

Growth, margin expansion of power brands to the fore

The 9MFY20 revenues grew 13.3% YoY to ₹ 3132 crore, mainly due to strong growth in key therapies & power brands. EBITDA margins improved 365 bps YoY to 19.7% mainly due to better operational leverage and impact of Ind-As 116. EBITDA grew 39% YoY to ₹ 618 crore. Net profit grew 46% YoY to ₹ 482 crore. Delta vis-à-vis EBITDA was mainly due to lower tax rate.

“Power brands” continue to grow ahead of industry growth

Abbott India is the fastest growing listed MNC pharma company. It has outperformed the industry on a consistent basis in women’s health, GI, metabolic, pain, CNS and vaccines. The company’s top 10 brands including (Duphaston- gynaecological, Thyronorm – thyroid, Udiliv, Vertin and Duphalac– GI) have together registered a revenue CAGR of ~18% during December 2015-19 (MAT basis). This has led their combined contribution in total revenues to grow from 51% in December 2015 to ~60% in December 2019. Thus, it is evident that revenue growth has been driven by top brands (power brands). Apart from this, continuous new launches and line extension (more than 100 products launched in 10 years) in existing and new segments is also driving growth. We expect future launches of new products from its key divisions, along with brand extensions and access to innovative molecules from global parent to drive growth.

Margin improvement with better return ratios

Abbott India is a debt-free company and has seen its core RoEs improving from 72% in FY14 to 113% in FY19. EBITDA margins have recovered from lows of 11.8% in FY14 (due to inclusion of one its top brand (Thyronorm) under price control) to 19.7% in 9MFY20. Apart from this, recent tax amendments have the effect of reducing the company’s tax rate from 36% in FY19 to 25.2% from FY20 onwards. Continued new product launches, volume led growth in Abbott India’s top brands and intermittent price hikes in its portfolio provide comfort on overall financials. The company has maintained a dividend payout of ~35% in the past four years with cash/share of ₹ 793 in FY19.

Valuation & Outlook

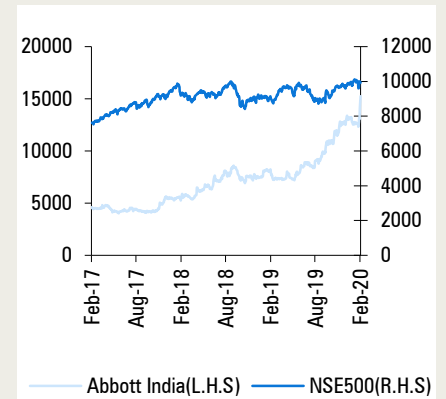
The domestic pharma industry is expected to grow in the range of 9-11% per annum. Issues such as NLEM and other regulatory aspects are mostly in the price. On the flip side, the looming threat of Jan Aushadhi and trade generics are some head winds at this juncture. However, we continue to believe in Abbott’s strong growth track in power brands and capability of new launches on a fairly consistent basis (100 products in the last 10 years). We expect revenues, EBITDA and PAT to grow at ~13%, 25% and 30% CAGR, respectively, in FY19-22E. We maintain **BUY** and arrive at a target price of ₹ 16880 based on 36x FY22 EPS of ₹ 469.



Particulars

Particular	Amount
Market Capitalisation	₹ 30032 crore
Debt (FY19)	₹ 0 crore
Cash (FY19)	₹ 1684 crore
EV	₹ 28347 crore
52 week H/L	14763/7138
Equity capital	₹ 21.3 crore
Face value	₹ 10

Price Performance Graph



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Key Financial Summary

₹ Crore	FY19	FY20E	FY21E	FY22E	CAGR FY19-22 (%)
Revenues	3678.6	4147.8	4685.9	5304.3	13.0
EBITDA	604.7	846.4	1017.1	1193.8	25.4
EBITDA margins (%)	16.4	20.4	21.7	22.5	
Net Profit	450.3	667.0	832.4	996.2	30.3
EPS (₹)	211.9	313.9	391.7	468.8	
PE (x)	66.7	45.0	36.1	30.1	

Source: ICICI Direct Research; Company

Exhibit 1: Power brands

BRAND	Therapy	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	CAGR 5yrs
DUPHASTON	Gynaec	166.7	197.4	244.9	335.3	390.1	23.7
THYRONORM	Hormone	170.5	192.0	234.1	331.1	351.9	19.9
UDILIV	GI	118.7	148.9	185.0	226.6	275.1	23.4
VERTIN	CNS	120.7	130.8	146.0	163.0	175.8	9.9
DUPHALAC	GI	109.2	121.7	131.7	148.7	167.9	11.4
SIMILAC	Vitamins	48.1	82.5	103.3	123.6	121.4	26.1
CREMAFFIN PLUS	GI	43.7	58.2	70.5	85.8	106.9	25.0
CREMAFFIN	GI	73.5	83.0	85.6	90.9	106.5	9.7
ENSURE	Vitamins	47.1	49.0	59.2	81.7	106.0	22.5
DIGENE	GI	74.8	82.3	88.8	78.8	95.6	6.3
Top 10		973.0	1145.7	1349.1	1665.5	1897.3	18.2
Total Revenues		1915.7	2122.7	2401.8	2806.3	3170.7	13.4
Top 10 % of revenues		51%	54%	56%	59%	60%	

Source: AIOCD; Company

Exhibit 2: Therapeutic break-up

Therapy	DEC 15	DEC 16	DEC 17	DEC 18	DEC 19	CAGR 5yrs
GI	627.3	736.2	830.2	912.5	1057.9	14.0
VITAMINS / MINERALS	409.6	455.2	504.9	569.6	611.4	10.5
GYNAECOLOGICAL	216.3	255.3	309.4	414.1	482.2	22.2
NEURO / CNS	287.9	289.0	312.3	349.0	380.1	7.2
HORMONES	174.7	196.1	238.3	337.5	358.5	19.7
ANTI-INFECTIVES	81.3	72.4	68.7	78.9	102.4	5.9
DERMA	27.2	31.3	37.4	39.9	49.3	16.1
CARDIAC	27.2	26.5	29.9	34.3	39.2	9.6
PAIN / ANALGESICS	36.0	32.3	34.7	30.9	39.2	2.1
VACCINES	3.0	11.6	21.0	21.1	31.9	80.4
RESPIRATORY	10.1	10.1	11.0	12.0	11.3	2.9

Source: AIOCD; Company

Financial Summary

Exhibit 3: Profit & Loss (₹ crore)

Year-end March	FY19	FY20E	FY21E	FY22E
Total Operating Income	3,678.6	4,147.8	4,685.9	5,304.3
Growth (%)	11.5	12.8	13.0	13.2
Raw Material Expenses	2,088.6	2,323.6	2,625.1	2,971.6
Gross Profit	1,590.0	1,824.1	2,060.8	2,332.7
Gross Profit Margins (%)	43.2	44.0	44.0	44.0
Employee Expenses	435.6	471.9	519.1	571.7
Other Expenditure	549.7	505.8	524.6	567.3
Total Operating Expenditure	3,073.9	3,301.4	3,668.8	4,110.5
EBITDA	604.7	846.4	1,017.1	1,193.8
Growth (%)	15.3	40.0	20.2	17.4
Interest	2.3	7.6	6.8	6.1
Depreciation	16.9	59.9	61.9	68.5
Other Income	113.3	112.4	164.0	212.2
PBT before Exceptional Item	698.9	891.4	1,112.4	1,331.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	698.9	891.4	1,112.4	1,331.3
Total Tax	248.5	224.4	280.0	335.1
PAT before MI	450.3	667.0	832.4	996.2
PAT	450.3	667.0	832.4	996.2
Growth (%)	12.2	48.1	24.8	19.7
EPS (Adjusted)	211.9	313.9	391.7	468.8

Source: ICICI Direct Research

Exhibit 4: Cash Flow Statement (₹ crore)

Year-end March	FY19	FY20E	FY21E	FY22E
Profit/(Loss) after taxation	442.2	667.0	832.4	996.2
Add: Depreciation & Amortiza	16.9	59.9	61.9	68.5
Net Increase in Current Asset	-51.6	-132.0	-150.5	-171.9
Net Increase in Current Liabili	186.0	104.0	118.3	134.9
Others	-94.4	7.6	6.8	6.1
CF from Operating activities	499.1	706.4	869.0	1,033.9
Investments	-554.1	0.0	0.0	0.0
(Purchase)/Sale of Fixed Ass	4.5	-101.9	-30.0	-30.0
Others	846.2	50.7	-4.9	-4.4
CF from Investing activities	296.6	-51.2	-34.9	-34.4
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-140.9	-230.6	-276.2	-318.7
Other	-1.9	-7.6	-6.8	-6.1
CF from Financing activities	-142.8	-238.1	-283.1	-324.9
Net Cash Flow	652.9	417.1	551.0	674.6
Cash and Cash Equivalent	1,031.4	1,684.3	2,101.4	2,652.4
Cash	1,684.3	2,101.4	2,652.4	3,327.1
Free Cash Flow	503.6	604.5	839.0	1,003.9

Source: ICICI Direct Research

Exhibit 5: Balance Sheet (₹ crore)

Year-end March	FY19	FY20E	FY21E	FY22E
Equity Capital	21.3	21.3	21.3	21.3
Reserve and Surplus	1,987.3	2,423.8	2,980.0	3,657.5
Total Shareholders funds	2,008.6	2,445.1	3,001.2	3,678.7
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	75.4	83.0	91.3	100.4
Lease Liability	0.0	50.6	45.6	41.0
Source of Funds	2,084.0	2,578.6	3,138.1	3,820.1
Gross Block - Fixed Assets	164.5	266.4	296.4	326.4
Accumulated Depreciation	59.6	119.4	181.3	249.8
Net Block	105.0	147.0	115.1	76.6
Capital WIP	0.7	0.7	0.7	0.7
Fixed Assets	105.7	147.7	115.8	77.3
Investments	0.0	0.0	0.0	0.0
Other Non Current Assets	74.2	81.7	89.8	98.8
Inventory	606.8	684.2	772.9	875.0
Debtors	276.1	311.3	351.7	398.1
Loans and Advances	66.2	72.8	80.1	88.1
Other Current Assets	127.6	140.3	154.4	169.8
Cash	1,684.3	2,101.4	2,652.4	3,327.1
Total Current Assets	2,761.0	3,310.1	4,011.6	4,858.1
Creditors	663.5	748.1	845.2	956.8
Provisions	104.0	114.4	125.8	138.4
Other Current Liabilities	89.4	98.4	108.2	119.0
Total Current Liabilities	856.9	960.9	1,079.2	1,214.1
Net Current Assets	1,904.1	2,349.2	2,932.4	3,644.0
Application of Funds	2,084.0	2,578.6	3,138.0	3,820.1

Source: ICICI Direct Research

Exhibit 6: Key Ratios (₹ crore)

Year-end March	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Reported EPS	211.9	313.9	391.7	468.8
Cash EPS	133.6	205.4	261.7	318.8
BV per share	945.2	1,150.7	1,412.4	1,731.2
Cash per Share	792.6	988.9	1,248.2	1,565.7
Dividend per share	78.4	108.5	130.0	150.0
Operating Ratios (%)				
Gross Profit Margins	43.2	44.0	44.0	44.0
EBITDA margins	16.4	20.4	21.7	22.5
PAT Margins	12.2	16.1	17.8	18.8
Cash Conversion Cycle	21.8	21.8	21.8	21.8
Asset Turnover	22.4	15.6	15.8	16.3
EBITDA conversion Rate	82.5	83.5	85.4	86.6
Return Ratios (%)				
RoE	22.4	27.3	27.7	27.1
RoCE	33.9	35.1	35.8	35.2
RoIC	152.3	170.2	203.6	236.9
Valuation Ratios (x)				
P/E	66.7	45.0	36.1	30.1
EV / EBITDA	46.9	33.0	26.9	22.4
EV / Net Sales	7.7	6.7	5.8	5.0
Market Cap / Sales	8.2	7.2	6.4	5.7
Price to Book Value	15.0	12.3	10.0	8.2
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.3	1.3	1.3

Source: ICICI Direct Research

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