

Consistent growth; maintain Buy

We maintain our Buy rating on Abbott India (AIL) and revise the TP to Rs7,530 (earlier TP Rs7,030) based on 24x March'20 EPS of Rs313.6. AIL's EBIDTA for Q4FY18 was lower than our expectations whereas net profit was higher than our expectations. The pharma major's revenue grew 10% YoY, margin improved 470bps to 13.5% and net profit grew 138% YoY. That said, the company's eleven leading brands grew faster than the market and are likely to drive future growth. We expect margins to improve post the launch of new products and with the company's entry into the high-margin vaccine segment. AIL is a debt-free cash rich company with cash/share of ~Rs480 and is poised for strong growth.

- Brand-driven revenue growth:** AIL's revenue grew by 10% YoY to Rs7.88bn from Rs7.15bn due to re-stocking by trade after successful GST implementation. Eleven of its 17 major brands grew faster than the market growth rate of 9.5% and are likely to drive future growth. AIL also distributes Novo Nordisk's anti-diabetic products in the domestic market and receives a distribution margin from them. We believe that the company's presence in the high-margin vaccine segment, price revision of non-NLEM products and the launch of new products will drive future growth.
- Margin grew by 470bps YoY:** AIL's EBIDTA margin in Q4FY18 grew by 470bps YoY to 13.5% from 8.8% due to re-stocking by trade after successful implementation of GST. The company's material cost declined by 420bps to 54.8% from 59.0% due to a favourable product mix. Personnel cost increased by 180bps to 13.7% from 11.9%. Other expenses declined by 220bps to 18.0% from 20.2% due to cost rationalisation and absence of excise duty. We expect margin improvement in non-NLEM products due to price increase in April'18 and the launch of new products, which would be outside price control.
- Net profit grew by 138%YoY:** AIL's net profit grew 138% YoY to Rs1,001mn from Rs421mn due to margin improvement, higher other income and lower tax rate. Other income grew by 278%YoY to Rs586mn from Rs155mn. Other income for Q4FY18 included Rs369mn from the assignment of trade marks. The company's tax rate declined to 37.1% from 42.0% of PBT. The price increase in non-NLEM products would improve revenues. AIL is a debt-free, cash-rich company and its cash/share is ~Rs480. The company is poised for rapid growth which would be led by its strong brands and focused marketing thrust.
- Recommendation and key risks:** We maintain our Buy rating on AIL with a TP of Rs7,530 based on 24x March'20E EPS of Rs313.6. We have revised FY19E and FY20E EPS by 6% and 7% respectively. We expect AIL to perform well due to its strong brands, new product launches and presence in the high-margin vaccine segment. Key risks to our assumptions are a slowdown in the domestic market and lower growth of its major brands. AIL is among our top pharma picks.

Y/E Mar (Rs mn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	% Var.
Total Revenues	7,884	7,154	10.2	8,815	(10.6)	8,400	(6.1)
Raw material cost	4,318	4,223	2.2	5,134	(15.9)	4,870	(11.3)
Employee cost	1,077	848	27.0	911	18.2	941	14.5
Other expenses	1,422	1,454	(2.2)	1,137	25.1	1,380	3.0
EBIDTA	1,067	629	69.6	1,633	(34.7)	1,209	(11.7)
EBIDTA margin (%)	13.5	8.8	-	18.5	-	14.4	-
Depreciation	40	38	5.3	42	(4.8)	45	(11.1)
Interest	22	20	NA	5	340.0	5	340.0
Other income	586	155	278.1	190	208.4	210	179.0
PBT	1,591	726	119.1	1,776	(10.4)	1,369	16.2
Prov. For tax	590	305	93.4	622	(5.1)	470	25.5
Adj. PAT	1,001	421	137.8	1,154	(13.3)	899	11.3

Source: Company, Centrum Research Estimates

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY16	26,457	15.6	3,644	13.8	2,553	11.5	120.1	23.9	24.3	39.8	25.6
FY17	29,388	11.1	3,974	13.5	2,767	8.4	130.2	21.4	21.7	35.6	22.0
FY18	33,071	12.5	5,245	15.9	4,012	45.0	188.8	26.1	26.4	25.1	16.4
FY19E	39,051	18.1	7,129	18.3	5,359	33.6	252.2	28.4	28.8	22.2	14.6
FY20E	44,926	15.0	8,881	19.8	6,666	24.4	313.6	28.7	29.1	24.0	16.1

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs7,530	Key Data	
CMP*	Rs6,533	Bloomberg Code	BOOT IN
Upside	15.3%	Curr Shares O/S (mn)	21.3
Previous Target	Rs7,030	Diluted Shares O/S(mn)	21.3
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	138.8/2
Price Performance (%)*		52 Wk H / L (Rs)	7353.5/3988
		5 Year H / L (Rs)	6690/1300.1
BOOTIN	0.8	31.1	55.6
Nifty	3.1	6.8	14.4
		Daily Vol. (3M NSE Avg.)	9415

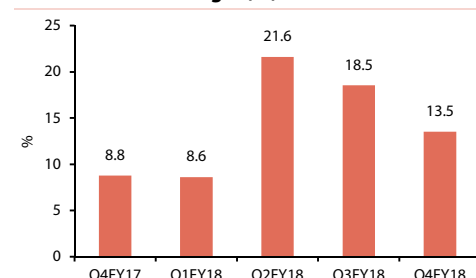
*as on 14th May 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)

	Mar-18	Dec-17	Sept-17	June-17
Promoter	75.0	75.0	75.0	75.0
FIs	2.8	2.8	2.7	2.8
DIs	6.6	6.5	6.5	6.2
Others	15.6	15.7	15.8	16

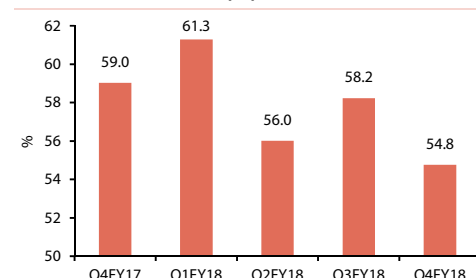
Source: BSE, *as on 14th May 2018

Trend in EBIDTA margin (%)



Source: Company, Centrum Research

Trend in material cost (%)



Source: Centrum Research

Earnings Revision

Particulars (Rs mn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	39,051	39,051	(0.0)	44,926	44,926	(0.0)
EBITDA	7,129	7,126	0.0	8,881	8,681	2.3
EBITDA Margin (%)	18.3	18.2	10bps	19.8	19.3	50bps
PAT-adj.	5359	5,071	5.7	6665	6,221	7.1

Source: Centrum Research Estimates

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Major brands exhibited good growth

As per AIOCD AWACS March'18 monthly data, AIL grew 13.7% YoY, compared to the industry growth rate of 9.5%. The company's 17 products appear in the list of top 500 domestic products. Eleven of these grew faster than the market growth rate of 9.5%. We expect these eleven brands to drive future growth. AIL's major brand Thyronorm has reported 60% growth despite being under price control. There was significant recovery as the whole sellers and retailer resorted to re-stocking after the successful implementation of GST.

The details are as follows:

Exhibit 1: Performance of major brands

Products (Rs mn)	Ther. Category	January'18		February'18		March'18	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma industry		1,00,565	9.5	97,543	7.1	1,00,292	9.5
Abbott Group		6,316	10.6	6,139	12.5	6,303	13.7
Duphaston	gynaecological	239	23.1	246	30.3	277	31.3
Thyronorm	thyroid hormone	237	40.6	246	52.4	263	60.1
Udiliv	cirrhosis of liver	180	44.7	172	33.6	171	12.6
Vertin	antiemetic	128	10.3	123	8.7	133	10.9
Duphalac	laxative	105	1.1	103	7.0	104	7.6
Similac	neutraceutical	94	6.1	90	8.9	98	30.8
Digene	antacid	75	(5.2)	72	0.4	64	(14.1)
Paediasure	neutraceutical	77	14.8	71	2.9	73	16.1
Cremaffin	laxative	76	5.9	70	5.2	68	2.8
Cremaffin plus	laxative	69	36.0	60	26.3	62	31.0
Eptoin	antiepileptic	59	9.9	52	(1.0)	54	13.1
Ensure	neutraceutical	54	17.2	53	15.4	56	39.3
Pediasure complete	neutraceutical	38	(23.0)	36	(18.2)	42	(10.5)
Creon	digestive	49	19.0	44	4.7	43	(5.0)
Prothiaden	antidepressant	53	62.6	56	70.0	51	66.7
Zolfresh	sedative	45	31.5	40	20.2	42	3.7
Isomil	neutraceutical	32	9.3	30	8.4	34	21.9
Top brands		1,610		1,564		1,635	

Source: AIOCD AWACS monthly data-January-March'18

Distribution of Novo Nordisk products

AIL distributes Novo Nordisk's anti-diabetic range of products in India. As per AIOCD AWACS March'18 monthly data, two out of six Novo Nordisk products distributed, grew faster than the market growth rate of 9.5%, indicating a strong brand image. Human Mixtard is the largest selling insulin brand in the domestic market which declined by 7.5% against the industry growth of 9.5%. As the insulin brands are under price control and AIL distributes these products in the domestic market, the company receives a distribution margin from Novo Nordisk. This impacts AIL's overall margin as Novo Nordisk's antidiabetic products contribute substantially to AIL's revenues.

Exhibit 2: Performance of Novo Nordisk brands

Products (Rs mn)	Ther. Category	January'18		February'18		March'18	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma industry		1,00,565	9.5	97,543	7.1	1,00,292	9.5
Company		6,316	10.6	6,139	12.5	6,303	13.7
Human Mixtard	antidiabetic	382	(14.4)	359	(12.1)	387	(7.5)
Novomix 30	antidiabetic	215	(9.1)	222	(3.3)	225	(6.1)
Human Actrapid	antidiabetic	89	(4.2)	85	(11.7)	90	(1.7)
Novo Rapid Penfill	antidiabetic	81	(10.8)	86	12	83	3.0
Ryzodeg	antidiabetic	86	41.1	89	32.5	88	43.4
Tresiba	antidiabetic	45	(1.3)	48	19.4	50	14.7
Total		898		889		923	

Source: AIOCD AWACS monthly data-January-March'18

Parent company-strong presence in the emerging market

The parent company Abbott, US has decided to focus on emerging markets after splitting the developed market business of US and Europe. The parent company has ~Rs72bn business in India and the Indian business contributes ~20% to the global business. Abbott Group currently covers 80% of the therapeutic segments. The parent company also has a strong presence in China. Abbott, US operates in diagnostics and medical optics divisions and does not have a presence in the developed world.

Strong brands –growth drivers

AIL continues to give marketing thrust on top 17 brands. The company is a leading player in the thyroid segment and has over 55% market share through its flagship brand Thyronorm which has grown by 60% despite under price control. AIL's other major brand Duphaston for gynaecological usage is performing well and has grown by 31%. The company's women's healthcare and gastrointestinal segments have been performing well. AIL currently markets over 110 brands in India. It is present in metros and Tier I and Tier II cities and has no plans to enter the rural market.

Vaccines to drive growth

AIL commenced a new vaccine division and launched four new vaccines during FY16. The company has entered into strategic tie ups with Bharat Biotech, Hyderabad for supplying these vaccines. AIL is looking for partnership and alliances for other vaccines. AIL launched the influenza vaccine from the parent company in FY17. The company intends to become No.3 player in the vaccine segment. We expect the vaccines to drive future growth due to limited competition, complex manufacturing process and wider usage.

Valuation & key risks

We maintain our Buy rating on ALL and have revised our TP to Rs7,530 (earlier Rs7,030) based on 24x March'20E EPS of Rs313.6. We have revised our FY19E and FY20E EPS upwards by 6% and 7% respectively. We expect ALL to perform well due to its strong brands, new product and line extension launches and entry into the high-margin vaccine segment. We expect Duphaston, Thyronorm, Cremmafin Plus, Zolfresh, Similac, Ensure and Prothiaden to report strong double-digit growth. Among the distributed products of Novo Nordisk, Ryzodeg has reported strong growth of 43% and is likely to drive future growth. Key risks to our assumptions are a slowdown in the domestic market and lower growth of its major brands. ALL is among our top pharma picks.

Exhibit 3: Earning Revision

Particulars	Current	FY19E			FY20E		
		Earlier	Chg(%)	Current	Earlier	Chg(%)	
Sales	39,051	39,051	(0.0)	44,926	44,926	(0.0)	
EBIDTA	7,129	7,126	0.0	8,881	8,681	2.3	
EBIDTA margin (%)	18.3	18.2	10bps	19.8	19.3	50bps	
Net profit	5359	5,071	5.7	6665	6,221	7.1	

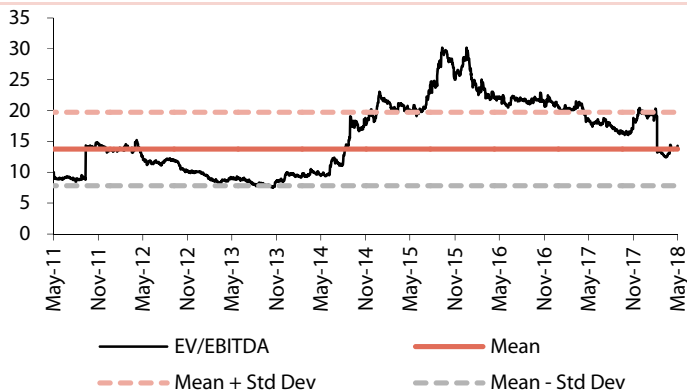
Source: Centrum Research Estimates

Exhibit 4: Sensitivity Analysis

Sensitivity to key variables – FY19E	% change	% impact on EBITDA	% impact on EPS
Sales	1	5.5	7.3
Material cost	1	(2.6)	(3.5)

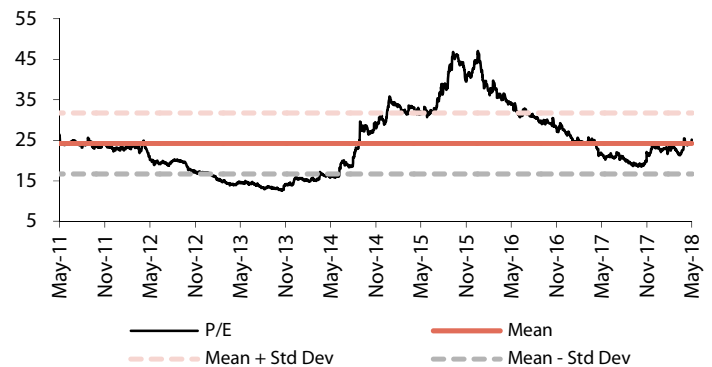
Source: Company, Centrum Research Estimates

Exhibit 5: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 7: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY17-FY19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E	FY17	FY18	FY19E
Abbott India	1,38,826	15.3	33.9	39.2	13.5	15.9	18.3	35.5	25.1	22.2	22.0	16.4	14.6	21.4	26.1	28.4	1.0	1.5	1.3
Glaxo SK Pharma	2,06,837	11.3	28.4	29.6	14.0	16.5	18.6	88.8	55.2	40.2	59.5	36.9	27.1	13.9	18.6	23.4	1.2	1.7	2.1
Pfizer	1,08,382	10.7	38.0	52.3	17.1	25.3	26.6	40.8	24.1	20.9	24.2	17.4	15.1	9.0	14.1	16.8	0.8	0.8	1.1
Sanofi India*	1,12,778	7.9	8.4	15.3	22.1	21.6	22.3	32.5	30.1	28.0	17.4	16.9	16.9	17.3	16.7	19.1	1.9	2.0	2.0

Source: Company, Centrum Research Estimates, Prices as on 14th May 2018 *December ending

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 8: Quarterly Financials

PARTICULARS Rs mn	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
P & L								
Total revenues	7,381	7,294	7,557	7,154	7,147	9,310	8,815	7,884
Material cost	4,193	4,297	4,406	4,223	4,380	5,215	5,134	4,318
Personnel cost	858	869	878	848	966	984	911	1,077
Other expenses	1,275	1,069	1,041	1,454	1,185	1,099	1,137	1,422
Total expenses	6,326	6,235	6,325	6,525	6,531	7,298	7,182	6,817
EBIDTA	1,055	1,059	1,232	629	616	2,012	1,633	1,067
Other income	139	144	139	155	159	151	190	586
PBDIT	1,194	1,203	1,371	784	775	2,163	1,823	1,653
Interest	-	-	20	20	5	6	5	22
Depreciation	42	41	44	38	40	40	42	40
Profit before tax	1,152	1,162	1,307	726	730	2,117	1,776	1,591
Tax provision	412	412	471	305	248	742	622	590
PAT before EO items	740	750	836	421	482	1,375	1,154	1,001
Growth (%)								
Revenues	15.8	12.4	12.9	3.7	(3.2)	27.6	16.6	10.2
EBIDTA	11.6	22.4	24.3	(25.4)	(41.6)	90.0	32.5	69.6
Net Profit	10.0	22.7	26.3	(28.6)	(34.9)	83.3	34.8	137.8
Margin (%)								
EBIDTA	14.3	14.5	16.3	8.8	8.6	21.6	18.5	13.5
Profit before tax	15.6	15.9	17.3	10.1	10.2	22.7	20.1	20.2
Net margin	10.0	10.3	11.1	5.9	6.7	14.8	13.1	12.7

Source: Company, Centrum Research

Exhibit 9: Key performance indicators

Key performance indicator	FY16	FY17	FY18	FY19E	FY20E
Revenue growth %	15.6	11.1	12.5	18.1	15.0
Material cost (%)	56.4	58.3	57.6	57.2	56.6

Source: Centrum Research Estimates

Financials -standalone

Exhibit 10: Income Statement

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	26,457	29,388	33,071	39,051	44,926
Material cost	14,920	17,121	19,047	22,347	25,420
% of revenues	56.4	58.3	57.6	57.2	56.6
Employee cost	3,411	3,453	3,937	4,410	4,920
% of revenues	12.9	11.7	11.9	11.3	11.0
Other Expenses	4,482	4,840	4,842	5,165	5,705
% of revenues	16.9	16.5	14.6	13.2	12.7
EBIDTA	3,644	3,974	5,245	7,129	8,881
EBIDTA margin (%)	13.8	13.5	15.9	18.3	19.8
Depreciation & Amortisation	144	164	162	195	220
EBIT	3,500	3,810	5,083	6,934	8,661
Interest Expenses	25	20	38	45	55
PBT from operations	3,475	3,790	5,045	6,889	8,606
Other income	505	576	1,170	1,260	1,400
PBT	3,980	4,366	6,215	8,149	10,006
Tax provision	1,427	1,599	2,203	2,790	3,340
Effective tax rate (%)	35.9	36.6	35.4	34.2	33.4
Net profit	2,553	2,767	4,012	5,359	6,666
Minority interest	-	-	-	-	-
Reported net profit	2,553	2,767	4,012	5,359	6,666
Adj. Net profit	2,553	2,767	4,012	5,359	6,666

Source: Company, Centrum Research Estimates

Exhibit 11: Key Ratios

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Growth Ratios (%)					
Revenues	15.6	11.1	12.5	18.1	15.0
EBIDTA	16.7	9.1	32.0	35.9	24.6
Adj. Net Profit	11.5	8.4	45.0	33.6	24.4
Margin Ratios (%)					
EBIDTA margin	13.8	13.5	15.9	18.3	19.8
PBT from operations margin	13.1	12.9	15.3	17.6	19.2
Adj. PAT margin	9.6	9.4	12.1	13.7	14.8
Return Ratios (%)					
RoCE	24.3	21.7	26.4	28.8	29.1
RoE	23.9	21.4	26.1	28.4	28.7
RoIC	70.7	76.5	70.5	76.0	81.9
Turnover ratios (days)					
Gross Block Turnover (x)	11.1	10.9	11.7	13.2	14.1
Debtors	20	22	29	27	28
Creditors	32	59	61	59	44
Inventory	51	62	65	64	63
Cash Conversion Cycle	39	25	33	32	47
Solvency Ratio					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.7)	(0.8)	(0.6)	(0.7)	(0.7)
Current Ratio	3.6	2.8	3.0	3.3	4.1
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
Per Share (Rs)					
FDEPS (adjusted)	120.1	130.2	188.8	252.2	313.6
CEPS	126.9	137.9	196.4	261.4	324.0
Book Value	562.6	652.7	796.6	976.8	1206.5
Dividend	35.0	40.0	55.0	60.0	70.0
Dividend Payout (%)	34.9	36.6	35.1	28.6	26.8
Valuations (x) (Avg Mkt Cap)					
PER	39.8	35.6	25.1	22.2	24.0
P/BV	8.5	7.1	6.0	5.7	6.2
EV/EBIDTA	25.6	22.0	16.4	14.6	16.1
Dividend Yield (%)	0.9	1.0	1.5	1.3	1.1
5-yr Avg AOCF/EV yield(%)	1.6	2.5	2.4	2.9	2.3

Source: Company, Centrum Research Estimates

Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	213	213	213	213	213
Reserves & surplus	11,743	13,658	16,715	20,545	25,426
Total shareholders Funds	11,956	13,870	16,928	20,757	25,638
Total Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liab.	(83)	(124)	(146)	(165)	(180)
Total Liabilities	11,873	13,746	16,782	20,592	25,458
Gross Block	2,572	2,800	2,857	3,059	3,314
Less: Acc. Depreciation	1,458	1,641	1,826	2,036	2,276
Net Block	1,114	1,159	1,031	1,023	1,038
Capital WIP	-	-	-	-	-
Net Fixed Assets	1,114	1,159	1,031	1,023	1,038
Investments	-	-	-	-	-
Inventories	3,701	5,006	5,853	6,870	7,700
Debtors	1,450	1,762	2,634	2,855	3,470
Loans & Advances	503	704	3,220	1,300	1,650
Cash & Bank Balance	8,394	10,909	10,314	15,055	16,900
Other assets	920	1,024	1,570	1,950	2,470
Total Current Assets	14,968	19,405	23,591	28,030	32,190
Trade payable	2,301	4,747	5,500	6,300	5,400
Other current Liabilities	922	846	732	620	650
Provisions	986	1,225	1,608	1,540	1,720
Net Current Assets	10,759	12,588	15,751	19,570	24,420
Total Assets	11,873	13,746	16,782	20,592	25,458

Source: Company, Centrum Research Estimates

Exhibit 13: Cash Flow

Y/E March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
CF before WC changes	2,253	3,413	231	6,263	3,647
Working Capital Changes	261	164	162	195	220
CF from Operations	2,514	3,577	393	6,458	3,867
Adj OCF (OCF-Interest)	2,504	3,557	355	6,413	3,867
Change in fixed assets	(254)	(209)	(34)	(187)	(235)
Adj. FCF (AOCF-Capex)	2,250	3,348	321	6,226	3,632
CF from Investing	(800)	(209)	(34)	(187)	(235)
CF from Financing	(803)	(1,012)	(1,408)	(1,530)	(1,785)
Net change in Cash	912	2,356	(1,048)	4,741	1,847

Source: Company, Centrum Research Estimates

Appendix A

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Abbott India chart

Source: Bloomberg, Centrum Research

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