

Sanofi India

Performance Highlights

Y/E Dec. (₹ cr)	3QCY2012	2QCY2011	% chg (qoq)	3QCY2011	% chg (yoy)
Net sales	397	374	6.0	313	26.8
Other income	26.6	27	(0.4)	37	(27.9)
Operating profit	81	52	54.2	50	59.9
Net profit	51	41	26.7	55	(6.5)

Source: Company, Angel Research

For 3QCY2012, Sanofi India (Sanofi) reported in-line results at the top-line and the net profit fronts. Sales grew by 26.8% yoy, while the net profit declined by 6.5% yoy mainly on the back of higher depreciation. **Given the valuations, we recommend a Neutral view on the stock.**

Results just in line with expectations: Sanofi's net sales grew by 26.8% yoy to ₹397cr for 3CY2012, in-line with our estimate of ₹393cr. The company reported gross margin of 51.6% (48.6%), higher than our estimate of 50.7%. Consequently, the OPM came in at 20.3%, higher than our estimate of 16.7%. However, in spite of this, the net profit came in at ₹51.3cr, down by 6.5% yoy, just-in-line with our estimate of ₹51.9cr.

Outlook and valuation: We expect net sales to post a 17.0% CAGR to ₹1,682cr and EPS to register a 12.0% CAGR to ₹104.4 over CY2011–13E. At the current levels, the stock is trading at 23.3x and 21.2x CY2012E and CY2013E earnings, respectively. **We recommend a Neutral view on the stock.**

Key financials

Y E Dec (₹ cr)	CY2009	CY2010E	CY2011E	CY2012E
Net Sales	1,085	1,230	1,482	1,682
% chg	11.3	13.3	20.5	13.5
Net Profit	155.0	191.7	218.9	240.4
% chg	(1.5)	23.7	14.2	9.8
EPS (Rs)	67.3	83.2	95.1	104.4
EBITDA(%)	13.2	14.3	15.5	15.5
P/E (x)	32.9	26.6	23.3	21.2
RoE (%)	15.9	18.0	18.6	17.0
RoCE (%)	12.6	13.6	16.7	16.1
P/BV (x)	5.1	4.6	4.2	3.3
EV/Sales (x)	4.2	4.0	3.3	2.8
EV/EBITDA (x)	31.6	28.1	21.1	18.1

Source: Company, Angel Research

NEUTRAL

CMP	₹2,216
Target Price	-

Investment Period	-
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Stock Info	
Sector	Pharmaceutical
Market Cap (₹ cr)	5,104
Net debt (₹ cr)	(234)
Beta	0.1
52 Week High / Low	2,430/2002
Avg. Daily Volume	2,181
Face Value (₹)	10
BSE Sensex	18,505
Nifty	5,620
Reuters Code	SANO.BO
Bloomberg Code	SANL@IN

Shareholding Pattern (%)	
Promoters	60.4
MF / Banks / Indian Fls	21.1
FII / NRIs / OCBs	13.3
Indian Public / Others	5.2

Abs. (%)	3m	1yr	3yr
Sensex	7.4	4.5	16.4
Sanofi India	0.7	(5.0)	36.6

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Exhibit 1: 3QCY2012 performance

Y/E Dec (₹ cr)	3QCY2012	2QCY2012	% chg (qoq)	3QCY2011	% chg (yoy)	9MCY2012	9MCY2011	% chg yoy
Net sales	397	374	6.0	313	26.8	1,093	892	22.6
Other income	27	27	(0.4)	37	(27.9)	82	111	(25.9)
Total income	423	401	5.6	350	21.0	1,175	1,003	17.2
PBIDT	81	52	54.2	50	59.9	182	138	32.2
OPM (%)	20.3	14.0		16.1		16.6	15.4	
Interest	0.3	0.4		0		1	0	
Depreciation & amortisation	31	19	65.1	6	403.3	68	17	300.0
PBT & exceptional items	76	60	27.0	81	(6.2)	195	231	(15.6)
Less : Exceptional items	0	0		0		0	0	
Profit before tax	76	60	27.0	81	(6.2)	195	231	(15.6)
Provision for taxation	25	19	27.8	26	(5.7)	64	75	(15.7)
Adj net profit	51	41	26.7	55	(6.5)	132	155	(15.0)
EPS (₹)	22.3	17.6		23.8		57.4	67.4	

Source: Company, Angel Research

Exhibit 2: 3QCY2012 – Actual vs Angel estimates

₹ cr	Actual	Estimates	Variation (%)
Net sales	397	393	1.0
Other income	27	30	(11.3)
Operating profit	81	66	22.7
Tax	25	25	(0.7)
Net profit	51	52	(1.1)

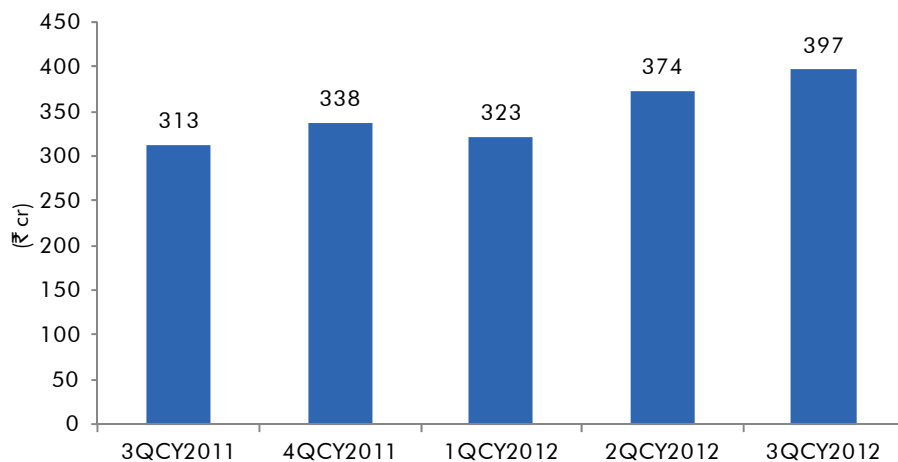
Source: Company, Angel Research

Revenue growth just in line with expectations:

Sanofi's net sales grew by 26.8% yoy to ₹397cr for 3QCY2012, in-line with our estimate of ₹393cr, mainly backed by the domestic segment.

The company incurred a planned expenditure in two of its critical projects – Prayas and the other being the entry into the OTC market. These projects are slated to be the future growth drivers for the company.

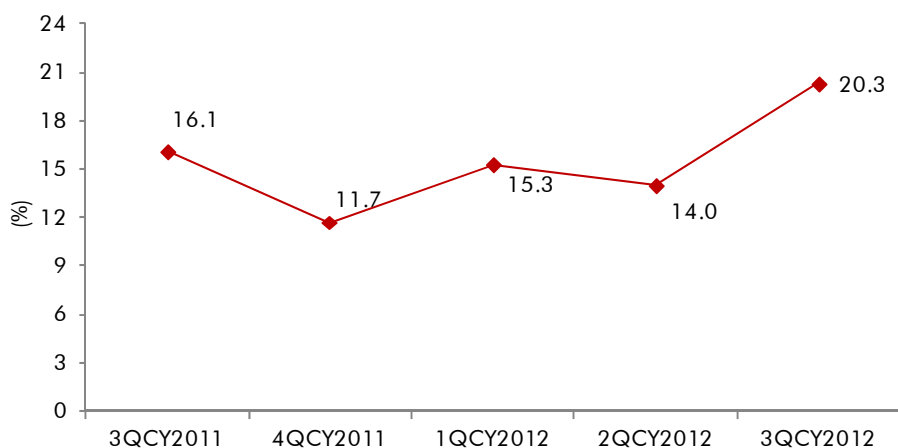
Exhibit 3: Sales trend



Source: Company, Angel Research

OPM expands by 420bp: The company reported a gross margin of 51.6% (48.6%), higher than our estimate of 50.7%. Consequently, the OPM came in at 20.3%, higher than our estimate of 16.7%.

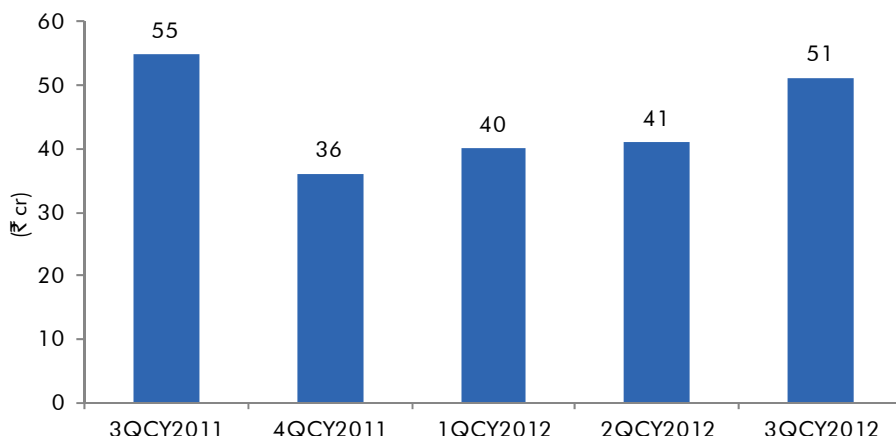
Exhibit 4: OPM trend



Source: Company, Angel Research

Bottom-line just in with estimates: Net profit came in at ₹51.3cr, down by 6.5% yoy, just in line with our estimate of ₹51.9cr. This was mainly on higher depreciation expenses.

Exhibit 5: Adj net profit trend



Source: Company, Angel Research

Background

Sanofi, a leading global pharmaceutical company, operates in India through four entities – Sanofi India, Sanofi-Synthelabo (India) Ltd, Sanofi Pasteur India Pvt 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, it is the second largest MNC in India enjoying a market share of 1.4%.

Recommendation rationale

Focus on top-line growth: Sanofi recorded a revenue CAGR of 6.8% to ₹1,230cr over CY2006–11 on the back of slower-than-expected growth on the domestic formulation front and loss of distribution rights of *Rabipur* vaccine. Going forward, to grow in-line with the industry’s average in the domestic segment, Sanofi has rolled out its *Prayas* project, 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 has acquired the nutraceutical business of Universal Medicare Pvt Ltd, which has enabled the company’s foray into the nutraceutical business, thereby aiding in diversification and supporting the overall growth of the domestic formulation business.

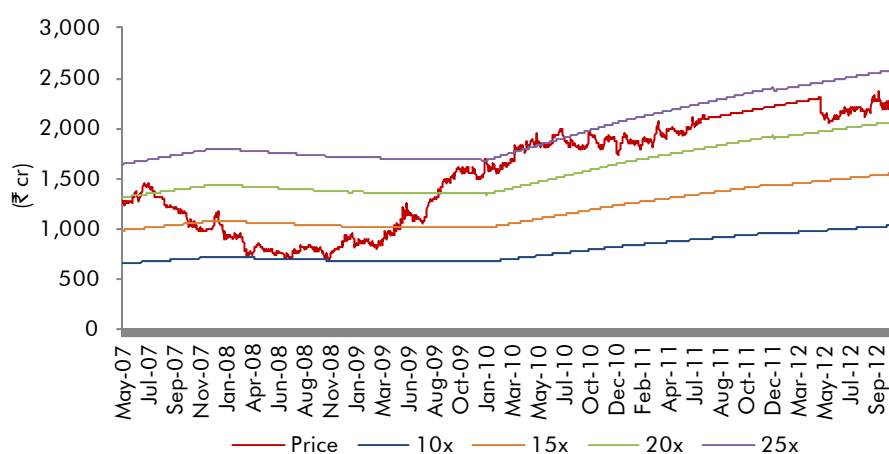
We expect the company’s net sales to log a 17.0% CAGR over CY2011–13E, majorly driven by its domestic formulation sales.

Valuation: We expect net sales to post a 17.0% CAGR to ₹1,682cr and EPS to register a 12.0% CAGR to ₹104.4 over CY2011–13E. At current levels, the stock is trading at 23.3x and 21.2x CY2012E and CY2013E earnings, respectively. **We recommend a Neutral view on the stock.**

Exhibit 6: Key assumptions

	CY2012E	CY2013E
Net sales growth (%)	20.5	13.5
Domestic sales growth (%)	24.0	15.0
Export sales growth (%)	6.0	6.0
Growth in employee expenses (%)	6.5	18.9
Operating margins (%)	15.5	15.0
Net profit growth (%)	14.2	9.8
Capex (₹ cr)	34.0	24.0

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 %	FY2014E			FY12-14E		FY2014E
					PE (x)	EV/Sales (x)	EV/EBITDA (x)	CAGR in EPS (%)	RoCE (%)	RoE (%)
Alembic Pharma.	Buy	68	91	34.5	7.4	0.8	5.0	14.8	29.4	30.0
Aurobindo Pharma	Neutral	158	-	-	12.6	1.2	8.0	61.1	10.4	16.4
Sanofi India*	Neutral	2,216	-	-	21.2	2.8	17.8	12.0	16.1	17.0
Cadila Healthcare	Accumulate	861	953	10.7	18.7	2.5	12.7	20.5	20.2	26.8
Cipla	Accumulate	364	399	9.8	18.2	3.1	13.7	18.4	16.8	16.6
Dr Reddy's	Accumulate	1,757	1,859	5.8	18.9	2.7	13.0	2.3	15.1	20.8
Dishman Pharma	Neutral	96	-	-	8.5	1.1	5.9	26.6	8.9	10.0
GSK Pharma*	Neutral	1,999	-	-	24.3	4.7	15.1	8.7	38.9	29.0
Indoco Remedies	Buy	65	92	42.6	7.3	0.9	5.9	32.8	15.5	17.0
Ipca labs	Accumulate	459	485	5.6	12.3	1.8	8.5	30.6	26.1	26.0
Lupin	Accumulate	567	647	14.2	18.2	2.5	12.7	26.5	22.5	24.7
Orchid Chemicals	Neutral	104	-	-	4.7	0.8	5.5	27.8	11.5	7.9
Ranbaxy*	Neutral	526	-	-	17.5	1.9	11.8	44.8	15.8	28.9
Sun Pharma	Neutral	694	-	-	24.6	4.7	11.4	0.1	26.7	18.8

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

Profit & loss statement

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Gross sales	1,026	996	1,119	1,259	1,519	1,724
Less: Excise duty	43	21	22	29	37	42
Net sales	983	974	1,085	1,230	1,482	1,682
Other operating income	36	52	59	66	66	66
Total operating income	1,019	1,027	1,144	1,296	1,548	1,748
% chg	13.7	0.7	11.4	13.3	19.5	12.9
Total expenditure	798	827	942	1,054	1,252	1,420
Net raw materials	476	482	539	619	739	826
Other mfg costs	41	45	53	61	74	84
Personnel	119	144	163	174	200	238
Other	161	156	187	199	240	273
EBITDA	186	148	143	176	230	261
% chg	10.2	(20.4)	(3.1)	22.9	30.5	13.9
(% of Net Sales)	18.9	15.2	13.2	14.3	15.5	15.5
Depreciation & amortisation	18	17	21	31	33	34
EBIT	167	130	123	145	197	227
% chg	12.2	(22.1)	(6.0)	18.1	35.9	15.4
(% of Net Sales)	17.0	13.4	11.3	11.8	13.3	13.5
Interest & other charges	0.3	0.1	2.9	0	-	-
Other income	57	59	55	74	54	54
(% of PBT)	21.8	24.3	23.4	26.0	17.1	15.6
Recurring PBT	260	241	233	284	317	347
% chg	16.5	(7.0)	(3.4)	21.9	11.5	9.6
PBT (reported)	260	241	234	284	317	347
Tax	93.3	84.0	79.0	92.6	98.0	106.9
(% of PBT)	36.0	34.8	33.8	32.6	30.9	30.8
PAT (reported)	166	157	155	192	219	240
Extra-ordinary items	-	-	75.7	-	-	-
PAT after MI (reported)	166	157	231	192	219	240
ADJ. PAT	166	157	155	192	219	240
% chg	15.1	(5.3)	(1.5)	23.7	14.2	9.8
(% of Net Sales)	16.9	16.2	21.3	15.6	14.8	14.3
Basic EPS (₹)	72	68	67	83	95	104
Fully Diluted EPS (₹)	72	68	67	83	95	104
% chg	15.1	(5.2)	(1.6)	23.7	14.2	9.8

Balance sheet

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
SOURCES OF FUNDS						
Equity share capital	23	23	23	23	23	23
Reserves & surplus	806	909	991	1,094	1,211	1,563
Shareholders' funds	829	932	1,014	1,117	1,235	1,587
Total loans	-	-	-	-	-	-
Total liabilities	829	932	1,014	1,117	1,235	1,587
APPLICATION OF FUNDS						
Gross block	321	335	375	843	867	891
Less: Acc. depreciation	178	190	204	231	258	292
Net block	143	145	171	612	609	599
Goodwill				125	125	125
Capital Work-in-Progress	6	27	13	30	40	40
Investments	5.2	5.2	0.4	0.4	0.4	0.4
Current assets	896	1,014	1,214	735	923	1,071
Cash	497	586	655	234	322	448
Loans & advances	136	144	257	174	208	151
Other	262	284	302	327	394	471
Current liabilities	236	274	394	377	459	269
Net current assets	660	740	820	358	464	801
Deferred tax assets	15	15	10	(8)	(5)	20
Total assets	829	932	1,014	1,117	1,235	1,587

Cash flow statement

Y/E March (₹ cr)	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Profit before tax	260	241	234	284	317	347
Depreciation	18	17	21	31	33	34
(Inc)/Dec in Working Capital	(21)	4	(10)	41	(19)	(38)
Less: Other income	36	52	59	66	66	66
Direct taxes paid	98	92	79	74	101	111
Cash Flow from Operations	123	118	107	216	163	167
(Inc.)/Dec.in Fixed Assets	(24)	(41)	(27)	(609)	(34)	(24)
(Inc.)/Dec. in Investments	0	-	(5)	0	-	0
Other income	36	52	59	66	66	66
Cash Flow from Investing	12	11	27	(543)	31	41
Issue of Equity	-	-	-	-	-	-
Inc./{Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(43)	(43)	(55)	(88)	(102)	(112)
Others	15	2	(9)	(6)	(5)	31
Cash Flow from Financing	(28)	(41)	(64)	(94)	(107)	(81)
Inc./{Dec.) in Cash	107	88	69	(421)	87	127
Opening Cash balances	391	497	586	655	234	322
Closing Cash balances	497	586	655	234	322	448

Key ratios

Y/E March	CY2008	CY2009	CY2010	CY2011	CY2012E	CY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	30.7	32.4	32.9	26.6	23.3	21.2
P/CEPS	27.7	29.2	20.3	22.9	20.3	18.6
P/BV	6.2	5.5	5.0	4.6	4.1	3.2
EV/Sales	4.7	4.6	4.1	4.0	3.2	2.8
EV/EBITDA	24.8	30.6	31.1	27.7	20.8	17.8
Per Share Data (₹)						
EPS (Basic)	72.2	68.4	67.3	83.2	95.1	104.4
EPS (fully diluted)	72.2	68.4	67.3	83.2	95.1	104.4
Cash EPS	80.1	75.9	109.1	96.7	109.3	119.3
DPS	16.0	20.0	55.0	33.0	38.0	41.8
Book Value	360.0	404.6	440.3	484.8	536.1	689.2
Returns (%)						
RoCE (Pre-tax)	21.8	14.8	12.6	13.6	16.7	16.1
Angel ROIC (Pre-tax)	52.9	40.5	36.9	24.2	22.8	23.1
ROE	21.6	17.9	15.9	18.0	18.6	17.0
Turnover ratios (x)						
Inventory / Sales (days)	63	72	75	70	66	32
Receivables (days)	26	25	18	19	19	9
Payables (days)	46	49	47	48	50	24

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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 (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	