



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	✓	↔	✓

ESG Disclosure Score NEW

ESG RISK RATING Updated Nov 08, 2021 36.95

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 38,977 cr
52-week high/low:	Rs. 23,902 / 13,970
NSE volume: (No of shares)	0.1 lakh
BSE code:	500488
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	-7.1	-14.4	12.4	14.0
Relative to Sensex	-3.2	-14.6	1.3	-12.4

Sharekhan Research, Bloomberg

Abbott India Ltd

On a healthy growth path

Pharmaceuticals

Sharekhan code: ABBOTINDIA

Reco/View: Buy



Upgrade



CMP: Rs. 18,343

Price Target: Rs. 22,780



Downgrade

Summary

- Abbott India Limiteds (Abbott) revenues and PAT are expected to grow in double digits over next two years, led by healthy growth in IPM, presence in high-growth therapy areas and strong performance of top brands
- Sustained growth and leadership from existing brands, product portfolio expansion, efforts to improve the reach and penetration would be the key drivers
- Leveraging the digital platform to cost-effectively improve geographic penetration also bodes well
- Given the strong growth prospects & financials and a sturdy dividend payout we re-iterate our Buy recommendation on Abbott with an unchanged PT of Rs. 22,780.

Abbott India Limited (Abbott) is expected to sustain a double-digit growth trajectory over the next two years, driven by healthy growth in Indian Pharmaceutical Market (IPM), presence in high-growth therapy areas and strong performance of top brands. On a YTD basis, the IPM grew by 21.1% y-o-y during April-November 2021, driven by a strong growth in therapies such as anti-infectives, gastro-intestinals, pain / analgesics, where Abbott has a strong presence. In addition to this, leveraging the digital platform to cost-effectively improve geographic penetration also bodes well from a growth perspective.

- IPM growth outlook stays strong:** After a modest 1.6% y-o-y growth for FY2021, IPM growth has bounced back; and for YTD April-November 2021, IPM grew by ~21% y-o-y, largely backed by a low base in the corresponding period of the previous year. Growth was supported by ~10.9% growth in volumes, while the share of pricing and new products stand at ~6% and 4.3%, respectively. Going ahead with the expected strong pricing growth and share of new products, the commencement of OPD appointments and elective surgeries is expected to drive up the prescriptions for acute therapies, which bodes well for Abbott and is expected to positively rub off on growth.
- Strong growth in key therapy areas, product launches to drive topline:** Abbott's key brands include Duphaston, Thyronorm, Duphalac, and Udiliv. The company has outperformed the market and maintained its leadership in these brands, despite competitive pressures existing. In select brands such as Duphaston and Thyronorm the company holds substantially large market share and the same is expected to sustain ahead given measures taken to improve the penetration. Further, in FY21 the company has launched 15 products, which are likely to gain traction and aid the growth. Collectively, sustained growth and leadership from existing brands, product portfolio expansion, efforts to improve the reach and penetration would be the key drivers for Abbott.
- Digital push and doctor connect:** Leveraging the digital channel to address the challenges faced during pandemic period, Abbott has developed an array of digital tools and implemented the same for its employees as well as for improving the field force's productivity. Also to better connect with patients so as to be able to address their needs and enhance engagement with doctors, the company has put in place a communication strategy and campaigns accordingly, which bodes well for increasing the penetration in a cost effective manner.

Our Call

Valuation – Re-iterate Buy with unchanged PT of Rs. 22,780: Abbott's revenues and earnings are expected to stage a strong 13% and 17% CAGR over FY2021-FY2023E. Expected double-digit growth in IPM in FY2022 versus 2% growth reported in FY2021 and a strong presence in fast-growing therapy areas such as gastro-intestinals, pain, CNS, gynaecology and anti-infectives coupled with an increasing geographic penetration and strong performance of its top brands are the key growth drivers for Abbott. At the CMP, the stock trades at 47.1x/41.5x its FY2022E and FY2023E, respectively. Also over the past two months the stock price has corrected by ~21% which provides a good opportunity to investors. Given the strong growth prospects & financials and a sturdy dividend payout we re-iterate our Buy recommendation on Abbott with an unchanged PT of Rs. 22,780.

Key Risks

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

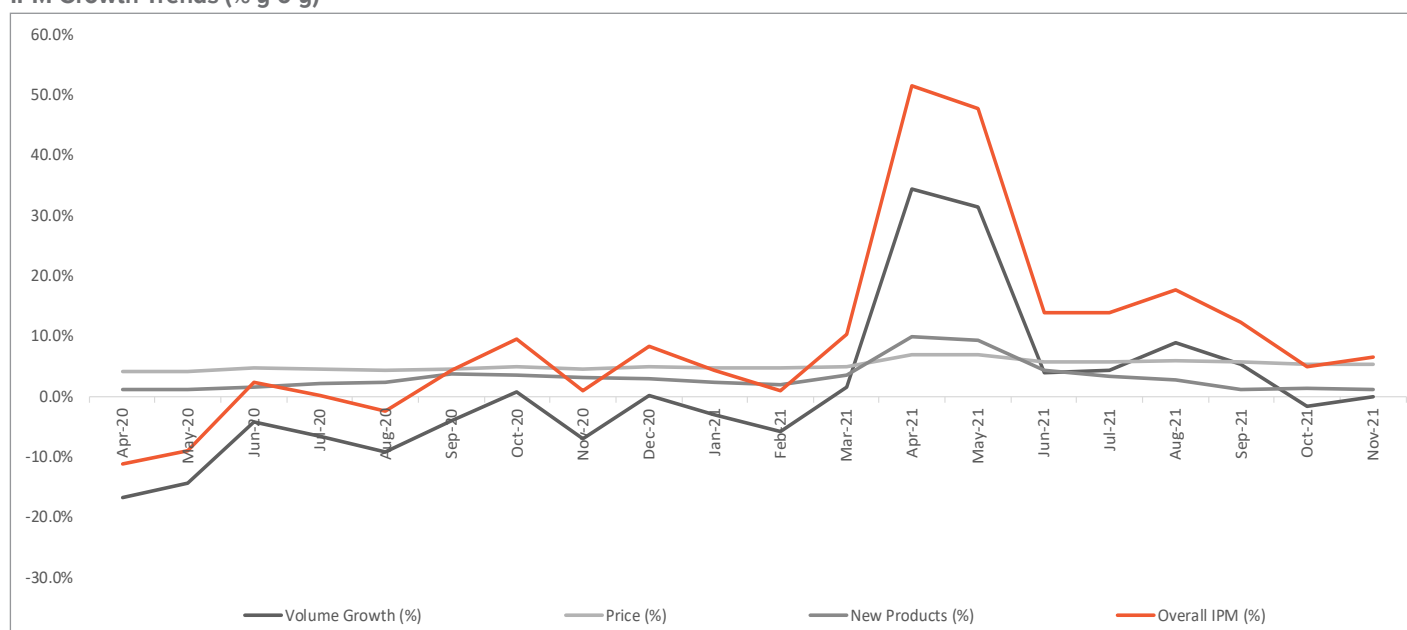
Valuation (Standalone)

Particulars	FY2020	FY2021	FY2022E	FY2023E	FY2024E
Net sales	4093.1	4310.2	4983.2	5531.4	6139.8
Operating profit	756.4	921.6	1111.3	1261.2	1424.4
OPM (%)	18.5	21.4	22.3	22.8	23.2
PAT	592.9	690.8	827.5	938.1	1072.4
EPS (Rs)	279.0	325.1	389.4	441.5	504.7
PER (x)	65.7	56.4	47.1	41.5	36.3
EV/Ebitda (x)	42.4	36.6	30.5	26.6	23.1
ROCE (%)	30.1	33.2	34.1	32.9	31.5
RONW (%)	24.4	26.5	27.1	25.9	24.8

Source: Company; Sharekhan estimates

IPM growth impressive over April-November 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 a modest 1.6% y-o-y growth for FY2021, IPM growth has bounced back; and for YTD April – November 2021, IPM grew by ~21% y-o-y, largely backed by a low base in the corresponding period of the previous year. YTD growth is supported by a ~10.9% growth in volumes, while the share of pricing and new products stand at ~6.0% and 4.3%, respectively. Going ahead, industry reports point that strong pricing growth and the share of 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.

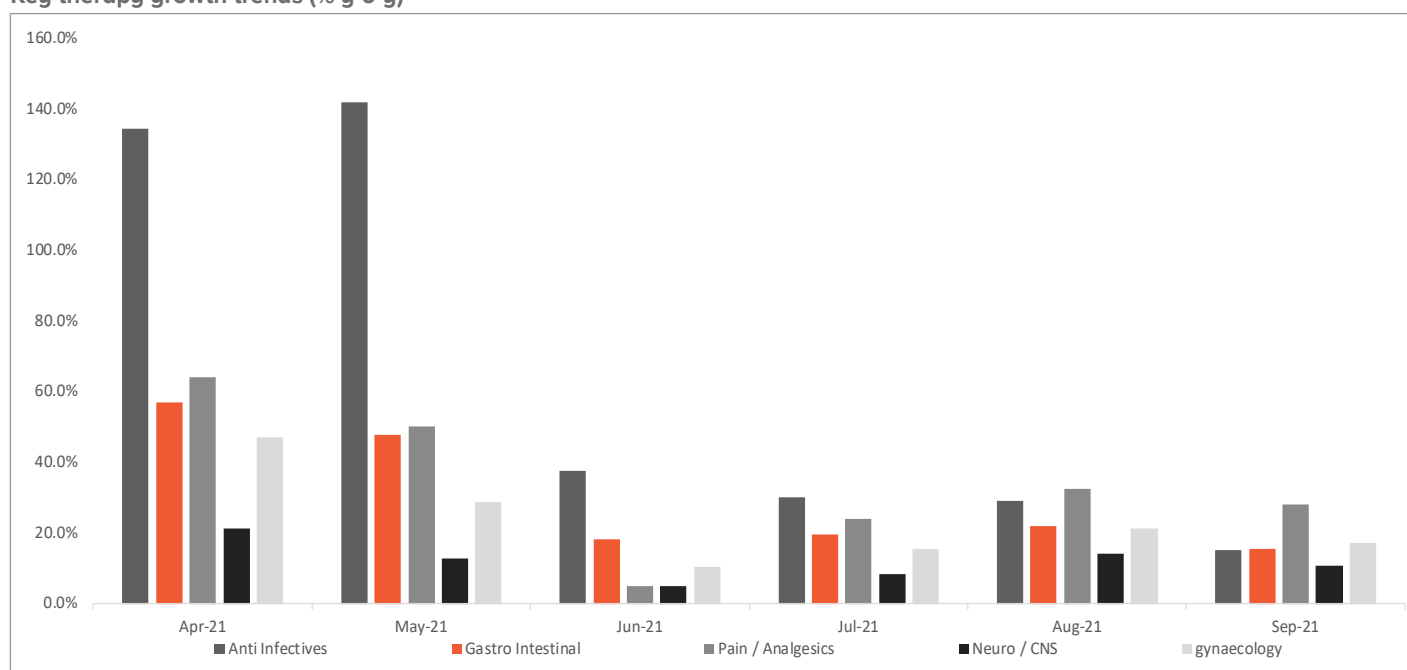
IPM Growth Trends (% y-o-y)



Source: Industry; Sharekhan Research

Strong growth in key therapies and leading position in top brands to drive topline growth: 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 a substantially large market share (in excess of ~70%) and 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, within gastro-intestinals, 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. Gastro-intestinals, 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.

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

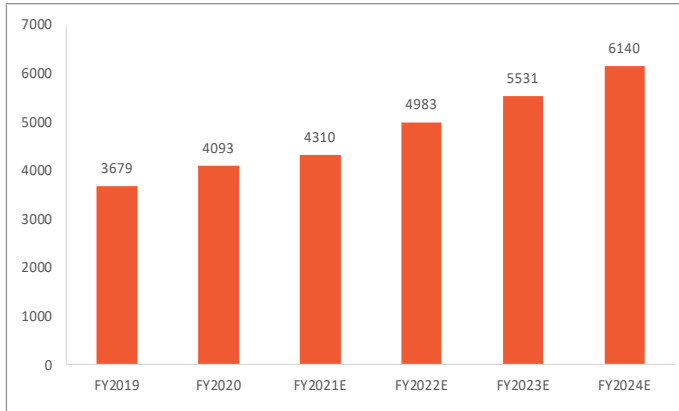


Source: Industry; Sharekhan Research

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 address their needs and enhance doctor engagement, the company has put in place a communication strategy and campaigns accordingly. As of FY2021, Abbott has digitalized almost 80% of its training content, which is a key plus point.

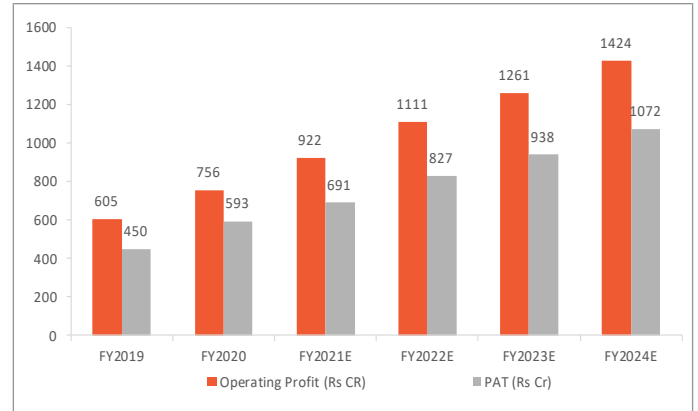
Financials in charts

Sales Trends (Rs Cr)



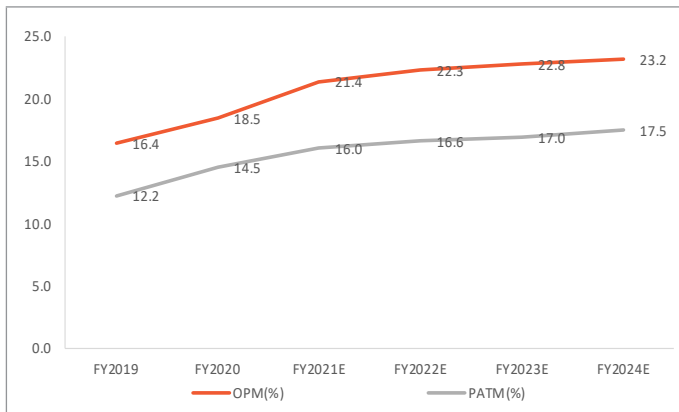
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



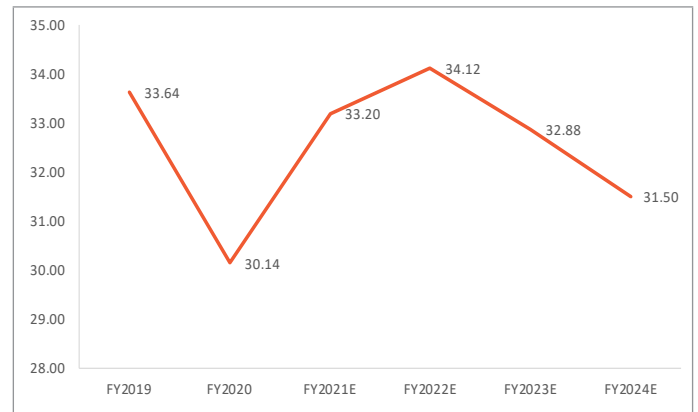
Source: Company, Sharekhan Research

Margins on an improving trend



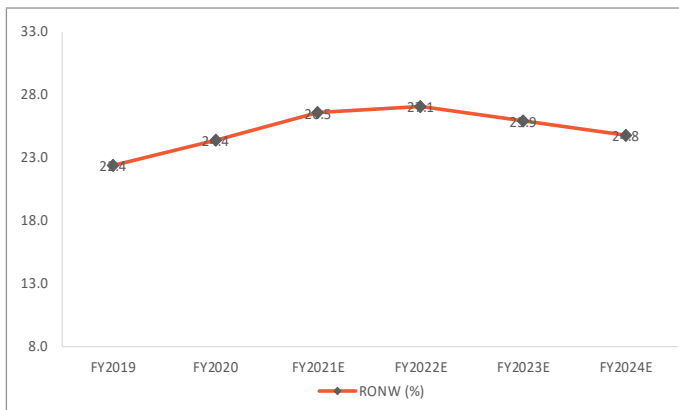
Source: Company, Sharekhan Research

ROCE (%)



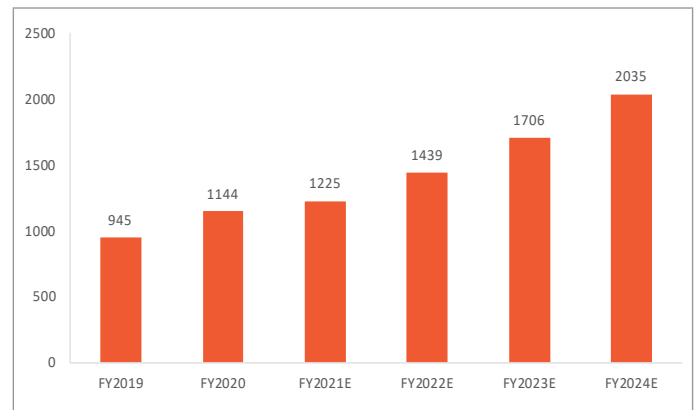
Source: Company, Sharekhan Research

RONW (%)



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), a 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.

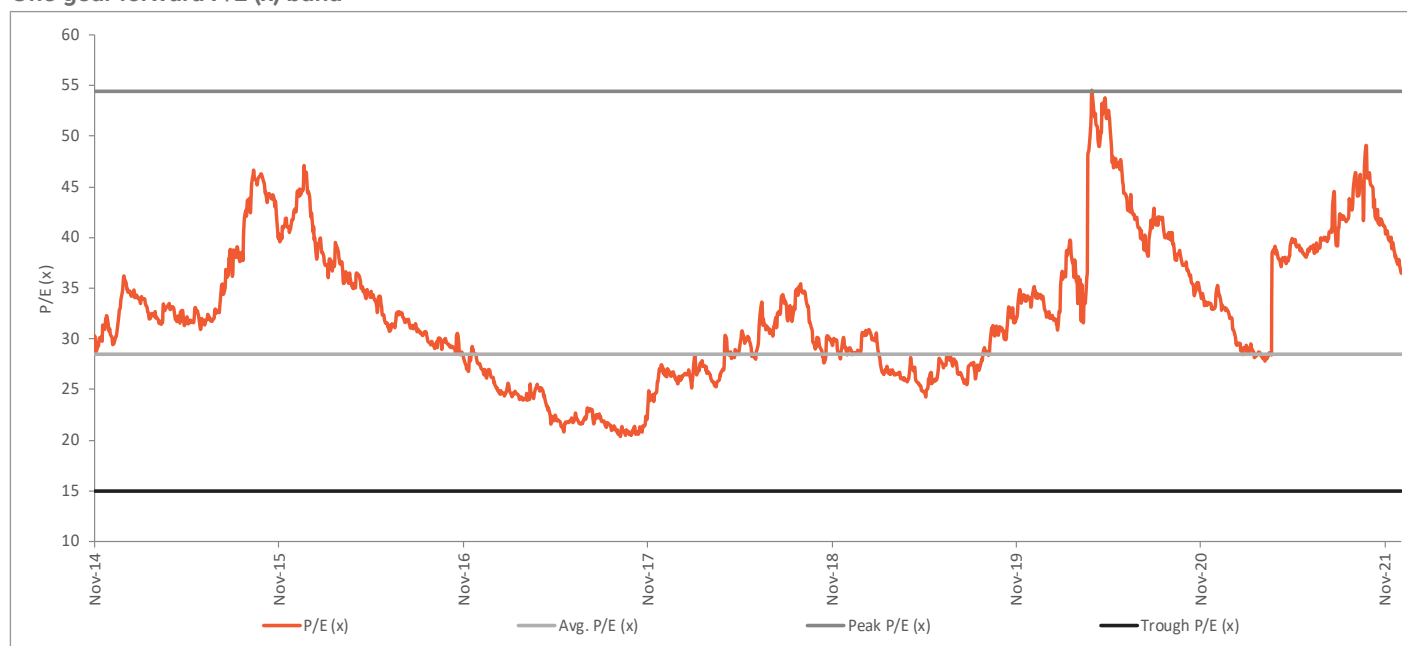
■ Company outlook – Ample visibility on earnings growth

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 over 40% 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 – Re-iterate Buy with unchanged PT of Rs. 22,780

Abbott's revenue and earnings are expected to stage a strong 13% and 17% CAGR over FY2021-FY2023E. The expected strong growth of 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-infectives, which are the fastest growing therapies in IPM, bodes well for Abbott. For H1FY22, the gastrointestinal and pain segments grew strongly by 30% and 34% y-o-y respectively, while gynaecology and CNS grew by 17.3% and 10.8%, respectively. IPM growth for FY2022 is expected to be broadly driven by acute therapies and this could have a positive rub-off 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. At the CMP, the stock trades at 47.1x/41.5x its FY2022E and FY2023E, respectively. Healthy growth prospects, a strong, debt-free balance sheet and healthy operating cash flows and strong dividend pay-out are key positives and will help in sustaining its premium valuations. We re-iterate our Buy recommendation on Abbott with an unchanged 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/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Sanofi India *	7,646.0	2.3	17,607.0	33.9	28.6	25.9	19.9	16.9	15.0	22.5	25.9	25.5
Abbott India	18,343.0	2.1	38,977.0	56.4	47.1	41.5	36.6	30.5	26.6	26.5	27.1	25.9

Source: Company, Sharekhan estimates; * 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	0.70
3	Goldman sachs Group Inc	0.70
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	0.40
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; Aas on 18 May 2021

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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 deteriorating 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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