Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Abbott India Ltd

Strong Q2; double-digit growth to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA

Reco/View: Buy	↔	CMP: Rs. 19,468	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 Oct 08, 2022

High Risk

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

Source: Morningstar

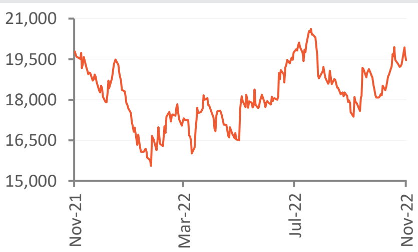
Company details

Market cap:	Rs. 41,368 cr
52-week high/low:	Rs. 20,895 / 15,525
NSE volume: (No of shares)	17,000
BSE code:	500488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.7
DII	7.9
Others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.6	2.4	8.9	-1.6
Relative to Sensex	1.5	-0.4	-5.4	-4.4

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited (Abbott) reported strong performance in Q2FY23, with revenue and PAT growing by 13% and 38% y-o-y, respectively, while EBITDA margin expanded by 364 bps y-o-y to 24.9%.
- The company delivered strong operating performance in Q2FY2023 as major operating costs declined on y-o-y basis, leading to improvement in the EBITDA margin, despite a 108 bps y-o-y decline in the gross margin. Employee/other expenses were lower by 4.7%/11.7% y-o-y, respectively.
- Revenues and earnings are expected to clock a strong 12% and 16% CAGR over FY2022-FY2025E led by healthy growth prospects, a strong debt-free balance sheet and strong brand equity built over the years.
- We maintain a Buy on the stock with an unchanged PT of Rs. 22,780. The stock currently trades at 44.9x/38.7x its FY2023E/FY2024E EPS.

Abbott reported strong performance in Q2FY2023, delivering a double-digit growth in revenue and PAT. Revenue grew by 12.9% to Rs. 1,379.5 crore in Q2FY2023 led by strong traction in key brands (Udiliv, Thyronorm, Duphalac and Vertin) and partly aided by price hikes. Despite a 108 bps y-o-y decline in the gross margin, the EBITDA margin expanded by 364 bps y-o-y to 24.9% aided by a favourable product mix, lower employee cost (10.8% of sales in Q2FY23 vs 12.8% in Q2FY22) and reduced other expenses (9.8% of sales in Q2FY23 vs 12.5% of sales in Q2FY22). Operating profits grew by 32.2% y-o-y to Rs. 343.3 crore. Higher other income (up by 84% y-o-y) and lower interest expense (down by 12% y-o-y) led to 38.1% y-o-y growth in PAT to Rs. 265.5 crore. 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. The EBITDA margin is likely to be at ~22-23% for FY23E-FY25E, despite improving operational efficiency and product mix, due to a pick-up in travel and marketing costs.

Key positives

- Despite the decline in the gross margin, the EBITDA margin expanded by 364 bps y-o-y to 24.9%
- Employee/other expenses were lower by 4.7%/11.7% y-o-y, respectively.

Key negatives

- Gross margin contracted by 108 bps y-o-y to 45.5% due to higher raw material costs.

Revision in estimates – We have broadly maintained our estimates for FY2023 and FY2024 and will keenly monitor the performance in the coming quarters. We have introduced FY2025 estimates through this note.

Our Call

View: Maintain Buy with unchanged PT of Rs. 22,780: Q2FY2023 was a strong quarter for Abbott as the company delivered strong double-digit revenue and PAT growth coupled with a healthy expansion in the EBITDA margin. 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. Abbott's revenues and earnings are expected to stage a strong 12% and 16% CAGR over FY2022-FY2025E. At CMP, the stock trades at 44.9x/38.7x 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	FY2025E
Net sales	4310.2	4919.3	5558.4	6225.4	7003.6
Operating profit	921.6	1087.7	1250.6	1431.8	1645.8
OPM (%)	21.4	22.1	22.5	23.0	23.5
PAT	690.8	798.7	922.1	1069.3	1236.2
EPS (Rs)	325.1	375.9	433.9	503.2	581.8
PER (x)	59.9	51.8	44.9	38.7	33.5
EV/Ebidta (x)	39.0	33.3	29.1	25.1	21.5
ROCE (%)	33.2	35.9	37.2	37.7	37.4
RONW (%)	26.5	28.3	29.5	29.9	29.5

Source: Company; Sharekhan estimates

Strong Q2 – Revenue in line; margins beat estimates

Revenue grew by 12.9% to Rs. 1,379.5 crore in Q2FY2023 led by strong traction in key brands (Udiliv, Thyronorm, Duphalac and Vertin) and partly aided by price hikes undertaken by the company. Revenue was largely in line with our estimate of Rs. 1,369 crore. Gross margin contracted by 108 bps y-o-y to 45.5% due to higher raw material costs. Despite the decline in the gross margin, EBITDA margin expanded by 364 bps y-o-y to 24.9% and was better than our expectation of 21%. EBITDA margin expansion could be attributable to a favourable product mix, lower employee cost (10.8% of sales in Q2FY23 vs 12.8% in Q2FY22) and reduced other expenses (9.8% of sales in Q2FY23 vs 12.5% of sales in Q2FY22). Also, a strong double digit topline growth aided in operating leverage. Operating profits grew by 32.2% y-o-y to Rs. 343.3 crore. Higher other income (up by 84% y-o-y) and lower interest expense (down by 12% y-o-y) led to 38.1% y-o-y growth in PAT to Rs. 265.5 crore. PAT came in higher than our expectation of Rs. 208 crore. In H1FY2023, revenue and PAT grew by 10% and 21.4% to Rs. 2,683.9 crore and Rs. 471.2 crore, respectively, while EBITDA margin expanded by 136 bps y-o-y to 22.9%.

Results Rs cr

Particulars	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Net revenues	1379.5	1222.1	12.9	1304.4	5.8
Total operating expenditure	1036.2	962.4	7.7	1034.0	0.2
Operating profit	343.3	259.7	32.2	270.4	27.0
Other Income	33.5	18.2	84.1	26.4	27.2
EBIDTA	376.8	277.9	35.6	296.8	27.0
Interest	4.0	4.5	(12.0)	4.2	(5.9)
Depreciation	17.5	16.2	7.8	17.4	0.7
PBT	355.4	257.2	38.2	275.2	29.1
Tax Expense	89.9	64.9	38.6	69.6	29.2
Adj.PAT	265.5	192.3	38.1	205.6	29.1
Exceptional item	0.0	0.0		0.0	
Net PAT	265.5	192.3	38.1	205.6	29.1
Margins			**BPS**		**BPS**
OPM (%)	24.9	21.3	364	20.7	416
PAT Margins (%)	19.2	15.7	351	15.8	348
Tax rate (%)	25.3	25.2	7	25.3	1

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.

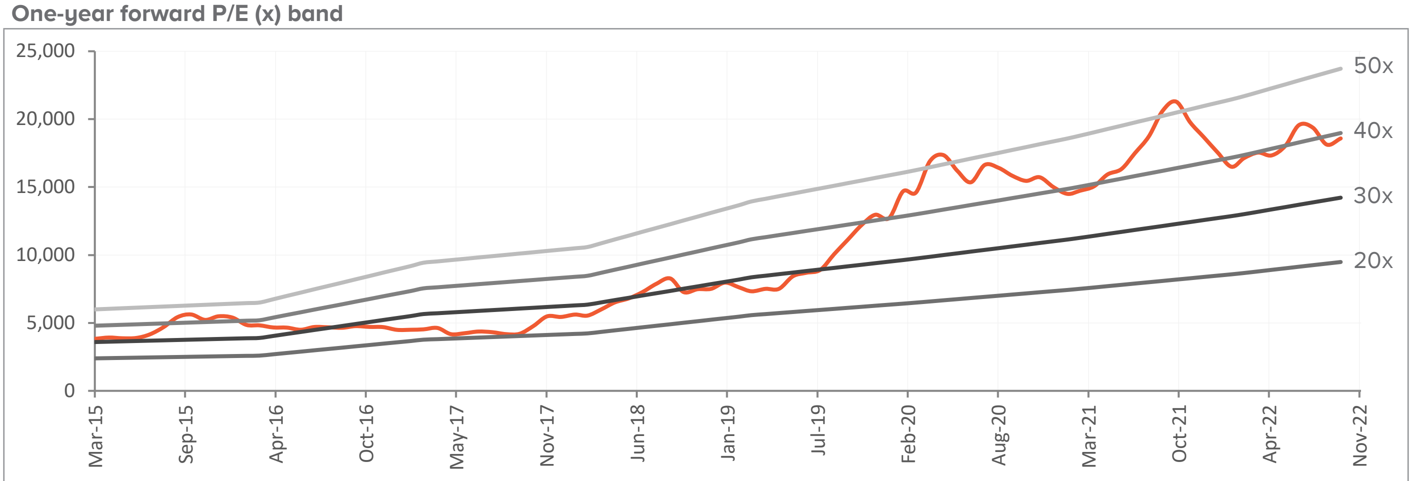
Company Outlook – Ample visibility on earnings growth

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-I cities and gradually expansion in tier-II and -III cities coupled with a sturdy new product pipeline would drive top line growth. 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 16% PAT CAGR from FY2022 to FY2025. 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 FY2023 and by FY2024-25, the company plans to launch around 100 new products.

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

Q2FY2023 was a strong quarter for Abbott as the company delivered strong double-digit revenue and PAT growth coupled with a health expansion in the EBITDA margin. 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. Abbott's revenues and earnings are expected to stage a strong 12% and 16% CAGR over FY2022-FY2025E. At CMP, the stock trades at 44.9x/38.7x 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.

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 (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Sanofi India *	5,575	2.3	12,840	22.6	24.2	22.2	12.9	14.2	12.8	42.5	27.5	26.6
Abbott India	19,468	2.1	41,368	51.8	44.9	38.7	33.3	29.1	25.1	28.3	29.5	29.9

*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 a 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	Life Insurance Corp India	2.1
2	Canara Robeco AMC	1.38
3	SBI Funds Management	0.98
4	Nippon Life India AMC	0.94
5	L & T Mutual Fund Trustee	0.45
6	Invesco AMC	0.43
7	Axis Asset Management	0.26
8	Franklin Resources	0.25
9	Motilal Oswal Amc	0.23
10	UTI AMC	0.21

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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