

Muted topline but margin improvement to fore...

Q2FY21 results were a mixed bag. While margins, profitability were better than our estimates, revenues were lower due to slowdown in some therapeutic areas due to extended lockdown and lower footfalls at clinics. Revenues remained muted at ₹ 1054 crore. EBITDA margins expanded 344 bps YoY to 22.8%, mainly due to 253 bps improvement in gross margins to 45.5% and lower other expenditure. EBITDA grew 17.7% to ₹ 240.4 crore. Net profit grew a mere 1.1% YoY to ₹ 180.4 crore. Delta vis-à-vis EBITDA was mainly due to higher tax rate (25.9% against 17.5% in Q2FY20).

“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 and vaccines. The company’s top five brands including (Duphaston- gynaecological, Thyronorm – thyroid, Udiliv, Vertin, Duphalac–GI) together registered a revenue CAGR of 14.4% during September 2015-20 (MAT basis). This has led their combined contribution in total revenues to grow from 40% to ~43% over September 2015-20. 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 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 have recovered from the 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.

Valuation & Outlook

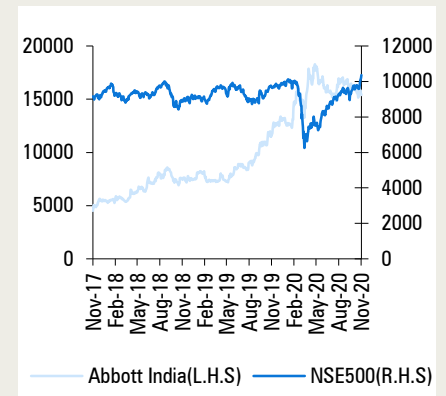
Covid-19 related disturbances notwithstanding, companies from the pharma MNC staple like Abbott continue to generate investor’s interest with robust and sustainable business model backed by stable growth, debt-free B/S, favourable market dynamics with doctor prescription stickiness and lower perceived 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 ten years). We maintain **BUY** and arrive at a target price of ₹ 19065 based on 40x FY23 EPS of ₹ 476.6.



Particulars

Particular	Amount
Market Capitalisation	₹ 32703 crore
Debt (FY20)	₹ 0 crore
Cash (FY20)	₹ 2197 crore
EV	₹ 30505 crore
52 week H/L	18522/11254
Equity capital	₹ 21.3 crore
Face value	₹ 10

Price Performance



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Key Financial Summary

	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E (%)
Revenues	4093.1	4308.3	4920.7	5511.2	10.4
EBITDA	756.4	928.8	1069.1	1240.8	17.9
EBITDA margins (%)	18.5	21.6	21.7	22.5	
Net Profit	592.9	720.5	871.6	1012.7	19.5
EPS (₹)	279.0	339.1	410.2	476.6	
PE (x)	55.2	45.4	37.5	32.3	
RoCE (%)	30.7	36.4	35.7	34.3	
ROE	24.4	28.7	28.0	26.6	

Source: ICICI Direct Research; Company

Exhibit 1: Power brands

Brands	Therapy	SEP15	SEP16	SEP17	SEP18	SEP19	SEP20	CAGR 15-20
THYRONORM	HORMONES	163.6	188.0	211.3	314.8	352.4	347.7	16.3
DUPHASTON	GYNAEC	167.3	183.9	234.2	307.6	387.6	312.6	13.3
UDILIV	GI	116.8	137.6	178.7	225.6	271.0	287.5	19.7
VERTIN	NEURO / CNS	112.8	126.1	142.9	159.5	174.3	185.5	10.5
DUPHALAC	GI	108.3	115.3	132.5	141.6	164.7	175.4	10.1
Top 5		668.8	750.9	899.6	1149.1	1350.0	1308.7	14.4
Total AIOCD sales		1674.4	1933.1	2191.7	2554.7	2912.7	3010.0	12.4
Top 5 (% of sales)		40%	39%	41%	45%	46%	43%	

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

Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

Year-end March	FY20	FY21E	FY22E	FY23E
Total Operating Income	4,093.1	4,308.3	4,920.7	5,511.2
Growth (%)	11.3	5.3	14.2	12.0
Raw Material Expenses	2,315.7	2,399.8	2,676.4	2,954.2
Gross Profit	1,777.5	1,908.4	2,244.3	2,557.1
Gross Profit Margins (%)	43.4	44.3	45.6	46.4
Employee Expenses	476.1	513.7	560.1	627.3
Other Expenditure	544.9	465.8	615.1	688.9
Total Operating Expenditure	3,336.7	3,379.4	3,851.6	4,270.4
EBITDA	756.4	928.8	1,069.1	1,240.8
Growth (%)	25.1	22.8	15.1	16.1
Interest	8.5	18.5	18.5	18.5
Depreciation	59.6	57.0	61.1	65.2
Other Income	114.4	115.4	175.7	196.8
PBT before Exceptional Item:	802.7	968.8	1,165.2	1,353.9
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	802.7	968.8	1,165.2	1,353.9
Total Tax	209.8	248.3	293.6	341.2
PAT before MI	592.9	720.5	871.6	1,012.7
PAT	592.9	720.5	871.6	1,012.7
Growth (%)	31.7	21.5	21.0	16.2
EPS (Adjusted)	279.0	339.1	410.2	476.6

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

Year-end March	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	573.5	720.5	871.6	1,012.7
Add: Depreciation & Amortiza	59.6	57.0	61.1	65.2
Net Increase in Current Asset	84.0	-205.2	-164.8	-161.3
Net Increase in Current Liabili	-14.2	142.7	136.1	134.7
Others	-76.8	18.5	18.5	18.5
CF from Operating activities	626.1	733.5	922.4	1,069.8
(Purchase)/Sale of Fixed Ass	-15.6	-30.0	-30.0	-30.0
Investments	-506.0	0.0	0.0	0.0
Others	625.3	-12.5	-11.0	-9.6
CF from Investing activities	103.8	-42.5	-41.0	-39.6
(inc)/Dec in Loan	-50.1	0.0	0.0	0.0
Dividend & Dividend tax	-166.5	-640.4	-265.6	-318.7
Other	-0.2	-18.5	-18.5	-18.5
CF from Financing activities	-216.8	-658.9	-284.1	-337.2
Net Cash Flow	513.1	32.0	597.4	693.0
Cash and Cash Equivalent	1,684.3	2,197.4	2,229.4	2,826.8
Cash	2,197.4	2,229.4	2,826.8	3,519.8
Free Cash Flow	610.6	703.5	892.4	1,039.8

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

Year-end March	FY20	FY21E	FY22E	FY23E
Equity Capital	21.3	21.3	21.3	21.3
Reserve and Surplus	2,410.5	2,490.5	3,096.5	3,790.5
Total Shareholders funds	2,431.7	2,511.8	3,117.8	3,811.8
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	84.8	93.3	102.7	112.9
Lease Liability	139.2	125.3	112.8	101.5
Source of Funds	2,655.8	2,730.4	3,333.2	4,026.2
Gross Block - Fixed Assets	387.4	417.4	447.4	477.4
Accumulated Depreciation	117.6	174.5	235.6	300.8
Net Block	269.8	242.9	211.8	176.6
Capital WIP	1.6	1.6	1.6	1.6
Fixed Assets	271.5	244.5	213.4	178.3
Investments	0.0	0.0	0.0	0.0
Other Non Current Assets	70.7	77.8	85.6	94.2
Inventory	527.2	710.7	811.7	909.1
Debtors	317.9	323.4	369.3	413.7
Loans and Advances	6.1	6.8	7.4	8.2
Other Current Assets	156.0	171.6	188.8	207.7
Cash	2,197.4	2,229.4	2,826.8	3,519.8
Total Current Assets	3,204.6	3,441.8	4,204.0	5,058.4
Creditors	657.8	777.1	887.6	994.1
Provisions	107.5	118.2	130.0	143.0
Other Current Liabilities	125.9	138.5	152.3	167.5
Total Current Liabilities	891.1	1,033.8	1,169.9	1,304.6
Net Current Assets	2,313.5	2,408.1	3,034.1	3,753.7
Application of Funds	2,655.7	2,730.4	3,333.2	4,026.2

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

Year-end March	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	279.0	339.1	410.2	476.6
Cash EPS	200.7	37.7	285.2	326.6
BV per share	1,144.4	1,182.1	1,467.2	1,793.8
Cash per Share	1,034.1	1,049.2	1,330.3	1,656.4
Dividend per share	301.4	125.0	150.0	175.0
Operating Ratios (%)				
Gross Profit Margins	43.4	44.3	45.6	46.4
EBITDA margins	18.5	21.6	21.7	22.5
PAT Margins	14.5	16.7	17.7	18.4
Cash Conversion Cycle	16.7	21.8	21.8	21.8
Asset Turnover	10.6	10.3	11.0	11.5
EBITDA conversion Rate	82.8	79.0	86.3	86.2
Return Ratios (%)				
RoE	24.4	28.7	28.0	26.6
RoCE	30.7	36.4	35.7	34.3
RoIC	157.6	180.3	206.9	242.1
Valuation Ratios (x)				
P/E	55.2	45.4	37.5	32.3
EV / EBITDA	40.3	32.8	27.9	23.5
EV / Net Sales	7.5	7.1	6.1	5.3
Market Cap / Sales	8.0	7.6	6.6	5.9
Price to Book Value	13.4	13.0	10.5	8.6
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.2	1.2

Source: ICICI Direct Research

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