

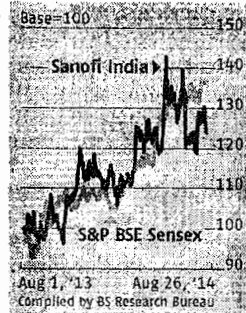
Sanofi India: Relief a few quarters away

With revenues from diabetes and cardiovascular portfolio at risk, analysts remain cautious

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Sanofi India's recent tie-up with Emcure Pharmaceuticals to jointly market their portfolio of anti-cancer drugs is positive. Although the stock has gained four per cent since, it will be a couple of quarters before the overhang of recent drug pricing policy subsides. Sanofi's stock might remain an underperformer in the near-term. Unlike its Indian peers such as Sun Pharma and Lupin, up 60-65 per cent, Sanofi's returns have been 19 per cent in the past year. In fact, from mid-July 2014, Sanofi's stock is down about 5.6 per cent due to the new pricing policy. Motilal Oswal Securities analysts say Sanofi is the worst-hit with a 32 per cent impact on its estimated earnings per share for CY2014 due to the latest policy. Indian companies' earnings impact is pegged at just 1-4 per cent due to high contribution of overseas market.

Although industry bodies have challenged the latest notification in courts and Sanofi can raise prices annually indexed to inflation, analysts are cautious because Sanofi's flagship brands will come under price control. Sanofi is the market leader in anti-diabetic therapy, which coupled with its cardiovascular portfolio generates 40 per cent of its earnings. The new pricing order extends price control to 39 new molecules in the two segments. Its key brands Amaryl, Cardace, Clexane and Cetapin, which form 16 per cent of annual sales, would feel the impact. While pharma firms increased prices



by 6.3 per cent in April this year based on wholesale price index, they will be able to take another 10 per cent rise in prices in July 2015 for drugs that came under pricing control last month.

Ranjit Kapadia of Centrum Broking believes volume growth for products of Sanofi's affected brands on the back of a shift to some of these brands will partially offset the effect of price reduction. While there will be an impact of the new drugs under price control going ahead, so far the price cap especially on chronic therapies have not had much of an impact. The cardiac segment grew 11 per cent in July compared to pharma market sales growth of seven per cent.

Sanofi's operational performance for the June quarter was in line with expectations. Although there are triggers such as open offer by the parent to increase stake from the current 60 per cent levels, investors should await clarity on the pricing order and Sanofi's performance over the next few quarters. At ₹3,000, the stock is trading at 22.6 times its CY15 earnings, which is not far from Bloomberg consensus target price of ₹3,226.

Company