Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Abbott India Ltd

Strong quarter; double-digit growth trajectory to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA

Reco/View: Buy	↔	CMP: **Rs. 17,636**	Price Target: **Rs. 22,780**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 36.95

Updated Feb 08, 2022

High Risk

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

Source: Morningstar

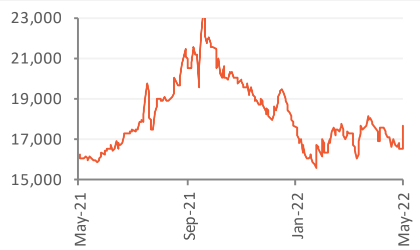
Company details

Market cap:	Rs. 37,474 cr
52-week high/low:	Rs.23,902/15,525
NSE volume: (No of shares)	19,000
BSE code:	500488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.2
DII	6.7
Others	18.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	5.2	-10.3	8.7
Relative to Sensex	6.1	11.4	-0.9	-0.9

Sharekhan Research, Bloomberg

Summary

- We maintain the Buy recommendation on Abbot India (Abbot) with an unchanged PT of Rs. 22,780.
- Q4Fy22 was a strong quarter for Abbott with the revenues and PAT staging a 14.6% and 38.7% yoy growth and the results were ahead of estimates.
- Abbott's revenues and PAT going ahead, are expected to stage a double digit growth driven by multiple growth drivers backed by a double digit growth in the IPM as well as from product portfolio expansion, ramp up of recent launches and leveraging digital platform.
- Healthy growth prospects, a strong, debt-free balance sheet and strong dividend pay-out are key positives and would enable to sustain the premium valuations.

Abbott India Limited (Abbott) reported a strong performance for Q4FY22 with the revenues and PAT staging a strong double-digit growth and the results were ahead of estimates. Revenues at Rs 1255 cr were up 14.6% y-o-y and outpaced the IPM growth, while the PAT at Rs 211 cr was up 38.6% y-o-y. The gross margins expanded by a healthy 150 bps y-o-y leading to a strong 465 bps y-o-y expansion in operating margins to 23.4%. Going ahead, the growth prospects stay bright for Abbott backed by expected strong growth in the power brands & key therapy areas and expanding penetration levels. Also, a positive rub-off effect from IPM growth could benefit Abbot.

Key positives

- Revenues for the quarter grew in double digits by 14.6% y-o-y, which is ahead of IPM growth
- Operating margins and gross margins improved by 465 bps and 150 bps y-o-y despite of apparent cost pressures across the industry
- Abbott has declared a strong dividend of Rs 275 per share for FY22, which is similar to that of FY21

Revision in estimates – Q4FY22 was a strong quarter with revenues and PAT staging a double-digit growth, reflecting the strong performance of acute therapies. Results were ahead of estimates. On the basis of strong growth prospects, and a high share of acute therapies (which are amongst the fastest growing in IPM), we have fine-tuned our estimates for FY23E/FY24E.

Our Call

Valuations: Maintain Buy with unchanged PT of Rs. 22,780: Abbott's revenues and earnings are expected to stage a strong 10% and 14% CAGR over FY2022-FY2024E. Double-digit growth in IPM, is expected to sustain going ahead driven by multiple growth drivers as well as a sizeable contribution from the acute therapies. This coupled with increasing geographic penetration and the strong performance of its top brands are the key growth drivers for Abbott. At CMP, the stock trades at 41.4x/36.3x its FY23E/FY24E, respectively. Healthy growth prospects, a strong, debt-free balance sheet and strong dividend pay-out are key positives and would enable to sustain the premium valuations. We maintain the Buy recommendation 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) Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Net sales	4310.2	4919.3	5460.0	6006.0
Operating profit	921.6	1087.7	1228.5	1381.4
OPM (%)	21.4	22.1	22.5	23.0
PAT	690.8	798.7	905.6	1031.4
EPS (Rs)	325.1	375.9	426.2	485.4
PER (x)	54.2	46.9	41.4	36.3
EV/Ebidta (x)	35.1	29.9	26.6	23.4
ROCE (%)	33.2	35.9	36.8	36.9
RONW (%)	26.5	28.3	29.2	29.3

Source: Company; Sharekhan estimates

Strong Q4, results ahead of estimates: Q4FY22 was a strong quarter for Abbott with the revenues and PAT staging a strong double-digit growth and the results are ahead of estimates. The revenues for the quarter at Rs 1255 crore, were up by around 14.6% y-o-y and were ahead of estimates. Abbott's revenue growth for Q4FY22 was higher than that of the IPM attributable to sustained momentum in the acute therapies which have a higher share of revenues. The operating margins at 23.4% expanded by 465 bps y-o-y and was better than the estimates. The OPM expansion could be attributable to gross margin expansion as well as savings in other expenses. Also, a strong double digit top line growth aided in operating leverage accruing. The operating profits for the quarter stood at Rs 293.8 cr, up 43.0% y-o-y, and were ahead of the estimates. The tax rate for the quarter at 27.7% was higher as compared to 24.5% in Q4FY21. Therefore the PAT at Rs 211.4 crore was up 28.7% y-o-y but was ahead of the estimates.

IPM growth outlook stays strong: Abbott is an India focused pharmaceutical company and hence the growth is reflective of the IPM growth. After a modest 1.6% y-o-y growth for FY2021, IPM growth has bounced back; and for FY22, IPM grew by ~16% y-o-y, largely backed by a low base in the corresponding period of the previous year. The IPM growth is supported by a 6.3% volume growth, while the pricing led growth was at 5.4% and the share of growth from the new launches stood at 3.8%. Adjusted for the high growth months of April and May 2021, the IPM growth stood at 9% for FY2022 which is encouraging. Going ahead the IPM is expected to grow at a double-digit growth of around 10-12% and the growth is expected to be driven by improved access to healthcare, an increase in awareness and diagnosis of non-communicable diseases, and new product launches, and an expansion of hospital infrastructure. In addition to these aspects, new co-marketing agreements, and expansion of pharmacy chains /online models would also drive the growth of the IPM. Industry reports point out that pricing growth and the share of products are expected to sustain and would also be well supported by volume growth. Moreover, with OPD consultations increasing and elective surgeries likely to increase, 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 double-digit growth in FY2022 and is likely to sustain the momentum in Fy23 as well. This compares with almost flat growth reported in FY2021 and bodes well for Abbott.

Strong presence 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-intestinal, 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 and in the past three years over 52 products were launched, including line extensions, and has a sturdy pipeline of products, which would unfold gradually going ahead. Abbott expects to launch ~100 new products by FY2024-FY2025. 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.

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. Abbott has digitalized a substantial portion of its training content, which is a key plus point.

Results (Standalone) Rs cr

Particulars	Q4FY22	Q4FY21	YoY(%)	Q3FY22	QoQ(%)
Net revenues	1255.0	1095.5	14.6	1224.4	2.5
Operating profit	293.8	205.5	43.0	269.1	9.2
Other Income	21.1	16.2	29.9	18.7	12.3
EBIDTA	314.9	221.7	42.0	287.8	9.4
Interest	5.1	4.7	8.4	4.4	16.6
Depreciation	17.4	15.1	15.4	16.7	4.1
PBT	292.3	201.9	44.8	266.7	9.6
Tax Expense	80.9	49.4	63.7	67.5	19.9
Adj.PAT	211.4	152.5	38.7	199.2	6.1
Exceptional item	0.0	0.0		0.0	
Net PAT	211.4	152.5	38.7	199.2	6.1
Margins			**BPS**		**BPS**
OPM (%)	23.4	18.8	465	22.0	144
PAT Margins (%)	16.8	13.9	293	16.3	58
Tax rate (%)	27.7	24.5	320	25.3	238

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 the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

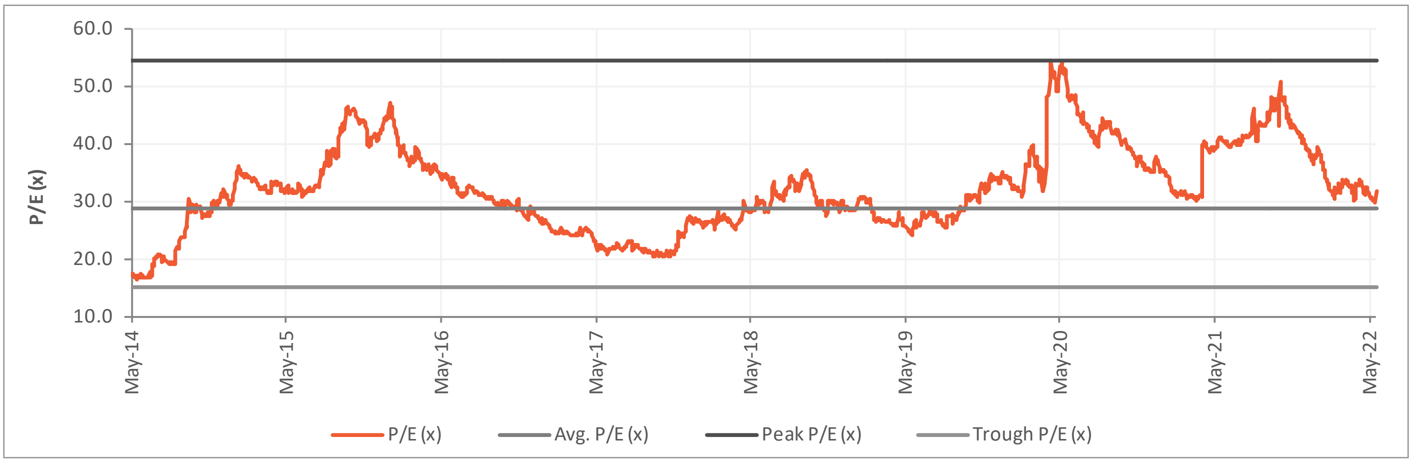
■ Company Outlook – Ample visibility on earnings growth

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 their revenue (top 10 brands account for over 40% of overall sales). A 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 top line 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 to 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 14% PAT CAGR from FY2022 to FY2024. Moreover, Abbott has launched around 15 new products in FY2021 and over 52 new products in the past three years, which are expected to pick up and gain traction in the ongoing fiscal and overall by FY2024-25 plans to launch around 100 new products.

■ Valuation – Maintain Buy with unchanged PT of Rs. 22,780

Abbott's revenue and earnings are expected to stage a strong 10% and 14% CAGR over FY2022-FY2024E. The expected strong growth of double digits for IPM in FY2022 versus 2% growth reported in FY2021 and a strong presence in chronic therapy areas of gastrointestinal, pain, CNS, gynaecology, and anti-invectives, which are amongst the fastest growing therapies in IPM, bodes well for Abbott. IPM growth going ahead is expected to be in the range of 10-12% to be driven by improved access to healthcare, an increase in awareness and diagnosis of non-communicable diseases, new product launches, and an expansion of hospital infrastructure and pharmacy chains /online models. 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. Q4Fy22 was a strong quarter with revenues and PAT staging a double-digit growth, reflecting the strong performance of acute therapies. At CMP, the stock trades at 41.1x/36.3x its FY23E/FY24E, respectively. Healthy growth prospects, a strong, debt-free balance sheet and strong dividend pay-out are key positives. We maintain the Buy recommendation 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 (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Sanofi India *	6,602.0	2.3	15,205.0	46.9	41.4	36.3	29.9	26.6	23.4	28.3	29.2	29.3
Abbott India	17,636.0	2.1	37,474.0	26.7	25.1	22.1	5.1	5.0	4.6	42.5	24.5	24.9

*Source: Company, Sharekhan estimates * Nos for CY21/CY22E/CY23E*

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 to 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 focus 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 key brands 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. Vivek V Kamath	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

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;