

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	4QCY2014	3QCY2014	% chg (qoq)	4QCY2013	% chg (yoy)
Net sales	481	487	(1.3)	461	4.3
Other income	46	42	10.3	39	17.9
Operating profit	25	76	(67.0)	87	(70.9)
Adj. Net profit	26	62	(58.2)	67	(61.5)

Source: Company, Angel Research

Sanofi India (Sanofi)'s 4QCY2014 results have come in below expectations both on the top-line and the bottom-line front. The company posted sales of ₹481cr (V/s an expected ₹518cr), ie a yoy growth of 4.3%. Sales were impacted owing to the recent price cuts announced on its key CVS drugs, in line with the DPCO 2013. The company posted an OPM of 5.2% (V/s an expected 16.4%), a yoy dip of 13.6 percentage points. The GPM dipped to 45.5% from 52.1% in the corresponding quarter of the previous year. Further, the staff cost rose by 33.6% yoy. The net profit came in at ₹26cr (V/s an expected ₹70cr), registering a yoy de-growth of 61.5%. However, given that the government has revoked its order (DPCO), the company's future performance should improve in subsequent quarters. **However, given the valuations, we maintain our Neutral view on the stock.**

Lower-than-expected results on all fronts: The company posted sales of ₹481cr (V/s an expected ₹518cr), ie a yoy growth of 4.3%. Sales were impacted owing to the recent price cuts announced on its key CVS drugs, in line with the DPCO 2013. The company posted an OPM of 5.2% (V/s an expected 16.4%), a yoy dip of 13.6 percentage points. The GPM dipped to 45.5% from 52.1% in the corresponding quarter of the previous year. Further, the staff cost rose by 33.6% yoy. The net profit came in at ₹26cr (V/s an expected ₹70cr), registering a yoy de-growth of 61.5%. During the quarter, the company booked a profit of ₹66.6cr, on sale of its property in part at Nariman Point, Mumbai. The reported net profit thus came in at ₹92.5cr V/s ₹92.7cr in 4QCY2013, a dip of 0.2% yoy.

Outlook and valuation: We expect net sales to post a 14.7% CAGR to ₹2,247cr and EPS to register a 6.9% CAGR to ₹119.1 over CY2013–15. At current levels, the stock is trading at 40.5x and 29.1x its CY2014E and CY2015E earnings, respectively. **Given the valuations, we remain Neutral on the stock.**

Key financials

Y E Dec (₹ cr)	CY2012	CY2013E	CY2014E	CY2015E
Net Sales	1,494	1,707	1,875	2,247
% chg	21.5	14.2	9.9	19.8
Net Profit	177.1	239.8	197.1	274.3
% chg	(7.4)	35.4	(17.8)	39.1
EPS (₹)	76.9	104.1	85.6	119.1
EBITDA(%)	15.6	17.3	12.6	16.0
P/E (x)	45.1	33.3	40.5	29.1
RoE (%)	15.3	18.8	14.4	20.0
RoCE (%)	12.1	15.7	10.2	18.2
P/BV (x)	6.6	5.9	5.4	4.3
EV/Sales (x)	5.1	4.5	4.0	3.2
EV/EBITDA (x)	32.5	26.1	31.8	20.3

Source: Company, Angel Research; Note: CMP as of February 20, 2015

NEUTRAL

CMP	₹3,467
Target Price	-
Investment Period	-
Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	7,985
Net debt (₹ cr)	(239)
Beta	0.3
52 Week High / Low	3,800/2,570
Avg. Daily Volume	3,799
Face Value (₹)	10
BSE Sensex	29,231
Nifty	8,807
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)

Promoters	60.4
MF / Banks / Indian FIs	19.0
FII / NRIs / OCBs	15.5
Indian Public / Others	5.1

Abs. (%)	3m	1yr	3yr
Sensex	4.1	42.3	59.8
Sanofi India	0.2	32.6	52.9

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QCY2014 performance

Y/E Dec (₹ cr)	4QCY2014	3QCY2014	% chg (qoq)	4QCY2013	% chg (oy)	CY2014	CY2013	% chg oy
Net sales	481	487	(1.3)	461	4.3	1,875	1,707	9.9
Other income	46	42	10.3	39	17.9	167	160	4.3
Total income	527	529	(0.4)	500	5.4	2,042	1,867	9.4
PBIDT	25	76	(67.0)	87	(70.9)	236	296	(20.3)
OPM (%)	5.2	15.7		18.8		12.6	17.3	
Interest	0.0	0.0		0.0		0	0	
Depreciation & amortisation	25	24	2.5	24	2.9	97	92	5.0
PBT & exceptional items	47	94	(50.4)	102	(54.2)	306	364	(16.0)
Less : Exceptional items	(67)	0		(25)		(67)	(25)	
Profit before tax	113	94	20.5	127	(11.0)	372	389	(4.3)
Provision for taxation	21	32	(35.3)	35	(40.0)	109	123	(11.4)
Net profit	93	62	49.3	93	(0.2)	264	265	(0.6)
Adj net profit	26	62	(58.2)	67	(61.5)	197	240	(17.8)
EPS (₹)	11.3	27.0		29.3		85.6	104.1	

Source: Company, Angel Research

Exhibit 2: 4QCY2014 – Actual Vs Angel estimates

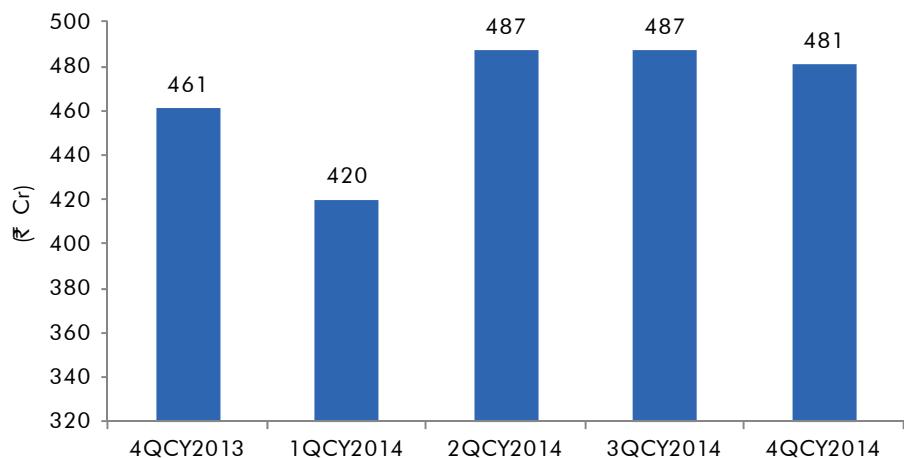
₹ cr	Actual	Estimates	Variation (%)
Net sales	481	518	(7.1)
Other income	46	45	1.5
Operating profit	25	85	(70.4)
Tax	21	36	(42.5)
Net profit	26	70	(62.8)

Source: Company, Angel Research

Revenue growth lower than expectation

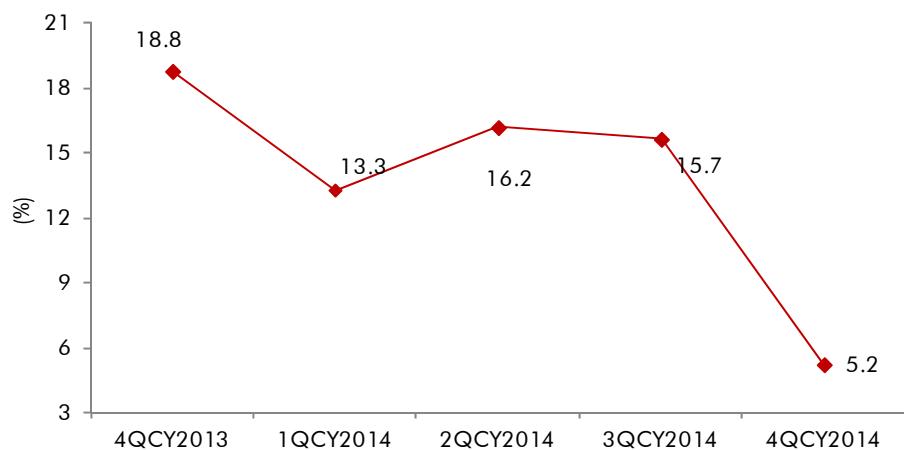
The company posted sales of ₹481cr V/s an expected ₹518cr, posting a yoy growth of 4.3%. Sales were impacted owing to the recent price cuts announced by the DPCO on its key CVS drugs. However, given that the government has revoked its order, the company's future performance should improve in subsequent quarters.

Also, the company's critical project – *Prayas*, and its entry in the OTC market are slated to be the future growth drivers.

Exhibit 3: Sales trend


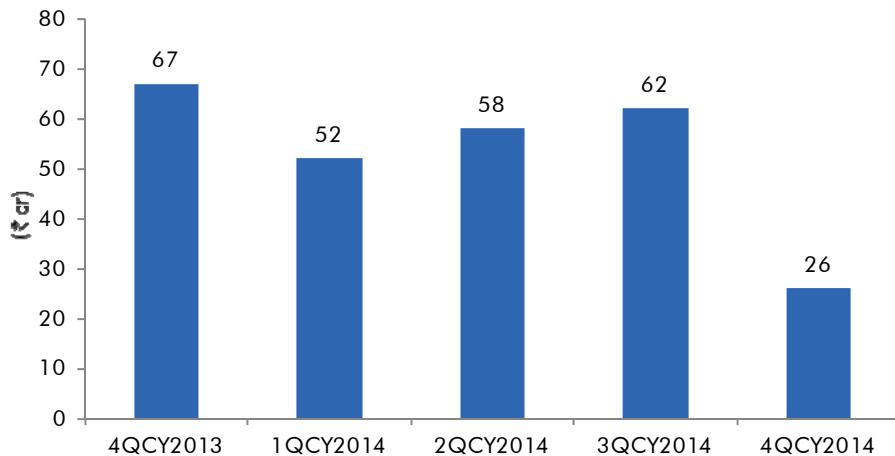
Source: Company, Angel Research

OPM dips by 13.6%: The gross margin for the quarter dropped by 660bp to 45.5% V/s 52.1% in the corresponding period of last year. The employee cost and other expenditure rose by 33.6% and 21.2% yoy, respectively. This led the OPM to come in at 5.2%; the EBITDA for the quarter declined by 71% yoy. The margins were impacted on back of price cuts owing to the DPCO.

Exhibit 4: OPM trend


Source: Company, Angel Research

Bottom-line below estimate The net profit came in at ₹26cr (V/s an expected ₹70cr), registering a yoy de-growth of 61.5%. During the quarter, the company also booked a profit of ₹66.6cr on sale of its property in part at Nariman Point, Mumbai. The reported net profit thus came in at ₹92.5cr V/s ₹92.7cr in 4QCY2013, a dip of 0.2% yoy.

Exhibit 5: Adj. net profit trend


Source: Company, Angel Research

Recommendation rationale

Focus on top-line growth: Sanofi recorded a revenue CAGR of 9.1% to ₹1,494cr over CY2006–12. The growth was impacted by a slower-than-expected growth in domestic formulations and loss of distribution rights of Rabipur vaccine. Going forward, to grow in line with the industry's average growth rate in the domestic segment, the company has rolled out a project - Prayas, an initiative to increase its penetration in rural areas. Under the project, the company would launch low-price products in the anti-infective and NSAID therapeutic segments and increase its field force. The project is expected to provide incremental revenue of ₹500cr over the next five years.

Sanofi also plans to launch CVS and vaccine products in the domestic market post the acquisition of Shantha Biotech by its parent company. Further, during CY2011, the company acquired the nutraceutical business of Universal Medicare Pvt. Ltd, which led the company's foray into the nutraceutical business, thus aiding it in diversifying and boosting overall growth of its domestic formulation business.

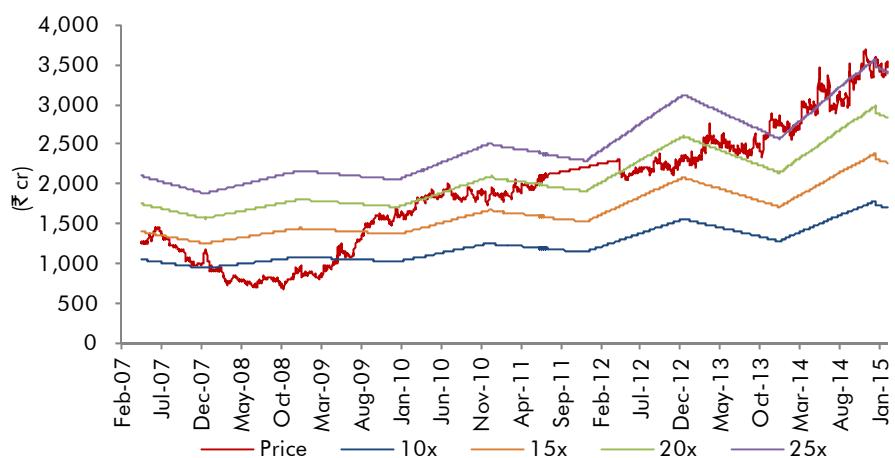
During 2HCY2014 the company's sales were impacted by the July 2014 National Pharmaceutical Pricing Authority (NPPA) order which has brought 80 formulations pertaining to 50 drugs under price control. This severely impacted the company as three of its major products have come under price control. The company is estimated to suffer a value loss of ₹120cr on an annualized basis. However, on the positive side the government has revoked the order, which should aid a recovery in the domestic formulation sales of the company, going forward. We expect the company's net sales to log a 13.0% CAGR over CY2013–15, with domestic formulation sales expected to post a yoy growth of around 13.5% during the period.

Valuation: We expect net sales to post a 14.7% CAGR to ₹2,247cr and EPS to register a 6.9% CAGR to ₹119.1 over CY2013–15. At current levels, the stock is trading at 40.5x and 29.1x its CY2014E and CY2015E earnings. **Hence we recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

	CY2014E	CY2015E
Net sales growth (%)	9.9	19.8
Domestic sales growth (%)	3.0	25.0
Export sales growth (%)	19.9	6.0
Growth in employee expenses (%)	19.0	24.5
Operating margins (%)	12.6	16.0
Net profit growth (%)	(17.8)	39.1
Capex (₹ cr)	30.0	30.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E


Source: Company, Angel Research

Exhibit 8: Recommendation Summary

Company	Reco	CMP (₹)	Tgt. price (₹)	Upside %	FY2016E			FY14-16E		FY2016E	
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)	
Alembic Pharma	Neutral	423	-	-	23.0	3.2	16.6	21.2	31.7	32.6	
Aurobindo Pharma	Neutral	1058	-	-	17.7	2.5	12.1	14.4	20.0	29.3	
Cadila Healthcare	Neutral	1603	-	-	24.9	3.4	18.1	26.8	22.0	27.4	
Cipla	Neutral	675	-	-	26.8	3.8	20.2	20.7	15.8	16.3	
Dr Reddy's	Accumulate	3,402	3,878	14.0	18.4	3.0	12.9	20.7	21.3	24.8	
Dishman Pharma	Buy	163	219	34.4	7.4	1.0	4.5	27.2	12.8	13.0	
GSK Pharma*	Neutral	3,175	-	-	53.5	8.9	43.4	0.4	25.9	25.7	
Indoco Remedies	Neutral	314	-	-	24.7	2.7	15.0	42.0	18.3	20.2	
Ipca labs	Buy	679	817	20.4	14.1	2.2	10.6	6.7	21.0	23.1	
Lupin	Neutral	1,691	-	-	27.8	4.7	17.3	21.8	34.0	26.1	
Ranbaxy	Neutral	705	-	-	51.1	2.8	28.1	2.4	6.9	14.2	
Sanofi India*	Neutral	3,467	-	-	29.1	3.2	20.3	6.9	18.2	20.0	
Sun Pharma	Neutral	915	-	-	27.2	5.4	17.0	8.6	27.8	27.5	

Source: Company, Angel Research; Note: *December year ending

Company Background

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Private Ltd and Shantha Biotechnics. Sanofi India focuses its activities on seven major therapeutic areas, namely – Cardiovascular diseases, Metabolic Disorders, Thrombosis, Oncology, Central Nervous System disorders, Internal Medicine and Vaccines. Predominately a domestic company, the company exports to semi-regulated markets; exports at ₹438cr, contributed around 23% of sales in CY2013.

Profit & loss statement

Y/E Dec. (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Gross sales	1,107	1,259	1,534	1,746	1,915	2,298
Less: Excise duty	22	29	40	39	40	51
Net sales	1,085	1,230	1,494	1,707	1,875	2,247
Other operating income	59	86	91	102	103	103
Total operating income	1,144	1,315	1,585	1,809	1,978	2,349
% chg	11.4	15.0	20.5	14.1	9.3	18.8
Total expenditure	942	1,054	1,261	1,411	1,639	1,889
Net raw materials	539	619	735	820	974	1,090
Other mfg costs	53	61	74	82	93	106
Personnel	163	174	214	242	288	340
Other	187	199	238	267	283	352
EBITDA	143	176	233	296	236	358
% chg	(3.1)	22.9	32.2	27.0	7.3	8.3
(% of Net Sales)	13.2	14.3	15.6	17.3	12.6	16.0
Depreciation& amortisation	21	31	90	92	97	109
EBIT	123	145	143	203	140	250
% chg	(6.0)	18.2	(1.5)	42.4	5.7	6.7
(% of Net Sales)	11.3	11.8	9.6	11.9	10.2	11.2
Interest & other charges	2.9	0	1	0	-	-
Other income	55	54	30	58	64	65
(% of PBT)	23.4	19.0	11.4	15.9	18.6	19.6
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	233	284	262	363	307	417
% chg	(3.4)	21.8	(7.7)	38.7	3.8	4.8
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	234	284	262	363	307	417
Tax	79.0	92.8	85.0	123.3	109.0	141.8
(% of PBT)	33.8	32.7	32.4	33.9	35.6	34.0
PAT (reported)	155	191	177	240	198	275
Extra-ordinary items	75.7	(0)	(0)	(25)	(67)	-
PAT after MI (reported)	231	191	177	266	264	274
ADJ. PAT	155	191	177	240	197	274
% chg	(1.5)	23.3	(7.4)	35.4	5.9	6.9
(% of Net Sales)	21.3	15.5	11.8	15.6	12.0	13.0
Basic EPS (₹)	67	83	77	104	86	119
Fully Diluted EPS (₹)	67	83	77	104	86	119
% chg	(1.5)	23.3	(7.4)	35.4	5.9	6.9

Balance sheet

Y/E Dec (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Preference Capital	-	-	-	-	-	-
Reserves & surplus	991	1,094	1,181	1,324	1,463	1,841
Shareholders funds	1,014	1,117	1,204	1,347	1,486	1,864
Long term provisions		20	19	25	32	32
Other long term liabilities		1	-	-	-	-
Total loans	-	-	-	-	-	-
Total liabilities	1,014	1,137	1,223	1,372	1,518	1,897
APPLICATION OF FUNDS						
Gross block	375	843	889	1,075	1,195	1,225
Less: Acc. depreciation	204	231	315	409	506	615
Net block	171	612	574	666	690	611
Goodwill		125	125	125	125	125
Capital Work-in-Progress	13	23	43	43	43	43
Long term loan and adv.		76	61	62	106	106
Investments	0.4	0.4	0.4	0.2	0.2	0.2
Current assets	1,214	667	827	947	1,263	1,720
Cash	655	234	429	264	469	693
Loans & advances	257	174	208	219	196	330
Other	302	327	191	464	598	697
Current liabilities	394	357	387	435	656	655
Net current assets	820	310	441	512	607	1,065
Deferred tax assets	10	(8)	(21)	(37)	(54)	(54)
Total assets	1,014	1,137	1,223	1,372	1,518	1,897

Cash flow statement

Y/E Dec. (₹ cr)	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Profit before tax	234	284	282	285	291	292
Depreciation	21	31	90	92	97	109
(Inc)/Dec in Working Capital	(10)	55	(147)	236	(64)	234
Less: Other income	59	86	91	102	66	67
Direct taxes paid	79	74	93	91	93	94
Cash Flow from Operations	107	211	41	420	164	474
(Inc.)/Dec.in Fixed Assets	(27)	(477)	(67)	(186)	(120)	(30)
(Inc.)/Dec. in Investments	(5)	0	-	0	0	-
Other income	59	86	91	102	66	67
Cash Flow from Investing	27	(391)	24	(84)	41	42
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(55)	(88)	(88)	(104)	(104)	(104)
Others	(9)	(153)	218	(397)	102	(188)
Cash Flow from Financing	(64)	(241)	130	(501)	(1)	(292)
Inc./(Dec.) in Cash	69	(421)	195	(164)	204	224
Opening Cash balances	586	655	234	429	264	469
Closing Cash balances	655	234	429	264	469	693

Key ratios

Y/E Dec.	CY2010	CY2011	CY2012	CY2013	CY2014E	CY2015E
Valuation Ratio (x)						
P/E (on FDEPS)	51.5	41.8	45.1	33.3	40.5	29.1
P/CEPS	31.8	35.9	29.9	22.3	22.1	20.8
P/BV	7.9	7.2	6.6	5.9	5.4	4.3
EV/Sales	6.8	6.3	5.1	4.5	4.0	3.2
EV/EBITDA	51.2	44.0	32.5	26.1	31.8	20.3
Per Share Data (₹)						
EPS (Basic)	67.3	83.0	76.9	104.1	85.6	119.1
EPS (fully diluted)	67.3	83.0	76.9	104.1	85.6	119.1
Cash EPS	109.1	96.5	115.9	155.4	156.7	166.4
DPS	55.0	33.0	33.0	33.0	33.0	33.0
Book Value	440.3	484.9	522.9	584.8	645.2	809.2
Returns (%)						
RoCE (Pre-tax)	12.6	13.5	12.1	15.7	10.2	18.2
Angel ROIC (Pre-tax)	36.9	23.6	17.5	22.4	14.6	26.0
ROE	15.9	17.9	15.3	18.8	14.4	20.0
Turnover ratios (x)						
Inventory / Sales (days)	75	69	61	31	28	24
Receivables (days)	18	19	23	9	8	7
Payables (days)	47	48	44	24	21	18

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Disclosure of Interest Statement

	Sanofi India
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

 Accumulate (5% to 15%)
 Reduce (-5% to -15%)

 Neutral (-5 to 5%)
 Sell (< -15%)