Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Abbott India Ltd

Strong Q3; double-digit growth to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA
Reco/View: Buy ↔	CMP: Rs. 20,741 / Price Target: Rs. 25,243 ↑

↑ 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	Positive	↔	Positive
RQ	Positive	↔	Positive
RV	Neutral	↑	Positive

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

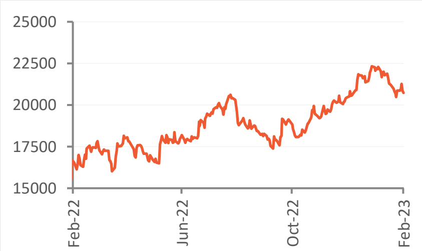
Company details

Market cap:	Rs. 44,073 cr
52-week high/low:	Rs. 22,499/15,514
NSE volume: (No of shares)	31,782
BSE code:	500488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.2
DII	8.4
Others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.8	7.8	10.2	25.2
Relative to Sensex	-7.8	10.1	8.1	20.8

Sharekhan Research, Bloomberg

Summary

- Net income strongly beat estimates, despite slower revenue growth of 8.3% (versus Q2FY23), while PAT surged 23.9% and EBITDA margin expanded by 188 bps y-o-y to 23.9%.
- Operating performance was strong as major operating costs declined y-o-y, driving up EBITDA margins, though gross margins fell 320-bps y-o-y. Employee/other expenses also fell y-o-y (as a percentage of revenue).
- Revenues and earnings are set to clock an 11.0% and 19.0% CAGR, respectively, over FY2022-FY2025E, on healthy growth prospects and strong brand equity.
- We maintain a Buy with a revised PT of Rs. 25,243; stock trades at 39.2x/34.5x its FY2024E/FY2025E EPS.

Q3FY2023 was a slower quarter in terms of sales growth versus Q2FY2023. Nevertheless, net income rose strongly by 23.9% y-o-y, far outpacing internal and consensus estimates, led by strong traction in key brands in large revenue segments such as Gastro and Gynaecology therapies and lower employee and other operating expenses (as a percentage of revenue). Overall, the Gastro and Gynaecology segments have been growing at 10% and 20% (y-o-y), respectively, over the last several months, wherein Abbott India continues to outperform the India Pharma Market's (IPM's) growth.

Key positives

- Though gross margins fell, EBITDA margin grew 188 bps y-o-y to 23.9%
- Employee/other expenses were lower y-o-y, as a percentage of revenue.

Key negatives

- Gross margins contracted by 320 bps y-o-y to 43.8% due to higher raw material costs.

Revision in estimates – We marginally reduce sales growth estimate to 11.0% CAGR from 12.0% CAGR before as the sales growth in 9MFY2023 has been slower than anticipated. However, we estimate a slightly better 19.0% CAGR rise in PAT versus a 16.0% CAGR anticipated before, due to a likely fall in operating expenses.

Our Call

View: Maintain Buy with a changed PT of Rs. 25,243: Sales growth slowed and sales and net profits too declined q-o-q, albeit at a moderate pace. Nevertheless, given Abbott's strong market leadership in key therapies such as Gastro and Gynaecology with the industry-beating growth rate and lower operating expenses, we estimate Abbott's revenues and earnings to clock an 11.0% and 19.0% CAGR versus 12.0% and 16.0% CAGR estimated before, over FY2022-FY2025E, respectively. At CMP, the stock trades at 39.2x/34.5x its FY24E/FY25E EPS, respectively. Healthy growth prospects besides a strong and debt-free balance sheet and a strong dividend payout are key positives. We maintain a Buy on the stock with a changed PT of Rs. 25,243.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E	FY2025E
Net sales	4310.2	4919.3	5410.8	6060.1	6817.6
Operating profit	921.6	1087.7	1284.0	1442.3	1643.0
OPM (%)	21.4	22.1	23.7	23.8	24.1
PAT	690.8	798.7	1000.2	1125.2	1277.2
EPS (Rs)	325.1	375.9	470.7	529.5	601.0
PER (x)	63.8	55.2	44.1	39.2	34.5
EV/Ebidta (x)	41.7	35.6	29.1	25.6	22.3
ROCE (%)	33.2	35.9	39.2	38.3	37.2
RONW (%)	26.5	28.3	31.3	30.4	29.3

Source: Company; Sharekhan estimates

Q3 strongly beats estimates

Revenues grew at a slower pace of 8.3% to Rs. 1,326.5 crore in Q3FY2023 (vs. 12.9% growth seen in Q2FY2023) likely led by strong traction in key brands within large revenue segments such as Gastro and Gynaecology therapies, which continue to exhibit strong and steady growth. Overall, these two segments have been growing at 10% and 20% (y-o-y), respectively, over the last several months. Abbott India continues to outperform the India Pharma Market (IPM) growth. Gross margins contracted by 320 bps y-o-y and 160 bps q-o-q to 43.8% though, due to higher raw material costs. Though gross margins declined, EBITDA margin expanded by 188 bps y-o-y to 23.9%, beating expectations of 23%, led by a favorable product mix, lower employee cost (10.2% of sales in Q3FY23 vs 11.6% in Q3FY22) and reduced other expenses (9.8% of sales in Q3FY23 vs 13.5% of sales in Q3FY22). Operating profits grew by 17.6% y-o-y to Rs. 316.5 crore. Higher other income (up by 113.1% y-o-y) and lower interest expense (down by 14% y-o-y) led to a 23.9% y-o-y growth in PAT to Rs. 246.8 crore. PAT came in higher than our expectation of Rs. 226 crore.

Results Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y(%)	Q2FY23	QoQ(%)
Net revenues	1326.5	1224.4	8.3	1379.5	(3.8)
Total operating expenditure	1010.0	955.3	5.7	1036.2	(2.5)
EBITDA	316.5	269.1	17.6	343.3	(7.8)
Depreciation	17.8	16.7	6.4	17.5	1.9
EBIT	298.7	252.3	18.4	325.8	(8.3)
Other Income	39.9	18.7	113.1	33.5	19.1
Interest	3.8	4.4	(14.1)	4.0	(4.5)
PBT	334.8	266.7	25.6	355.4	(5.8)
Tax Expense	88.0	67.5	30.5	89.9	(2.1)
Adj.PAT	246.8	199.2	23.9	265.5	(7.0)
Exceptional item	0.0	0.0	-	0.0	-
Net PAT	246.8	199.2	23.9	265.5	(7.0)
Margins			**BPS**		**BPS**
EBITDA (%)	23.9	22.0	188	24.9	-103
PAT Margins (%)	18.6	16.3	234	19.2	-64
NPATM	18.6	16.3	234	19.2	-64
Tax rate (%)	26.3	25.3	99	25.3	99

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Rising consumer spends and awareness bode well for IPM's growth

Indian pharmaceutical players with a large market share in IPM and a strong pipeline of specialty products will help them gain market share in the US, thereby partially offsetting any impact of competitive pricing pressure in the US. Moreover, faster product approvals and resolutions by the USFDA regards to plant observations and 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, biosimilars, and injectables) and the commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential for Indian pharma companies, going ahead.

■ Company Outlook – Company Outlook - Ample visibility on earnings growth

Abbott is a pharma MNC, with a focus on Indian markets. The company's power brands in Indian markets command a leadership position in their respective segments. Pharma MNCs 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 up the topline. 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 a changed PT of Rs. 25,243

Sales growth slowed and sales and net profits too declined q-o-q, albeit at a moderate pace. Nevertheless, given Abbott's strong market leadership in key therapies such as Gastro and Gynaecology with the industry-beating growth rate and lower operating expenses, we estimate Abbott's revenues and earnings to clock an 11.0% and 19.0% CAGR versus 12.0% and 16.0% CAGR estimated before, over FY2022-FY2025E, respectively. At CMP, the stock trades at 39.2x/34.5x its FY24E/FY25E EPS, respectively. Healthy growth prospects besides a strong and debt-free balance sheet and a strong dividend payout are key positives. We maintain a Buy on the stock with a changed PT of Rs. 25,243.

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sanofi India *	5,354	2.3	12,330	23.2	21.3	19.7	13.6	12.2	11.0	27.5	26.6	25.8
Abbott India	20,741	2.1	44,073	44.1	39.2	34.5	29.1	25.6	22.3	31.3	30.4	29.3

*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 shareholders

Sr. No.	Holder Name	Holding (%)
1	Canara Robeco AMC	1.49
2	SBI Arbitrage Opportunities Fund	1.07

Source: BSE

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. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@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 – 400 028, 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.