

Power brands continue to drive growth...

About the stock: Abbott India is one of the fastest growing listed MNC pharma companies. It has outperformed the industry on a consistent basis in women's health, GI, metabolic, pain, CNS among others.

- The company's top five brands - (Mixtard, Thyronorm, Novomix, Udiliv and Duphaston) together posted revenue CAGR of ~6.6% MAT, March 2019-22
- Abbott has 140+ brands in segments of women's health, gastroenterology, metabolics, CNS, multi-specialty, vaccines & consumer health

Q2FY23 Results: Abbott India's numbers were in line with our estimates.

- Revenues increased 12.9% YoY to ₹ 1380 crore
- EBITDA grew 32.2% YoY to ₹ 343 crore while EBITDA margins increased 364 bps to 24.9%
- PAT increased 38.1 % YoY to ₹ 266 crore

What should investors do? Abbott's share price has grown by ~1.5x over the past three years (from ~₹ 12815 in November 2019 to ~₹ 19500 in November 2022).

- We maintain **HOLD** rating as valuations at current levels largely factor in power brands growth momentum and growing traction for new brands

Target Price and Valuation: Valued at ₹ 21725 i.e. 40x FY24E EPS of ₹ 543.1

Key triggers for future price performance:

- Consistency in brand-driven growth driven by favourable market dynamics with doctor prescription stickiness and lower perceived risk factors
- NLEM price hike of ~10.8% for estimated NLEM portfolio exposure of ~21% for Abbott may have a positive impact on price led growth
- Focus on new launches, which is fairly consistent (+100 launches and line extensions in the last 10 years)
- Future launches from key divisions along with brand extensions and access to innovative molecules from global parent to drive growth

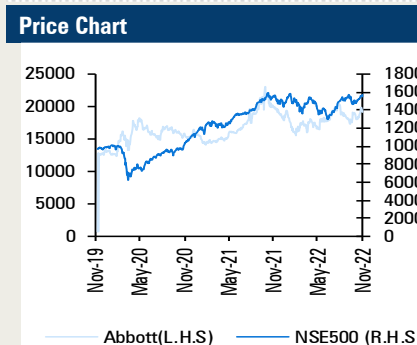
Alternate Stock Idea: Apart from Abbott, in our healthcare coverage we like Pfizer.

- Pfizer is following a measured approach with de-focusing and hiving off of tail brands and focusing on core strengths areas such as vaccines, pain management, VMS, GI and CVS



Particulars	
Particular	Amount
Market Capitalisation	₹ 39868 crore
Debt (FY22)	₹ 0 crore
Cash (FY22)	₹ 2749 crore
EV	₹ 37119 crore
52 week H/L	23902/15525
Equity capital	₹ 21.3 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	75.0	75.0	75.0	75.0
Others	25.0	25.0	25.0	25.0



- Recent Event & Key risks**
- Inclusion of Thyronorm under price control
 - Key Risk:** (i) Better traction for legacy brands (ii) Higher than expected competition

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	4093.1	4310.0	4919.3	11.1	5460.8	6116.0	7.5
EBITDA	756.4	921.5	1087.7	22.3	1270.5	1542.9	12.4
EBITDA margins (%)	18.5	21.4	22.1		23.3	25.2	
Net Profit	592.9	690.7	798.7	23.6	960.5	1154.1	13.1
EPS (₹)	279.0	325.0	375.9		452.0	543.1	
PE (x)	69.9	60.0	51.9		43.1	35.9	
RoCE (%)	30.7	33.8	36.6		38.6	37.5	
ROE	24.4	26.5	28.3		30.1	29.0	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Steady revenues with dip in margins

- Revenues increased 12.9% YoY to ₹ 1380 crore. EBITDA grew 32.2% YoY to ₹ 343 crore while EBITDA margins increased 364 bps to 24.9%, PAT increased 38.1% YoY to ₹ 266 crore
- Abbott's numbers were in line with our estimates. Power brands (some of which were muted during Covid – e.g. Thyronorm) continue to propel sales growth and margin improvement. Notwithstanding quarterly gyrations, we remain positive on the company due to its robust and sustainable business model backed by stable growth, debt-free b/s, favourable market dynamics with doctor prescription stickiness and lower perceived risk factors. We continue to believe in Abbott's strong growth track in power brands and capability of new launches on a fairly consistent basis

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,379.5	1,222.1	12.9	1,304.4	5.8	
Raw Material Expenses	752.1	653.1	15.2	718.0	4.7	
Employee Expenses	149.6	156.9	-4.7	152.1	-1.7	
Other Expenditure	134.5	152.4	-11.7	163.9	-17.9	
Total Operating Expenditure	1,036.2	962.4	7.7	1,034.0	0.2	
EBITDA	343.3	259.7	32.2	270.4	27.0	
EBITDA (%)	24.9	21.3	364 bps	20.7	416 bps	
Interest	4.0	4.5	-12.0	4.2	-5.9	
Depreciation	17.5	16.2	7.8	17.4	0.7	
Other income	33.5	18.2	84.1	26.4	27.2	
PBT before EO	355.4	257.2	38.2	275.2	29.1	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	
PBT	355.4	257.2	38.2	275.2	29.1	
Tax	89.9	64.9	38.6	69.6	29.2	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	265.5	192.3	38.1	205.6	29.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	Change	Old	New	Change	
Revenue	5,450.0	5,460.8	0.2	6,104.0	6,116.0	0.2	
EBITDA	1,214.0	1,270.5	4.7	1,501.8	1,542.9	2.7	
EBITDA Margin (%)	22.3	23.3	99 bps	24.6	25.2	62 bps	
PAT	908.8	960.5	5.7	1,123.1	1,154.1	2.8	
EPS (₹)	427.7	452.0	5.7	528.6	543.1	2.8	

Source: ICICI Direct Research

Exhibit 3: Power Brands

Brand	Therapy	Sep-19	Sep-20	Sep-21	Sep-22	GAGR 19-22	YoY
MIXTARD	ANTI DIABETIC	707.86	784.2	844.7	845.5	6.1%	0.1%
THYRONORM	HORMONES	377.56	414.7	444.0	506.7	10.3%	14.1%
NOVOMIX	ANTI DIABETIC	429.43	434.5	447.8	450.8	1.6%	0.7%
UDILIV	GASTRO INTESTINAL	260.19	287.2	345.7	419.5	17.3%	21.3%
RYZODEG	ANTI DIABETIC	226.48	249.1	275.6	374.4	18.2%	35.9%
DUPHASTON	GYNAECOLOGICAL	367.77	344.8	345.9	355.8	-1.1%	2.8%
VERTIN	NEURO / CNS	179.61	209.7	243.4	266.7	14.1%	9.6%
DUPHALAC	GASTRO INTESTINAL	169.61	189.3	215.1	255.9	14.7%	19.0%
NOVO RAPID	ANTI DIABETIC	203.19	218.0	229.2	239.8	5.7%	4.6%
CREMAFFIN PLUS	GASTRO INTESTINAL	123.41	150.0	189.3	218.5	21.0%	15.4%
Top 10 brands		3045.1	3281.4	3580.7	3933.5	8.9%	9.9%
% of IQVIA sales		33.7%	34.9%	34.5%	34.8%		
Top 5 brands		2001.5	2169.6	2357.8	2596.8	9.1%	10.1%
Ex-Top 10 Brands		5977.5	6118.9	6796.5	7365.0	7.2%	8.4%

Source: ICICI Direct Research, IQVIA

Exhibit 4: Therapeutic break-up

Therapy	Sep-19	Sep-20	Sep-21	Sep-22	GAGR 19-22	YoY
ANTI DIABETIC	2365.8	2414.3	2611.1	2752.3	5.2%	5.4%
GASTRO INTESTINAL	1201.8	1282.4	1520.1	1733.7	13.0%	14.1%
ANTI-INFECTIVES	657.9	665.5	830.3	1037.6	16.4%	25.0%
VITAMINS/MINERALS/NUTRIENTS	763.7	851.6	1106.8	1023.8	10.3%	-7.5%
NEURO / CNS	759.4	790.6	855.8	903.3	6.0%	5.5%
CARDIAC	563.5	579.0	710.9	726.3	8.8%	2.2%
HORMONES	545.9	584.1	627.7	726.0	10.0%	15.7%
GYNAEC.	483.2	459.2	468.9	510.3	1.8%	8.8%
RESPIRATORY	390.3	317.1	300.9	487.2	7.7%	61.9%
HEPATOPROTECTIVES	278.4	304.0	363.0	436.8	16.2%	20.3%
Top 10 Therapies	8010.0	8247.9	9395.6	10337.2	8.9%	10.0%
Total IQVIA Sales	9022.6	9400.3	10377.2	11298.5	7.8%	8.9%
Top 5 Therapies	5748.5	6004.5	6924.1	7450.7	9.0%	7.6%

Source: ICICI Direct Research, IQVIA

Exhibit 5: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)			RoE (%)				
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4479	5,230	Buy	64501	7.9	59.1	79.0	101.0	569.9	75.7	56.7	44.3	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	750	855	Buy	15291	-0.7	16.7	20.6	22.7	NA	44.8	36.4	33.0	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	142	150	Buy	1537	3.9	5.4	7.5	9.9	36.3	26.3	19.0	14.4	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	228	250	Buy	11420	3.0	10.5	10.8	16.7	77.2	21.7	21.2	13.7	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	300	380	Buy	4173	-13.9	3.9	4.5	8.8	-13.9	77.7	66.0	34.0	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
MNC Pharma																					
Abbott India	ABBIND	19478	21,725	Hold	40903	325.0	375.9	427.7	528.6	59.9	51.8	45.5	36.9	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4270	4,500	Hold	7259	106.5	116.0	124.8	140.6	40.1	36.8	34.2	30.4	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	5564	6,385	Hold	12797	207.4	410.1	270.5	264.8	26.8	13.6	20.6	21.0	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4432	4,480	Hold	20389	108.8	133.9	140.4	149.3	40.7	33.1	31.6	29.7	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
Pharma																					
Ajanta Pharma	AJAPHA	1291	1,505	Buy	16525	51.0	55.6	60.1	71.1	25.3	23.2	21.5	18.1	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	636	625	Reduce	12523	62.8	27.8	15.3	26.9	10.1	22.9	41.6	23.6	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	478	540	Hold	28005	55.0	47.4	41.1	51.3	8.7	10.1	11.6	9.3	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	284	290	Hold	34108	6.3	5.7	5.5	11.3	45.4	49.9	52.1	25.0	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	416	480	Hold	41941	23.3	21.0	21.0	23.8	17.8	19.8	19.8	17.5	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1121	1,350	Buy	90481	29.9	32.9	38.6	45.8	37.5	34.1	29.1	24.5	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4470	4,750	Buy	74202	117.3	126.9	203.4	191.0	38.1	35.2	22.0	23.4	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	430	440	Hold	12112	32.9	42.7	39.5	44.9	13.1	10.1	10.9	9.6	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipsca Laboratories	IPCLAB	874	925	Hold	22189	44.9	34.8	27.5	35.1	19.4	25.1	31.8	24.9	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	393	340	Hold	6246	37.4	26.0	15.9	26.1	10.5	15.1	24.7	15.0	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	740	680	Reduce	33654	26.9	11.9	11.8	27.7	27.5	62.3	62.9	26.7	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	581	680	Hold	10637	24.2	9.3	41.6	42.3	24.1	62.4	14.0	13.7	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	1019	1,225	Buy	244374	30.0	32.0	34.8	40.1	33.9	31.9	29.3	25.4	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1619	1,730	Hold	54722	37.0	32.0	40.0	46.7	43.8	50.5	40.5	34.7	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	352	465	Buy	3236	10.1	16.8	21.6	29.2	34.8	20.9	16.3	12.1	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	751	955	Buy	5708	81.7	85.3	70.4	73.0	9.2	8.8	10.7	10.3	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	274	265	Reduce	3067	13.1	10.7	8.5	12.1	20.9	25.6	32.3	22.7	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2000	2,070	HOLD	1753	44.4	45.7	35.9	51.8	43.9	42.6	54.3	37.6	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
API/CRAMS																					
Divi's Lab	DIVLAB	3290	3,685	HOLD	87180	74.7	111.5	93.0	113.5	44.0	29.5	35.4	29.0	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	331	330	Reduce	4070	10.8	13.0	3.8	14.4	30.6	25.4	86.4	22.9	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	608	710	Buy	24399	10.1	9.9	11.5	14.6	60.1	61.7	52.8	41.8	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	364	375	Buy	9035	22.2	16.6	21.9	26.8	16.4	21.9	16.6	13.6	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	462	675	Buy	24793	18.3	15.4	20.7	27.0	25.2	30.0	22.3	17.1	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceutical	SUVPH	461	530	BUY	11763	14.2	17.8	17.0	17.6	32.4	25.9	27.2	26.1	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Total Operating Income	4,310.0	4,919.3	5,460.8	6,116.0	
Growth (%)	5.3	14.1	11.0	12.0	
Raw Material Expenses	2,390.9	2,657.2	2,955.9	3,164.2	
Gross Profit	1,919.1	2,262.1	2,504.8	2,951.8	
Gross Profit Margins (%)	44.5	46.0	45.9	48.3	
Employee Expenses	492.6	579.5	602.7	675.0	
Other Expenditure	505.0	594.9	631.6	733.9	
Total Operating Expenditure	3,388.6	3,831.6	4,190.2	4,573.2	
EBITDA	921.5	1,087.7	1,270.5	1,542.9	
Growth (%)	21.8	18.0	16.8	21.4	
Interest	18.3	19.1	17.7	17.7	
Depreciation	58.1	66.1	69.8	74.0	
Other Income	80.9	77.2	101.5	91.7	
PBT before Exceptional Ite	926.0	1,079.7	1,284.6	1,542.9	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	926.0	1,079.7	1,284.6	1,542.9	
Total Tax	235.3	281.0	324.0	388.8	
PAT before MI	690.7	798.7	960.5	1,154.1	
PAT	690.7	798.7	960.5	1,154.1	
Growth (%)	16.5	15.6	20.3	20.1	
EPS (Adjusted)	325.0	375.9	452.0	543.1	
Other income as % of (Cash + im	3%	3%	3%	2%	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	690.5	790.7	960.5	1,154.1	
Add: Depreciation & Amortization	58.1	66.1	69.8	74.0	
Net Increase in Current Assets	-113.7	-19.0	-121.8	-106.4	
Net Increase in Current Liabilities	125.0	147.9	131.4	104.2	
Others	-33.1	-38.1	17.7	17.7	
CF from Operating activities:	726.7	947.7	1,057.6	1,243.7	
(Purchase)/Sale of Fixed Assets	-23.2	-43.8	-30.0	-30.0	
Investments	-135.1	-421.0	0.0	0.0	
Others	225.0	494.7	-11.6	-10.6	
CF from Investing activities	66.7	29.9	-41.6	-40.6	
(inc)/Dec in Loan	0.0	0.0	0.0	0.0	
Dividend & Dividend tax	-531.2	-584.4	-584.4	-371.9	
Other	-50.6	-53.0	-17.7	-17.7	
CF from Financing activities	-581.8	-637.4	-602.1	-389.6	
Net Cash Flow	211.7	340.2	413.9	813.5	
Cash and Cash Equivalent	2,197.4	2,409.0	2,749.2	3,163.1	
Cash	2,409.0	2,749.2	3,163.1	3,976.6	
Free Cash Flow	703.6	903.8	1,027.6	1,213.7	

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Equity Capital	21.3	21.3	21.3	21.3	
Reserve and Surplus	2,580.9	2,798.5	3,174.7	3,956.9	
Total Shareholders funds	2,602.2	2,819.8	3,196.0	3,978.2	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	89.8	92.4	101.6	111.8	
Lease Liability	117.7	108.7	97.9	88.1	
Source of Funds	2,809.6	3,020.9	3,395.5	4,178.1	
Gross Block - Fixed Assets	381.2	467.5	497.5	527.5	
Accumulated Depreciation	130.4	196.5	266.3	340.3	
Net Block	250.8	271.0	231.2	187.3	
Capital WIP	0.7	0.7	0.7	0.7	
Fixed Assets	251.4	271.7	231.9	187.9	
Investments	0.0	0.0	0.0	0.0	
Other Non Current Assets	70.5	99.4	109.4	120.3	
Inventory	717.6	687.8	765.1	819.1	
Debtors	250.2	288.2	319.9	358.3	
Loans and Advances	5.0	0.0	0.0	0.0	
Other Current Assets	136.7	127.8	140.6	154.7	
Cash	2,409.0	2,749.2	3,163.1	3,976.6	
Total Current Assets	3,518.5	3,853.0	4,388.8	5,308.6	
Creditors	762.7	889.5	989.4	1,059.2	
Provisions	116.0	127.9	140.6	154.7	
Other Current Liabilities	152.2	185.9	204.5	224.9	
Total Current Liabilities	1,030.9	1,203.2	1,334.5	1,438.8	
Net Current Assets	2,487.7	2,649.9	3,054.2	3,869.9	
Application of Funds	2,809.6	3,020.9	3,395.5	4,178.1	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
Year-end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	325.0	375.9	452.0	543.1
Cash EPS	77.4	132.0	309.9	372.9
BV per share	1,224.6	1,327.0	1,504.0	1,872.2
Cash per Share	1,133.7	1,293.8	1,488.6	1,871.4
Dividend per share	275.0	275.0	175.0	205.0
Operating Ratios (%)				
Gross Profit Margins	44.5	46.0	45.9	48.3
EBITDA margins	21.4	22.1	23.3	25.2
PAT Margins	16.0	16.2	17.6	18.9
Cash Conversion Cycle	14.3	-6.3	-6.3	-6.3
Asset Turnover	11.3	10.5	11.0	11.6
EBITDA conversion Rate	78.9	87.1	83.2	80.6
Return Ratios (%)				
RoE	26.5	28.3	30.1	29.0
RoCE	33.8	36.6	38.6	37.5
RoIC	226.0	402.1	563.6	814.8
Valuation Ratios (x)				
P/E	60.0	51.9	43.1	35.9
EV / EBITDA	42.4	35.6	30.1	24.3
EV / Net Sales	9.1	7.9	7.0	6.1
Market Cap / Sales	9.6	8.4	7.6	6.8
Price to Book Value	15.9	14.7	13.0	10.4
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	0.9	0.9	0.9
Quick Ratio	0.4	0.3	0.3	0.4
Inventory days	109.5	94.5	94.5	94.5
Debtor days	21.2	21.4	21.4	21.4
Creditor days	116.4	122.2	122.2	122.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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