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Q3CY21 result review  
and earning revision

## Pharmaceuticals

Target price: Rs8,774

### Earnings revision

(%)	CY21E	CY22E	CY23E
Sales	1.3	(0.1)	(1.5)
EPS	8.8	(2.4)	(5.6)

### Target price revision

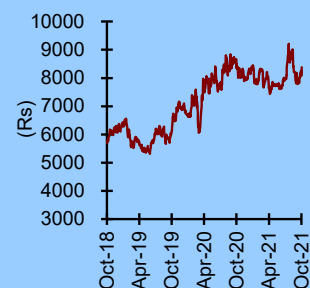
Rs8,774 from Rs8,989

### Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	60.4	60.4	60.4
Institutional investors	28.7	28.3	28.0
MFs and others	9.8	10.1	10.4
Banks / FIs	0.0	0.0	0.0
Insurance	7.3	7.2	7.2
FIs	11.6	11.0	10.4
Others	10.9	11.3	11.6

Source: BSE India

### Price chart



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## INDIA

# Sanofi India

## ADD

Maintained

Rs8,069

## Divestment of Nutraceuticals complete

Sanofi India's (SANL) Q3CY21's performance was below estimates, however, adjusting for the divestment of nutraceutical division, it was broadly in line. Revenue grew 9.9% YoY to Rs7.5bn (I-Sec: Rs8.1bn). EBITDA margin dropped 170bps YoY and 500bps QoQ to 26.3% (I-Sec: 28.5%). Adjusted PAT grew 15.0% to Rs1.5bn. SANL recorded an exceptional income of Rs4.9bn from the sale of nutraceutical division. In the past few years, the company's growth and profitability were fuelled by the power brands. We remain positive on SANL considering high visibility of strong growth from its chronic therapy exposure in domestic formulations, strong balance sheet with deep cash reserves, and strong brand equity built over the years. **Maintain ADD.**

► **Business review:** Revenue grew 9.9% YoY but adjusting for the nutraceuticals division growth would have been 12-13% YoY. Company announced the sale of this division in Jul'21 at ~4.6x FY21 sales and has recorded a net gain of ~Rs4.9bn during the quarter. Company expenses appear to be normalising with S,G&A rising 31.8% QoQ to Rs1.2bn. It is also higher by 11.7% YoY wherein the reference quarter was significantly marred by lockdown due to COVID-19. Employee expenses declined 2.0% YoY and 4.1% QoQ on absolute basis and it dropped 180bps YoY (flat QoQ) as a percentage of sales. This suppressed the EBITDA margin by 170bps YoY and 500bps QoQ. We expect EBITDA margin to be under pressure in the coming quarters as these expenses will increase with reversal of the cost control measures that have been implemented.

► **Key products performance:** As per IQVIA data SANL has reported a YoY growth of 8.8% during the quarter while top 10 brands reported 6.5% YoY growth. Among top 10 brands *Targocid*, *Enterogermina*, *Avil*, *Allegra* and *Combiflam* have reported double digit YoY growth of 18.2%, 17.2%, 14.6%, 13.5% and 10.5% while *Lantus* and *Amaryl M* have reported single digit growth. *On an other hand*, *Clexane* and *Cardace* have reported decline of 6.8% and 4.1% respectively. While high chronic contribution (>60% of domestic sales) has been supporting the performance in the past few quarters, recovery in acute therapies now bodes well for growth.

► **Outlook:** We expect revenue/ EBITDA/ PAT to grow 6.1%/ 8.0%/ 10.6% over CY20-CY23E with declining export revenue contribution. We raise EPS estimates by 8.8% for CY21E to factor in higher other income but lower CY22-CY23E EPS by 2-6% to factor in impact on *Lantus* post inclusion in NLEM. We expect SANL to announce a special dividend post the sale of the nutraceutical division. Rising contribution of domestic revenue would help lift margins gradually.

► **Valuations and risks:** Maintain **ADD** rating with a revised target price of Rs8,774/share based on 33x CY22E EPS (earlier: Rs8,989/share). Key downside risks are: addition of key drugs in NLEM, product concentration, government intervention, and presence of unlisted promoter company.

Market Cap	Rs186bn/US\$2.5bn
Reuters/Bloomberg	SANO.BO/SANL IN
Shares Outstanding (mn)	23.0
52-week Range (Rs)	9208/7434
Free Float (%)	39.6
FII (%)	10.4
Daily Volume (USD/'000)	3,106
Absolute Return 3m (%)	1.0
Absolute Return 12m (%)	1.6
Sensex Return 3m (%)	16.4
Sensex Return 12m (%)	54.4

Year to Dec	CY20	CY21E	CY22E	CY23E
Revenue (Rs mn)	29,019	29,723	32,099	34,684
Net Income (Rs mn)	4,776	9,456	6,115	6,857
EPS (Rs)	220.4	252.0	265.9	298.2
% Chg YoY	11.4	14.3	5.5	12.1
P/E (x)	36.6	32.0	30.3	27.1
CEPS (Rs)	256.2	283.1	292.3	322.9
EV/E (x)	24.4	22.3	21.3	19.1
Dividend Yield (%)	4.3	4.5	4.3	1.5
RoCE (%)	21.3	25.4	27.3	29.1
RoE (%)	22.2	26.7	28.7	30.7

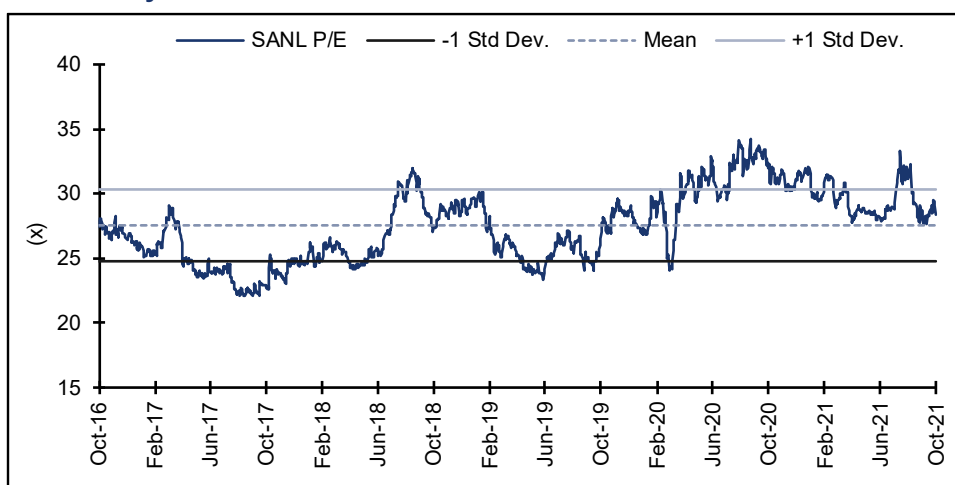
**Table 1: Q3CY21 performance**

(Rs mn, year ending December 31)

	Q3CY21	Q3CY20	YoY % Chg	Q2CY21	QoQ % Chg
<b>Net Sales</b>	<b>7,545</b>	<b>6,866</b>	<b>9.9</b>	<b>7,891</b>	<b>(4.4)</b>
EBITDA	1,988	1,922	3.4	2,471	(19.5)
Other income	147	149	(1.3)	171	(14.0)
<b>PBIDT</b>	<b>2,135</b>	<b>2,071</b>	<b>3.1</b>	<b>2,642</b>	<b>(19.2)</b>
Depreciation	143	206	(30.6)	211	(32.2)
Interest	5	4	25.0	5	-
Extra ordinary income/ (exp.)	4,892	(2)	-	-	-
<b>PBT</b>	<b>6,879</b>	<b>1,859</b>	<b>270.0</b>	<b>2,426</b>	<b>183.6</b>
Tax	1,581	530	198.3	643	145.9
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>5,298</b>	<b>1,329</b>	<b>298.6</b>	<b>1,783</b>	<b>197.1</b>
<b>Adjusted PAT</b>	<b>1,530</b>	<b>1,330</b>	<b>15.0</b>	<b>1,783</b>	<b>(14.2)</b>
EBITDA margins (%)	26.3	28.0	(170)bps	31.3	(500)bps

Source: Company data, I-Sec research

**Chart 1: 1-year forward P/E**



Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 2: Profit &amp; loss statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
<b>Total Net Revenue</b>	<b>29,019</b>	<b>29,723</b>	<b>32,099</b>	<b>34,684</b>
yoy Growth%	(5.5)	2.4	8.0	8.1
<b>Total Op. Exp.</b>	<b>21,888</b>	<b>21,963</b>	<b>23,851</b>	<b>25,691</b>
<b>EBITDA</b>	<b>7,131</b>	<b>7,761</b>	<b>8,248</b>	<b>8,993</b>
Margins %	24.6	26.1	25.7	25.9
yoy Growth%	7.2	8.8	6.3	9.0
Depreciation	822	714	606	569
<b>EBIT</b>	<b>6,309</b>	<b>7,047</b>	<b>7,641</b>	<b>8,424</b>
Other Income	898	721	552	762
Interest	18	18	18	18
EO Income	(417)	4,892	-	-
<b>PBT</b>	<b>6,772</b>	<b>12,641</b>	<b>8,176</b>	<b>9,168</b>
Tax	1,996	3,186	2,060	2,310
Tax Rate (%)	29.5	25.2	25.2	25.2
Minority Interest	-	-	-	-
<b>Reported PAT</b>	<b>4,776</b>	<b>9,456</b>	<b>6,115</b>	<b>6,857</b>
<b>Adj. PAT</b>	<b>5,070</b>	<b>5,797</b>	<b>6,115</b>	<b>6,857</b>
Net Margins (%)	17.5	19.5	19.1	19.8

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Paid-up Capital	230	230	230	230
Reserves & Surplus	20,960	22,010	20,075	24,190
<b>Total Equity</b>	<b>21,190</b>	<b>22,240</b>	<b>20,305</b>	<b>24,420</b>
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>226</b>	<b>226</b>	<b>226</b>	<b>226</b>
Deferred Liabilities	302	309	334	361
<b>Capital Employed</b>	<b>21,718</b>	<b>22,775</b>	<b>20,865</b>	<b>25,007</b>
Current Liabilities	7,467	7,693	8,255	8,823
<b>Total Liabilities</b>	<b>29,185</b>	<b>30,468</b>	<b>29,120</b>	<b>33,830</b>
<b>Net Fixed Assets</b>	<b>4,741</b>	<b>5,370</b>	<b>5,514</b>	<b>5,445</b>
Investments	-	-	-	-
Inventory	3,680	3,693	4,010	4,319
Debtors	1,480	1,516	1,637	1,769
Other Current Assets	7,198	7,336	7,803	8,311
Cash and Equivalents	12,086	12,553	10,156	13,986
<b>Total Cur. Assets</b>	<b>24,444</b>	<b>25,098</b>	<b>23,607</b>	<b>28,385</b>
<b>Total Assets</b>	<b>29,185</b>	<b>30,468</b>	<b>29,120</b>	<b>33,830</b>

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
PBT (Adj. for Extraordinary)	6,772	12,641	8,176	9,168
Depreciation	822	714	606	569
Net Chg in WC	(188)	89	(173)	(196)
Taxes	(1,933)	(3,186)	(2,060)	(2,310)
Others	620	(43)	(145)	(158)
<b>CFO</b>	<b>6,093</b>	<b>10,216</b>	<b>6,403</b>	<b>7,072</b>
Capex	2,398	(1,343)	(750)	(500)
Net Investments made	400	-	-	-
Others	(34)	-	-	-
<b>CFI</b>	<b>2,764</b>	<b>(1,343)</b>	<b>(750)</b>	<b>(500)</b>
Change in Share capital	-	-	-	-
Change in Debts	226	-	-	-
Div. & Div Tax	(8,038)	(8,406)	(8,050)	(2,743)
Others	(254)	-	-	-
<b>CFF</b>	<b>(8,066)</b>	<b>(8,406)</b>	<b>(8,050)</b>	<b>(2,743)</b>
<b>Total Cash Generated</b>	<b>791</b>	<b>467</b>	<b>(2,397)</b>	<b>3,829</b>
<b>Cash Opening Balance</b>	<b>11,295</b>	<b>12,086</b>	<b>12,553</b>	<b>10,156</b>
<b>Cash Closing Balance</b>	<b>12,086</b>	<b>12,553</b>	<b>10,156</b>	<b>13,986</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending December 31)

	CY20	CY21E	CY22E	CY23E
Adj EPS	220.4	252.0	265.9	298.2
YoY Growth%	11.4	14.3	5.5	12.1
Cash EPS	256.2	283.1	292.3	322.9
EBITDA - Core (%)	24.6	26.1	25.7	25.9
NPM (%)	17.5	19.5	19.1	19.8
Net Debt to Equity (x)	(0.6)	(0.6)	(0.5)	(0.6)
P/E (x)	36.6	32.0	30.3	27.1
EV/EBITDA Core (x)	24.4	22.3	21.3	19.1
P/BV (x)	8.8	8.3	9.1	7.6
EV/Sales (x)	6.0	5.8	5.5	5.0
RoCE (%)	21.3	25.4	27.3	29.1
RoE (%)	22.2	26.7	28.7	30.7
RoIC (%)	36.4	49.8	51.4	54.7
Book Value (Rs)	921	967	883	1,062
DPS (Rs)	349.5	365.5	350.0	119.3
Dividend Payout (%)	168.3	88.9	131.6	40.0
Div Yield (%)	4.3	4.5	4.3	1.5
Asset Turnover Ratio	6.2	6.7	6.6	7.1
Avg Collection days	23	18	18	18
Avg Inventory days	70	61	59	59

Source: Company data, I-Sec research

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