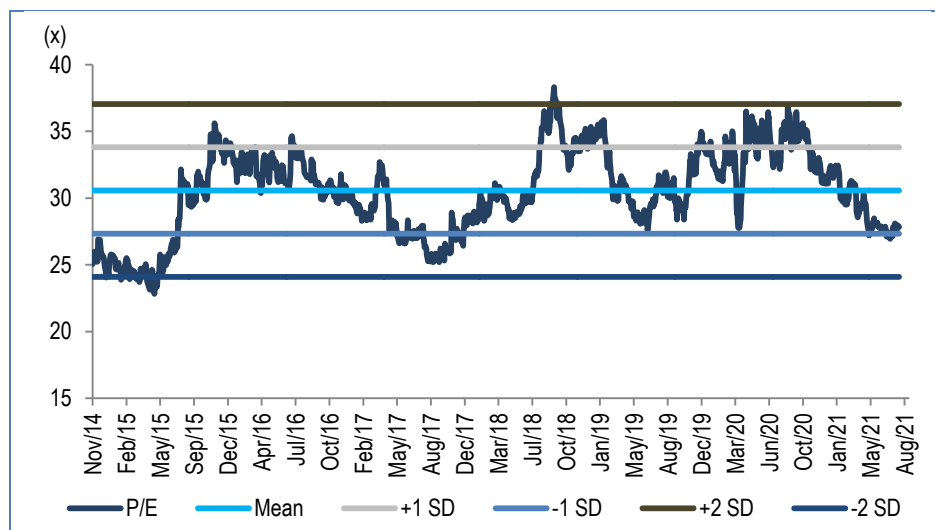
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

| Y/E March | CY18 | CY19 | CY20 | CY21E | CY22E |
|---|------|------|------|-------|-------|
| Profitability & return ratios | | | | | |
| EBITDA margin (%) | 22.5 | 21.7 | 24.6 | 26.0 | 27.6 |
| EBIT margin (%) | 18.8 | 18.4 | 21.7 | 23.8 | 26.3 |
| Net profit margin (%) | 13.7 | 13.5 | 16.5 | 32.6 | 22.3 |
| RoE (%) | 17.9 | 17.8 | 20.9 | 46.5 | 31.1 |
| RoCE (%) | 24.5 | 24.3 | 27.7 | 33.9 | 36.8 |
| Working capital & liquidity ratios | | | | | |
| Receivables (days) | 23 | 23 | 23 | 18 | 18 |
| Inventory (days) | 143 | 129 | 122 | 105 | 106 |
| Payables (days) | 107 | 97 | 100 | 95 | 101 |
| Working capital (days) | 60 | 55 | 45 | 28 | 23 |
| Current ratio (x) | 2.6 | 3.0 | 2.7 | 2.5 | 2.8 |
| Quick ratio (x) | 1.8 | 2.4 | 2.1 | 1.9 | 2.3 |
| Valuation ratios | | | | | |
| EV/sales (x) | 6.7 | 5.9 | 6.3 | 6.1 | 5.8 |
| EV/EBITDA (x) | 29.8 | 27.4 | 25.5 | 23.5 | 20.9 |
| P/E (x) | 51.0 | 46.8 | 40.6 | 19.9 | 27.9 |
| P/BV (x) | 8.7 | 7.9 | 9.2 | 9.3 | 8.2 |

Source: Company, Nirmal Bang Institutional Equities Research

P/E Chart

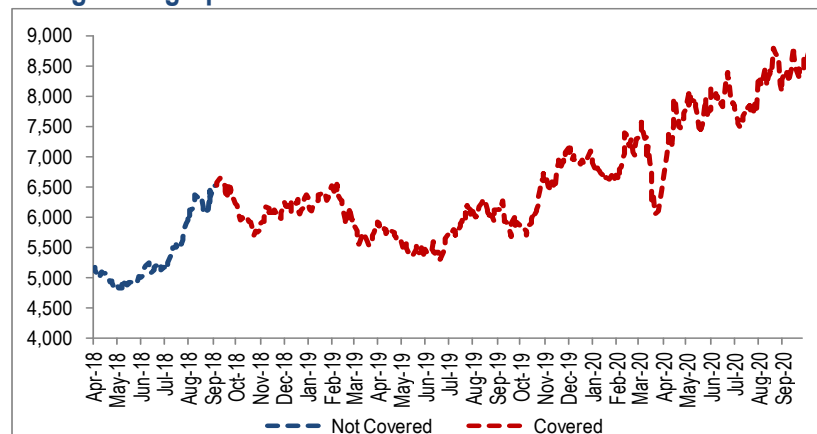


Source: BSE, Bloomberg, Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|------------|-------------------|-------------------|
| 6 September 2018 | Buy | 6,516 | 7,570 |
| 26 October 2018 | Buy | 5,785 | 7,570 |
| 27 February 2019 | Buy | 6,070 | 7,039 |
| 12 April 2019 | Buy | 5,740 | 6,411 |
| 8 May 2019 | Buy | 5,611 | 6,471 |
| 30 July 2019 | Accumulate | 6,111 | 6,471 |
| 23 September 2019 | Buy | 5,918 | 7,280 |
| 13 November 2019 | Accumulate | 6,606 | 7,280 |
| 26 February 2020 | Accumulate | 7,022 | 7,760 |
| 27 March 2020 | Buy | 6,124 | 7,760 |
| 23 April 2020 | Accumulate | 7,505 | 7,760 |
| 20 May 2020 | Accumulate | 7,506 | 7,760 |
| 29 July 2020 | Accumulate | 7,575 | 7,760 |
| 23 September 2020 | Accumulate | 8,342 | 9,283 |
| 28 October 2020 | Buy | 8,318 | 9,911 |
| 7 January 2021 | Buy | 8,126 | 11,023 |
| 24 February 2021 | Buy | 7,968 | 9,954 |
| 18 March 2021 | Buy | 8,203 | 9,954 |
| 28 April 2021 | Buy | 7,480 | 9,954 |
| 28 July 2021 | Buy | 7,959 | 9,954 |
| 6 September 2021 | Buy | 8,420 | 9,652 |

Rating track graph



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