

Rating change

6 February 2017

## Consistent, superior performance; upgrade to Buy

We upgrade Abbott India (AIL) to Buy from Hold rating with a TP of Rs5,380 (earlier Rs4,480) based on 24x March'19 EPS of Rs224.0. We have rolled over the valuations to March'19. AIL's results were in line with our expectations. The company reported 13%YoY growth in revenues, 150bps improvement in margin to 16.3% and 26%YoY growth in net profit. The company's twelve leading brands grew faster than the market and are likely to drive future growth. We expect margin improvement from the launch of 17 new products in FY16 and with the entry in high-margin vaccine segment. AIL is a debt-free cash rich company with cash/share of Rs410 and is poised for strong growth.

- Brand-driven revenue growth:** AIL's revenues grew 13% YoY to Rs7.56bn from Rs6.70bn on good growth in its flagship brands. Twelve of its 16 major brands grew faster than the market growth rate of 7.2% and are likely to drive future growth. AIL also distributes Novo Nordisk's anti-diabetic products in the domestic market and derives distribution margin from them. In FY16, the company launched 17 new products including high-margin vaccines which are likely to drive future growth.
- Margins grew by 150bps:** AIL's EBITDA margin widened by 150bps YoY to 16.3% from 14.8%, largely due to the decline in personnel cost and other expenses. The company's material costs grew by 300bps to 58.3% from 55.3% due to the change in its product mix. Personnel costs declined by 150bps to 11.6% from 13.1% due to good sales growth. Other expenses slid 300bps to 13.8% from 16.8% due to the cost control measures. We expect margin improvement to continue due to the price increase in non-NLEM products in April'16 and new product launches, which are outside price control.
- Net profit grew by 26%YoY:** AIL's net profit grew 26%YoY to Rs856mn from Rs678mn due to margin improvement and a lower tax rate. AIL's tax rate declined to 35.4% from 37.2% of PBT. The price increase in non-NLEM products in April'16 would improve revenues further. AIL is a debt-free, cash-rich company and its cash/share is Rs410. The company is poised for rapid growth which would be led by its strong brands and sharply focused marketing thrust. We expect the growth momentum to continue.
- Recommendation and key risks:** We upgrade AIL to Buy from Hold with the target price of Rs5,380 based on 24x March'19E EPS of Rs224.0. We expect AIL to perform well due to its strong brands, new product launches and entry into the high-margin vaccine segment. Key risks to our assumptions are a slowdown in the domestic market and key upside risk would be faster growth of its brands.

Y/E Mar (Rs mn)	Q3FY17	Q3FY16	YoY (%)	Q2FY17	QoQ (%)	Q3FY17E	% Var.
<b>Net sales</b>	<b>7,557</b>	<b>6,696</b>	<b>12.9</b>	<b>7,294</b>	<b>3.6</b>	<b>7,540</b>	<b>0.2</b>
Raw material cost	4,406	3,703	18.98	4,297	2.5	4,350	1.3
Employee cost	878	880	(0.2)	869	1.0	900	(2.4)
Other expenses	1,042	1,122	(7.1)	1,069	(2.5)	1,090	(4.4)
<b>EBIDTA</b>	<b>1,231</b>	<b>991</b>	<b>25.7</b>	<b>1,059</b>	<b>16.2</b>	<b>1,200</b>	<b>2.6</b>
<b>EBIDTA margin (%)</b>	<b>16.3</b>	<b>14.8</b>	<b>(100)</b>	<b>14.5</b>	<b>15.9</b>	<b>15.9</b>	<b>0.0</b>
Depreciation	44	35	12.1	41	7.32	45	(2.2)
Interest	0	1	22.9	0	NA	0	NA
Other income	139	124	17.2	144	(3.5)	160	(13.1)
PBT	1,326	1,079	26.3	1,162	14.1	1,315	0.84
Prov. For tax	470	401	25.7	412	14.1	450	4.44
<b>Adj. PAT</b>	<b>856</b>	<b>678</b>	<b>NA</b>	<b>750</b>	<b>14.1</b>	<b>865</b>	<b>(1.0)</b>

Source: Company, Centrum Research Estimates

Target Price	Rs5,380	Key Data	
CMP*	Rs 4,597	Bloomberg Code	BOOT IN
Upside	17.0%	Curr Shares O/S (mn)	21.2
Previous Target	Rs4,480	Diluted Shares O/S(mn)	21.2
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	97.7/1.5
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	5244/4351
		5 Year H / L (Rs)	6177.7/1251
BOOTIN	(0.2)	(2.6)	(7.8)
Daily Vol. (3M NSE Avg.)			2390
Nifty	6.8	1.4	17.5

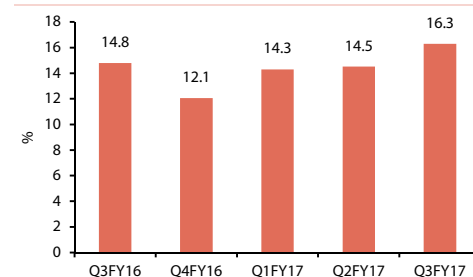
\*as on 6<sup>th</sup> February 2017; Source: Bloomberg, Centrum Research

### Shareholding pattern (%)

	Dec-16	Sept-16	June-16	Mar-16
Promoter	75.0	75.0	75.0	75.0
FIs	2.7	2.7	1.9	1.8
DIs	6.0	6.0	6.7	6.7
Others	16.3	16.3	16.4	16.5

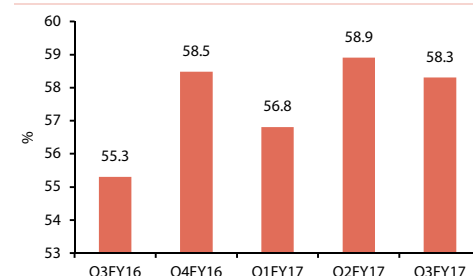
Source: BSE, \*as on 6<sup>th</sup> February 2017

### Trend in EBITDA margin (%)



Source: Company, Centrum Research

### Trend in material cost (%)



Source: Centrum Research

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Y/E Dec / Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	22,886	(0.4)	3,123	13.6	2,290	15.4	107.7	26.5	26.7	26.9	17.7
FY16	26,285	14.9	3,666	13.9	2,596	13.4	122.2	25.4	25.6	39.2	25.4
FY17E	30,919	17.6	4,566	14.8	3,252	25.3	153.0	26.8	27.1	30.6	19.8
FY18E	35,892	16.1	5,532	15.4	3,898	19.9	183.5	26.9	27.1	25.5	15.9
FY19E	41,640	16.0	6,790	16.3	4,760	22.1	224.0	27.2	27.5	20.9	12.7

Source: Company, Centrum Research Estimates

## Major brands and their performance

As per AIOCD AWACS December'16 monthly data, AIL grew 12.2% YoY, faster than the industry growth rate of 7.2%. AIL's 16 brands are listed among the top 500 products. Twelve of these grew faster than the market growth rate of 7.2%. We expect these twelve brands to drive future growth. AIL's two brands Thyronorm and Eptoin are under price control. These top 16 brands contributed 23% to the company's revenues.

The details are as follows:

### Exhibit 1: Performance of major brands

Products (Rs mn)	Ther. Category	October'16		November'16		December'16	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
<b>Pharma industry</b>		<b>95,126</b>	<b>8.3</b>	<b>93,878</b>	<b>15.3</b>	<b>91,323</b>	<b>7.2</b>
<b>Company</b>		<b>5,993</b>	<b>12.4</b>	<b>5,943</b>	<b>19.8</b>	<b>5,893</b>	<b>12.2</b>
Thyronorm	thyroid hormone	156	3.2	166	11.8	169	8.1
Duphaston	gynaecological	164	27.7	172	44.5	182	34.0
Vertin	antiemetic	120	14.4	115	19.1	121	12.3
Udiliv	cirrhosis of liver	145	34.2	139	45.0	134	32.9
Duphalac	laxative	119	23.1	113	24.8	113	18.4
Digene	antacid	74	12.5	66	10.8	78	21.6
Cremaffin	laxative	82	19.1	72	16.6	76	9.1
Eptoin	antiepileptic	54	(15.9)	55	(13.8)	55	(19.4)
Paediasure	neutraceutical	76	25.0	82	53.5	73	30.9
Pediasure complete	neutraceutical	49	(12.4)	54	9.6	49	(13.2)
Similac	neutraceutical	82	67.5	87	74.6	84	63.6
Zolfresh	sedative	36	(12.8)	35	(13.2)	36	(14.8)
Cremaffin plus	laxative	63	54.9	54	27.6	53	30.4
Ensure	neutraceutical	45	26.3	46	37.8	48	29.4
Creon	digestive	42	29.3	47	57.3	42	24.0
Prothiaden	antidepressant	30	(6.8)	33	(5.0)	33	(6.1)
<b>Top brands</b>		<b>1,337</b>		<b>1,336</b>		<b>1,346</b>	

Source: AIOCD AWACS monthly data-October-December'16

### Distribution of Novo Nordisk products

AIL distributes Novo Nordisk's anti-diabetic products in India. These products contributed ~16% to the company's revenues. As per AIOCD AWACS December'16 data, Novo Nordisk's five out of seven distributed products grew faster than the market growth rate of 7.2%, indicating a strong brand image. Human Mixtard is the largest selling brand in the domestic market which grew at 3.9%. As the insulin brands are under price control and AIL distributes these products in the domestic market, the company receives a distribution margin from Novo Nordisk. This impacts AIL's overall margin as Novo Nordisk's antidiabetic products contribute 16% to AIL's revenues.

**Exhibit 2: Performance of Novo Nordisk brands**

Products (Rs mn)	Ther. Category	October'16		November'16		December'16	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
<b>Pharma industry</b>		<b>95,126</b>	<b>8.3</b>	<b>93,878</b>	<b>15.3</b>	<b>91,323</b>	<b>7.2</b>
<b>Company</b>		<b>5,993</b>	<b>12.4</b>	<b>5,943</b>	<b>19.8</b>	<b>5,893</b>	<b>12.2</b>
Human Mixtard	antidiabetic	421	7.2	490	27.3	432	3.9
Novomix 30	antidiabetic	239	46.6	259	70.8	242	56.5
Human Actrapid	antidiabetic	91	36.6	101	52.6	99	44.4
Novo Rapid Penfill	antidiabetic	75	47.5	85	65.1	79	63.2
Ryzodeg	antidiabetic	57	93.2	63	72.5	56	66.8
Tresiba	antidiabetic	46	13.3	53	66.5	49	68.3
Victoza	antidiabetic	30	(15.1)	35	41.4	29	(6.0)
<b>Total</b>		<b>959</b>		<b>1,051</b>		<b>957</b>	

Source: IMS monthly data-October-December'16

**Parent company-strong presence in the emerging market**

The parent company Abbott, US has decided to focus on the emerging markets after splitting the developed market business of US and Europe. The parent company has ~Rs70bn business in India and the Indian business contributes ~20% to the global business. Abbott Group currently covers 80% of the therapeutic segments. The parent company also has a strong presence in China. The parent company operates in diagnostics and medical optics divisions and does not have a presence in the developed world.

**Strong brands**

AIL's top 10 brands contribute ~80% of the business and it focuses on these brands. The company is a leading player in the thyroid segment and has 55%MS through its flagship brand Thyronorm which is growing over 20% per annum. AIL's other major brand Udiliv for fatty liver is performing well. The company's women's healthcare and gastrointestinal segments grew at 17-18%. AIL currently markets 110 brands in India. It is present in metros and Tier I and Tier II cities and has no plans to enter the rural market.

**New products launched in FY16**

AIL launched 17 products in FY16 and commenced a new vaccines division. The company launched four new vaccines during FY16. AIL has entered into strategic tie ups with Bharat Biotech for the supply of these vaccines. The company is looking for partnership and alliances for other vaccines. AIL intends to become the No.3 player in the vaccines segment. The majority of its new launches are outside price control and would drive future growth. AIL targets at least 3% growth from the new products introduced in the past 24 months.

**Recommendations**

We upgrade AIL to Buy from Hold rating, with a TP of Rs5,380 based on 24x March'19E EPS of Rs224.0, and 17.0% upside over the CMP. At the CMP of Rs4,597, the stock trades at 30.0x FY17E EPS of Rs153.0 and 25.1x FY18E EPS of Rs183.5 and 20.5x FY19E EPS of Rs224.0. We expect AIL to perform well due to its strong brands, new product launches and entry into the high-margin vaccines segment. Key risks to our assumptions are a slowdown in the domestic market and key upside risk would be faster growth of its brands.

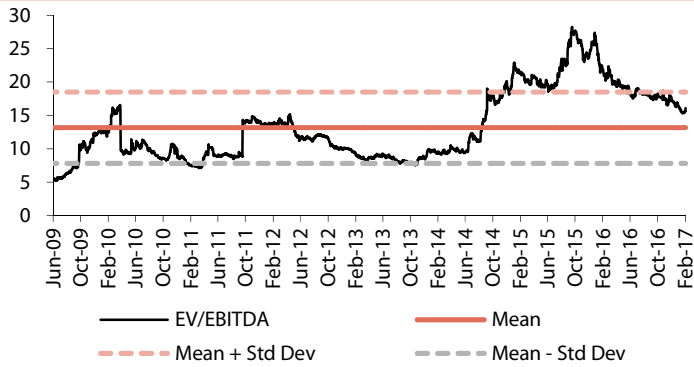
## Valuation & key risks

### Exhibit 3: Sensitivity Analysis

Sensitivity to key variables – FY17E	% change	% impact on EBITDA	% impact on EPS
Sales	1	6.8	9.5
Material cost	1	(3.9)	(5.4)

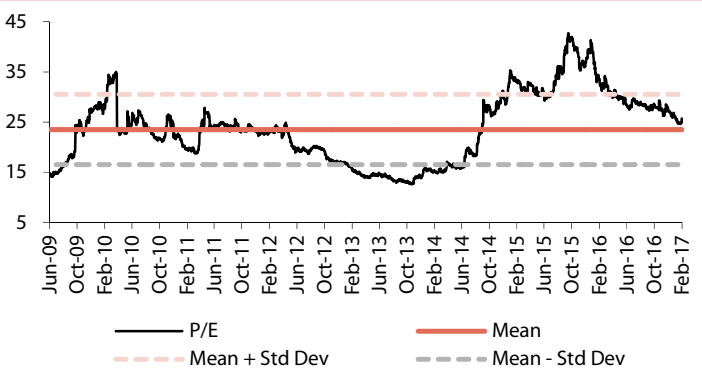
Source: Company, Centrum Research Estimates

### Exhibit 4: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 5: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

### Exhibit 6: Comparative Valuations

Company	Mkt Cap (Rs mn)	CAGR FY16-FY18E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Abbott India	97,686	16.9	22.8	22.5	13.9	14.8	15.4	39.2	30.6	25.5	25.4	19.8	15.9	25.4	26.8	26.9	0.8	1.0	1.1
Glaxo SK Pha	2,31,993	15.1	24.5	26.9	17.3	18.6	20.3	74.9	56.6	38.3	58.5	44.6	31.1	21.2	28.2	37.4	1.8	2.0	2.2
Pfizer	81,298	1.7	(15.1)	7.7	21.4	13.8	14.9	47.8	40.3	33.0	23.6	29.0	26.2	10.4	9.1	10.5	0.8	1.1	1.4
Sanofi India*	94,101	16.3	22.4	37.3	20.9	21.5	23.2	38.2	29.4	21.1	18.7	18.1	13.8	15.3	19.6	23.0	1.6	1.3	1.5

Source: Company, Centrum Research Estimates, Prices as on 6<sup>th</sup> February 2017 \*December ending

## Quarterly financials, Operating Metrics and Key Performance Indicators

### Exhibit 7: Quarterly Financials

PARTICULARS Rs mn	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
<b>P &amp; L</b>								
Net sales	5,810	6,307	6,403	6,574	6,743	7,313	7,211	7,460
Other operating income	199	65	87	122	87	68	83	97
Total revenues	6,009	6,372	6,490	6,696	6,830	7,381	7,294	7,557
Material cost	3,479	3,601	3,659	3,703	3,994	4,193	4,297	4,406
Personnel cost	767	858	868	880	804	858	869	878
Other expenses	1,083	968	1,098	1,122	1,209	1,275	1,069	1,042
Total expenses	5,330	5,427	5,625	5,705	6,007	6,326	6,235	6,326
EBIDTA	679	945	865	991	823	1,055	1,059	1,231
Other income	135	125	131	124	126	139	144	139
PBDIT	814	1,070	996	1,115	949	1,194	1,203	1,370
Interest	5	-	4	1	3	-	-	-
Depreciation	34	34	34	35	41	42	41	44
Profit before tax	776	1,036	958	1,079	905	1,152	1,162	1,326
Tax provision	278	363	347	401	315	412	412	470
PAT before EO items	498	673	611	678	590	740	750	856
EO items	0	0	0	0	0	0	0	0
PAT after EO items	498	673	611	678	590	740	750	856
<b>Growth (%)</b>								
Revenues	22.8	21.3	10.2	16.7	13.7	15.8	12.4	12.9
EBIDTA	39.2	34.8	(1.7)	15.2	21.2	11.6	22.4	24.2
Net Profit	29.6	32.1	(4.1)	5.1	18.6	10.0	22.7	26.3
<b>Margin (%)</b>								
EBIDTA	11.3	14.8	13.3	14.8	12.1	14.3	14.5	16.3
Profit before tax	12.9	16.3	14.8	16.1	13.2	15.6	15.9	17.5
Net margin	8.3	10.6	9.4	10.1	8.6	10.0	10.3	11.3

Source: Company, Centrum Research

### Exhibit 8: Key performance indicators

Key performance indicator	FY15	FY16	FY17E	FY18E	FY19E
Revenue growth %	24.5	14.9	17.6	16.1	16.0
Material cost (%)	57.3	57.4	57.0	56.4	56.1

Source: Centrum Research Estimates

## Financials -standalone

### Exhibit 9: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	22,886	26,285	30,919	35,892	41,640
Material cost	13,119	15,081	17,638	20,250	23,380
% of revenues	57.3	57.4	57.0	56.4	56.1
Employee cost	3,054	3,370	3,895	4,585	5,255
% of revenues	13.3	12.8	12.6	12.8	12.6
Other Expenses	3,590	4,168	4,820	5,525	6,215
% of revenues	15.7	15.9	15.6	15.4	14.9
EBIDTA	3,123	3,666	4,566	5,532	6,790
EBIDTA margin (%)	13.6	13.9	14.8	15.4	16.3
Depreciation & Amortisation	149	144	180	225	260
EBIT	2,974	3,522	4,386	5,307	6,530
Interest Expenses	5	8	10	12	15
PBT from operations	2,969	3,514	4,376	5,295	6,515
Other income	475	504	616	703	785
PBT	3,444	4,018	4,992	5,998	7,300
Tax provision	1,154	1,422	1,740	2,100	2,540
Effective tax rate (%)	33.5	35.4	34.9	35.0	34.8
Net profit	2,290	2,596	3,252	3,898	4,760
Minority interest	-	-	-	-	-
Reported net profit	2,290	2,596	3,252	3,898	4,760
Adj. Net profit	2,290	2,596	3,252	3,898	4,760

Source: Company, Centrum Research Estimates

### Exhibit 10: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Growth Ratios (%)</b>					
Revenues	(0.4)	14.9	17.6	16.1	16.0
EBIDTA	16.4	17.4	24.6	21.2	22.7
Adj. Net Profit	15.4	13.4	25.3	19.9	22.1
<b>Margin Ratios (%)</b>					
EBIDTA margin	13.6	13.9	14.8	15.4	16.3
PBT from operations margin	13.0	13.4	14.2	14.8	15.6
Adj. PAT margin	10.0	9.9	10.5	10.9	11.4
<b>Return Ratios (%)</b>					
RoCE	26.7	25.6	27.1	27.1	27.5
RoE	26.5	25.4	26.8	26.9	27.2
RoIC	64.8	83.2	85.2	82.3	86.2
<b>Turnover ratios (days)</b>					
Gross Block Turnover (x)	10.6	11.0	11.4	11.9	12.3
Debtors	21	20	19	20	19
Creditors	31	32	30	30	28
Inventory	61	51	61	53	58
Cash Conversion Cycle	51	39	49	44	49
<b>Solvency Ratio</b>					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.7)	(0.8)	(0.7)	(0.7)	(0.7)
Current Ratio	2.9	2.9	3.0	3.1	3.4
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
<b>Per Share (Rs)</b>					
FDEPS (adjusted)	107.7	122.2	153.0	183.5	224.0
CEPS	114.8	128.9	161.5	194.0	236.2
Book Value	441.2	521.3	620.7	744.7	903.3
Dividend	31.0	35.0	45.0	50.0	55.0
Dividend Payout (%)	34.6	34.4	35.0	32.4	29.2
<b>Valuations (x) (Avg Mkt Cap)</b>					
PER	26.9	39.2	30.6	25.5	20.9
P/BV	6.6	9.2	7.5	6.3	5.2
EV/EBIDTA	17.7	25.4	19.8	15.9	12.7
Dividend Yield (%)	1.3	0.9	1.1	1.3	1.4
5-yr Avg AOCF/EV yield(%)	2.0	1.6	2.0	2.8	3.4

Source: Company, Centrum Research Estimates

### Exhibit 11: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Share capital	213	213	213	213	213
Reserves & surplus	9,163	10,864	12,978	15,612	18,983
Total shareholders Funds	9,376	11,077	13,191	15,824	19,196
Total Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liab.	(65)	(86)	(95)	(130)	(155)
<b>Total Liabilities</b>	<b>9,311</b>	<b>10,991</b>	<b>13,096</b>	<b>15,694</b>	<b>19,041</b>
Gross Block	2,196	2,574	2,869	3,184	3,599
Less: Acc. Depreciation	1,197	1,458	1,641	1,866	2,126
Net Block	999	1,116	1,228	1,318	1,473
Capital WIP	-	-	-	-	-
<b>Net Fixed Assets</b>	<b>999</b>	<b>1,116</b>	<b>1,228</b>	<b>1,318</b>	<b>1,473</b>
Investments	-	-	-	-	-
Inventories	3,844	3,701	5,140	5,260	6,600
Debtors	1,291	1,408	1,600	1,950	2,200
Loans & Advances	916	1,348	1,796	2,209	2,475
Cash & Bank Balance	6,440	8,391	8,985	11,427	13,428
Other assets	182	192	240	275	290
<b>Total Current Assets</b>	<b>12,673</b>	<b>15,040</b>	<b>17,761</b>	<b>21,121</b>	<b>24,993</b>
Trade payable	1,936	2,329	2,550	2,920	3,250
Other current Liabilities	594	848	1,010	1,160	1,325
Provisions	1,832	1,988	2,333	2,664	2,850
<b>Net Current Assets</b>	<b>8,311</b>	<b>9,875</b>	<b>11,868</b>	<b>14,377</b>	<b>17,568</b>
<b>Total Assets</b>	<b>9,311</b>	<b>10,991</b>	<b>13,096</b>	<b>15,694</b>	<b>19,041</b>

Source: Company, Centrum Research Estimates

### Exhibit 12: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
CF before WC changes	1,913	2,253	1,844	3,797	3,546
Working Capital Changes	235	261	180	225	260
<b>CF from Operations</b>	<b>2,148</b>	<b>2,514</b>	<b>2,024</b>	<b>4,022</b>	<b>3,806</b>
Adj OCF (OCF-Interest)	2,147	2,504	2,014	4,010	3,791
Change in fixed assets	(155)	(254)	(292)	(315)	(415)
Adj. FCF (AOCF-Capex)	1,991	2,250	1,722	3,695	3,376
<b>CF from Investing</b>	<b>(1,867)</b>	<b>(800)</b>	<b>(292)</b>	<b>(315)</b>	<b>(415)</b>
<b>CF from Financing</b>	<b>(576)</b>	<b>(803)</b>	<b>(1,138)</b>	<b>(1,264)</b>	<b>(1,391)</b>
<b>Net change in Cash</b>	<b>(295)</b>	<b>912</b>	<b>594</b>	<b>2,442</b>	<b>2,000</b>

Source: Company, Centrum Research Estimates

## Appendix A

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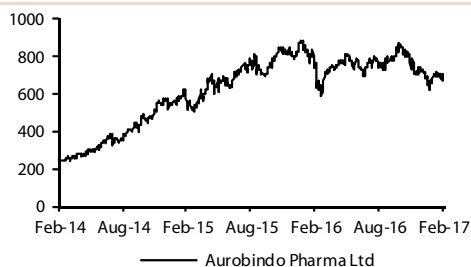
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### Abbott India chart



Source: Bloomberg, Centrum Research



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