Sharekhan by BNP PARIBAS

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Abbott India Limited

Healthy quarter; strong outlook

Pharmaceuticals | Sharekhan code: ABBOTINDIA | Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 15,431**	
Price Target: **Rs. 19,425**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

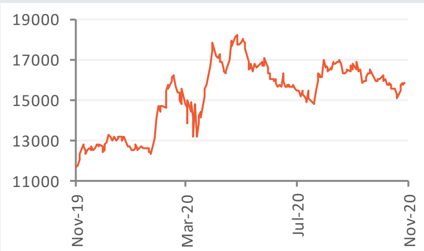
Company details

Market cap:	Rs. 32,789 cr
52-week high/low:	Rs. 18,569 / 11,718
NSE volume: (No of shares)	17,845
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	-3.9	-7.3	-13.8	32.2
Relative to Sensex	-11.5	-20.8	-51.9	24.1

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited (Abbott) reported healthy operating performance for quarter with earnings in line with estimates.
- Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands with 13 of its top 20 brands being top ranked in respective categories.
- Abbott has sturdy new products pipeline and this along with the recently launched products would drive its growth going ahead.
- Better earnings prospects, strong balance sheet position and healthy operating cash flows are the key positives. We retain a Buy recommendation on the stock with an unchanged PT of Rs 19,425.

Abbott India Limited (Abbott) reported a healthy operating performance for the quarter and the earnings were in line with the estimates. The revenues for the quarter at Rs 1055 crore were flat on a y-o-y basis while operating margins expanded by 350 bps y-o-y to 22.8% due to expansion in gross margins and lower other expenses. Operating profits for the quarter stood at Rs 240.7 crore, up by 18% y-o-y. Further, higher tax rate for the quarter slowed down the PAT growth to 1.3% y-o-y to Rs 180.7 crores, in line with the estimates. Abbott derives a substantial portion of its sales from the Indian markets and hence the 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 to 4.5% & 9.6% y-o-y for September and October respectively, thus pointing at a revival. 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 topline growth. Abbott has shifted manufacturing of two of its key products - Duphalac and Udiliv 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 18% CAGR over FY2020-FY2023.

Key positives

- Gross Margins expanded by 250 bps y-o-y to 45.5% which is the highest in the past 9 quarters.
- OPM expanded by 350 bps y-o-y to 22.8%, led by lower operating expenses.

Key negatives

- Revenue growth for the quarter was flat y-o-y basis and missed estimates.

Our Call

Valuations: Retain Buy with a PT of Rs 19,425: Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands with 13 of its top 20 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. Further efforts to reduce dependence on external manufacturing by shifting production of few key products to the company's Goa plant is likely to increase efficiencies and lead to margin expansion. Therefore a strong topline growth coupled with margin expansion to lead to strong 18% earnings CAGR over FY2020 - FY2023. Abbott has reported a healthy operating performance for Q2FY2021 with earnings in line with estimates. Based on this, we have fine tuned our estimates for FY22 and have introduced FY2023 estimates in this note. At CMP, the stock trades at 37.5x / 33.3x its FY2022/FY2023E EPS. Better growth prospects, strong balance sheet position because of debt-free status and moderate capex coupled with at healthy operating cash flows are the key positives. We retain our Buy recommendation on the stock with an unchanged PT of Rs 19,425.

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	4382.1	4907.9	5447.8
Operating profit	604.7	756.4	942.1	1089.6	1220.3
OPM (%)	16.4	18.5	21.5	22.2	22.4
PAT	450.3	592.9	749.6	874.3	985.1
EPS (Rs)	211.9	279.0	352.8	411.4	463.6
PER (x)	72.8	55.3	43.7	37.5	33.3
EV/Ebidta (x)	43.3	35.1	28.4	24.2	21.0
ROCE (%)	33.6	32.2	34.7	34.4	32.7
RONW (%)	22.4	24.4	26.7	26.4	25.1

Source: Company; Sharekhan estimates

Note: We now convert Abbott India into a stock update; It was earlier a 'Viewpoint' under our coverage.

Healthy Operating Performance: Abbott India reported a healthy operating performance for the quarter and the earnings were in line with the estimates. The revenues for the quarter at Rs 1055 crore were flat on a y-o-y basis and were in line with the flat growth reported by the IPM for the quarter. The revenues missed our estimates. The operating margins for the quarter expanded by 350 bps y-o-y to 22.8% on the back of a 250 bps y-o-y expansion in gross margins and lower other expenses. The operating margins are ahead of the estimated 20.9%. The operating profits for the quarter stood at Rs 240.7 crore and were up 18% y-o-y. The tax rate for the quarter was higher at 25.8% as compared to low tax rate of 17.5% in Q2FY2020. Thus the PAT for the quarter stood at Rs 180.7 crores, up by 1.3% y-o-y and was in line with our estimates of Rs 179 crores.

IPM growth picking up; October was a second consecutive month of growth: 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 September and October, clocking a growth of 4.5% and 9.6% y-o-y respectively. This compares with a 2.5% y-o-y decline in the IPM in 1HFY2021, largely impacted by lockdown related issues. Further IPM growth for October has staged a strong revival growing by 9.6% y-o-y with most of the therapy areas staging a strong growth. The therapies of Cardiac, Gastro VMN and Derma reported a 20%, 14%, 23% and 10% growth respectively. The anti-infectives segment which had underperformed consistently for few months also revived clocking a growth of 6.6% y-o-y. The IPM growth is expected to be around mid single digits for FY2021, thus pointing at a better performance for 2HFY21 as compared to 1HFY21. Improved visibility on IPM growth augurs well for domestic focused companies like Abbott

Traction in power brands, sturdy product pipeline to fuel 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 , Digene, Vertin, Influvac ,Dwadilon (48%) have enabled Abbot to sustain the strong growth trajectory. Further 13 of the top 20 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 (52% Market share) and Duphaston (25% market share), hold a substantially large market share, indicating a strong potential for growth. Further during FY2020, the company has launched 20 new products while in Q1FY21 it has launched 9 new products. It has a sturdy pipeline of products which would unfold gradually going ahead and would support the 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 goes toward strengthening the brand.

Margins on the expansion spree: Abbott's OPM has witnessed an impressive 350 bps y-o-y expansion to 22.8% backed by cost efficiencies and gross margin expansion. Abbot aims to reduce dependence on third-party manufacturing (from current ~60% of sales to 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 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 ~390 bps to 22.4% over FY2020-FY2023.

Results Rs cr

Particulars (Rs cr)	Q2FY21	Q2FY20	YoY(%)	Q1FY21	QoQ(%)
Net revenues	1054.9	1054.8	0.0	1064.3	(0.9)
Operating profit	240.7	204.1	17.9	233.4	3.1
Other Income	22.1	28.9	(23.7)	27.6	(20.2)
EBIDTA	262.8	233.0	12.8	261.1	0.7
Interest	4.8	1.8	163.2	4.5	7.6
Depreciation	14.3	15.0	(4.4)	14.1	1.3
PBT	243.7	216.3	12.7	242.5	0.5
Tax Expense	63.0	37.9	66.0	62.2	1.3
Adj.PAT	180.7	178.3	1.3	180.4	0.2
			BPS		**BPS**
OPM (%)	22.8	19.4	347	21.9	89

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.

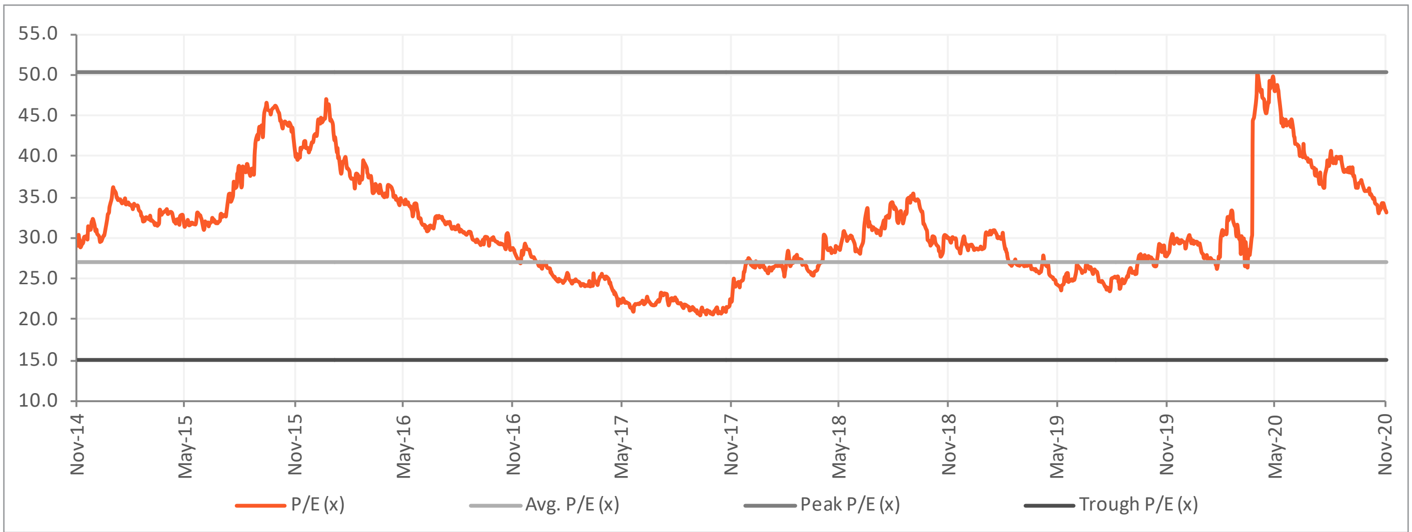
■ Company Outlook – Ample visibility on earnings growth

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 in the months of September and October, with the growth momentum expected to sustain going ahead as well. Lower exposure to regulated markets augurs well as it points at lower compliance costs/hurdles. Also the gradual shifting of its key products to the Goa plant from third party manufacturers would enable OPM expansion, leading to a healthy 18% PAT CAGR over FY2020 to FY2023.

■ Valuation – Retain Buy with a PT of Rs 19,425

Abbott's topline is expected to grow in double digits, backed by strong performance of its power brands with 13 of its top 20 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. Further efforts to reduce dependence on external manufacturing by shifting production of few key products to the company's Goa plant is likely to increase efficiencies and lead to margin expansion. Therefore a strong topline growth coupled with margin expansion to lead to strong 18% earnings CAGR over FY2020 - FY2023. Abbott has reported a healthy operating performance for Q2FY2021 with earnings in line with estimates. Based on this, we have fine tuned our estimates for FY22 and have introduced FY2023 estimates in this note. At CMP, the stock trades at 37.5x / 33.3x its FY2022/FY2023E EPS. Better growth prospects, strong balance sheet position because of debt-free status and moderate capex coupled with at healthy operating cash flows are the key positives. We retain our Buy recommendation on the stock with an unchanged PT of Rs 19,425.

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 *	8,007.0	2.3	18,440.0	38.9	33.4	30.5	22.2	19.5	17.0	17.0	19.9	19.4
Abbott India	15,431.0	2.1	32,789.0	55.3	43.7	37.5	35.1	28.4	24.2	24.4	26.7	26.4

** 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

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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