



## Pick up in volumes!!

20<sup>th</sup> July, 2017

**CMP:** Rs. 4185  
**Target Price:** Rs. 4,454  
**Recommendation:** **HOLD**

### Stock Info

BSE Group	A
BSE Code	500674
NSE Symbol	SANOFI
Bloomberg	SANL IN
Reuters	SANO.BO
BSE Sensex	31,955
NSE Nifty	9,899

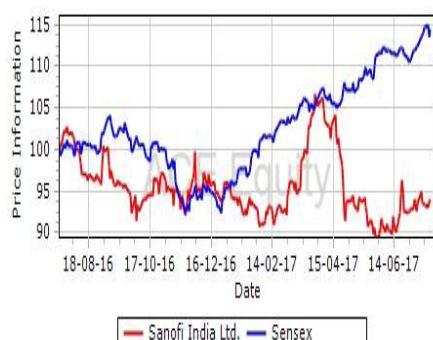
### Market Info

Market Capital	9,735 Cr
Equity Capital	23 Cr
6M Avg. Trading Vol.	9,779
52 Wk High/ Low	4,950/4,000
Face Value	Rs 10

### Shareholding Pattern (%) (June 2017)

Promoters	60.4
Domestic Institutions	12.9
Foreign Institutions	15.0
Public & Others	11.7

### Price Chart:



### Sanofi India Ltd. reported a 23% increase in PAT qoq but a fall of 14% yoy.

Sanofi India Ltd. posted a marginal decline in revenue of 1% yoy but an increase of 9% qoq. Gross sales and Profit before tax for the quarter were impacted due to down stocking in trade channels in anticipation of the GST regime.

### EBITDA margins contracts:

EBITDA for the quarter fell by 20.3% yoy with a corresponding margin contraction of 509 bps. EBITDA margin for the quarter stood at 19%. This margin contraction was driven by adverse movements in inventories.

### Overall expenses surges 5%:

Overall expenses stood at Rs 485 crore for the quarter under review, an increase of 5% per cent as against Rs 462 crore in the corresponding quarter of the previous year. Cost of material as a percentage of sales surged from 24.7% to 28.4% yoy. Depreciation and amortization expenses decreased to Rs 26 crore from Rs 30 crore in June quarter of 2016.

Employee benefit expenses increased from Rs 85.80 crore to Rs 94.50 crore yoy.

### Other Income:

This quarter company reported Rs 28 crore of other income compared to Rs 16.4 crore for the same quarter in the previous year, an increase of 73%.

### Valuation:

Sanofi had a weak H1, with an EBITDA decline of 21% YoY, which was negatively affected by lower export volumes, weak currency and NLEM pressure. However, some top products, such as Lantus, Insuman, Combiflam and line extensions of Amaryl, continue to do well. Further new launches like Toujeo should add to growth. About 21% of the company's domestic portfolio is already under price control. MNC like Sanofi have demonstrated significant resilience, as pickup in volume growth post price reduction has partially or in some cases to a large extent offset the price cuts in a short period of time. Indian Pharma market is expected to grow at 12-13% per annum over 5 years. We have maintained a conservative approach with growth estimates of 10% and have valued the stock at PE of 34x to its CY18E EPS of 131, with a Target Price of 4454. We have a **HOLD** rating on the stock.



## Financial Snapshot:

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Particulars	2016	2017E	2018E
Income from Operations	2369	2617	2879
EBITDA	528	484	517
EBITDA%	22.3	18.5	18.0
Profit After Tax	297	286	301
EPS	129	124	131
ROE	17.7	16.0	16.0
P/E (x)	33.3	33.8	32.1
EV/EBITDA (x)	17.7	19.0	17.7

## Quarterly Results

Particulars	Q2 CY17	Q1 CY17	QoQ %	Q2CY16	YoY%
Revenue	600.6	553	9%	608.0	-1%
Total Expenditure	485	451	7%	462	5%
EBITDA	115	102	14%	146	-21%
EBITDA Margin	19%	18%	5%	24%	-20%
Other Income	28	16	79%	16.4	73%
Interest	0.0	0.4	-100%	0.7	-100%
Depreciation	26	25	1%	30.0	-15%
PBT	118	92	29%	132	-10%
Tax	45	32	41%	46.2	-3%
PAT	74	60	23%	85	-14%
EPS	32	26	23%	37	-14%

Source: - Ace Equity, Arihant Research



### Profit and Loss Account

Particulars (Rs crore)	2016	2017E	2018E
<b>Income from Operations</b>	<b>2,369</b>	<b>2,617</b>	<b>2,879</b>
YoY	8%	10%	10%
Raw Material Cost	618	772	819
Employee Cost	359	419	475
Other Manufacturing Expense	447	340	391
Other Expenses	416	602	676
<b>Total Expenditure</b>	<b>1,841</b>	<b>2,133</b>	<b>2,362</b>
<b>EBITDA</b>	<b>528</b>	<b>484</b>	<b>517</b>
EBITDA Margin	22%	18%	18%
Depreciation & Amortization	131	134	139
EBIT	397	350	378
Other Income	71	92	86
Interest	1.5	1.5	1.5
<b>PBT before Exceptional Items</b>	<b>467</b>	<b>440</b>	<b>463</b>
Exceptional items	0	0	0
<b>PBT</b>	<b>467</b>	<b>440</b>	<b>463</b>
Provision for Tax	169	154	162
<b>Profit After Tax</b>	<b>297</b>	<b>286</b>	<b>301</b>
YoY	-8%	-4%	5%

### Cash Flow Statement

Particulars (Rs crore)	2016	2017E	2018E
<b>Operating Activities</b>			
<b>PBT before Exceptional Items</b>	<b>467</b>	<b>440</b>	<b>463</b>
Add Depr	131	134	139
Others	(238)	(226)	(161)
CFO before Working Capital Changes	360	348	441
Changes in Working Capital	(286)	(45)	55
<b>Cash Flow from Operations</b>	<b>74</b>	<b>303</b>	<b>496</b>
<b>Investing Activities</b>			
Capex	(47)	(52)	(58)
Other Investing Activities	149	(139)	(149)
<b>Cash Flow from Investing</b>	<b>102</b>	<b>(191)</b>	<b>(207)</b>
<b>Financing Activities</b>			
Dividends + Taxes paid	(188)	(193)	(199)
Other financing activities	-1.5	-1.5	-1.5
<b>Cash Flow from Financing</b>	<b>(189)</b>	<b>(195)</b>	<b>(200)</b>
Opening Cash	573	559	476
Changes during year	(14)	(83)	89
<b>Closing Cash</b>	<b>559</b>	<b>476</b>	<b>565</b>

### Balance Sheet

Particulars (Rs crore)	2016	2017E	2018E
<b>Equity &amp; Liabilities</b>			
(a) Share Capital	23	23	23
(b) Reserves & Surplus	1713	1805	1906
<b>Shareholders' Funds</b>	<b>1736</b>	<b>1828</b>	<b>1929</b>
Non-current Liabilities & Prov.	137	130	191
Current Liabilities	668	733	812
<b>Total Equity and Liabilities</b>	<b>2540</b>	<b>2690</b>	<b>2932</b>
<b>Assets</b>			
Fixed Assets			
Tangible	278	287	297
Intangible	390	386	389
CWIP	175	191	200
Other Non-current Assets	129	132	145
Inventory	493	537	664
Trade Receivables	145	157	173
Cash & Bank	559	476	565
Other Current Assets	371	524	500
<b>Total Assets</b>	<b>2540</b>	<b>2690</b>	<b>2932</b>

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### Ratio Analysis

	2016	2017E	2018E
<b>Profitability</b>			
EBITDA%	22.3	18.5	18.0
EBIT%	16.8	13.4	13.1
PAT%	12.6	10.9	10.5
<b>Du Pont ROAE breakup</b>			
PAT / Sales	12.6	10.9	10.5
Sales / Assets	1.0	1.0	1.0
Assets / Equity	1.5	1.5	1.5
ROE	17.7	16.0	16.0
<b>Other Ratios</b>			
Current Ratio	2.3	2.3	2.3
Debt / Equity	0.0	0.0	0.0
EPS	129.1	124.1	130.7
DPS	68.0	70.0	72.0
<b>Valuation Ratios</b>			
P/E (x)	33.3	33.8	32.1
EV/EBITDA (x)	17.7	19.0	17.7
P/BV (x)	5.7	5.3	5.0

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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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