Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Abbott India Ltd

Weak Q4; double-digit earnings growth to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA

Reco/View: Buy	↔	CMP: **Rs. 20,264**	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		↓	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 24.8

Updated Apr 13, 2023

Medium Risk

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

Source: Morningstar

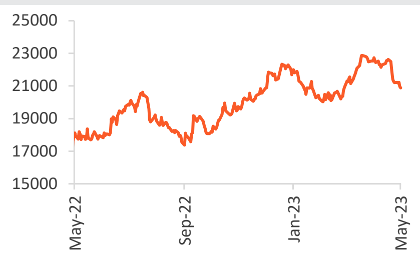
Company details

Market cap:	Rs. 44,407 cr
52-week high/low:	Rs. 23,140/17,325
NSE volume: (No of shares)	17,558
BSE code:	500488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.2
DII	8.6
Others	16.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	3.4	6.9	15.3
Relative to Sensex	-11.7	2.2	6.8	-1.7

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited (Abbott) reported weaker-than-anticipated net income in Q4FY2023.
- Gross margin declined ~273.0 bps y-o-y to ~43.4% and EBITDA margin declined ~256 bps y-o-y to ~20.9% in Q4FY2023. PAT grew at a slower pace of ~9.5% y-o-y to Rs. 231.4 crore though, which was lower than the internal estimate of ~Rs. 275 crore.
- We believe Abbott's strong market leadership in its key therapy product categories such as gastro and gynecology continue to be the key positives.
- We maintain Buy with an unchanged PT of Rs. 25,243. The stock currently trades at 41.4x/35.6x its FY2024E/FY2025E EPS.

Abbott India witnessed revenue growth at ~7% to Rs. 1,343.1 crore in Q4FY2023 (vs. average ~8.8% growth seen in each of the quarters of FY2023, on an annual basis). This was the second consecutive quarter of slower sales growth for Abbott India. Gross margin contracted by ~273 bps y-o-y and ~44 bps q-o-q to ~43.4% due to higher raw-material costs. At the same time, the EBITDA margin contracted by ~256 bps y-o-y to ~20.9%, and it was far below our expectations of ~25.8% margins for the quarter. EBITDA margin contraction can be attributed to an unfavorable product mix, increased raw-materials cost, and higher other operating expenses (~13.1% of sales in Q4FY2023 vs. ~11.9% in Q4FY2022), while employee costs reduced (~9.4% of sales in Q4FY2023 vs. ~10.8% of sales in Q4FY2022). Hence, operating profit or EBITDA declined by ~4.7% y-o-y to Rs. 280.1 crore, which was far below the internal estimate of ~Rs. 354 crore. Higher other income (up ~135.8% y-o-y) and lower interest expense (down ~22% y-o-y) led to ~9.5% y-o-y growth in PAT to Rs. 231.4 crore. PAT came in below our expectation of ~Rs. 275 crore.

Key positives

- Employee expenses were lower y-o-y, as a percentage of revenue.
- The company has declared a special dividend of Rs. 145 and final dividend of Rs. 180 for FY2023, indicating a dividend yield of ~1.6%.

Key negatives

- Gross margin contracted by ~273 bps y-o-y to ~43.4% due to higher raw-material cost.
- EBITDA margin contracted by ~256 bps y-o-y to ~20.9% and was below the internal estimate of ~25.8%.

Revision in estimates: We expect revenue to post a ~12.5% CAGR and earnings to grow at a ~14.6% CAGR over FY23-FY25E.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 25,243: The last two quarters have been slower in terms of revenue growth for Abbott India, on an annual basis. Moreover, raw-material costs have been rising. In addition, other operating costs, which were declining before, have increased at a sharp rate in Q4FY2023. Employee costs continue to decline though. We believe this trend indicates likely pressure on the profitability over the short-medium term. Hence, we have cut our EPS estimates for Abbott India by ~5% for FY2024E and by ~2.3% for FY2025E. Nevertheless, given the strong market leadership it has in its key therapy product categories such as gastro and gynaecology with it showing industry outperforming growth rates, we estimate Abbott's revenue to report ~12.5% and earnings to post ~14.6% CAGR over FY2023-FY2025E. At the CMP, the stock trades at ~41.4x/35.6x its FY2024E/FY2025E EPS, respectively. Healthy growth prospects besides a strong and debt-free balance sheet and strong dividend pay-out continue to be the key positives. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 25,243.

Key Risks

Impact of substitution from cheaper priced generic Aushadi or trade generics can impact overall profitability.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net sales	4310.2	4919.3	5348.7	6020.5	6773.1
Operating profit	921.6	1087.7	1205.6	1360.6	1591.7
OPM (%)	21.4	22.1	22.5	22.6	23.5
PAT	690.8	798.7	949.4	1073.5	1247.3
EPS (Rs)	325.1	375.9	446.8	505.2	587.0
PER (x)	64.3	55.6	46.8	41.4	35.6
EV/EBITDA (x)	42.0	35.9	31.3	27.8	23.9
ROCE (%)	33.2	35.9	37.6	38.9	41.2
RONW (%)	26.5	28.3	29.8	30.8	32.6

Source: Company; Sharekhan estimates

Weak Q4 – Profitability fares below estimates

Revenue grew at a slower pace of ~7% to Rs. 1,343.1 crore in Q4FY2023 (vs. average ~8.8% growth seen in each of the quarters of FY2023 on an annual basis). This was the second consecutive quarter of slower sales growth for Abbott India. Gross margin contracted by ~273 bps y-o-y and ~44 bps q-o-q to ~43.4% due to higher raw-material costs. At the same time, EBITDA margin contracted by ~256 bps y-o-y to ~20.9% and it was far below the expectations of ~25.8% margins, anticipated before. EBITDA margin contraction could be attributable to an unfavorable product mix, increased raw-materials cost, and higher other expenses (~13.1% of sales in Q4FY2023 vs. ~11.9% in Q4FY2022), while employee costs have reduced (~9.4% of sales in Q4FY2023 vs. ~10.8% of sales in Q4FY2022). Operating profit or EBITDA, hence, declined by ~4.7% y-o-y to Rs. 280.1 crore, which was far below the internal estimate of Rs. 354 crore and consensus estimate of Rs. 310 crore. Higher other income (up ~135.8% y-o-y) and lower interest expense (down ~22.0% y-o-y) led to growth of ~9.5% y-o-y in PAT to Rs. 231.4 crore. PAT came in below our expectation of ~Rs. 275 crore.

Results Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net revenue	1343.1	1255.0	7.0	1326.5	1.3
Total operating expenditure	1063.0	961.2	10.6	1010.0	5.2
EBITDA	280.1	293.8	(4.7)	316.5	(11.5)
Depreciation	17.3	17.4	(0.5)	17.8	(2.6)
EBIT	262.8	276.4	(4.9)	298.7	(12.0)
Other Income	49.6	21.1	135.8	39.9	24.3
Interest	4.0	5.1	(22.0)	3.8	5.8
PBT	308.4	292.3	5.5	334.8	(7.9)
Tax Expense	77.0	80.9	(4.8)	88.0	(12.5)
Adj. PAT	231.4	211.4	9.5	246.8	(6.2)
Exceptional item	0.0	0.0	-	0.0	-
Net PAT	231.4	211.4	9.5	246.8	(6.2)
Margin			**BPS**		**BPS**
EBITDA (%)	20.9	23.4	-256	23.9	-300
PAT Margin (%)	17.2	16.8	39	18.6	-138
NPATM	17.2	16.8	39	18.6	-138
Tax rate (%)	25.0	27.7	-271	26.3	-132

Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector view - Regulatory concerns and pricing erosion prove a hurdle over the short-medium term**

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. However, ongoing USFDA plant inspections and a few companies being issued Form 483 with observations point at apparent regulatory concerns. We believe in the near term, based on the headwinds that may drag the performance, especially in the API and CDMO space and for large pharma players seeing USFDA OAI or WL status on their facilities, we have a Neutral view of the sector.

■ **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 gradual expansion in tier-II and III cities coupled with a sturdy new product pipeline would drive topline 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 reduced 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 an unchanged PT of Rs. 25,243**

The last two quarters have been slower in terms of revenue growth for Abbott India, on an annual basis. Moreover, raw-material costs have been rising. In addition, other operating costs, which were declining before, have increased at a sharp rate in Q4FY2023. Employee costs continue to decline though. We believe this trend indicates likely pressure on the profitability over the short-medium term. Hence, we have cut our EPS estimates for Abbott India by ~5% for FY2024E and by ~2.3% for FY2025E. Nevertheless, given the strong market leadership it has in its key therapy product categories such as gastro and gynaecology with it showing industry outperforming growth rates, we estimate Abbott's revenue to report ~12.5% and earnings to post ~14.6% CAGR over FY2023-FY2025E. At the CMP, the stock trades at ~41.4x/35.6x its FY2024E/FY2025E EPS, respectively. Healthy growth prospects besides a strong and debt-free balance sheet and strong dividend pay-out continue to be the key positives. We maintain our Buy rating on the stock with an unchanged PT of Rs. 25,243.

Peer Comparison

Companies	CMP (Rs / Share)	O/S Shares (Crs)	MCAP (Rs Cr)	P/E (x)			EV / EBITDA (x)			RoE (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sanofi India *	6,300	2.3	14,510	29.7	24.7	22.9	17.4	16.0	14.4	48.6	43.3	41.6
Abbott India	20,898	2.1	44,408	46.8	41.4	35.6	31.3	27.8	23.9	29.8	30.8	32.6

*Source: Company; Sharekhan Research; * Nos for CY23E/CY24E/CY25E*

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 U.S. 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

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

DISCLAIMER

This information/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 information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/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 information/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 recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 might have dealt or traded directly or indirectly in securities of the company and that all 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 and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might 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. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has 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 Ltd 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.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/ investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600