

ICICI Securities Limited
is the author and
distributor of this report

Company update and
earnings revision

Pharmaceuticals

Target price: Rs8,633

Earnings revision

(%)	CY21E	CY22E	CY23E
Sales	0.1	0.2	0.3
EPS	(0.3)	0.4	1.1

Target price revision

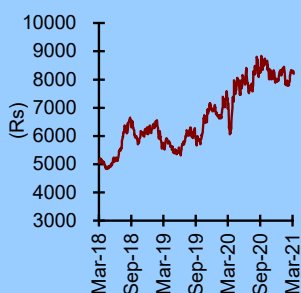
Rs8,633 from Rs8,594

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	60.4	60.4	60.4
Institutional investors	28.6	28.6	29.0
MFs and others	13.4	12.9	11.6
Banks / FIs	0.1	0.2	0.2
Insurance	2.6	3.0	5.7
FIs	12.5	12.4	11.5
Others	11.0	11.0	10.6

Source: BSE India

Price chart



INDIA

Sanofi India

ADD

Maintained

Rs8,203

Analyst call highlights

Sanofi India Limited's (SANL) is poised to grow owing to its high chronic exposure in the domestic market supported by strong balance sheet with deep cash reserves, and strong brand equity built over the years. We cover the highlights from its virtual investor meet below:

- Company believes that its performance has been resilient during the past few months as it was not materially affected by any breakdown of logistics or shortage of raw materials as well as higher exposure to chronic therapies (diabetic & cardiac).
- Lockdown caused a postponement of elective surgeries as well as large part of ICU beds were utilized for COVID-19 patients. This negatively affected drugs like *Targocid* but on the other hand inclusion of *Clexane* in the COVID-19 drug regime saw a sharp demand in it. However, with declining cases it has normalised.
- Company believes that there is enough headroom in the diabetology space in India to grow with ~50% of ~100mn patients untreated and <15% insulinisation rate. SANL will continue to focus on basal insulin as a growth area and consider premix insulin as the opportunity grows. Although global strategy is moving away from basic research in diabetology, company is confident in focusing on this therapeutic segment by using a partnership model.
- SANL plans to grow by launching new products in the focus therapies (diabetes, cardiac, allergy and pain management) including line extensions for its established products. However, company will not be launching *Insulin Aspart* and *Insulin Lispro* from the global portfolio in India in the near term.
- Another growth lever would be scaling up digital initiatives which saw an acceleration due to the pandemic. SANL witnessed higher adoption of virtual engagement between HCPs and the ground force. Educating doctors and providing mentor-mentee support in the rural areas and towns would improve access sustainable. Primary focus in smaller cities is capacity building. SANL believes hybrid model (mix of physical and digital engagement) is the way forward.
- Company is also working on self-medication which is witnessing accelerated growth. This was aided by sharp demand in online pharmacies especially for cardiac and hypertension patients. Research indicates ~70mn households would use online pharmacies by 2025 and ~30% patients would continue to use tele-medicine post normalisation. SANL portfolio in self-medication is limited to allergy and pain therapies but has lot of growth potential (even in the OTC market).
- SANL believes that its top ten products would be able to outpace the industry in the near to mid-term but its margins are lower relative to most chronic focused domestic player due to the trade business (~35% of the sales).
- Price growth and cost control initiatives remain the key improvement levers for profitability, but declining exports component would help.

Valuations and risks: We marginally revise our estimates and maintain **ADD** with a revised target price of Rs8,633/share based on 33xCY22E EPS (earlier: Rs8,594/share). Key downside risks are: addition of key drugs in NLEM, product concentration, government intervention, and presence of unlisted promoter company.

Market Cap	Rs189bn/US\$2.6bn
Reuters/Bloomberg	SANO.BO/SANL IN
Shares Outstanding (mn)	23.0
52-week Range (Rs)	8999/5900
Free Float (%)	39.6
FII (%)	11.5
Daily Volume (USD/'000)	3,050
Absolute Return 3m (%)	2.9
Absolute Return 12m (%)	24.4
Sensex Return 3m (%)	6.4
Sensex Return 12m (%)	65.9

Year to Dec	CY20	CY21E	CY22E	CY23E
Revenue (Rs mn)	29,019	29,352	32,143	35,212
Net Income (Rs mn)	4,776	5,269	6,017	6,893
EPS (Rs)	220.4	229.1	261.6	299.7
% Chg YoY	11.4	3.9	14.2	14.6
P/E (x)	37.2	35.8	31.4	27.4
CEPS (Rs)	245.2	251.2	282.9	319.9
EV/E (x)	24.8	25.3	22.4	19.8
Dividend Yield (%)	4.3	4.4	1.3	1.5
RoCE (%)	21.3	25.4	28.6	27.7
RoE (%)	22.2	26.8	30.3	29.0

Research Analysts:

Vinay Bafna

vinay.bafna@icicisecurities.com
+91 22 6637 7339

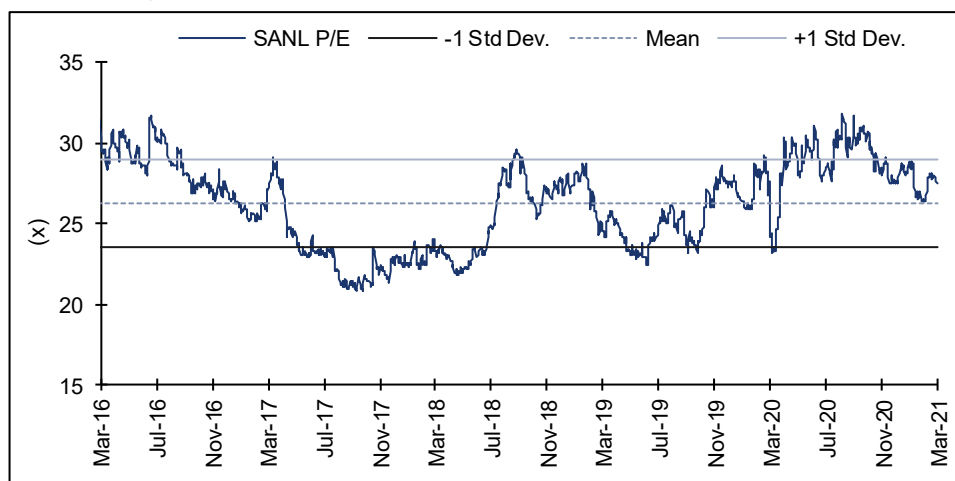
Sriraam Rathi

sriraam.rathi@icicisecurities.com
+91 22 6637 7574

Valuations

We expect SANL to witness an earnings CAGR of 10.8% over CY20-CY23E driven by revenue CAGR of 6.7% with EBITDA margin remaining largely stable. We expect return ratios (RoE and RoCE) to improve with growing margins. The stock currently trades at valuations of 31.4xCY22E and 27.4xCY23E earnings and EV/EBITDA multiple of 22.4xCY22E and 19.8xCY23E. We remain positive on the long-term outlook considering the company’s strong growth trajectory supported by chronic exposure, established brand franchise, healthy return profile and rich cash reserves. We maintain **ADD** rating on the stock with a revised target price of Rs8,633/share based on 33xCY22E earnings (earlier: Rs8,594/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Total Net Revenue	29,019	29,352	32,143	35,212
yoy Growth%	(5.5)	1.1	9.5	9.5
Total Op. Exp.	21,888	22,255	24,271	26,475
EBITDA	7,131	7,097	7,872	8,737
Margins %	24.6	24.2	24.5	24.8
yoy Growth%	7.2	(0.5)	10.9	11.0
Depreciation	822	634	621	548
EBIT	6,309	6,463	7,251	8,189
Other Income	898	600	811	1,043
Interest	18	18	18	18
EO Income	(417)	-	-	-
PBT	6,772	7,045	8,044	9,215
Tax	1,996	1,775	2,027	2,322
Tax Rate (%)	29.5	25.2	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	4,776	5,269	6,017	6,893
Adj. PAT	5,070	5,269	6,017	6,893
Net Margins (%)	17.5	18.0	18.7	19.6

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
Paid-up Capital	230	230	230	230
Reserves & Surplus	20,960	17,834	21,444	25,580
Total Equity	21,190	18,064	21,674	25,810
Minority Interest	-	-	-	-
Total Debt	226	226	226	226
Deferred Liabilities	302	305	335	366
Capital Employed	21,718	18,596	22,235	26,402
Current Liabilities	7,467	7,530	8,176	8,885
Total Liabilities	29,185	26,126	30,411	35,287
Net Fixed Assets	4,741	4,607	4,486	4,438
Investments	-	-	-	-
Inventory	3,680	3,742	4,081	4,451
Debtors	1,480	1,497	1,639	1,796
Other Current Assets	7,198	7,263	7,812	8,415
Cash and Equivalents	12,086	9,017	12,393	16,188
Total Cur. Assets	24,444	21,519	25,925	30,849
Total Assets	29,185	26,126	30,411	35,287

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending December 31)

	CY20	CY21E	CY22E	CY23E
PBT (Adj. for Extraordinary)	6,772	7,045	8,044	9,215
Depreciation	822	634	621	548
Net Chg in WC	(188)	(57)	(185)	(202)
Taxes	(1,933)	(1,775)	(2,027)	(2,322)
Others	620	(20)	(170)	(187)
CFO	6,093	5,826	6,283	7,052
Capex	2,398	(500)	(500)	(500)
Net Investments made	400	-	-	-
Others	(34)	-	-	-
CFI	2,764	(500)	(500)	(500)
Change in Share capital	-	-	-	-
Change in Debts	226	-	-	-
Div. & Div Tax	(8,038)	(8,395)	(2,407)	(2,757)
Others	(254)	-	-	-
CFF	(8,066)	(8,395)	(2,407)	(2,757)
Total Cash Generated	791	(3,069)	3,376	3,795
Cash Opening Balance	11,295	12,086	9,017	12,393
Cash Closing Balance	12,086	9,017	12,393	16,188

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending December 31)

	CY20	CY21E	CY22E	CY23E
Adj EPS	220.4	229.1	261.6	299.7
YoY Growth%	11.4	3.9	14.2	14.6
Cash EPS	245.2	251.2	282.9	319.9
EBITDA - Core (%)	24.6	24.2	24.5	24.8
NPM (%)	17.5	18.0	18.7	19.6
Net Debt to Equity (x)	(0.6)	(0.5)	(0.6)	(0.6)
P/E (x)	37.2	35.8	31.4	27.4
EV/EBITDA Core (x)	24.8	25.3	22.4	19.8
P/BV (x)	8.9	10.4	8.7	7.3
EV/Sales (x)	6.1	6.1	5.5	4.9
RoCE (%)	21.3	25.4	28.6	27.7
RoE (%)	22.2	26.8	30.3	29.0
RoIC (%)	36.4	47.1	52.3	57.3
Book Value (Rs)	921	785	942	1,122
DPS (Rs)	349.5	365.0	104.6	119.9
Dividend Payout (%)	168.3	159.3	40.0	40.0
Div Yield (%)	4.3	4.4	1.3	1.5
Asset Turnover Ratio	6.2	7.2	8.1	9.1
Avg Collection days	23	19	18	18
Avg Inventory days	70	61	59	59

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Vinay Bafna, MBA; Sriraam Rathi, CA*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.