Sharekhan by BNP PARIBAS

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Abbott India Ltd

Healthy growth on cards

Pharmaceuticals	Sharekhan code: ABBOTINDIA	Company Update

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. 20,040**	
Price Target: **Rs. 22,780**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 42,583 cr
52-week high/low:	Rs. 20,187/13,970
NSE volume: (No of shares)	14,930
BSE code:	5,00,488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.3
DII	6.7
Others	18.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	25.6	38.3	22.6
Relative to Sensex	-4.0	15.2	23.3	-24.8

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited (Abbott) is expected to sustain its double-digit growth trajectory over the next two-year period, driven by revival in the IPM growth, presence in high growth therapy areas, and strong performance of top brands.
- After a modest 2% growth in FY21, the IPM growth is expected to improve to high single digit to double digit in FY2022 driven by pick up in volumes along with sustained pricing growth and new product growth.
- Better growth prospects, a strong balance sheet position coupled with healthy operating cash flows and strong dividend payout are key positives.
- At CMP the stock trades at 50.9x / 44.1x its FY22E and FY23E EPS respectively and the above positives would help to sustain the premium valuations. We retain Buy on Abbott with a revised PT of Rs. 22,780.

Abbott India Limited (Abbott) is expected to sustain its double-digit growth trajectory over the next two-year period, driven by revival in the Indian Pharmaceutical Market (IPM), presence in high growth therapy areas, and strong performance of top brands. After modest 2% growth for FY2021, IPM growth has sharply bounced back to 32% levels for April–July 2021. Going ahead, IPM growth is expected to improve meaningfully in FY2022 (as compared to FY2021) and this bodes well for domestic focused companies such as Abbott. For FY2022, IPM is expected to grow in high single digits to double digits, backed by recovery in volume (driven largely by the acute therapies) coupled with sustained pricing growth and new product growth. Further, key therapies of gastro intestinal, pain, central nervous system (CNS), gynaecology, and anti-invectives are among the fastest growing ones in YTD April – July 2021 and are expected to sustain the growth momentum going ahead as well. Moreover, Abbott's power brands in Indian markets command a leadership position in their respective segments and 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 and gradually expanding to tier II and III cities coupled with a strong product launch pipeline and supported by focus on leveraging the lucrative digital platform would fuel overall growth.

Our Call

Retain Buy with a revised PT of Rs. 22,780: Abbott's revenue and earnings are expected to stage a 14% and 18% CAGR over FY2021-FY2023E. The expected strong growth of high single digits to double digits for IPM in FY2022 versus 2% growth reported in FY2021 and a strong presence in therapy areas of gastrointestinal, pain, CNS, gynaecology, and anti-invectives, which are the fastest growing therapies in IPM, bodes well for Abbott. For YTD April – July 2021, the gastro-intestinal and pain segments grew strongly by 35% y-o-y each, while gynaecology and CNS grew by 25% and 12%, respectively. IPM growth for FY2022 is expected to be broadly driven by these acute therapies, and this could have a positive rub-off effect on Abbott as well. Moreover, Abbott looks to enhance its geographical reach by leveraging the digital platform to connect with healthcare professionals and has digitalised around 80% of its training content. This coupled with sustained strong performance of the top 10 brands could be the key growth drivers for Abbott. At the CMP, the stock trades at 50.9x/44.1x its FY2022E and FY2023E EPS, respectively. Moreover, we have introduced FY2024E estimates in this note. Better growth prospects, a strong balance sheet position due to its debt-free status coupled with healthy operating cash flows and strong dividend payout are key positives and would help in sustaining its premium valuations. We retain our Buy recommendation on Abbott with a revised PT of Rs. 22,780.

Key risk

Impact of substitution from the cheaper priced generic Aushadi or trade generics can impact overall profitability.

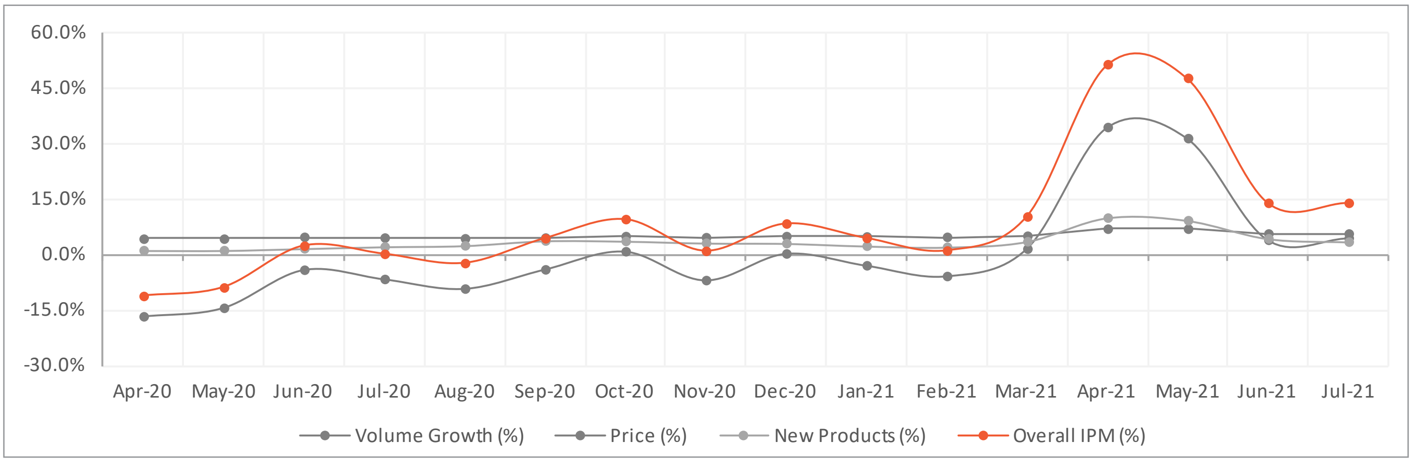
Valuation (Standalone) Rs cr

Particulars	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Net sales	4093.1	4310.2	4983.2	5581.2	6139.3
Operating profit	756.4	921.6	1111.3	1283.7	1455.0
OPM (%)	18.5	21.4	22.3	23.0	23.7
PAT	592.9	690.8	836.5	965.9	1094.1
EPS (Rs.)	279.0	325.1	393.7	454.5	514.9
PER (x)	71.8	61.6	50.9	44.1	38.9
EV/EBIDTA (x)	46.6	40.2	33.3	28.7	25.2
ROCE (%)	30.1	33.2	35.7	36.4	36.8
RONW (%)	24.4	26.5	28.4	28.8	29.1

Source: Company; Sharekhan Research

IPM growth impressive over April-July 2021; Outlook stays strong: Abbott is an MNC pharma company deriving a higher share of revenue from Indian markets and, hence, fortunes are linked to that of the IPM. After modest 1.6% y-o-y growth for FY2021, IPM growth has bounced back; and for YTD April – July 2021, IPM grew by ~32% y-o-y, largely backed by a low base in the corresponding period of the previous year. A major chunk of IPM growth can be attributed to strong growth in April and May 2021 of ~51.5% and 47.8% y-o-y, respectively. YTD growth is supported by ~19% growth in volumes, while the share of pricing and new products stand at ~6.5% and 6.8%, respectively. Further, in July 2021, IPM growth normalized to 14% with volume, pricing, and new products growth at 4.5%, 5.7%, and 3.5% y-o-y, respectively. Going ahead, industry reports point that strong pricing growth and share of new products are expected to sustain, which is likely to be complemented by pick-up in volume growth. Moreover, with doctors commencing OPD consultations and elective surgeries likely to increase, patient footfalls are likely to improve leading to a higher prescription for acute therapies, which bodes well for companies such as Abbott India. Overall, industry reports indicate that IPM is expected to report a high single digit to double-digit growth in FY2022. This compares with almost flat growth reported in FY2021. This is expected to have a positive rub-off effect on India-focused companies such as Abbott.

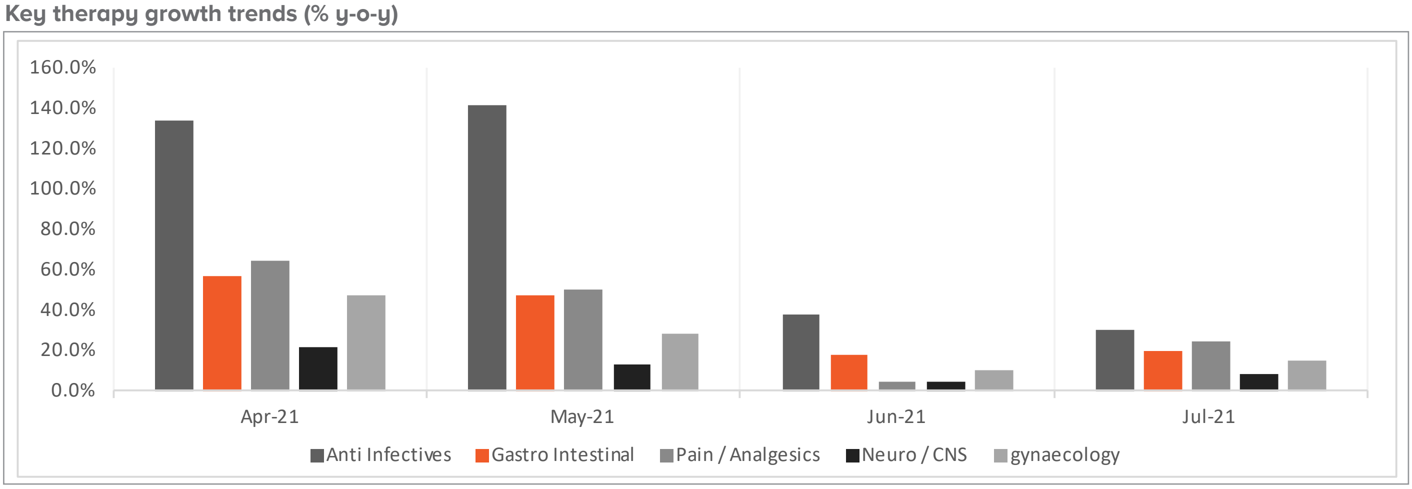
IPM Growth Trends (% y-o-y)



Source: Industry; Sharekhan Research

Strong growth in key therapies and leading position in top brands to drive topline growth: Abbot has a proven track record of delivering strong growth and is among the leading players in the IPM with a track record of outperforming the IPM growth. For FY2021, IPM growth was subdued at ~2%, while Abbott reported strong growth of ~5%, while Abbott's market share as of July 2021 (MAT) stood at 6% second to the leader. Abbott has an established presence in women's health, gastro-intestinal, metabolic, pain, CNS, and vaccines segments. For April – July, these segments have strongly outpaced growth in IPM, which can be largely attributed to a low base in the previous year and due to improved prescription levels as OPD consultations improve. Being an acute-focused player, the revival in growth in these therapies bodes well for Abbott.

Key therapy growth trends (% y-o-y)



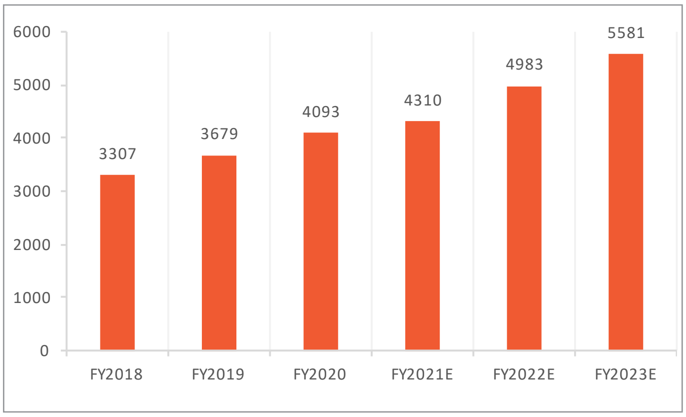
Source: Industry; Sharekhan Research

Abbott's key brands include Duphaston, Thyronorm, Duphalac, and Udiliv. The company has outperformed the market and maintained its leadership in these brands. In Duphaston, the company has around 75% market share and demand for this was impacted during the pandemic due to lesser prescription generation. Moreover, despite some competition, the brand has been able to sustain its leadership position, which points at a strong competitive position. Further, Abbott has focused on addressing the competition and, hence, acceptance for the brand has improved. Further, in the gastrointestinal space, Abbott has a strong presence through its brands – Cremaffin Plus, Udiliv, and Duffalac, which have been growing strongly and have facilitated market share gains in respective categories. In the metabolic space, Abbott's Thyronorm holds a substantially large market share, which is likely to sustain given the steps taken to enhance its digital footprint. Further, in FY2021, the company had launched 15 new products, including line extensions, and has a sturdy pipeline of products, which would unfold gradually going ahead. The areas of gastro, women's health, CNS, vaccines, and consumer health are the key segments wherein new launches are planned. Collectively, sustained growth and leadership from existing brands, product portfolio expansion, efforts to improve the reach, and penetration would be the key growth drivers for Abbott.

Leveraging digital platform to tap new growth avenues, expand reach, and doctor connect: The pandemic-led FY2021 was a year full of challenges for companies as operations were hindered due to the lockdown and travel restrictions. Being a pharmaceutical company, Abbott's operations were going on but faced challenges. Consequently, the company leveraged the digital channel to address the challenges. It developed an array of digital tools and implemented the same for its employees as well as for improving the field force productivity. To better connect with patients so as to be able to address their needs and enhance doctor engagement, the company has put in place a communication strategy and campaigns accordingly. As of FY2021, Abbott has digitalised almost 80% of its training content, which is a key plus point.

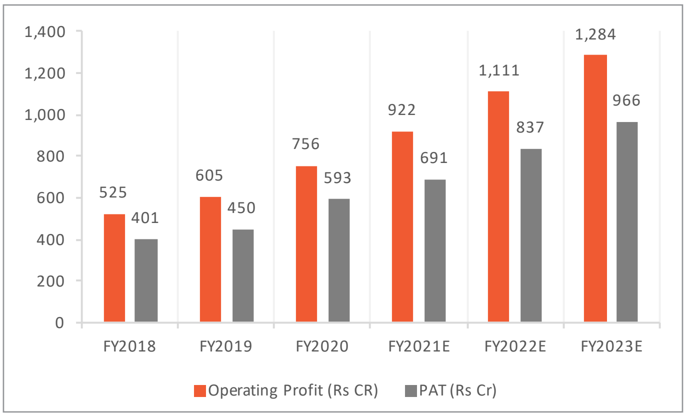
Financials in charts

Sales Trends (Rs Cr)



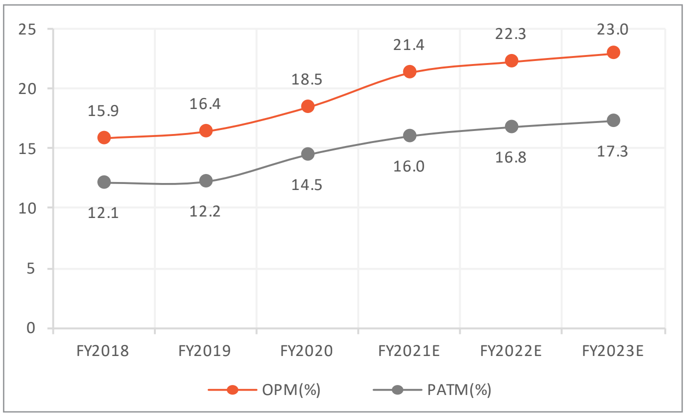
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



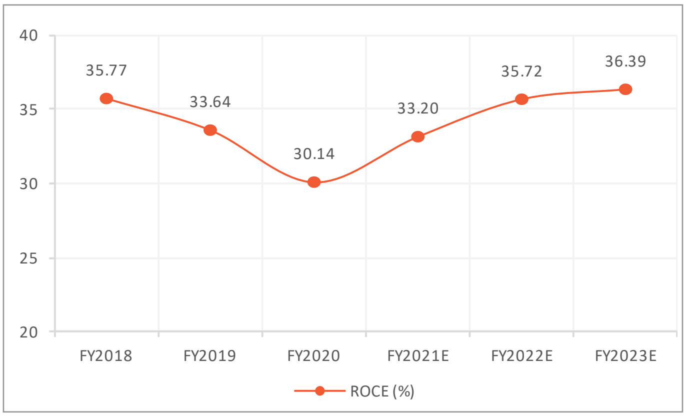
Source: Company, Sharekhan Research

Margins on an improving trend



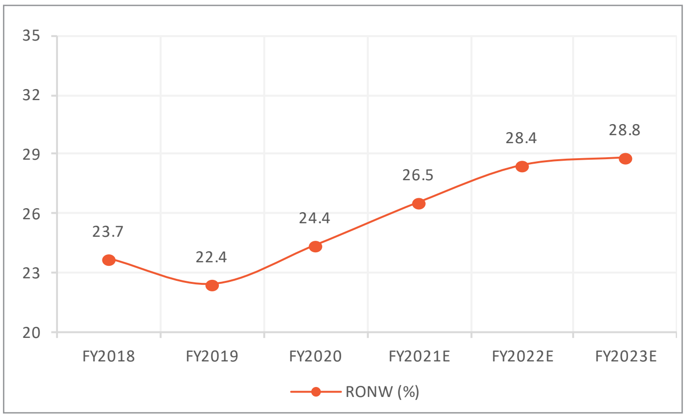
Source: Company, Sharekhan Research

ROCE (%)



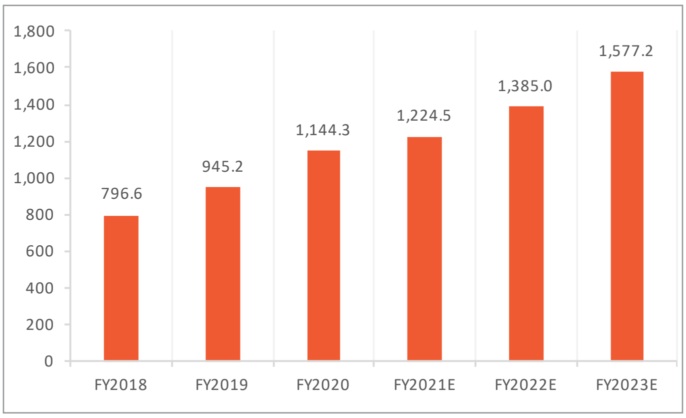
Source: Company, Sharekhan Research

Return rations to improve



Source: Company, Sharekhan Research

Book Value (Rs Per share)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improved growth prospects

Indian pharmaceutical companies are better placed to harness opportunities and report 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 the 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 key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and 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.

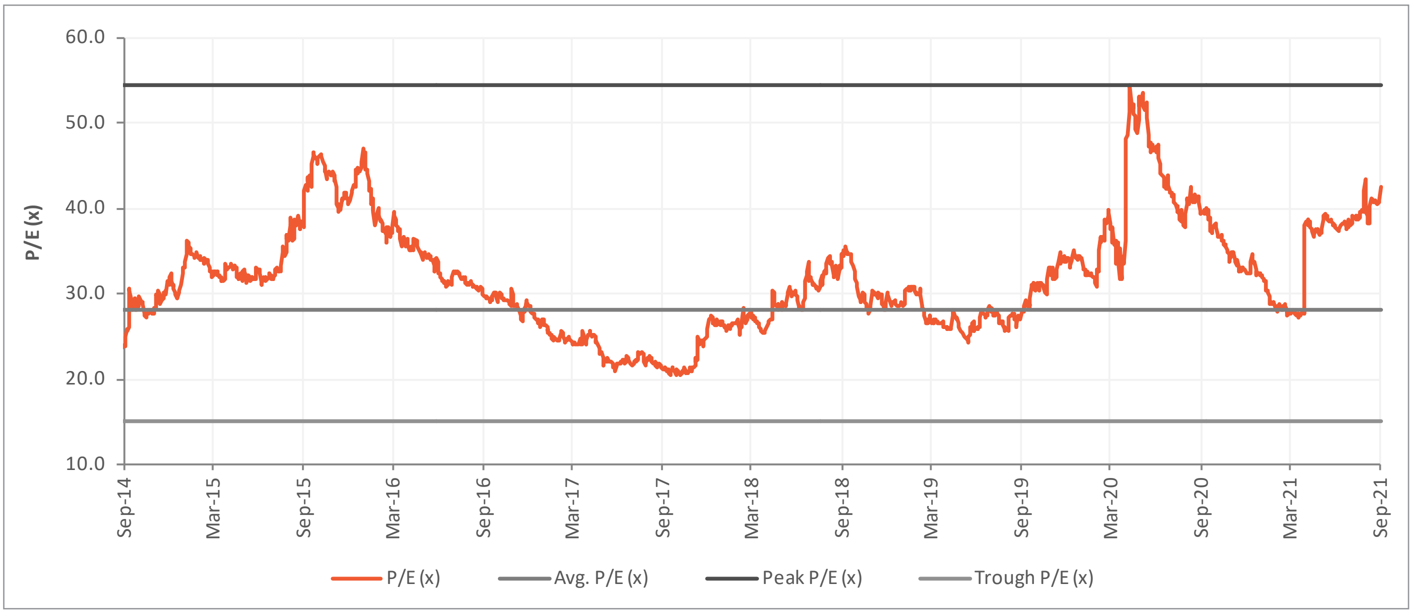
■ Company Outlook – Ample visibility on earnings growth

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 their respective segments. MNC pharma companies such as Abbott have established key brands that constitute more than half of its revenue (top 10 brands account for 40% plus of overall sales). 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 topline growth. Moreover, after modest 2% growth in IPM as of FY2021, YTD April – July 2021 saw strong 32% growth, which is a significant improvement and the same is expected to improve further for FY2022. In addition to sustained pricing and new product growth, volumes are also expected to pick up, which bodes well for the company. 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 18% PAT CAGR over FY2021 to FY2023. Moreover, Abbott has launched around 15 new products in FY2021, which are expected to pick up and gain traction in the ongoing fiscal.

■ Valuation – Retain Buy with a revised PT of Rs. 22,780

Abbott's revenue and earnings are expected to stage a 14% and 18% CAGR over FY2021-FY2023E. The expected strong growth of high single digits to double digits for IPM in FY2022 versus 2% growth reported in FY2021 and a strong presence in therapy areas of gastrointestinal, pain, CNS, gynaecology, and anti-invectives, which are the fastest growing therapies in IPM, bodes well for Abbott. For YTD April – July 2021, the gastrointestinal and pain segments grew strongly by 35% y-o-y each, while gynaecology and CNS grew by 25% and 12%, respectively. IPM growth for FY2022 is expected to be broadly driven by these acute therapies, and this could have a positive rub-off effect on Abbott as well. Moreover, Abbott looks to enhance its geographical reach by leveraging the digital platform to connect with healthcare professionals and has digitalised around 80% of its training content. This coupled with sustained strong performance of the top 10 brands could be the key growth drivers for Abbott. At the CMP, the stock trades at 50.9x/44.1x its FY2022E and FY2023E EPS, respectively. Moreover, we have introduced FY2024E estimates in this note. Better growth prospects, a strong balance sheet position due to its debt-free status coupled with healthy operating cash flows and strong dividend payout are key positives and help in sustaining its premium valuations. We retain our Buy recommendation on Abbott with a revised PT of Rs. 22,780.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Sanofi India *	8,918.0	2.3	20,537.0	39.5	33.3	30.3	23.5	20.0	17.9	22.5	25.9	25.5
Abbott India	20,040.0	2.1	42,583.0	61.6	50.9	44.1	40.2	33.3	28.7	26.5	28.4	28.8

*Source: Sharekhan Research; * Nos for CY20/CY21E/CY22E*

About company

Abbott India Limited 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. Abbott has strong expertise across product development, manufacturing, sales, and customer service and is dedicated towards providing high-quality, reliable products with expert clinical support. Abbott's top brands include the likes of *Thyronorm, Duphaston, Udiliv*, and *VertinDuphalac*.

Investment theme

Abbot is an MNC pharma company with focusing on Indian markets. The company's power brands in Indian markets command a leadership position in their respective segments. MNC pharma companies such as Abbott have established strong keybrands that form over 50-70% of their revenue. With a strong distribution network, primarily in metro and tier-1 cities, and gradual expansion into tier II and III cities would punch up topline growth. Secondly, Abbott 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 Abbott.

Key Risks

Substitution impact: Most of Abbott'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 the overall profitability of the company.

Additional Data

Key management personnel

Mr. Munir Shaikh	Chairman
Mr. Anil Joseph	Managing Director
Mr. Rajiv Sonalker	CFO and 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	0.7
3	Goldman sachs Group Inc	0.7
4	Canara Robeco Asset Managemet Co Ltd	0.49
5	L&T Investment Management Ltd	0.43
6	Nippon India Asset Management	0.41
7	UTI Asset Management Co Ltd	0.4
8	SBI Fund Management Pvt Ltd	0.33
9	Axis Management Co Ltd	0.26
10	Motilal Oswal Asset Management Co Ltd	0.22

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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