

June 9, 2020

FY20 performance reflects strength of power brands...

While Q4FY20 results were subdued as the nationwide lockdown marginally impacted availability of raw materials, finished goods and supply chain distribution, overall FY20 revenues grew 11.3% YoY to ₹ 4093.1 crore, mainly due to strong growth in key therapies & power brands. EBITDA margins improved 204 bps YoY to 18.5% mainly due to better operational leverage. EBITDA grew 25.1% YoY to ₹ 756.4 crore. PAT grew 31.7% YoY to ₹ 592.9 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 one of the fastest growing listed MNC pharma companies. It has outperformed the industry on a consistent basis in women’s health, GI, metabolic, pain, CNS, vaccines. The company’s top 10 brands including (Duphaston- gynaecological, Thyronorm – thyroid, Udiliv, Vertin, Duphalac– GI) together posted ~18% revenue CAGR in March 2015-20 (MAT basis). This has led their combined contribution in total revenues to grow from 37% in March 2015 to ~47% in March 2020. Thus, it is evident that revenue growth has been driven by top brands (power brands). Apart from this, continuous new launches and line extension 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 216% in FY20. EBITDA margins recovered from lows of 11.8% in FY14 (due to inclusion of one its top brand (Thyronorm) under price control) to 18.5% in FY20. The core margins of the company could have been even better after excluding marketing margins (related to Novo Nordisk diabetic portfolio). Apart from this, the recent tax amendments have had the effect of reducing its tax rate from 36% in FY19 to 25-26% 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 also declared a ₹ 250 dividend (final: ₹ 107 + special: ₹ 143) per share for FY20.

Valuation & Outlook

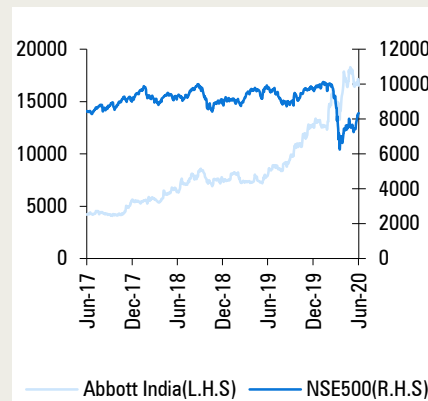
Covid-19 related disturbances notwithstanding (likely to impact Q1FY21), companies from the pharma MNC staple like Abbott continue to generate investor’s interest with robust and sustainable business model backed by stable growth, debt-free B/S, favourable market dynamics with doctor prescription stickiness and lower perceived risk factors. We continue to believe in Abbott’s strong growth track in power brands and capability of new launches on a fairly consistent basis (+100 launches in the last 10 years). We upgrade the stock from HOLD to **BUY** and arrive at a target price of ₹ 19030 based on 45x FY22 EPS of ₹ 422.8.



Particulars

Particular	Amount
Market Capitalisation	₹34583 crore
Debt (FY 20)	₹0 crore
Cash (FY 20)	₹2197 crore
EV	₹32386 crore
52 week H/L	18680/7920
Equity capital	₹21.3 crore
Face value	₹10

Price Performance



Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah, CFA
mitesh.shah@icicisecurities.com

Sudarshan Agarwal
sudarshan.agarwal@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21E	FY22E	CAGR FY20-22 (%)
Revenues	3678.6	4093.1	4508.3	5114.9	11.8
EBITDA	604.7	756.4	830.7	1094.5	20.3
EBITDA margins (%)	16.4	18.5	18.4	21.4	
Net Profit	450.3	592.9	669.1	898.5	23.1
EPS (₹)	211.9	279.0	314.9	422.8	
PE (x)	76.8	58.3	51.7	38.5	
RoCE (%)	33.9	30.7	33.9	37.4	
ROE	22.4	24.4	27.2	29.6	

Exhibit 1: Power brands

Brands	Therapy	FY15	FY16	FY17	FY18	FY19	FY20	CAGR 15-20
DUPHASTON	Gynaecolgy	163.6	164.7	210.6	262.0	358.9	380.5	18.4
THYRONORM	Hormone	152.1	179.0	194.0	260.8	342.2	352.8	18.3
UDILIV	GI	111.5	118.3	161.2	197.3	252.3	286.2	20.7
VERTIN	CNS	93.6	126.1	135.5	149.8	166.5	179.8	13.9
DUPHALAC	GI	105.1	112.0	122.8	132.4	154.9	171.1	10.2
ENSURE	Vitamins	45.3	45.5	52.4	62.3	87.8	113.0	20.0
SIMILAC	Vitamins	26.0	55.7	90.9	106.9	128.5	112.4	34.0
CREMAFFIN PLUS	GI	34.0	46.1	61.1	75.0	89.8	111.1	26.7
CREMAFFIN	GI	62.7	76.5	84.1	85.1	94.7	106.2	11.1
CLARIBID	Antibiotic	57.0	60.1	36.0	59.0	63.5	98.2	11.5
Top 10		851.0	983.9	1148.8	1390.5	1739.1	1911.2	17.6
Total sales		2281.2	2614.5	2902.6	3298.5	3678.6	4093.1	12.4
Top 10% of sales		37%	38%	40%	42%	47%	47%	

Source: AIOCD; Company; MAT based value in ₹ crore

Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

Year-end March	FY19	FY20	FY21E	FY22E
Total Operating Income	3,678.6	4,093.1	4,508.3	5,114.9
Growth (%)	11.5	11.3	10.1	13.5
Raw Material Expenses	2,088.6	2,315.7	2,543.6	2,800.3
Gross Profit	1,590.0	1,777.5	1,964.7	2,314.6
Gross Profit Margins (%)	43.2	43.4	43.6	45.3
Employee Expenses	435.6	476.1	536.3	580.7
Other Expenditure	549.7	544.9	597.8	639.4
Total Operating Expenditure	3,073.9	3,336.7	3,677.6	4,020.5
EBITDA	604.7	756.4	830.7	1,094.5
Growth (%)	15.3	25.1	9.8	31.8
Interest	2.3	8.5	8.5	8.5
Depreciation	16.9	59.6	62.8	67.3
Other Income	113.3	114.4	135.2	182.6
PBT before Exceptional I	698.9	802.7	894.6	1,201.2
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Item	698.9	802.7	894.6	1,201.2
Total Tax	248.5	209.8	225.4	302.7
PAT before MI	450.3	592.9	669.1	898.5
PAT	450.3	592.9	669.1	898.5
Growth (%)	12.2	31.7	12.9	34.3
EPS (Adjusted)	211.9	279.0	314.9	422.8

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

Year-end March	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	442.2	573.5	669.1	898.5
Add: Depreciation & Amorti	16.9	59.6	62.8	67.3
Net Increase in Current Ass	-51.6	84.0	-253.2	-163.4
Net Increase in Current Lial	186.0	-14.2	178.7	135.1
Others	-94.4	-76.8	8.5	8.5
CF from Operating activit	499.1	626.1	666.1	946.0
Investments	-554.1	-506.0	0.0	0.0
(Purchase)/Sale of Fixed A:	4.5	-15.6	-30.0	-30.0
Others	846.2	625.3	-12.5	-11.0
CF from Investing activiti	296.6	103.8	-42.5	-41.0
(inc)/Dec in Loan	0.0	-50.1	0.0	0.0
Dividend & Dividend tax	-140.9	-166.5	-640.4	-318.7
Other	-1.9	-0.2	-8.5	-8.5
CF from Financing activities	-142.8	-216.8	-649.0	-327.3
Net Cash Flow	652.9	513.1	-25.4	577.8
Cash and Cash Equivalent	1,031.4	1,684.3	2,197.4	2,172.0
Cash	1,684.3	2,197.4	2,172.0	2,749.8
Free Cash Flow	503.6	610.6	636.1	916.0

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

Year-end March	FY19	FY20	FY21E	FY22E
Equity Capital	21.3	21.3	21.3	21.3
Reserve and Surplus	1,987.3	2,410.5	2,439.2	3,018.9
Total Shareholders funds	2,008.6	2,431.7	2,460.4	3,040.2
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	84.8	93.3	102.7
Lease Liability	0.0	139.2	125.3	112.8
Source of Funds	2,084.0	2,655.8	2,679.0	3,255.6
Gross Block - Fixed Asset:	164.5	389.0	419.0	449.0
Accumulated Depreciation	59.6	119.2	182.0	249.4
Net Block	105.0	269.8	237.0	199.6
Capital WIP	0.7	1.6	1.6	1.6
Fixed Assets	105.7	271.5	238.6	201.3
Investments	0.0	0.0	0.0	0.0
Other Non Current Assets	74.2	70.7	77.8	85.6
Inventory	606.8	527.2	743.7	843.7
Debtors	276.1	317.9	338.4	383.9
Loans and Advances	66.2	6.1	6.8	7.4
Other Current Assets	127.6	156.0	171.6	188.8
Cash	1,684.3	2,197.4	2,172.0	2,749.8
Total Current Assets	2,761.0	3,204.6	3,432.4	4,173.7
Creditors	663.5	657.8	813.2	922.6
Provisions	104.0	107.5	118.2	130.0
Other Current Liabilities	89.4	125.9	138.5	152.3
Total Current Liabilities	856.9	891.1	1,069.8	1,204.9
Net Current Assets	1,904.1	2,313.5	2,362.6	2,968.7
Application of Funds	2,084.0	2,655.8	2,679.0	3,255.6

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

Year-end March	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	211.9	279.0	314.9	422.8
Cash EPS	133.6	200.7	13.5	272.8
BV per share	945.2	1,144.4	1,157.9	1,430.7
Cash per Share	792.6	1,034.1	1,022.1	1,294.1
Dividend per share	78.4	301.4	150.0	150.0
Operating Ratios (%)				
Gross Profit Margins	43.2	43.4	43.6	45.3
EBITDA margins	16.4	18.5	18.4	21.4
PAT Margins	12.2	14.5	14.8	17.6
Cash Conversion Cycle	21.8	16.7	21.8	21.8
Asset Turnover	22.4	10.5	10.8	11.4
EBITDA conversion Rate	82.5	82.8	80.2	86.4
Return Ratios (%)				
RoE	22.4	24.4	27.2	29.6
RoCE	33.9	30.7	33.9	37.4
RoIC	152.3	157.6	156.9	211.0
Valuation Ratios (x)				
P/E	76.8	58.3	51.7	38.5
EV / EBITDA	54.4	42.8	39.0	29.1
EV / Net Sales	8.9	7.9	7.2	6.2
Market Cap / Sales	9.4	8.4	7.7	6.8
Price to Book Value	17.2	14.2	14.1	11.4
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	1.1	1.2	1.2

Source: ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Siddhant Khandekar, Inter CA, Mitesh Shah, CFA, Sudarshan Agarwal, PGDM(Finance), Research Analysts, 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. 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 Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. 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 generally prohibits its analysts, persons reporting to analysts and their relatives 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 icidirect.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 Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional 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 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 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.