

Sales recovery in the offing...

While Q4FY21 results are not strictly comparable on a YoY basis due to pandemic related challenges in the base year, FY21 revenues grew 5.3% YoY to ₹ 4310 crore likely moderated by the decline in 'Duphaston' (gynaecology) sales alongside demand slowdown in some other therapies amid the pandemic. EBITDA margins expanded 290 bps YoY to 21.4% with an overall better operational performance. EBITDA for the fiscal grew 21.8% YoY to ₹ 922 crore. PAT was up 16.5% YoY to ₹ 691 crore in line with operational performance and lower other income.

"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 among others. The company's top five brands including (Duphaston- gynaecological, Thyronorm- thyroid, Udiliv, Duphalac- both GI and Vertin- CNS) together posted revenue CAGR of ~13% in March 2017-21 (MAT basis). Thus, revenue growth has been driven by top brands (power brands). Additionally, 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

EBITDA margins have recovered from lows of 11.8% in FY14 [due to inclusion of one its top brand (Thyronorm) under price control] to 21.4% in FY21. Core margins of the company could have been even better after excluding marketing margins (related to Novo Nordisk diabetic portfolio). Apart from this, erstwhile 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 ₹ 275 dividend (final: ₹ 120 + special: ₹ 155) per share for FY21.

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 in new launches on a fairly consistent basis (+100 launches in the last 10 years). We maintain **BUY** and arrive at a target price of ₹ 19235 (vs. earlier ₹ 19065) based on 40x FY23E EPS of ₹ 480.9.

Key Financial Summary

| | FY20 | FY21 | FY22E | FY23E | CAGR FY21-23E (%) |
|--------------------|--------|--------|--------|--------|-------------------|
| Revenues | 4093.1 | 4310.0 | 4922.7 | 5513.5 | 13.1 |
| EBITDA | 756.4 | 921.5 | 1078.8 | 1254.0 | 16.7 |
| EBITDA margins (%) | 18.5 | 21.4 | 21.9 | 22.7 | |
| Net Profit | 592.9 | 690.7 | 878.2 | 1021.9 | 21.6 |
| EPS (₹) | 279.0 | 325.0 | 413.3 | 480.9 | |
| PE (x) | 57.5 | 49.4 | 38.8 | 33.4 | |
| RoCE (%) | 30.7 | 33.8 | 38.7 | 36.6 | |
| ROE | 24.4 | 26.5 | 30.3 | 28.4 | |

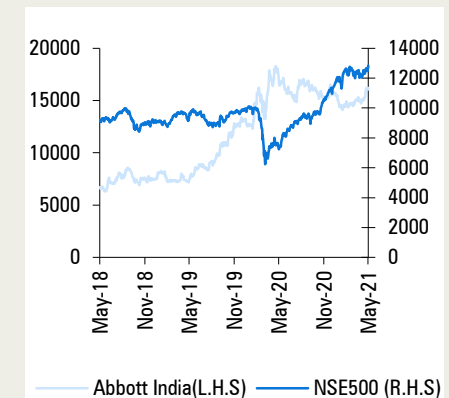
Source: ICICI Direct Research; Company



Particulars

| Particular | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 34087 crore |
| Debt (FY21) | ₹ 0 crore |
| Cash (FY21) | ₹ 2409 crore |
| EV | ₹ 31678 crore |
| 52 week H/L | 17800/13970 |
| Equity capital | ₹ 21.3 crore |
| Face value | ₹ 10 |

Price Performance



Key risks to our call

- Higher than expected competition panning in domestic power brands
- Addition of any product to NLEM list

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Exhibit 1: Power brands

| BRAND | Therapy | FY17 | FY18 | FY19 | FY20 | FY21 | CAGR FY17-21 |
|--------------|-------------------|--------------|---------------|---------------|---------------|---------------|---------------------|
| THYRONORM | HORMONES | 194.0 | 260.8 | 342.2 | 352.9 | 359.6 | 16.7 |
| UDILIV | GASTRO INTESTINAL | 161.2 | 197.3 | 252.3 | 286.2 | 309.9 | 17.8 |
| DUPHASTON | GYNAECOLOGICAL | 210.6 | 262.0 | 358.9 | 380.5 | 273.9 | 6.8 |
| VERTIN | NEURO / CNS | 135.5 | 149.8 | 166.5 | 179.8 | 204.0 | 10.8 |
| DUPHALAC | GASTRO INTESTINAL | 122.8 | 132.4 | 154.9 | 171.1 | 185.7 | 10.9 |
| Top 5 | | 824.2 | 1002.3 | 1274.9 | 1370.4 | 1333.2 | 12.8 |

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

Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

| Year-end March | FY20 | FY21 | FY22E | FY23E |
|-------------------------------------|--------------|--------------|----------------|----------------|
| Total Operating Income | 4,093.1 | 4,310.0 | 4,922.7 | 5,513.5 |
| Growth (%) | 11.3 | 5.3 | 14.2 | 12.0 |
| Raw Material Expenses | 2,315.7 | 2,390.9 | 2,668.2 | 2,942.7 |
| Gross Profit | 1,777.5 | 1,919.1 | 2,254.5 | 2,570.7 |
| Gross Profit Margins (%) | 43.4 | 44.5 | 45.8 | 46.6 |
| Employee Expenses | 476.1 | 492.6 | 560.3 | 627.6 |
| Other Expenditure | 544.9 | 505.0 | 615.3 | 689.2 |
| Total Operating Expenditure | 3,336.7 | 3,388.6 | 3,843.9 | 4,259.5 |
| EBITDA | 756.4 | 921.5 | 1,078.8 | 1,254.0 |
| Growth (%) | 25.1 | 21.8 | 17.1 | 16.2 |
| Interest | 8.5 | 18.3 | 18.3 | 18.3 |
| Depreciation | 59.6 | 58.1 | 62.2 | 66.3 |
| Other Income | 114.4 | 80.9 | 175.7 | 196.8 |
| PBT before Exceptional Item: | 802.7 | 926.0 | 1,174.0 | 1,366.2 |
| Less: Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT after Exceptional Items | 802.7 | 926.0 | 1,174.0 | 1,366.2 |
| Total Tax | 209.8 | 235.3 | 295.9 | 344.3 |
| PAT before MI | 592.9 | 690.7 | 878.2 | 1,021.9 |
| PAT | 592.9 | 690.7 | 878.2 | 1,021.9 |
| Growth (%) | 31.7 | 16.5 | 27.1 | 16.4 |
| EPS (Adjusted) | 279.0 | 325.0 | 413.3 | 480.9 |

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

| Year-end March | FY20 | FY21 | FY22E | FY23E |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Profit/(Loss) after taxation | 573.5 | 690.5 | 878.2 | 1,021.9 |
| Add: Depreciation & Amortiza | 59.6 | 58.1 | 62.2 | 66.3 |
| Net Increase in Current Asset | 84.0 | -113.7 | -227.9 | -157.4 |
| Net Increase in Current Liabili | -14.2 | 125.0 | 152.1 | 136.1 |
| Others | -76.8 | -33.1 | 18.3 | 18.3 |
| CF from Operating activities | 626.1 | 726.7 | 882.9 | 1,085.2 |
| (Purchase)/Sale of Fixed Ass | -15.6 | -23.2 | -30.0 | -30.0 |
| Investments | -506.0 | -135.1 | 0.0 | 0.0 |
| Others | 625.3 | 225.0 | -9.8 | -8.5 |
| CF from Investing activities | 103.8 | 66.7 | -39.8 | -38.5 |
| (inc)/Dec in Loan | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend & Dividend tax | -166.5 | -531.2 | -584.4 | -318.7 |
| Other | -50.3 | -50.6 | -18.3 | -18.3 |
| CF from Financing activities | -216.8 | -581.8 | -602.6 | -337.0 |
| Net Cash Flow | 513.1 | 211.7 | 240.4 | 709.7 |
| Cash and Cash Equivalent | 1,684.3 | 2,197.4 | 2,409.0 | 2,649.5 |
| Cash | 2,197.4 | 2,409.0 | 2,649.5 | 3,359.2 |
| Free Cash Flow | 610.6 | 703.6 | 852.9 | 1,055.2 |

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

| Year-end March | FY20 | FY21 | FY22E | FY23E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Equity Capital | 21.3 | 21.3 | 21.3 | 21.3 |
| Reserve and Surplus | 2,410.5 | 2,580.9 | 2,874.7 | 3,577.9 |
| Total Shareholders funds | 2,431.7 | 2,602.2 | 2,896.0 | 3,599.2 |
| Total Debt | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Liability | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-Term Provisions | 84.8 | 89.8 | 98.7 | 108.6 |
| Lease Liability | 139.2 | 117.7 | 105.9 | 95.3 |
| Source of Funds | 2,655.8 | 2,809.6 | 3,100.6 | 3,803.1 |
| Gross Block - Fixed Assets | 387.4 | 426.5 | 456.5 | 486.5 |
| Accumulated Depreciation | 117.6 | 175.7 | 237.9 | 304.3 |
| Net Block | 269.8 | 250.8 | 218.6 | 182.2 |
| Capital WIP | 1.6 | 0.7 | 0.7 | 0.7 |
| Fixed Assets | 271.5 | 251.4 | 219.2 | 182.9 |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Current Assets | 70.7 | 70.5 | 77.5 | 85.3 |
| Inventory | 527.2 | 717.6 | 812.0 | 909.5 |
| Debtors | 317.9 | 250.2 | 369.5 | 413.8 |
| Loans and Advances | 6.1 | 5.0 | 5.4 | 6.0 |
| Other Current Assets | 156.0 | 136.7 | 150.4 | 165.4 |
| Cash | 2,197.4 | 2,409.0 | 2,649.5 | 3,359.2 |
| Total Current Assets | 3,204.6 | 3,518.5 | 3,986.8 | 4,853.9 |
| Creditors | 657.8 | 762.7 | 887.9 | 994.5 |
| Provisions | 107.5 | 116.0 | 127.6 | 140.3 |
| Other Current Liabilities | 125.9 | 152.2 | 167.5 | 184.2 |
| Total Current Liabilities | 891.1 | 1,030.9 | 1,182.9 | 1,319.0 |
| Net Current Assets | 2,313.5 | 2,487.7 | 2,803.9 | 3,534.9 |
| Application of Funds | 2,655.7 | 2,809.6 | 3,100.6 | 3,803.1 |

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

| Year-end March | FY20 | FY21 | FY22E | FY23E |
|-----------------------------|---------|---------|---------|---------|
| Per share data (₹) | | | | |
| Reported EPS | 279.0 | 325.0 | 413.3 | 480.9 |
| Cash EPS | 5.7 | 77.4 | 292.6 | 337.1 |
| BV per share | 1,144.4 | 1,224.6 | 1,362.9 | 1,693.8 |
| Cash per Share | 1,034.1 | 1,133.7 | 1,246.8 | 1,580.8 |
| Dividend per share | 301.4 | 275.0 | 150.0 | 175.0 |
| Operating Ratios (%) | | | | |
| Gross Profit Margins | 43.4 | 44.5 | 45.8 | 46.6 |
| EBITDA margins | 18.5 | 21.4 | 21.9 | 22.7 |
| PAT Margins | 14.5 | 16.0 | 17.8 | 18.5 |
| Cash Conversion Cycle | 16.7 | 17.4 | 21.8 | 21.8 |
| Asset Turnover | 10.6 | 10.1 | 10.8 | 11.3 |
| EBITDA conversion Rate | 82.8 | 78.9 | 81.8 | 86.5 |
| Return Ratios (%) | | | | |
| RoE | 24.4 | 26.5 | 30.3 | 28.4 |
| RoCE | 30.7 | 33.8 | 38.7 | 36.6 |
| RoIC | 157.6 | 226.0 | 235.9 | 281.6 |
| Valuation Ratios (x) | | | | |
| P/E | 57.5 | 49.4 | 38.8 | 33.4 |
| EV / EBITDA | 42.2 | 34.4 | 29.1 | 24.5 |
| EV / Net Sales | 7.8 | 7.3 | 6.4 | 5.6 |
| Market Cap / Sales | 8.3 | 7.9 | 6.9 | 6.2 |
| Price to Book Value | 14.0 | 13.1 | 11.8 | 9.5 |
| 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 | 1.1 | 1.1 | 1.1 |

Source: ICICI Direct Research

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