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Abbott India Limited

Soft quarter, Better growth prospects ahead

Pharmaceuticals	Sharekhan code: ABBOTINDIA	Result Update

Stock Update

Summary

- We retain our Buy recommendation on the stock of Abbot India Limited (Abbott) with an unchanged PT of Rs 19425.
- Abbot reported a soft performance for the quarter reflecting the underperformance of acute therapies, while the earnings missed estimates.
- Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands and a sturdy new product pipeline.
- Better growth prospects backed by a revival in the acute therapies, a strong balance sheet position because of debt-free status and moderate capex coupled with healthy operating cash flows are the key positives.

Abbott India Limited (Abbott) reported a soft performance for the quarter reflecting the underperformance of acute therapies, with the earnings missing estimates. The revenues for the quarter at Rs 1095 crore, grew by 1.6% on a y-o-y basis while operating margins at 22.1% were almost flat on a y-o-y basis. Operating profits for the quarter stood at Rs 242 crore, up by a meagre 1% y-o-y. The other income almost halved for the quarter which resulted in the PAT coming in at Rs 177 crore, down by 5% y-o-y and missing estimates. Abbott derives a substantial portion of its sales from the Indian markets and hence its fortunes are linked to that of the IPM. After a decline of 2.5% y-o-y for H1FY21 the IPM growth has bounced back growing 6.4% y-o-y for the quarter ending December 2020, thus pointing at a revival. Further, in the month of December, the acute therapies (in which Abbott has a strong hold) have also staged a recovery with a 6% y-o-y growth. Abbott has a proven track record of outpacing the IPM growth backed by a sturdy performance of its power brands. Abbott's power brands in the Indian markets command a leadership position in their respective segments. The sturdy performance of these brands is expected to continue given the brand building and patient outreach efforts being implemented. Well-penetrated distribution network in metro and tier-1 cities, gradually expanding to tier II and III cities coupled with a strong product launch pipeline, would fuel the top line growth. Abbott has shifted manufacturing of two of its key products - Duphalac and Udiliv (both the products are amongst the company's top brands) to the Goa plant from third party manufacturers and is in the process of shifting few more products. This would result in better efficiencies and aid OPM expansion. We expect the sales and PAT to clock a growth of 10% and 17% CAGR over FY2020-FY2023.

Key positives

- Acute segment in the IPM showed signs of a pick-up with a 6% yoy growth in December 2020.
- Gross Margins expanded by 70 bps y-o-y to 45.3% which is towards the higher side in the past 8-9 quarters.

Key negatives

- Earnings for the quarter declined by 5% y-o-y and missed estimates.

Our Call

Valuations: Retain Buy with a unchanged PT of Rs 19425: Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands with 7 of its top 10 brands being top- ranked in their respective categories. The company's ability to develop mega brands amidst a highly competitive landscape is one of its key strengths. Abbott has a sturdy new products pipeline along with strong pipeline of recently launched products which would drive the growth going ahead. Q3FY2021 was a soft quarter for Abbott reflecting the underperformance of the acute segment in overall IPM. On the basis of this, we have marginally reduced our estimates for FY22E and FY23E. At CMP, the stock trades at 38.1x / 33x its FY2022E/ FY2023E EPS. Better growth prospects backed by a revival in the acute therapies, a strong balance sheet position because of debt-free status and moderate capex coupled with healthy operating cash flows are the key positives. We retain our Buy recommendation on the stock with an unchanged PT of Rs 19425.

Key risk

Most of Abott's products have a healthy market share and are growing at a strong pace. Substitution from cheaper generics such as Jan Aushadhi or trade generics can impact overall profitability.

Valuation Rs cr

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Net sales	3678.6	4093.1	4295.9	4816.2	5394.1
Operating profit	604.7	756.4	923.6	1016.2	1165.1
OPM (%)	16.4	18.5	21.5	21.1	21.6
PAT	450.3	592.9	735.7	819.3	943.7
EPS (Rs)	211.9	279.0	346.2	385.5	444.1
PER (x)	69.2	52.6	42.4	38.1	33.0
EV/Ebidta (x)	41.1	33.3	27.4	24.3	20.8
ROCE (%)	33.6	32.2	34.2	32.9	32.2
RONW (%)	22.4	24.4	26.3	25.3	24.7

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 14,671**	
Price Target: **Rs. 19,425**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

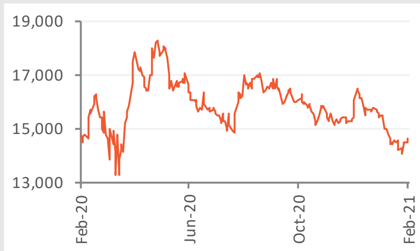
Company details

Market cap:	Rs. 31,175 cr
52-week high/low:	Rs. 18,569/12,500
NSE volume: (No of shares)	0.2 lakh
BSE code:	500488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	2.1
DII	6.1
Others	16.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-5.6	-9.1	3.8
Relative to Sensex	-10.5	-26.1	-44.0	-21.0

Sharekhan Research, Bloomberg

Soft Quarter; Earnings Miss estimates: Abbott India reported a soft performance for the quarter with earnings missing estimates. The revenues for the quarter at Rs 1095 crore, were up by around 1.6% y-o-y and were largely in line with estimates. The revenues underperformed the IPM growth trend due to the higher share of acute segment, which reported a lower growth. The operating margins for the quarter were almost flat on a y-o-y basis to 22.1% as marginal expansion in gross margins was offset by the increase in the other expenses. The operating profits for the quarter stood at Rs 241.8 cr, flat on a y-o-y basis. The other income for the quarter was lower at Rs 15 crore as compared to Rs 28 crore in Q3FY2021. Thus the PAT for the quarter stood at Rs 177 cr, declined by 5% y-o-y and missed estimates of Rs 194 cr.

IPM growth bounces back in December quarter; points at a healthy outlook: Abbott is a MNC pharma company deriving a higher share of revenues from the Indian markets and hence the fortunes are linked to that of the IPM (Indian Pharmaceutical Markets). After a series of months with a decline / weak performance, the IPM has bounced back in the month of December, clocking a growth of 8.4% y-o-y. The growth seems promising for Q3FY2021 as well with the IPM growth of 6.4% y-o-y as compared to a flat y-o-y growth in Q2FY2021, largely attributable to a ~5% growth in the prices while the contribution from the new products stands at 3%. The pickup in the IPM is largely driven by the sustained traction in the chronic and sub-chronic while the acute therapies are showing signs of a pickup. Going ahead, the industry reports suggest that the strong pricing growth and share of new products is expected to sustain, which is expected to be complimented by the likely pick up in the volume growth. Collectively we expect the IPM to clock a double-digit growth in FY2022, which in turn would have a positive rub off effect on companies such as Abbott.

New product pipeline, traction in power brands, provides ample visibility on growth: Abbot has a proven track record of outpacing the industry growth. Healthy performance in the women's health, GI, metabolic, pain, CNS, and vaccines segments coupled with a market outperformance in its brands - Duphaston, Thyronorm, Duphalac, Cremafffin and Udiliv (around 70% of the sales) are the key growth drivers. These have enabled Abbot to sustain the strong growth trajectory. Further 7 of the top 10 brands are top-ranked in their respective categories. Abbot's power brands, which include the top 10 brands have been staging a strong growth thus enabling the company to de-risk itself from over dependence on the insulin segment. The company's key brands - Thyronorm and Duphaston, hold a substantially large market share of 47.2% and 79.1% (as of Nov 2020), indicating a strong potential for growth. Further during FY2020, the company has launched 20 new products and has a sturdy pipeline of products which would unfold gradually going ahead, which would support growth. Further, consistent new launches and new products/line extensions would boost growth for Abbot. The company has a sturdy launch pipeline of 100 products, which it plans to launch over the next five years. Abbot has made concentrated efforts towards developing and strengthening its OTC business, which augurs well and would significantly go toward strengthening the brand. However, for 9MFY2021 the company has almost performed in line with the IPM growth largely attributable to the underperformance of the acute segment, which is expected to improve going ahead and would drive the topline growth.

Margins to expand led by shift reduction in outsourcing shift in house production: Abbott's 9MFY2021 OPMs have witnessed an impressive 200 bps y-o-y expansion to 22% backed by cost efficiencies and gross margin expansion. Abbot aims to reduce dependence on third-party manufacturing (from current ~60% of sales to around 30% in the next three years) by shifting key products to own manufacturing facility at Goa. In line with this, the company has shifted the production of two of its products - Duphalac and Udiliv (amongst the top 5 products for Abbott) to the Goa plant. Going ahead, few other products are also likely to be shifted to its Goa plant. In- house manufacturing would result in better operating efficiencies. Consequently, the operating margins are expected to expand by ~310 bps to 21.6% over FY2020-FY2023.

Results Rs cr

Particulars	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)
Net revenues	1095.4	1078.3	1.6	1054.9	3.8
Total operating expenditure	853.6	838.6	1.8	814.1	4.8
Operating profit	241.8	239.7	0.9	240.7	0.5
Other Income	15.0	27.8	(45.9)	22.1	(32.0)
EBIDTA	256.8	267.5	(4.0)	262.8	(2.3)
Interest	4.3	1.9	131.7	4.8	(10.0)
Depreciation	14.6	15.1	(2.7)	14.3	2.4
PBT	237.9	250.6	(5.1)	243.7	(2.4)
Tax Expense	60.7	63.9	(4.9)	63.0	(3.5)
Adj.PAT	177.1	186.7	(5.1)	180.7	(2.0)
Margins			**BPS**		**BPS**
OPM (%)	22.1	22.2	-15	22.8	-74

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improved growth prospects

Indian pharmaceutical companies are better placed to harness opportunities and clock healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in US generics market), rise in product approvals and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be the key growth drivers. This would be complemented by the strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

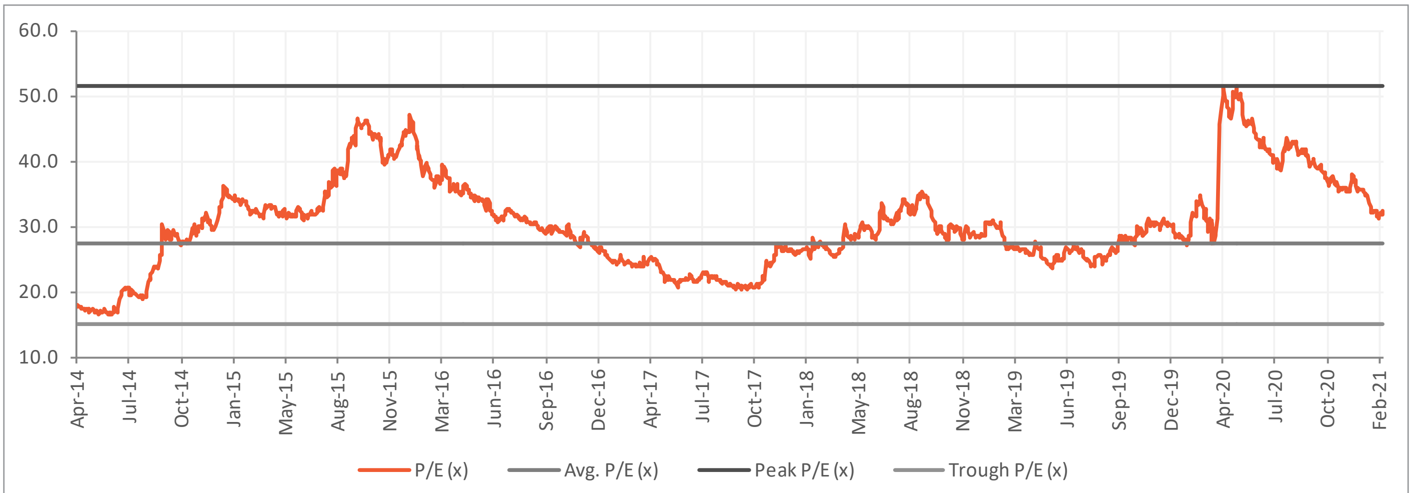
■ Company Outlook – Ample visibility on earnings growth

Abbott is an MNC pharma company with a focus on Indian markets. The company's power brands in the Indian markets command a leadership position in respective segments. MNC pharma companies such as Abbott have established key brands that constitute more than half of its revenues. Strong distribution network in metro and tier-1 cities and gradually expanding to tier II and III cities coupled with a sturdy new product pipeline would drive the topline growth. Also, after a decline of 2.5% in 1HFY2021, the IPM growth has rebounded strongly to 6.4% y-o-y for the quarter ending December 2020, with the growth momentum expected to improve to double digits in FY2022. Lower exposure to regulated markets augurs well as it points at lower compliance costs/hurdles. Further, the gradual shifting of its key products to the Goa plant from third party manufacturers would enable OPM expansion, leading to a healthy 17% PAT CAGR over FY2020 to FY2023.

■ Valuation – Retain Buy with a unchanged PT of Rs 19425

Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands with 7 of its top 10 brands are top- ranked in their respective categories. The company's ability to develop mega brands amidst a highly competitive landscape is one of its key strengths. Abbott has a sturdy new products pipeline along with a strong pipeline of recently launched products which would drive the growth going ahead. Q3FY2021 was a soft quarter for Abbott reflecting the underperformance of the acute segment in overall IPM. Basis this we have marginally reduced our estimates for FY22E and FY23E. At CMP, the stock trades at 38.1x / 33x its FY2022E/FY2023E EPS. Better growth prospects backed by a revival in the acute therapies, a strong balance sheet position because of debt-free status and moderate capex coupled with healthy operating cash flows are the key positives. We retain our Buy recommendation on the stock with an unchanged PT of Rs 19425.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Particulars	CMP (Rs / Share)	O/S Shares (Crs)	Mcap (Rs Cr)	P/E			EV / EBITDA			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Sanofi India *	7,962.0	2.3	18,335.0	38.7	33.2	30.3	22.0	19.3	16.9	17.0	19.9	19.4
Abbott India	14,671.0	2.1	31,175.0	52.6	42.4	38.1	33.3	27.4	24.3	24.4	26.3	25.3

** Nos for CY19/CY20E/CY21E*
Source: Company, Sharekhan estimates

About company

Abbot India (Abbot) is part of Abbott's global pharmaceutical business in India and provides quality healthcare through a mix of global and local products for people in India. The company offers high-quality trusted medicines in multiple therapeutic categories such as women's health, gastroenterology, cardiology, metabolic disorders, and primary care. Abbot has expertise across product development, manufacturing, sales, and customer service and is dedicated to providing high-quality, reliable products with expert clinical support. Abbot's top brands include the likes of Thyronorm, Duphaston, Udiliv, and Vertin Duphalac.

Investment theme

Abbot is an MNC pharma company with a focus on Indian markets. The company's power brands in Indian markets command a leadership position in respective segments. MNC pharma companies such as Abbot have established strong key brands that form over 50-70% of their revenue. With a strong distribution network, primarily in the metro and tier-1 cities, and gradually expanding to tier II and III cities would punch up topline growth. Secondly, Abbot is relatively less exposed to the volatile US pharma market; thus, there is ample visibility for revenue and earnings growth. Moreover, being less exposed to highly regulated markets, the costs of compliance/hurdles are insignificant; and this augurs well for Abbot.

Key Risks

Substitution impact: Most of Abott's products have a healthy market share and are growing at a strong pace. Substitution from cheaper generics such as Jan Aushadhi or trade generics can impact overall profitability of the company.

Additional Data

Key management personnel

Mr Munir Shaikh	Chairman
Mr Anil Joseph	Managing Director
Mr Ambati Venu	Non Executive Director
Mr Rajiv Sonalker	CFO & Whole time Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	British Colloids	6.92
2	L&T Mutual Fund trustee	1.25
3	Goldman sachs Group Inc	0.8
4	Canara Robeco Asset Managemet Co Ltd	0.48
5	L&T Investment Management Ltd	0.43
6	Motilal Oswal Asset Management Co Ltd	0.42
7	Axis Management Co Ltd	0.41
8	UTI Asset Management Co Ltd	0.41
9	Axis Asset Management	0.41
10	SBI Fund Management Pvt Ltd	0.32

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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