CENTRUM

Sanofi India

Strong earnings; focus on Rx

Result Update

India I Pharma & Healthcare

12 May, 2023

Institutional Research

BUY

Price: Rs5,700
Target Price: Rs7,250
Forecast return: 27%

Sanofi's Q1CY23 result beats our estimates. Revenue came at Rs7.4bn up by 4% YoY (down by 10% QoQ), mainly led by volume pick-up in core brands, post the divestment of Universal Medicare business and two brands Soframycin + Sofradex. Gross margin improved by ~103bps YoY mainly driven by a favorable mix at 58.6%. Lower overhead cost resulted EBITDA margin improvement by 370bps YoY at 31.2%. The quarter had an exceptional item on profit on sale of property Rs255mn and separation cost related to demerger of Rs77mn, adjusted to this the PAT increased by 44% YoY to Rs1.7bn. Going forward, earnings to reflect the impact of Lantus came under NLEM. However, management assured that no major impact earnings. Sanofi to de-merge its consumer business to make it as a separate entity resulting into more focus on individual businesses and value unlocking for the shareholders. We maintain BUY with a revised target price (TP) of Rs7,250.

Healthy margin looks sustainable

During the quarter, Gross margin increased by 100bps YoY to 58.6% driven by healthy product mix and input cost optimisation. Higher Gross margin and cost optimisation measures like 9% YoY decline in employee cost to Rs 918mn and 1.5% YoY decline to Rs. 1.1 bn in other expense led to 370 bps YoY increase in EBITDA Margin to 31.2%. In Q4 the reduction in operating cost is mainly due to sale of property.

De-merger of CH will unlock shareholders' value

Recently, Sanofi had announced demerger of its consumer health segment into a separate entity, with 1:1 ratio. Each Sanofi shareholder to get equal share in Sanofi Consumer Health. This move will further unlock the shareholders' value. Sanofi's consumer health business posted a revenues of Rs7.3bn, (~28% of total CY22 sales). Leading brands includes Allegra (Rs2.4bn), Combiflam (Rs2bn) Avil (Rs0.9bn) DePura (Rs500mn). Rationale behind demerger is to allow both companies to have independent focus on respective businesses and to unlock shareholders value. Sanofi India will have a focus on Rx prescription brands includes (Lantus, Cardace, Amaryl, Frisium, Clexane, Toujeo etc.)

Valuation and risk

Sanofi aims to accelerate growth in its diabetes portfolio, and is focusing on selective brands. Its established presence in the chronic therapies, likely growth in insulin products and portfolio expansion in cardiology could also add to the growth ahead. The long overhand on the stock seems to be over as Sanofi's largest product insulin Glargine came under the revised list of NLEM, management indicated that there would be no major impact on margin and earnings. As the volume will shift towards other brands and NLEM led price hike would de-risk the impact. The stock corrected ~40% in 1 year, which provide attractive valuation for investors. The stock trades at 23x and 21x EPS of Rs 251 and Rs274 for CY23/24E respectively. We maintain our BUY rating on the stock and we roll over our revised target price of Rs7,250 to FY25E EPS of Rs274

Financial and valuation summary

YE Dec (Rs mn)	1QCY23A	1QCY22A	YoY (%)	4QCY22A	QoQ (%)	CY22A	CY23E	CY24E
Revenues	7,365	7,070	4.2	6,719	9.6	26,093	27,979	29,367
EBITDA	2,299	1,945	18.2	1,669	37.7	7,044	7,621	8,189
EBITDA margin (%)	31.2	27.5	13.5	24.8	25.7	25.4	25.7	26.3
Adj. Net profit	1,548	2,384	(35.1)	1,031	50.1	4,886	5,781	6,304
Adj. EPS (Rs)	67.2	103.5	(35.1)	44.8	50.1	212.2	251.0	273.7
EPS growth (%)						(13.2)	18.3	9.0
PE (x)						29.3	24.7	22.7
EV/EBITDA (x)						18.9	17.5	16.1
PBV (x)						11.2	9.5	8.0
RoE (%)						27.9	41.5	38.2
RoCE (%)						27.2	40.4	37.3

Source: Company, Centrum Broking

Market Data

Bloomberg:	SANL IN
52 week H/L:	6,613/5,037
Market cap:	Rs131.3bn
Shares Outstanding:	23.0mn
Free float:	32.2%
Avg. daily vol. 3mth:	29,399

Source: Bloomberg

Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs7,250; up from Rs6,850

Source: Centrum Broking

Shareholding pattern

	Mar-23	Dec-22	Sep-22	Jun-22
Promoter	60.4	60.4	60.4	60.4
FIIs	6.7	7.0	8.3	8.7
DIIs	19.5	18.3	18.3	18.6
Public/other	13.4	14.3	13.0	12.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1CY23	Actual Q1CY23	Variance (%)
Revenue	6520.0	7365.0	13.0
EBITDA	1617.0	2299.0	42.2
EBITDA margin	24.8	31.2	642bps
Tax rate %	28.0	27.7	-0.9
Adj. PAT	1280.0	1,548.0	20.9

Source: Bloomberg, Centrum Broking

Pharma & Healthcare

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Thesis Snapshot

Sanofi India versus Nifty Midcap 100

	1m	6m	1 year
SANL IN	7.7	15.0	1.1
Nifty Midcap 100	5.6	3.7	21.4

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	CY23E	CY24E
Revenue growth %	7.2	5.0
Material cost (% of sales)	44.5	44.9

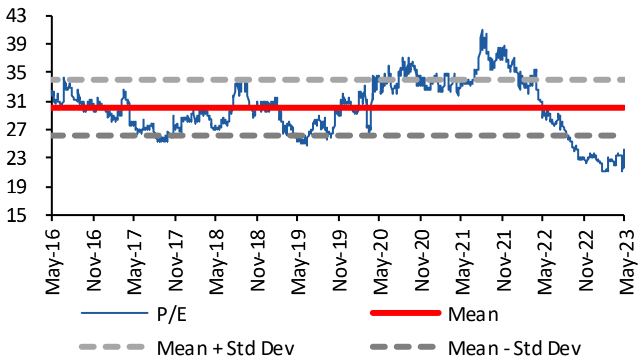
Source: Centrum Broking

Valuations

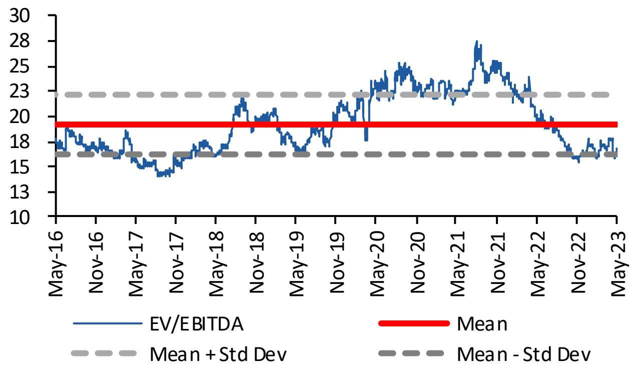
The stock corrected ~40% in 1 year, which provide attractive valuation for investors. The stock trades at 23x and 21x EPS of Rs 251 and Rs274 for CY23/24E respectively. We maintain our BUY rating on the stock with a revised target price of Rs7,250.

Valuations	Rs/share
EPS CY24E	Rs 274
PE (x)	26x
Target Price	7,250

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Exhibit 1: Quarterly financials

Rs mn	Q1CY22	Q1CY23	YoY (%)	Q4CY22	QoQ%	CY21	CY22	YoY (%)	CY23E	YoY (%)	CY24E	YoY (%)
Total Revenues	**7,070**	**7,365**	4.2	**6,719**	9.6	**27,932**	**26,093**	**(6.6)**	**27,979**	**7.2**	**29,367**	**5.0**
EBITDA	**1,945**	**2,299**	**18.2**	**1,669**	**37.7**	**7,625**	**7,044**	**(7.6)**	**7,621**	**8.2**	**8,189**	**7.5**
EBITDA Margins (%)	**27.5**	**31.2**	370.5	**24.8**	637.5	**27.3**	**27.0**		**27.2**		**27.9**	
Other Income	244	258	5.7	200	29.0	744	715	(3.9)	566	(20.8)	751	32.6
Finance Cost	4	3	(25.0)	4	(25.0)	18	17	(5.6)	18	5.9	18	-
Depreciation	109	97	(11.0)	100	(3.0)	667	419	(37.2)	461	10.0	516	12.0
PBT	**2,076**	**2,457**	**18.4**	**1,765**	**39.2**	**7,684**	**7,323**	**(4.7)**	**7,708**	**5.3**	**8,406**	**9.0**
Exceptional/Forex loss / (gain)	1,181	178		139		4,892	1,320	(73.0)	-		-	
PBT after excep. Items	**3,257**	**2,635**	**(19.1)**	**1,904**	**38.4**	**12,576**	**8,643**	**(31.3)**	**7,708**	**(10.8)**	**8,406**	**9.0**
Tax	873	731	(16.3)	595	22.9	3,132	2,437	(22.2)	1,927	(20.9)	2,101	9.0
Reported PAT	**2,384**	**1,904**	**(20.1)**	**1,309**	**45.5**	**9,444**	**6,206**	**(34.3)**	**5,781**	**(6.8)**	**6,304**	**9.0**
APAT	**1,203**	**1,726**	**43.5**	**1,170**	**47.5**	**5,626**	**4,886**	**(13.2)**	**5,781**	**18.3**	**6,304**	**9.0**
Reported EPS (Rs)	**103.5**	**82.7**	**(20.1)**	**56.8**	**45.5**	**410.1**	**269.5**	**(34.3)**	**251.0**	**(6.8)**	**273.7**	**9.0**
Adjusted EPS (Rs)	**52.2**	**74.9**	**43.5**	**50.8**	**47.5**	**244.3**	**212.2**	**(13.2)**	**251.0**	**18.3**	**273.7**	**9.0**

Source: Company, Centrum Broking

Key highlights

Business update

- Sanofi India is well positioned across 7 of the top 9 therapies in the IPM.
- Lantus came under price control and company had a price hit of 20%. Management indicated that the impact would not be much on margins and earnings.
- **Current opportunities for Sanofi** are to focus on growth drivers, leveraging of local opportunities, expanding reach by minimizing overlap, regaining innovative momentum, capturing market in Emerging Markets (EM) and modernizing channels to build partnerships for an extended distribution reach.
- **Major segment for growth pillars is Diabetes segment** – strengthening the current positioning, increasing the spectrum of offering and creating strong awareness programs.
- The company does not have a plan to increase the number of MRs, current MRs are ~2100. It has transferred 200 MRs to the Diabetes division.
- The company plans to increase hospital coverage and healthcare professional reach.
- Lantus' performance was affected by higher focus on Toujeo in the last quarter, however in coming quarter it is expected to normalise.
- Insulin Glargine – Grew by 2-3% on full-year basis.
- Current NLEM exposure stands at 40% including lantus (earlier 16-18%)
- A large part of the company's portfolio is manufactured in India in the Goa facility. It operates with 16 contract manufacturing organizations.
- Gross margin improved for CY22 on the back of lower raw material costs, better product mix and higher exports amid strengthening of Euro vs INR.
- The current size of Vitamin D3 market is ~Rs8bn, which is growing at ~3%. The company's market share stands at ~5%.
- Sanofi aim to maintain Rx margin of 25%.

Update on Consumer business divestment

- Recently, Sanofi had announced demerger of its consumer health segment into a separate entity. Each Sanofi shareholder to get equal share in Sanofi Consumer Health. This move will further unlock the shareholders' value.
- On the completion of the proposed demerger, Sanofi's management to continue to own 60.4% stake in both entities and Sanofi India Limited shareholders will receive 1:1 SCHIL equity share of INR 10/- each, for each equity share owned.
- Management indicated that the separated entity will list on the exchanges (BSE & NSE) which will enable shareholders unlock value by providing liquidity to the shareholders.
- Sanofi's consumer health business posted revenues of Rs7.3bn, (~28% of total CY22 sales). Consumer health segment EBITDA margin of 32-35%.
- Leading brands includes Allegra (Rs2.4bn), Combiflam (Rs2bn) Avil (Rs0.9bn) DePura (Rs500mn).

Rationale behind demerger

- It will allow both companies to have independent focus on respective businesses and to unlock shareholders value.
- Sanofi India will have a focus on Rx prescription brands includes (Lantus, Cardace, Amaryl, Frisium, Clexane, Toujeo etc.). It will also enable independent growth plans, strategy for scalability, and stronger leverage of specific global resources within the group.
- The strategy behind the demerger is mainly to de-risk both the businesses from each other (as there are certain risk factor in Pharma segment like NLEM) and allow potential investors and stakeholders the option of investing in both businesses.

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YE Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Revenues	**27,225**	**27,932**	**26,093**	**27,979**	**29,367**
Operating Expense	14,639	15,193	14,456	15,031	15,810
Employee cost	4,608	4,339	4,059	4,281	4,405
Others	2,641	2,408	2,142	2,720	2,731
EBITDA	**7,131**	**7,625**	**7,044**	**7,621**	**8,189**
Depreciation & Amortisation	806	667	419	461	516
EBIT	**6,325**	**6,958**	**6,625**	**7,160**	**7,673**
Interest expenses	18	18	17	18	18
Other income	898	744	715	566	751
PBT	**7,205**	**7,684**	**7,323**	**7,708**	**8,406**
Taxes	1,996	3,132	2,437	1,927	2,101
Effective tax rate (%)	27.7	40.8	33.3	25.0	25.0
PAT	**5,209**	**4,552**	**4,886**	**5,781**	**6,304**
Minority/Associates	0	0	0	0	0
Recurring PAT	**5,209**	**5,626**	**4,886**	**5,781**	**6,304**
Extraordinary items	(417)	4,892	1,320	0	0
Reported PAT	**4,792**	**9,444**	**6,206**	**5,781**	**6,304**

Ratios

YE Dec	CY20A	CY21A	CY22A	CY23E	CY24E
Growth (%)					
Revenue	(4.2)	2.6	(6.6)	7.2	5.0
EBITDA	7.2	6.9	(7.6)	8.2	7.5
Adj. EPS	10.0	8.0	(13.2)	18.3	9.0
Margins (%)					
Gross	60.5	59.1	60.6	61.5	61.5
EBITDA	24.6	25.8	25.4	25.7	26.3
EBIT	21.8	23.5	23.9	24.1	24.6
Adjusted PAT	18.0	31.9	22.4	19.5	20.2
Returns (%)					
ROE	22.8	25.9	27.9	41.5	38.2
ROCE	22.8	20.6	27.2	40.4	37.3
ROIC	40.7	49.6	85.8	122.6	91.5
Turnover (days)					
Gross block turnover ratio (x)	5.0	6.9	7.4	7.9	8.1
Debtors	23	18	18	17	18
Inventory	122	106	123	120	118
Creditors	100	93	105	103	90
Net working capital	154	186	126	119	148
Solvency (x)					
Net debt-equity	(0.6)	(0.7)	(0.8)	(0.6)	(0.6)
Interest coverage ratio	396.2	423.6	414.4	423.4	455.0
Net debt/EBITDA	(1.7)	(2.0)	(1.4)	(1.2)	(1.4)
Per share (Rs)					
Adjusted EPS	226.2	244.3	212.2	251.0	273.7
BVPS	920.1	966.4	554.0	655.0	778.7
CEPS	261.2	273.3	230.3	271.0	296.2
DPS	349.0	365.0	377.0	150.0	150.0
Dividend payout (%)	167.7	89.0	139.9	59.8	54.8
Valuation (x)					
P/E	27.5	25.4	29.3	24.7	22.7
P/BV	6.7	6.4	11.2	9.5	8.0
EV/EBITDA	18.4	16.8	18.9	17.5	16.1
Dividend yield (%)	5.6	5.9	6.1	2.4	2.4

Source: Company, Centrum Broking

Balance sheet

YE Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Equity share capital	230	230	230	230	230
Reserves & surplus	20,960	22,026	12,528	14,855	17,704
Shareholders fund	21,190	22,256	12,758	15,085	17,935
Minority Interest	0	0	0	0	0
Total debt	226	531	434	434	434
Non Current Liabilities	646	619	355	355	355
Def tax liab. (net)	302	63	49	49	49
Total liabilities	**22,364**	**23,469**	**13,596**	**15,923**	**18,773**
Gross block	5,447	4,047	3,522	3,564	3,619
Less: acc. Depreciation	(806)	(667)	(419)	(461)	(516)
Net block	4,641	3,380	3,103	3,103	3,103
Capital WIP	100	89	188	188	188
Net fixed assets	4,741	3,469	3,291	3,291	3,291
Non Current Assets	6,111	5,762	1,323	3,536	3,536
Investments	0	0	0	0	0
Inventories	3,680	3,924	4,080	4,111	4,317
Sundry debtors	1,480	1,429	1,291	1,541	1,599
Cash & Cash Equivalents	12,086	15,503	10,169	9,779	11,530
Loans & advances	57	45	90	62	64
Other current assets	1,030	478	473	573	673
Trade payables	3,183	3,482	3,366	3,681	2,803
Other current liab.	2,153	1,283	1,419	1,932	2,028
Provisions	1,485	2,376	2,336	1,356	1,407
Net current assets	11,512	14,238	8,982	9,096	11,945
Total assets	**22,364**	**23,469**	**13,596**	**15,923**	**18,772**

Cashflow

YE Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Profit Before Tax	6,788	12,576	8,643	7,708	8,406
Depreciation & Amortisation	806	667	419	461	516
Net Interest	18	18	17	18	18
Net Change – WC	3,422	596	4,063	(1,587)	(1,098)
Direct taxes	(2,140)	(3,371)	(2,451)	(1,927)	(2,101)
Net cash from operations	**8,894**	**10,486**	**10,691**	**4,673**	**5,740**
Capital expenditure	(386)	605	(241)	(461)	(516)
Acquisitions, net	0	0	0	0	0
Investments	0	0	0	0	0
Others	(5)	(1)	(32)	0	0
Net cash from investing	**(391)**	**604**	**(273)**	**(461)**	**(516)**
FCF	**8,503**	**11,090**	**10,418**	**4,212**	**5,224**
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	226	305	(97)	0	0
Dividend paid	(8,038)	(7,342)	(8,617)	(4,585)	(3,455)
Interest paid	(18)	(18)	(17)	(18)	(18)
Others	118	(618)	(7,022)	0	0
Net cash from financing	**(7,712)**	**(7,673)**	**(15,752)**	**(4,603)**	**(3,473)**
Net change in Cash	791	3,418	(5,334)	(390)	1,751

Source: Company, Centrum Broking

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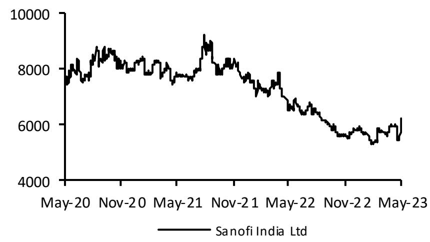
Sanofi India



Source: Bloomberg

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