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Q4FY21 result review
and earnings revision

Pharmaceuticals

Target price: Rs18,497

Earnings revision

(%)	FY22E	FY23E
Sales	1.7	2.4
EPS	(0.1)	1.7

Target price revision

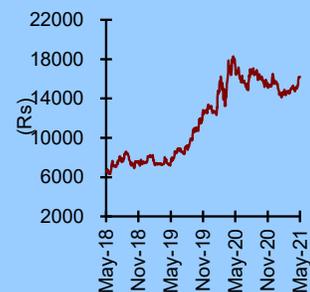
Rs18,497 from Rs18,195

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	75.0	75.0	75.0
Institutional investors	7.5	6.9	6.5
MFs and others	5.2	4.0	3.2
Banks / FIs	0.1	0.2	0.5
Insurance	0.2	0.3	0.9
FIs	2.0	2.4	1.9
Others	17.5	18.1	18.5

Source: BSE India

Price chart



Abbott India

BUY

Maintained

Rs16,041

Revenue growth starts recovering

Abbott India Limited's (AIL) Q4FY21 performance was better than our estimates with revenue growing 14.0% YoY to Rs10.9bn (I-Sec: Rs10.2bn). EBITDA margin improved 440bps YoY to 18.8% (I-Sec: 18.4%) and adj. PAT grew 37.4% YoY to Rs1.5bn (I-Sec: Rs1.5bn). The strong performance was due to traction in key products with fall in COVID-19 cases. Near term pressures continue with rising cases but expect recovery with ongoing vaccination. We remain positive on the company considering its exposure exclusively in domestic formulations, strong balance sheet with deep cash reserves, high return ratios and strong brand equity built over the years. Maintain BUY with a revised target price of Rs18,497/share.

► **Revenue growing; costs normalising:** Revenue growth of 14.0% YoY was due to traction in key products and low base of last year. Declining COVID-19 cases in the quarter supported growth in the quarter. Despite recent surge in cases, we expect recovery in growth to continue with the ongoing vaccination. Gross cost grew 9.1% YoY but gross margin improved 250bps with higher revenue. Low growth of 4.2% YoY in employee cost supported margins. However, S,G&A expenses grew sharply at 21.2% QoQ with reversal of cost savings due to COVID-19 led lockdown which caused EBITDA margins to correct 330bps QoQ. Adj PAT grew 37.4% YoY with strong performance despite lower other income. Company announced a dividend of Rs275/share including a special dividend of Rs155/share for the next year.

► **Key products performance:** As per AIOCD data the AIL has reported a growth of 1.2% in its key products and even Novo portfolio has reported a growth of 1.2%. *Thyronorm, Udiliv, Duphalac, Vertin, Cremaffin Plus* and *Digene* have reported YoY growth of 5.8%, 15.8%, 15.7%, 13.1%, 21.3% and 6.9% respectively for the quarter. *Duphaston* reported a steep decline of 22.4% YoY. *Cremaffin* and *Claribid* reported a YoY decline of 1.7% and 31.4% respectively. Amongst the Novo portfolio, *Actrapid* and *Tresiba* have reported strong YoY growth of 22.1% and 12.6% respectively. *Novomix* and *Novorapod* have reported a YoY growth of 7.7% and 2.6% respectively. *Mixtard, Victoza* and *Ryzodeg* have declined 2.2%, 10.1% and 18.8% YoY respectively.

► **Outlook:** We believe that current quarter expenses is a reflection of a normalised quarter and strong revenue growth in the coming quarters should support margins in the range of ~21-22%. Overall, we expect 9.8% revenue and 16.4% PAT CAGR over FY21-23E. Minimal capex requirement would help generate healthy FCF of Rs18bn over FY22E-FY23E.

► **Valuations and risks:** We raise our sales and earnings estimates by 1-2% and 0-2% respectively for FY22E-FY23E to reflect higher growth in key brands. Maintain **BUY** with a revised target price of Rs18,497/share based on 42x FY23E EPS (earlier: Rs18,195/share). Key downside risks are: addition of key drugs in NLEM, product concentration, government intervention, and presence of unlisted promoter company.

Market Cap	Rs341bn/US\$4.7bn
Reuters/Bloomberg	ABOT.BO/BOOT IN
Shares Outstanding (mn)	21.2
52-week Range (Rs)	17164/14094
Free Float (%)	25.0
FII (%)	1.9
Daily Volume (USD/'000)	3,864
Absolute Return 3m (%)	7.6
Absolute Return 12m (%)	(4.4)
Sensex Return 3m (%)	(2.1)
Sensex Return 12m (%)	69.0

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	40,931	43,100	47,368	51,947
Net Income (Rs mn)	5,929	6,907	7,957	9,359
EPS (Rs)	279.0	325.0	374.5	440.4
% Chg YoY	31.7	16.5	15.2	17.6
P/E (x)	57.5	49.4	42.8	36.4
CEPS (Rs)	306.6	351.9	401.2	466.8
EV/E (x)	42.4	34.5	31.3	26.5
Dividend Yield (%)	0.4	1.6	1.7	0.5
RoCE (%)	25.1	25.4	27.4	27.5
RoE (%)	26.7	27.4	29.4	29.4

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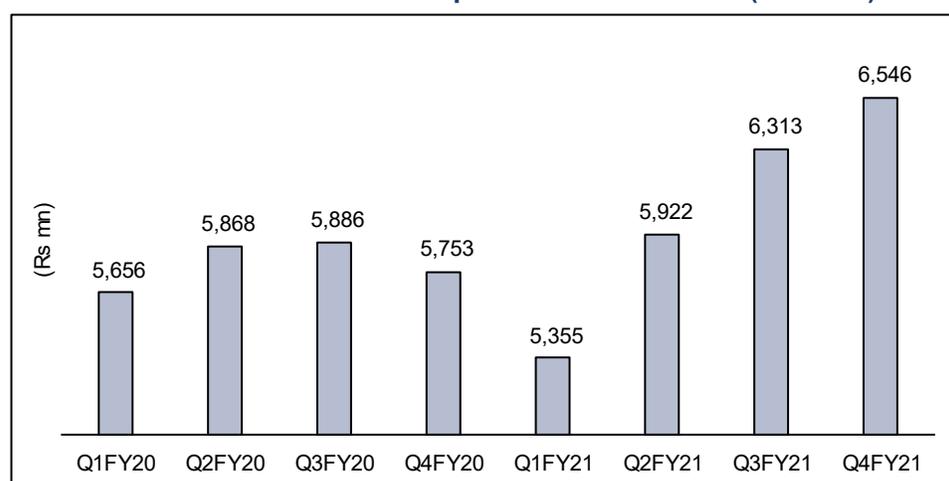
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Table 1: Q4FY21 performance*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY % Chg	Q3FY21	QoQ % Chg
Net Sales	10,955	9,612	14.0	10,954	0.0
EBITDA	2,055	1,384	48.5	2,418	(15.0)
Other income	162	281	(42.4)	150	7.9
PBIDT	2,217	1,666	33.1	2,568	(13.7)
Depreciation	151	148	2.0	146	3.2
Interest	47	28	68.1	43	10.0
Extra ordinary income/ (exp.)	-	-	-	-	-
PBT	2,019	1,489	35.6	2,379	(15.1)
Tax	494	380	30.2	607	(18.7)
Minority Interest	-	-	-	-	-
Reported PAT	1,525	1,110	37.4	1,771	(13.9)
Adjusted PAT	1,525	1,110	37.4	1,771	(13.9)
EBITDA margins (%)	18.8	14.4	440bps	22.1	(330)bps

Source: Company data, I-Sec research

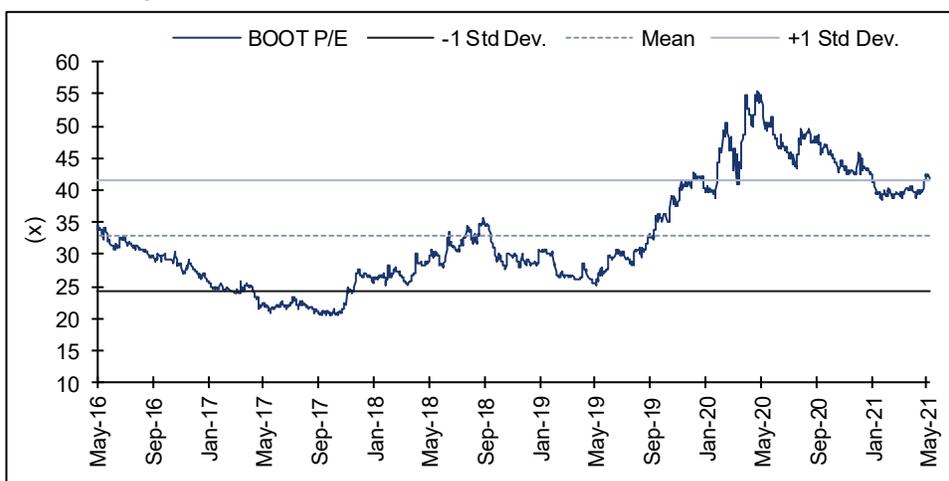
Chart 1: Trend of revenue from top 30 brands of Abbott (ex-Novo)

Source: AIOCD data, I-Sec research

Valuations

We expect AIL to witness an earnings CAGR of 16.4% over FY21-FY23E driven by revenue CAGR of 9.8% and EBITDA margin expansion of 100bps to 22.4% in FY23E on a high base of FY21. Return ratios (RoE and RoCE) would improve with margin expansion led by growth and operating leverage. The stock currently trades at valuations of 42.8x FY22E and 36.4x FY23E earnings and EV/EBITDA multiple of 31.3x FY22E and 26.5x FY23E. We remain positive on the long-term outlook considering the company's strong growth trajectory, established brand franchise, healthy return profile and rich cash reserves. We maintain our **BUY** rating on the stock with a revised target price of Rs18,497/share based on 42x FY23E earnings (earlier: Rs18,195/share).

Chart 2: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Net Revenue	40,931	43,100	47,368	51,947
yoy Growth%	11.3	5.3	9.9	9.7
Total Op. Exp.	33,367	33,886	37,257	40,306
EBITDA	7,565	9,215	10,111	11,641
Margins %	18.5	21.4	21.3	22.4
yoy Growth%	25.1	21.8	9.7	15.1
Depreciation	596	581	578	571
EBIT	6,968	8,633	9,532	11,070
Other Income	1,144	809	1,276	1,612
Interest	85	183	170	170
EO Income	-	-	-	-
PBT	8,027	9,260	10,638	12,512
Tax	2,098	2,353	2,681	3,153
Tax Rate (%)	26.1	25.4	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	5,929	6,907	7,957	9,359
Adj. PAT	5,929	6,907	7,957	9,359
Net Margins (%)	14.5	16.0	16.8	18.0

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Paid-up Capital	213	213	213	213
Reserves & Surplus	24,105	25,809	27,923	35,410
Total Equity	24,317	26,022	28,135	35,622
Minority Interest	-	-	-	-
Total Debt	1,749	1,526	1,526	1,526
Deferred Liabilities	(144)	(178)	(178)	(178)
Capital Employed	25,921	27,369	29,483	36,970
Current Liabilities	9,403	10,857	11,959	13,042
Total Liabilities	35,324	38,226	41,442	50,011
Net Fixed Assets	2,715	2,514	2,136	1,765
Investments	-	-	-	-
Inventory	5,272	7,176	7,890	8,535
Debtors	3,179	2,502	2,750	3,016
Other Current Assets	2,185	1,944	2,053	2,171
Cash and Equivalents	21,974	24,090	26,613	34,524
Total Cur. Assets	32,609	35,712	39,306	48,246
Total Assets	35,324	38,226	41,442	50,011

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
PBT (Adj. for Extraordinary)	8,027	9,260	10,638	12,512
Depreciation	596	581	578	571
Net Chg in WC	292	(167)	(165)	(155)
Taxes	(2,292)	(2,355)	(2,681)	(3,153)
Others	(447)	(235)	195	209
CFO	6,176	7,085	8,566	9,983
Capex	(156)	(232)	(200)	(200)
Net Investments made	(5,060)	(1,351)	-	-
Others	1,203	865	-	-
CFI	(4,012)	(718)	(200)	(200)
Change in Share capital	-	-	-	-
Change in Debts	(501)	(501)	-	-
Div. & Div Tax	(1,665)	(5,312)	(5,844)	(1,872)
Others	83	178	-	-
CFF	(2,083)	(5,635)	(5,844)	(1,872)
Total Cash Generated	81	731	2,522	7,912
Cash Opening Balance	1,370	1,451	2,183	4,705
Cash Closing Balance	1,451	2,183	4,705	12,617

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Adj EPS	279.0	325.0	374.5	440.4
YoY Growth%	31.7	16.5	15.2	17.6
Cash EPS	306.6	351.9	401.2	466.8
EBITDA - Core (%)	18.5	21.4	21.3	22.4
NPM (%)	14.5	16.0	16.8	18.0
Net Debt to Equity (x)	(0.8)	(0.9)	(0.9)	(0.9)
P/E (x)	57.5	49.4	42.8	36.4
EV/EBITDA Core (x)	42.4	34.5	31.2	26.4
P/BV (x)	14.0	13.1	12.1	9.6
EV/Sales (x)	7.8	7.4	6.7	5.9
RoCE (%)	25.1	25.4	27.4	27.5
RoE (%)	26.7	27.4	29.4	29.4
RoIC (%)	115.2	138.6	170.0	214.0
Book Value (Rs)	1,144	1,225	1,324	1,676
DPS (Rs)	65.0	250.0	275.0	88.1
Dividend Payout (%)	23.3	76.9	73.4	20.0
Div Yield (%)	0.4	1.6	1.7	0.5
Asset Turnover Ratio	39.3	41.4	43.9	46.0
Avg Collection days	26	24	20	20
Avg Inventory days	62	67	74	74

Source: Company data, I-Sec research

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