Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Abbott India Ltd

Steady Q1; double-digit growth to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA
Reco/View: Buy ⇔	CMP: Rs. 19,608 / 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

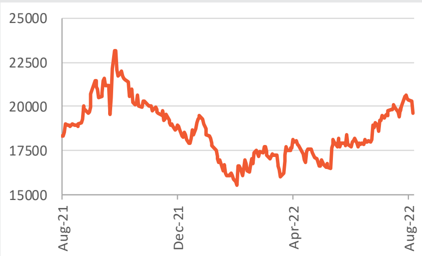
Company details

Market cap:	Rs. 37,474 cr
52-week high/low:	Rs. 23,902 / 15,525
NSE volume: (No of shares)	0.2 lakh
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	0.6	17.7	18.1	7.0
Relative to Sensex	-7.3	9.3	18.2	-0.8

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited (Abbott) reported steady performance for Q1FY23, but results missed estimates.
- Revenues and earnings to clock a strong 11% and 14% CAGR over FY2022-FY2024E. Double-digit growth in IPM is expected to sustain going ahead driven by multiple growth drivers and sizeable contribution from acute therapies.
- Healthy growth prospects, a strong, debt-free balance sheet and strong dividend payout are key positives for Abbott.
- We maintain a Buy on the stock with an unchanged PT of Rs. 22,780.

Abbott India Limited (Abbott) reported steady performance for Q1FY23, but results missed estimates. Revenues, at Rs 1304 crore, grew by 7% y-o-y, ahead of the IPM growth of 2% y-o-y. Operating margins contracted by 105 bps y-o-y to 20.7% and missed estimates. Tracking operating performance, the PAT at Rs 205.6 crore is up 5% y-o-y, but missed estimates. Going ahead, growth prospects are bright for Abbott backed by expected strong growth in the acute therapy products and the sustained traction in power brands & key therapy areas and expanding penetration. In addition, a positive rub-off effect from IPM growth could benefit Abbot.

Key positives

- Revenues grew by 7% y-o-y, thus outpacing industry growth of 2% y-o-y.
- On account of operating leverage kicking in, operating profits grew by 2% y-o-y.

Key negatives

- OPM contracted by 105 bps y-o-y to 20.7 % on account of 210 bps y-o-y increase in other expenses / sales.

Revision in estimates – On the basis of strong growth prospects and a high share of acute therapies (which are among the fastest growing in the Indian pharmaceutical market (IPM)), we have fine-tuned our estimates for FY23E/FY24E.

Our Call

Valuation – Maintain Buy with unchanged PT of Rs. 22,780: Abbott's revenues and earnings are expected to stage a strong 11% and 14% CAGR over FY2022-FY2024E. Double-digit growth in the IPM, is expected to sustain going ahead driven by multiple growth drivers as well as a sizeable contribution from acute therapies. This coupled with increasing geographic penetration and the strong performance of its top brands are key growth drivers for Abbott. At CMP, the stock trades at 46.0x/40.0x its FY23E/FY24E, respectively. Healthy growth prospects, a strong, debt-free balance sheet and strong dividend payout are key positives. We maintain a Buy on the stock 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	6060.6
Operating profit	921.6	1087.7	1228.5	1393.9
OPM (%)	21.4	22.1	22.5	23.0
PAT	690.8	798.7	905.6	1040.9
EPS (Rs)	325.1	375.9	426.2	489.8
PER (x)	60.3	52.2	46.0	40.0
EV/Ebidta (x)	39.3	33.5	29.8	26.0
ROCE (%)	33.2	35.9	36.8	37.1
RONW (%)	26.5	28.3	29.2	29.5

Source: Company; Sharekhan estimates

Steady quarter, results miss estimates:

Q1FY23 was a steady quarter for Abbott and the results missed estimates. The revenues at Rs 1304 crore grew by 7% y-o-y and 4% QoQ, but were slightly below estimates. Revenue growth of 7% y-o-y was ahead of the IPM's growth of 2% y-o-y. The operating margins contracted by 105 bps y-o-y to 20.7% and missed estimates. The contraction in OPM could be largely attributable to a 210 bps y-o-y increase in other expenses / sales. Consequently the operating profits at Rs 270 crore is up 2% y-o-y attributable to operating leverage kicking in. Tracking the operating performance, the PAT at Rs 205.6 crore rose 5% y-o-y, but missed estimates.

IPM growth outlook strong:

Abbott is an India-focused pharmaceutical company and hence growth is reflective of the IPM growth. After a 15.5% y-o-y growth for FY2022 and a 9% y-o-y growth adjusting for high base months of April and May 2021. The IPM's growth during Q1FY23 slowed down to 2% y-o-y and for June 2022, growth has bounced back in double digits to 13.2%, which is encouraging. Going ahead the IPM is expected to grow at a double-digit growth of 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, new co-marketing agreements, and expansion of pharmacy chains /online models would also drive the IPM's growth. 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. Further the likely sustained traction in Chronic therapies also bodes well for Abbott from a growth perspective.

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 enable tap new avenues, expand reach and strengthen doctor connect:

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 same. 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 digitalised a substantial portion of its training content, which is a key plus point.

Results Rs cr

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net revenues	1304.4	1217.8	7.1	1255.0	3.9
Operating profit	270.4	265.2	2.0	293.8	(8.0)
Other Income	26.4	19.2	37.2	21.1	25.2
EBIDTA	296.8	284.4	4.4	314.9	(5.8)
Interest	4.2	5.0	(16.3)	5.1	(17.9)
Depreciation	17.4	15.7	10.3	17.4	(0.5)
PBT	275.2	263.6	4.4	292.3	(5.9)
Tax Expense	69.6	67.8	2.5	80.9	(14.0)
Net PAT	205.6	195.8	5.0	211.4	(2.7)
Margins			**bps**		**bps**
OPM (%)	20.7	21.8	-104	23.4	-268
PAT Margins (%)	15.8	16.1	-31	16.8	-108
Tax rate (%)	25.3	25.7	-46	27.7	-240

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 pharmaceutical companies.

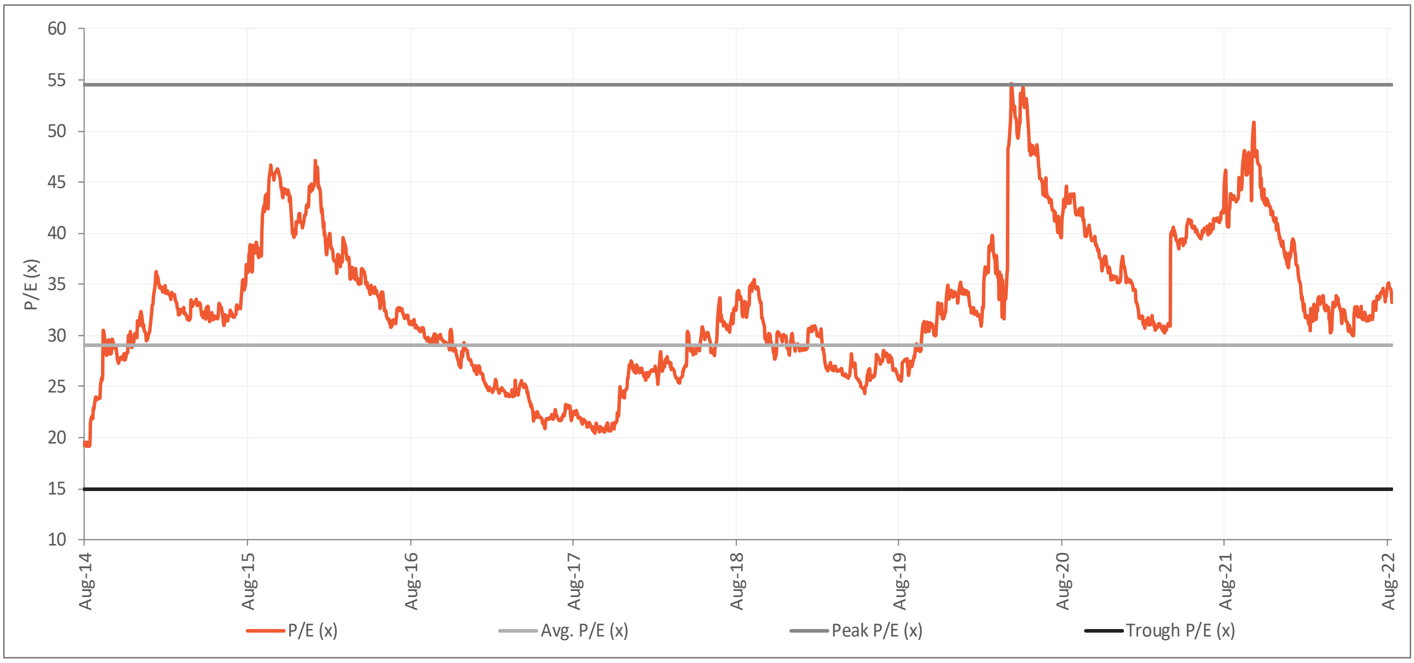
■ Company Outlook – Ample visibility on earnings growth

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 11% and 14% CAGR over FY2022-FY2024E. The IPM growth for April June quarter has slowed down to 2% y-o-y on account of a high base. 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. Further since Abbott has a sizeable presence in the acute therapies, which are expected to sustain its strong growth traction, bodes well for Abbott. Q1Fy23 was a steady quarter for Abbott but the results missed estimates. However, as the acute therapy products have staged a strong growth amongst the IPM and are expected sustain the growth trajectory, which bodes well for companies such as Abbott. Basis this we have fine-tuned our estimates for FY23E and FY24E. Healthy growth prospects, a strong, debt-free balance sheet and strong dividend pay-out are key positives. We maintain a Buy recommendation with an unchanged PT of Rs. 22,780.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Sanofi India *	6,602.0	2.3	15,205.0	26.0	25.5	22.4	15.3	15.5	13.3	42.5	29.7	29.7
Abbott India	19,608.0	2.1	41,666.0	52.2	46.0	40.0	33.5	29.8	26.0	28.3	29.2	29.5

*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

Sharekhan
by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Ms. Priya Sonavane; 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, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai–400028, Maharashtra, INDIA, Tel: 022–67502000 / Fax: 022–24327343. 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.