

Divestiture, Covid-19 impact sales; margins upbeat...

CY20 revenues de-grew 5.5% YoY to ₹ 2902 crore mainly due to divestiture of few products to Zentiva (Ankaleshwar slump sale) and Covid-19 impact on certain therapies. EBITDA margins improved 291 bps YoY to 24.6% mainly due to lower other expenditure and slightly better gross margins. Subsequently, EBITDA grew 7.2% YoY to ₹ 713 crore. Adjusted PAT grew 9.7% YoY to ₹ 519 crore. **Note:** Results are not comparable YoY due to closure of the Zentiva transaction on May 29, 2020.

"Power brands" continue to grow ahead of industry

Sanofi's top five brands (Exhibit 1) together posted revenue CAGR of 10.6% (CY16-20), leading their combined sales contribution to grow from 44% to 49% over CY16-20. Note that four core brands (Lantus, Amaryl, Clexane, Avil) are under price control. We expect future launches from its global staple along with brand extensions and access to innovative molecules from global parent like the recently launched anti-diabetic Toujeo to drive growth.

Divestment of non-core segments to improve product focus

Sanofi closed the Zentiva transaction for a consideration of ~₹ 300 crore of which ~ ₹ 273 crore has been received with balance to be received by end of CY21. The parent company has also proposed sale of Soframycin, Sofradex brands, sourced through third-party manufacturer and distributed by Sanofi India that contributed just 2.8% of its 9MCY20 sales. Post these divestitures, we expect extended focus on branded formulations that typically fetch better margins vis-à-vis third party contracts. We expect EBITDA margins to improve ~125 bps to 25.8% in CY20-22E due to change in product mix, new product launches, volume led growth in top brands and intermittent price hikes in its portfolio. Core RoE (excluding cash) is expected to improve from 45.5% to 56.3% over CY20-CY22E. The board has proposed ₹ 365 per share dividend for CY20 (including ₹ 240 special dividend on account of Ankaleshwar sale).

Valuation & Outlook

Despite Covid-19 and Ankaleshwar divestiture, Sanofi posted a decent CY20 operational performance amid cost rationalisation measures, reduced marketing & promotional spends. Going ahead, we expect marketing spends to be lower than their historical trends on the back of higher adoption of digital marketing tools amid Covid-19. Sanofi remains one of the fastest growing companies in India in anti-diabetic therapy. It launched Toujeo within just three years of its launch in the US, which suggests it is prepared to launch core innovative products in India banking on growth prospects in the anti-diabetic category. A strong growth track in top brands, measured new launches (including innovative launches) besides strong balance sheet and comfort on corporate governance front are some key attributes of MNC pharma companies including Sanofi. We maintain **BUY** with a target price of ₹ 9820 (unchanged) based on 35x CY22E EPS of ₹ 280.6.

Key Financial Summary

₹ Crore	CY19	CY20	CY21E	CY22E	CAGR CY20-22 (%)
Revenues	3070.6	2901.9	3056.0	3397.5	8.2
EBITDA	665.3	713.1	764.6	877.5	10.9
EBITDA margins (%)	21.7	24.6	25.0	25.8	
Net Profit	414.2	477.6	542.7	646.1	16.3
EPS (₹)	205.6	225.5	235.6	280.6	
PE (x)	45.6	39.5	34.8	29.2	
EV to EBITDA (x)	26.7	24.8	23.7	20.2	
RoCE (%)	26.0	32.3	37.3	37.1	
ROE (%)	19.4	24.5	29.8	29.5	

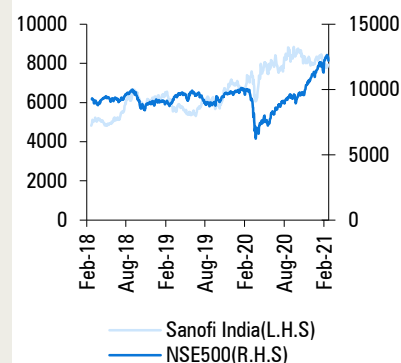
Source: ICICI Direct Research; Company



Particulars

Particular	Amount
Market Capitalisation	₹ 18885 crore
Debt (CY20)	₹ 0 crore
Cash (CY20)	₹ 1209 crore
EV	₹ 17677 crore
52 week H/L	8999/5900
Equity capital	₹ 23.0 crore
Face value	₹ 10

Price Performance



Key risks to our call

- Any further addition of portfolio products under price control
- Higher therapy concentration in anti-diabetic and cardiac

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Exhibit 1: Power brands (₹ crore)

Brand	Therapy	CY16	CY17	CY18	CY19	CY20	16-20 CAGR
Lantus	Anti-diabetic	306.4	361.5	460.4	487.3	542.9	15.4
Amaryl	Anti-diabetic	184.9	223.2	243.6	280.7	276.3	10.6
Allegra	Respiratory	150.4	178.4	209.1	231.6	219.4	9.9
Combiflam	Pain	195.4	198.5	172.1	194.7	206.5	1.4
Clexane	Cardiac	103.6	107.7	103.2	117.1	162.8	12.0
Top 5 brands		940.6	1069.3	1188.3	1311.4	1407.9	10.6
Total AIOCD sales*		2139.0	2272.8	2553.6	2780.1	2868.5	7.6
as % of total sales		44%	47%	47%	47%	49%	

Source: AIOCD (MAT values), Company; *ex-vaccines

Exhibit 2: Therapeutic break-up (₹ crore)

Therapy	CY16	CY17	CY18	CY19	CY20	16-20 CAGR
Anti-diabetic	596.4	699.5	848.2	936.2	993.8	13.6
Cardiac	419.1	418.9	450.6	487.4	538.6	6.5
Respiratory	254.0	275.9	319.7	327.9	343.4	7.8
Pain	264.1	268.4	246.5	273.6	272.7	0.8
Neuro/ CNS	183.5	189.8	201.0	220.8	217.6	4.4
Top 5 therapy	1717.1	1852.5	2065.9	2245.9	2366.0	8.3
Total AIOCD sales*	2139.0	2272.8	2553.6	2780.1	2868.5	7.6
as % of total sales	80%	82%	81%	81%	82%	

Source: AIOCD (MAT values), Company; *ex-vaccines

Financial Summary

Exhibit 3: Profit & Loss (₹ crore)

(Year-end December)	CY19	CY20	CY21E	CY22E
Total Operating Income	3,070.6	2,901.9	3,056.0	3,397.5
Growth (%)	10.8	-5.5	5.3	11.2
Raw Material Expenses	1,347.4	1,253.6	1,314.1	1,435.7
Gross Profit	1,723.2	1,648.3	1,741.9	1,961.8
Gross Profit Margins (%)	56.1	56.8	57.0	57.7
Employee Expenses	449.7	460.8	460.4	509.6
Other Expenditure	608.2	474.4	516.9	574.7
Total Operating Expenditure	2,405.3	2,188.8	2,291.4	2,520.0
EBITDA	665.3	713.1	764.6	877.5
Growth (%)	6.7	7.2	7.2	14.8
Interest	0.3	1.8	0.0	0.0
Depreciation	99.9	82.2	84.9	88.4
Other Income	94.1	89.8	45.8	74.7
PBT before Exceptional Item	659.2	718.9	725.5	863.8
Less: Exceptional Items	59.3	41.7	0.0	0.0
PBT after Exceptional Items	599.9	677.2	725.5	863.8
Total Tax	185.7	199.6	182.8	217.7
PAT before MI	414.2	477.6	542.7	646.1
PAT	414.2	477.6	542.7	646.1
Growth (%)	8.8	15.3	13.6	19.1
EPS (Adjusted)	205.6	225.5	235.6	280.6

Source: ICICI Direct Research

Exhibit 4: Cash Flow Statement (₹ crore)

(Year-end December)	CY19	CY20	CY21E	CY22E
Profit/(Loss) after taxation	371.6	483.9	542.7	646.1
Add: Depreciation & Amortization	99.9	82.2	84.9	88.4
Net Increase in Current Assets	-83.3	49.0	-185.2	-89.1
Net Increase in Current Liabilities	45.6	13.2	85.7	81.6
Others	-21.5	-17.2	0.0	0.0
CF from Operating activities	412.3	611.1	528.1	727.0
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	-75.3	198.4	-50.0	-50.0
Others	143.8	79.6	-49.8	-54.8
CF from Investing activities	68.5	278.0	-99.8	-104.8
(inc)/Dec in Loan	0.0	-4.6	0.0	0.0
Dividend & Dividend tax	-183.2	-803.8	-840.6	-276.4
Other	0.0	-1.6	0.0	0.0
CF from Financing activities	-183.2	-810.0	-840.6	-276.4
Net Cash Flow	297.6	79.1	-412.3	345.9
Cash and Cash Equivalent	831.9	1,129.5	1,208.6	796.3
Cash	1,129.5	1,208.6	796.3	1,142.1
Free Cash Flow	337.0	809.5	478.1	677.0

Source: ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)

(Year-end December)	CY19	CY20	CY21E	CY22E
Equity Capital	23.0	23.0	23.0	23.0
Reserve and Surplus	2,419.3	2,096.0	1,798.1	2,167.8
Total Shareholders funds	2,442.3	2,119.0	1,821.1	2,190.8
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	44.6	30.2	33.2	36.5
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	54.1	82.5	90.8	99.8
Source of Funds	2,541.0	2,231.7	1,945.0	2,327.2
Gross Block - Fixed Assets	846.0	893.6	943.6	993.6
Accumulated Depreciation	420.4	502.6	587.5	676.0
Net Block	425.6	391.0	356.1	317.6
Capital WIP	17.4	10.0	10.0	10.0
Goodwill on Consolidation	73.1	73.1	73.1	73.1
Fixed Assets	516.1	474.1	439.2	400.7
Investments	0.0	0.0	0.0	0.0
Other non-Current Assets	7.1	7.6	8.4	9.2
Inventory	469.6	368.0	467.4	519.6
Debtors	224.0	148.0	222.9	247.8
Loans and Advances	1.5	5.7	6.27	6.897
Other Current Assets	304.7	103.0	113.3	124.6
Cash	1,129.5	1,208.6	796.3	1,142.1
Total Current Assets	2,129.3	1,833.3	1,606.1	2,041.1
Creditors	368.9	318.3	367.1	408.2
Provisions	196.7	238.6	262.5	288.7
Other Current Liabilities	137.8	129.9	142.9	157.2
Total Current Liabilities	703.4	686.8	772.5	854.1
Long Term Loans and Advanc	591.9	603.5	663.9	730.2
Net Current Assets	1,425.9	1,146.5	833.6	1,187.0
Application of Funds	2,541.0	2,231.7	1,945.0	2,327.2

Source: ICICI Direct Research

Exhibit 6: Key Ratios (₹ crore)

(Year-end December)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
Reported EPS	179.8	207.4	235.6	280.6
Cash EPS	-171.7	-103.8	152.5	179.0
BV per share	1,060.5	920.1	790.7	951.3
Cash per Share	490.4	524.8	345.7	495.9
Dividend per share	420.7	365.0	120.0	140.0
Operating Ratios (%)				
Gross Profit Margins	56.1	56.8	57.0	57.7
EBITDA margins	21.7	24.6	25.0	25.8
PAT Margins	15.4	17.9	17.8	19.0
Cash Conversion Cycle	38.6	24.9	38.6	38.6
Asset Turnover	3.6	3.2	3.2	3.4
EBITDA conversion Rate	62.0	85.7	69.1	82.9
Return Ratios (%)				
RoE	19.4	24.5	29.8	29.5
RoCE	26.0	32.3	37.3	37.1
RoIC	40.6	62.3	59.7	67.2
Valuation Ratios (x)				
P/E	45.6	39.5	34.8	29.2
EV / EBITDA	26.7	24.8	23.7	20.2
EV / Net Sales	5.8	6.1	5.9	5.2
Market Cap / Sales	6.2	6.5	6.2	5.6
Price to Book Value	7.7	8.9	10.4	8.6
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	0.9	1.0	1.1

Source: ICICI Direct Research

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