

## Impacted by demonetisation, maintain Buy

We retain our Buy rating on Sanofi India (SIL) and revise our TP to Rs5,330 (earlier Rs5,880) based on 25x December'18E EPS of Rs213.4. SIL's results for Q4CY16 were below our expectations and were impacted by demonetisation. The company's revenue increased 4% YoY, margin declined 180bps to 18.1% and net profit fell 4%. The company derives ~27% of its revenues from exports of API, formulations and Allstar insulin pens. The launch of new anti-diabetic products and line extensions are likely to drive future growth. We expect improved performance due to continued strong growth of its six flagship brands which grew faster than the market growth. SIL is among the top picks in the pharma sector.

- **Revenue growth of 4% YoY:** SIL's revenues grew 4% YoY to Rs5.92bn from Rs5.69bn and were impacted by demonetisation. The company's top 18 brands contributed ~66% to revenues. Six of the 18 top brands surpassed the market growth rate of 7.2% in December'16. We expect these brands to drive the company's growth. SIL derives ~27% of its revenues from exports of APIs, formulations and insulin pens. Launch of new products and line extensions, volume growth of existing brands would drive growth.
- **EBIDTA margin set to improve:** SIL's EBIDTA margin declined by 180bps to 18.1% from 19.9%, led by a rise in other expenses. Material cost declined by 230bps to 42.2% from 44.5% due to a profitable product mix. Other expenses grew 440bps to 23.4% from 19.0% due to a thrust on marketing. We expect the price revision for non-NLEM products, volume growth and new product introductions to improve the company's margin going forward.
- **Net profit set to grow:** SIL's net profit fell 4% YoY to Rs505mn from Rs525mn, due to a decline in margins and an increase in depreciation. The company's depreciation grew 39% YoY due to additional depreciation of Rs116mn on nutraceutical brands based on the useful life of the asset. The company's tax rate declined to 37.6% from 45.2% of PBT. SIL is a debt-free cash-rich company, with cash/share of ~Rs240 and is poised for strong growth in the coming years.
- **Recommendation and key risks:** We expect SIL to report superior performance in the future, led by its well-known brands in the lifestyle segment, new product introductions from parent company, insulin pens and line extensions. We maintain our Buy rating, with a TP of Rs5,330. Our TP is based on 25x December'18E EPS of Rs213.4, with an upside of 28% over CMP. Key risks to our estimates include the company's additional brands coming under price control and slowdown in the domestic market.

Particulars (Rs mn)	Q4CY16	Q4CY15	YoY (%)	Q3CY16	QoQ (%)	Q4CY16E	% Var.
<b>Net sales</b>	<b>5,920</b>	<b>5,687</b>	<b>4.1</b>	<b>6,242</b>	<b>(5.2)</b>	<b>6,330</b>	<b>(6.5)</b>
Raw material cost	2,497	2,533	(1.4)	2,925	(14.6)	2,880	(13.3)
Employee cost	962	945	1.8	948	1.5	970	(0.8)
Other expenses	1,388	1,080	28.5	922	50.5	990	40.2
<b>EBIDTA</b>	<b>1,073</b>	<b>1,129</b>	<b>(5.0)</b>	<b>1,447</b>	<b>(25.8)</b>	<b>1,490</b>	<b>(28.0)</b>
<b>EBIDTA margin (%)</b>	<b>18.1</b>	<b>19.9</b>		<b>23.2</b>		<b>23.5</b>	
Depreciation	412	296	39.2	300	37.3	310	32.9
Interest	4	1	300.0	3	33.3	3	33.3
Other income	152	126	20.6	148	2.7	170	(10.6)
PBT	809	958	(15.6)	1,292	(37.4)	1,347	(39.9)
Prov. For tax	304	433	(29.8)	486	(37.4)	470	(35.3)
<b>Adj. PAT</b>	<b>505</b>	<b>525</b>	<b>(3.8)</b>	<b>806</b>	<b>(37.3)</b>	<b>877</b>	<b>(42.4)</b>

Source: Company, Centrum Research

Target Price	Rs 5,330	Key Data	
CMP*	Rs4,161	Bloomberg Code	SANLI IN
Upside	28%	Curr Shares O/S (mn)	23.0
Previous Target	Rs5,880	Diluted Shares O/S(mn)	23.0
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	95.8/1.4
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	4770/3830.7
		5 Year H / L (Rs)	4770/2002.1
SANLI IN	1.2 (5.3) (3.1)	Daily Vol. (3M NSE Avg.)	11314
Nifty	4.3 2.5 31.1		

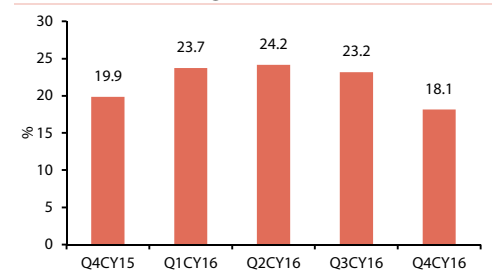
Source: Bloomberg, Centrum Research, \*as on 27<sup>th</sup> February 2017

### Shareholding pattern\* (%)

	Dec-16	Sep-16	Jun-16	Mar-16
Promoter	60.4	60.4	60.4	60.4
FIs	14.6	14.1	14.3	12.6
DIs	14.4	15.0	12.9	17.0
Others	10.6	10.5	12.4	10.0

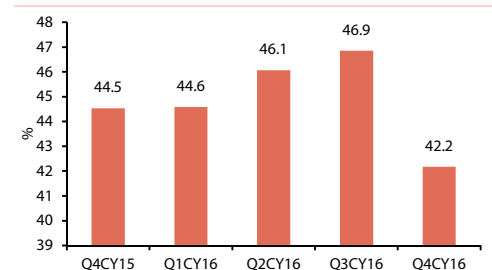
Source: BSE, \*as on 27<sup>th</sup> February 2017

### Trend in EBIDTA margin (%)



Source: Company, Centrum Research

### Trend in material cost (%)



Source: Centrum Research Estimates

### Centrum vs. Bloomberg Consensus\*

Particulars (Rs mn)	CY17E			CY18E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Sales	27,306	26,238	4.1	31,795	29,416	8.1
EBITDA	6,371	6,321	0.8	7,761	7,573	2.5
PAT	3,856	3,926	(1.8)	4,914	4,654	5.6

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
7	0	1	5,333	5,330	(0.1)

Source: Bloomberg, Centrum Research Estimates, \*as on 27<sup>th</sup> February 2017

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Y/E Dec (Rs mn)	Revenues	YoY(%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
CY14	19,775	9.3	3,388	17.1	1,970	(17.9)	85.5	13.9	13.5	35.9	19.5
CY15	21,931	10.9	4,591	20.9	2,377	20.6	103.2	15.3	14.5	36.2	17.4
CY16	23,686	8.0	5,281	22.3	2,970	25.0	129.0	17.7	16.6	33.3	17.7
CY17E	27,306	15.3	6,371	23.3	3,856	29.8	167.4	20.9	19.9	25.7	14.4
CY18E	31,795	16.4	7,761	24.4	4,914	27.4	213.4	23.4	22.3	20.1	11.3

Source: Company, Centrum Research Estimates

## Good growth of major brands

As per AIOCD AWACS data for December'16, SIL's revenues grew by 4.1% compared to the industry growth of 7.2%. The company's 18 major brands contributed ~66% to the revenues, as most of them are in the lifestyle segment. Six of 18 brands grew faster than the market growth rate of 7.2%. We expect these six brands to drive future growth. SIL's Pentaxim-pentavalent vaccine had a strong growth on a lower base.

Lantus is SIL's flagship brand which grew at 17% despite being under price control. We expect Lantus to drive future growth. Avil-anti allergic brand grew over 22% despite its maturity.

The details are as follows:

### Exhibit 1: Performance of major brands

Products (Rs mn)	Ther. Category	October'16		November'16		December'16	
		MAT (Rs mn)	Gr. Rate %	MAT (Rs mn)	Gr. Rate %	MAT (Rs mn)	Gr. Rate %
<b>Pharma industry</b>		<b>95,126</b>	<b>8.3</b>	<b>93,878</b>	<b>15.3</b>	<b>91,323</b>	<b>7.2</b>
<b>Company</b>		<b>2,264</b>	<b>12.5</b>	<b>2,333</b>	<b>22.6</b>	<b>2,188</b>	<b>4.1</b>
Lantus	anti-diabetic	283	33.2	337	52.2	292	17.0
Combiflam	NSAIDs	193	32.7	195	35.2	164	22.6
Allegra	anti-allergic	150	25.4	144	22.5	133	12.6
Clexane	anticoagulant	116	16.0	104	8.5	102	(8.7)
Cardace	antihypertensive	77	(11.1)	88	3.3	75	(21.1)
Enterogermina	gastrointestinal	58	(1.0)	63	(3.3)	67	(20.4)
Amaryl M	anti-diabetic	109	47.8	121	67.3	105	20.7
Frisium	anti-anxiety	58	(23.3)	61	(16.4)	58	(25.1)
Vaxigrip	flu vaccine	63	(43.5)	62	(11.5)	59	(50.6)
Avil	antiallergic	92	40.2	89	39.8	73	22.4
Targocid	antibiotic	61	(0.7)	57	(10.7)	56	(13.1)
Amaryl	anti-diabetic	52	(3.3)	64	26.9	53	0.1
Valparin Chrono	bipolar disorder	44	(4.7)	46	4.3	48	0.3
Pentaxim	pentavalent vaccine	120	501.8	40	339.5	78	3271.5
Avaxim	Hepatitis A vaccine	1	(98.5)	0	0.0	0	0.0
Plavix	anticoagulant	33	(17.3)	37	(10.1)	32	(24.2)
Soframycin	antiinfective	37	(0.1)	35	(3.6)	29	(14.6)
Valparin	bipolar disorder	29	(12.0)	31	(4.8)	29	(15.3)
<b>Total</b>		<b>1,576</b>		<b>1,574</b>		<b>1,453</b>	

Source: AIOCD AWACS monthly data –October-December'16

### Exports to drive growth

SIL derives ~27% of its revenues from exports of API and formulations to global locations including Hong Kong, Singapore, Thailand, Malaysia, Australia, Russia and the CIS. The company exports Pentoxifylline and Articaine APIs. SIL has commenced the manufacture and export of floctafenine API to the parent company. Floctafenine API is a new-generation NSAID drug marketed globally under brand names, Idarac and Idarelast. SIL has exported 0.8mn Allstar insulin reusable pens to various global destinations.

### Affected by NPPA provisions

SIL's six major brands – Lantus, Cardace, Amaryl, Clexane, Frisium and Avil – are under price control and contribute ~30% to the company's revenues. Despite being under price control, Lantus and Avil have shown good volume growth, thus increasing affordability. We do not expect any downside risk from NPPA as all the major brands are already under price control and gaining good volume growth.

## Other developments

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### Major products and their performance

- Sanofi Synthelabo (SSL), the group company, has launched two anti-diabetic products in the domestic market. These are Lyxumia (lixisenatide)-once daily non-insulin injectable drug for Type 2 diabetes and Zemiglo (gemigliptin)-once daily oral tablet used in the treatment of Type 2 diabetes. Lyxumia is approved in 70 countries, and Zemiglo has been approved in South Korea in 2012. Zemiglo is priced at Rs42.70 per tablet and Lyxumia is priced at Rs4,114 per pre-filled syringe. We expect these products to drive future growth. SIL would market these products in the domestic market.
- The parent company is marketing dengue vaccine in the Philippines, Brazil, Ecuador and Mexico, and has applied for permission to market the same in India.
- The parent company has launched insulin glargine Toujeo in the US. This is a long-acting insulin and a successor to Lantus. Toujeo is the better version of Lantus and would eventually replace Lantus.
- SIL derives ~25% of its revenues from price-controlled products.
- Allstar and Apidra insulin pens are doing well. However, Allstar has witnessed slower growth in exports.
- The nutraceutical products acquired from Universal Medicare have good growth as they are outside price control.

### Marketing strategy

- SIL's hospital segment markets Clexane (anticoagulant) and Targocid (antibiotic). These products have good growth due to low competition.
- The company's anticancer product Taxotere witnessed declining sales due to price control.
- SIL markets its well-known anti-coagulant brand Plavix in India.
- Lower price of NLEM products has resulted in good volume growth.
- Capacity utilisation was ~100% at Goa (finished products) and over 70% at Ankleshwar (API).

## Valuation and key risks

At the CMP of Rs4,161, the stock trades at 25.7x CY17E EPS of Rs167.4 and 20.1x CY18E EPS of Rs213.4. We have revised our CY17E and Y18E EPS downwards by 14% and 9% respectively. We expect the company to report superior performance in the future due to its well-known brands, new product introductions from parent company, line extensions and insulin pens. The profitable product mix and cost control measures would improve margins. We maintain Buy for SIL, with a TP of Rs5,330. Our TP is based on 25x December'18E EPS of Rs213.4, with an upside of 28% over CMP. SIL is among the top picks in the pharma sector.

### Exhibit 2: Earning Revision

Particulars	CY17E			CY18E		
	Current	Earlier	Chg(%)	Current	Earlier	Chg(%)
Sales	27,306	29,667	(8.0)	31,795	34,411	(7.6)
EBIDTA	6,371	6,877	(7.4)	7,761	8,225	(5.6)
EBIDTA margin (%)	23.3	23.2	10 bps	24.4	23.9	50 bps
Net profit	3,856	4,482	(14.0)	4,914	5,415	(9.3)

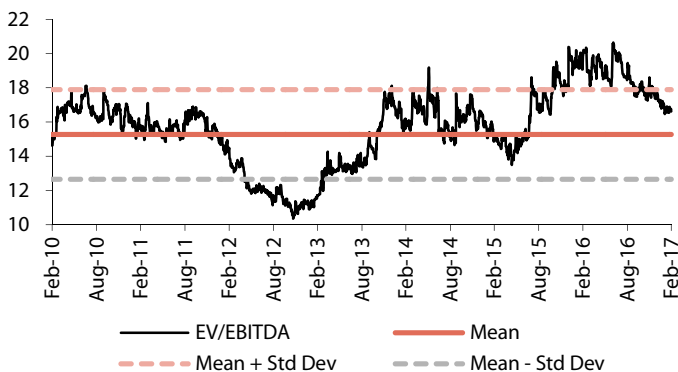
Source: Centrum Research Estimates

### Exhibit 3: Sensitivity Analysis

Sensitivity to key variables – CY17E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.3	7.1
Material cost	1	(1.9)	(3.2)

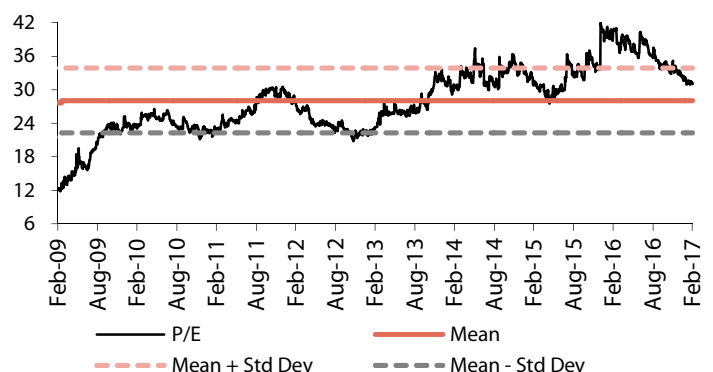
Source: Company, Centrum Research Estimates

### Exhibit 4: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 5: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 6: Comparative Valuations

COMPANY	Mkt Cap Rs mn	CAGR CY15-CY17E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E	CY15	CY16E	CY17E
Sanofi India*	95,828	11.6	17.8	27.4	20.9	22.3	23.3	36.2	33.3	25.7	17.4	17.7	14.4	15.3	17.7	20.9	2.1	1.9	1.7
Abbott India	95,561	16.9	22.8	22.5	13.9	14.8	15.4	39.2	30.6	25.5	25.4	19.8	15.9	25.4	26.8	26.9	0.9	1.1	1.3
Glaxo SK Ph	2,26,403	10.6	(1.6)	(1.2)	17.3	12.7	13.7	86.3	119.4	88.4	64.6	83.4	68.9	21.2	17.0	26.3	1.6	1.6	1.7
Pfizer	80,474	1.7	(15.1)	7.7	21.4	13.8	14.9	47.8	40.3	33.0	23.6	28.6	25.9	10.4	9.1	10.5	0.9	1.1	1.4

Source: Company, Centrum Research Estimates, \* December ending, Prices as on 27<sup>th</sup> February 2017

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 7: Quarterly Financials

PARTICULARS Rs mn	Q1CY15	Q2CY15	Q3CY15	Q4FY16	Q1CY16	Q2CY16	Q3CY16	Q4CY16
<b>P &amp; L</b>								
Net sales	4,598	5,143	5,528	5,224	5,063	5,653	5,828	5,518
Other operating income	291	354	330	463	381	427	414	402
Total revenues	4,889	5,497	5,858	5,687	5,444	6,080	6,242	5,920
Material cost	2,399	2,661	2,652	2,533	2,427	2,801	2,925	2,497
Personnel cost	787	789	812	945	836	846	948	962
Other expenses	874	833	975	1,080	890	963	922	1,388
Total expenses	4,060	4,283	4,439	4,558	4,153	4,610	4,795	4,847
EBIDTA	829	1,214	1,419	1,129	1,291	1,470	1,447	1,073
Other income	194	99	94	126	256	152	148	152
PBDIT	1,023	1,313	1,513	1,255	1,547	1,622	1,595	1,225
Interest	1	1	1	1	1	7	3	4
Depreciation	259	284	290	296	301	300	300	412
Profit before tax	763	1,028	1,222	958	1,245	1,315	1,292	809
Tax provision	279	386	497	433	439	462	486	304
Profit after tax before EO	484	642	725	525	806	853	806	505
EO items	161	0	0	677	0	0	0	0
PAT after EO	645	642	725	1,202	806	853	806	505
<b>Growth (%)</b>								
Revenues	9.9	8.7	13.8	11.1	11.4	10.6	6.6	4.1
EBIDTA	2.3	24.0	36.6	101.2	55.7	21.1	2.0	(5.0)
Net Profit before EO	(6.4)	11.7	16.9	102.7	66.5	32.9	11.2	(3.8)
<b>Margin (%)</b>								
EBIDTA	17.0	22.1	24.2	19.9	23.7	24.2	23.2	18.1
Profit before tax	15.6	18.7	20.9	16.8	22.9	21.6	20.7	13.7
Net margin before EO	9.9	11.7	12.4	9.2	14.8	14.0	12.9	8.5

Source: Company, Centrum Research

### Exhibit 8: Key performance indicators

Key performance indicator	CY14	CY15	CY16	CY17E	CY18E
Revenue growth %	9.3	10.9	8.0	15.3	16.4
Material cost (%)	49.3	46.1	45.0	44.6	44.2

Source: Centrum Research Estimates

## Financials - standalone

### Exhibit 9: Income Statement

Y/E Dec (Rs mn)	CY14	CY15	CY16	CY17E	CY18E
Revenues	19,775	21,931	23,686	27,306	31,795
Material cost	9,741	10,117	10,650	12,169	14,060
% of revenues	49.3	46.1	45.0	44.6	44.2
Employee cost	2,882	3,333	3,592	4,110	4,710
% of revenues	14.6	15.2	15.2	15.1	14.8
Other Expenses	3,763	3,891	4,163	4,656	5,264
% of revenues	19.0	17.7	17.6	17.1	16.6
EBIDTA	3,388	4,591	5,281	6,371	7,761
EBIDTA margin (%)	17.1	20.9	22.3	23.3	24.4
Depreciation & Amortisation	966	1,131	1,313	1,373	1,459
EBIT	2,422	3,460	3,968	4,998	6,302
Interest Expenses	5	4	15	12	10
PBT from operations	2,417	3,456	3,953	4,986	6,292
Other income	643	514	708	1,020	1,272
PBT	3,060	3,970	4,661	6,006	7,564
Tax provision	1,090	1,593	1,691	2,150	2,650
Effective tax rate (%)	35.6	40.1	36.3	35.8	35.0
Net profit	1,970	2,377	2,970	3,856	4,914
EO items	666	838	-	-	-
Reported net profit	2,636	3,215	2,970	3,856	4,914
Adj. Net profit	1,970	2,377	2,970	3,856	4,914

Source: Company, Centrum Research Estimates

### Exhibit 10: Key Ratios

Y/E Dec	CY14	CY15	CY16E	CY17E	CY18E
<b>Growth Ratios (%)</b>					
Revenues	9.3	10.9	8.0	15.3	16.4
EBIDTA	(14.9)	35.5	15.0	20.6	21.8
Adj. Net Profit	(17.9)	20.6	25.0	29.8	27.4
<b>Margin Ratios (%)</b>					
EBIDTA margin	17.1	20.9	22.3	23.3	24.4
PBT from operations margin	12.2	15.8	16.7	18.3	19.8
Adj. PAT margin	10.0	10.8	12.5	14.1	15.5
<b>Return Ratios (%)</b>					
RoCE	13.5	14.5	16.6	19.9	22.3
RoE	13.9	15.3	17.7	20.9	23.4
RoC	14.2	18.9	21.2	24.6	31.8
<b>Turnover ratios (days)</b>					
Gross Block Turnover (x)	1.8	1.7	1.6	1.7	1.9
Debtors	21	24	22	26	23
Creditors	60	38	38	38	38
Inventory	88	80	76	84	78
Cash Conversion Cycle	49	66	61	72	63
<b>Solvency Ratio</b>					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.3)	(0.4)	(0.3)	(0.4)	(0.5)
Current Ratio	2.0	2.2	2.4	2.6	2.7
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
<b>Per Share (Rs)</b>					
FDEPS (adjusted)	85.5	103.2	129.0	167.4	213.4
CEPS	127.5	152.3	186.0	227.1	276.7
Book Value	645.2	707.1	753.6	848.6	977.3
Dividend	45.0	65.0	68.0	60.0	70.0
Dividend Payout (%)	46.2	56.1	63.8	43.4	39.7
<b>Valuations (x) (Avg Mkt Cap)</b>					
PER	35.9	36.2	33.3	25.7	20.1
P/BV	4.8	5.3	5.7	5.1	4.4
EV/EBIDTA	19.5	17.4	17.7	14.4	11.3
Dividend Yield (%)	1.7	2.1	1.9	1.7	2.0
5-yr Avg AOCF/EV yield(%)	3.5	3.1	2.6	2.9	4.0

Source: Company, Centrum Research Estimates

### Exhibit 11: Balance Sheet

Y/E Dec (Rs mn)	CY14	CY15	CY16	CY17E	CY18E
Share capital	230	230	230	230	230
Reserves & surplus	14,628	16,054	17,126	19,313	22,277
Total shareholders Funds	14,858	16,284	17,356	19,543	22,508
Total Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liab.	539	1,203	966	995	1,125
<b>Total Liabilities</b>	<b>15,397</b>	<b>17,487</b>	<b>18,322</b>	<b>20,538</b>	<b>23,633</b>
Gross Block	11,321	14,547	15,387	16,052	16,692
Less: Acc. Depreciation	4,838	5,875	7,093	8,373	9,737
Net Block	6,484	8,673	8,294	7,680	6,955
Capital WIP	2,099	221	140	200	260
<b>Net Fixed Assets</b>	<b>8,583</b>	<b>8,894</b>	<b>8,434</b>	<b>7,880</b>	<b>7,215</b>
Investments	2	2	2	2	2
Inventories	4,781	4,792	4,931	6,250	6,800
Debtors	1,152	1,441	1,448	1,927	2,030
Loans & Advances	3,010	3,035	4,913	5,265	5,590
Cash & Bank Balance	4,688	6,326	5,585	7,148	11,266
Other assets	60	69	87	100	120
<b>Total Current Assets</b>	<b>13,691</b>	<b>15,663</b>	<b>16,964</b>	<b>20,690</b>	<b>25,806</b>
Trade payable	3,269	2,256	2,444	2,825	3,330
Other current Liabilities	1,100	1,177	1,209	1,462	1,595
Provisions	2,510	3,639	3,425	3,747	4,466
<b>Net Current Assets</b>	<b>6,812</b>	<b>8,591</b>	<b>9,886</b>	<b>12,656</b>	<b>16,415</b>
<b>Total Assets</b>	<b>15,397</b>	<b>17,487</b>	<b>18,322</b>	<b>20,538</b>	<b>23,633</b>

Source: Company, Centrum Research Estimates

### Exhibit 12: Cash Flow

Y/E Dec (Rs mn)	CY14	CY15	CY16E	CY17E	CY18E
CF before WC changes	2,286	3,253	4,039	5,252	6,497
Working Capital Changes	364	(1,121)	(2,036)	(1,207)	359
<b>CF from Operations</b>	<b>2,650</b>	<b>2,132</b>	<b>2,002</b>	<b>4,045</b>	<b>6,856</b>
Adj OCF (OCF-Interest)	2,645	2,128	1,987	4,033	6,846
Change in fixed assets	(182)	(287)	(853)	(819)	(794)
Adj. FCF (AOCF-Capex)	2,463	1,841	1,134	3,214	6,052
<b>CF from Investing</b>	<b>613</b>	<b>359</b>	<b>(852)</b>	<b>(817)</b>	<b>(791)</b>
<b>CF from Financing</b>	<b>(1,217)</b>	<b>(1,470)</b>	<b>(1,895)</b>	<b>(1,672)</b>	<b>(1,951)</b>
<b>Net change in Cash</b>	<b>2,046</b>	<b>1,021</b>	<b>(745)</b>	<b>1,556</b>	<b>4,114</b>

Source: Company, Centrum Research Estimates



## Appendix A

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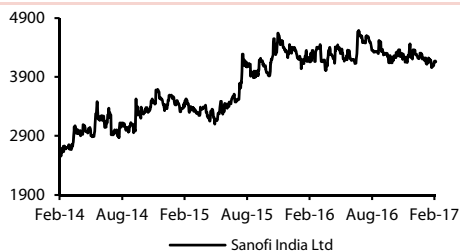
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### Sanofi India price chart



Source: Bloomberg, Centrum Research



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