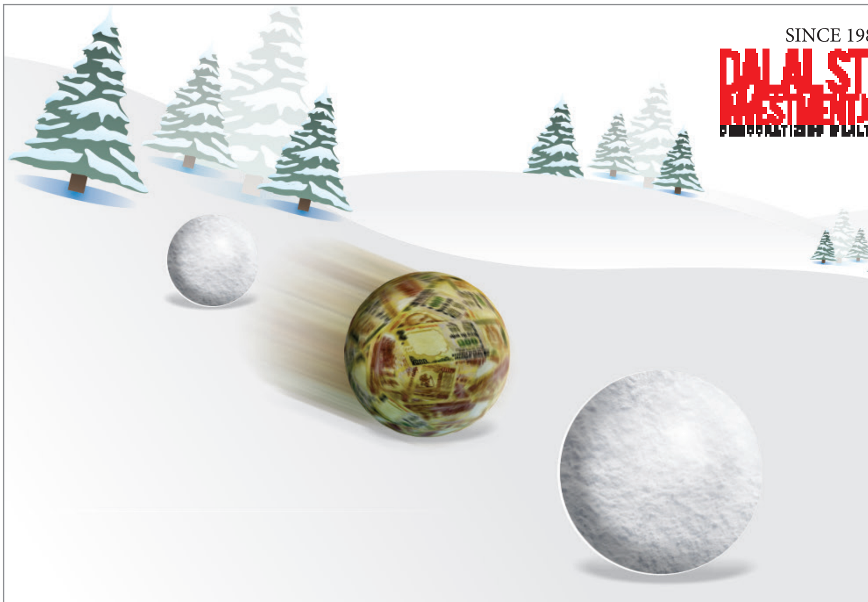

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MID BRIDGE
THE MIDCAP MARVEL

December 2019

COMPANY NAME	:	**Sanofi India Ltd.**
BSE Code	:	**500674**
Time Duration	:	**1 year**
CMP	:	**₹6,978.40 (as on 19 Dec., 2019)**
Target Price	:	**₹9,108**

The Mid Bridge recommendation for December is Sanofi India. It is a leading multinational pharmaceutical company. Its nearly 60 per cent stake is held by parent organisation Sanofi, which is one of the world's leading healthcare company. It offers a wide range of medicines which has an ability to cater diagnosis in areas such as diabetes, cardiology, thrombosis, central nervous system, and antihistamines. Sanofi India has its manufacturing plants located in Ankleshwar (Gujarat) and Verna (Goa).

Anti-diabetic therapy – leading revenue trigger

Sanofi India has a market share of nearly 1.6 per cent and its key products, like Lantus, Combiflam, Amaryl M and Allegra make it in the Top 100 pharmaceutical brands in India. Its overall therapy mix is well-distributed over anti-diabetic, cardiac, vaccines, respiratory, gastro and pain relief remedies.

This is a very important growth trigger for the company for not just top line growth but also for volume growth and sustainability across the tough markets. The anti-diabetic remedies contribute around 18 per cent in the overall revenues. According to Diabetes Federation estimation, India ranks second in terms of patient load with 7.4 crore adults diagnosed with diabetes. This gives a huge scope for the company to grow in value terms. The company also gets benefit from its presence in tier 2 and 3 cities, as awareness for insulin therapy is increasing in these cities. Due to its substantial presence in insulin, the company is one of the leading players in diabetes care. In addition to this, the company had launched Toujeo, which could help it offer an advanced standard of care and reach even more patients suffering with diabetes. Such initiatives would help the company generate more market share and higher volumes.

Strong product portfolio

The pharma sector is predominantly driven by its presence and product availability. These factors ensure that company possess growth trigger in competitive markets. The company has well-established brands that are used for treatment in multiple therapy areas, like cardiology, thrombosis and epilepsy. Its key brand Combiflam, is listed among Top 5 brands in the Nonsteroidal anti-inflammatory drugs (NSAIDs) market. Going forward, strong prospects in the chronic categories such as cardiac, respiratory, are likely to benefit Sanofi. Allstar pens, indigenously manufactured by Sanofi India, help in reducing the overall cost of treatment.

Strategic Divestment

The company recently approved plan for the slump sale and transfer of its Ankaleshwar (Gujarat) manufacturing facility to Zentiva Pvt Ltd for a consideration of Rs 261.7 crore. This facility contributed nearly 32 per cent of the company's total revenue. The divestment is intended to help in addressing the excess and unutilised manufacturing capacity, enhance focus on manufacturing branded products rather than third party manufacturing and help improve asset efficiency ratios. Higher focus on in-house manufacturing can boost its margins. More focus on the in-house manufacturing of product gives company more pricing power hence, boosting its top line.

Financial Performance

The company has clocked CAGR sales and profit growth of 9 per cent for 5 years till CY18. It is well within the range of industry average for the past 5 years. The exports contribute to 30 per cent in total revenue from operations which give company the much-needed stability in a bad market condition and currency fluctuation. The company has maintained its ROE well above 15 per cent for a long time now. Operationally, its EBITDA margin has improved from 19 per cent in CY14 to 26 per cent in CY18. The margin improvement is driven by prudent operational policies. Positive operating cash flow since a long time is another key parameter. Its debt to equity remains to be zero.

Outlook and Valuation

The stocks is currently trading at TTM EPS of Rs 172 and PE multiple of 40x. It is trading at 6.69x of CY18 book value while the industry average is approximately 10x. The revenue may look down due to high base effect during the year on account of divestment in Ankleshwar unit. The revenue can be expected to be driven by volume growth. We recommend to Buy the scrip with a price target of Rs 9,108.

Continued On PG 2...

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201812	201712	201612	201512	201412
Net Sales	2770.80	2463.60	2366.80	2193.10	1977.48
Total Income	2860.50	2562.30	2551.30	2368.50	2124.17
Total Expenditure	2147.30	1944.40	1949.80	1858.00	1720.99
PBIDT	713.20	617.90	601.50	510.50	403.18
PAT	380.60	326.00	304.20	321.50	263.61
Dividend %	840.00	710.00	680.00	650.00	450.00
Adj. EPS(Rs)	165.48	141.74	132.26	139.78	114.46

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	779.10	747.90	4.17	743.80	4.75
Total Expenditure	603.60	590.10	2.29	556.50	8.46
PBIDT (Excl OI)	175.50	157.80	11.22	187.30	-6.30
PAT	126.60	97.40	29.98	119.20	6.21
PBIDTM% (Excl OI)	22.53	21.10	6.78	25.18	-10.52
PBIDTM%	25.47	24.23	5.12	28.70	-11.25
PATM%	16.25	13.02	24.81	16.03	1.37
Adj. EPS(Rs)	55.04	42.35	29.96	51.83	6.19