

10 August 2023

India | Equity research | Q1FY24 result review

Abbott India

Pharma

Growth pace accelerating

Abbott India (Abbott) continues to fare better than its MNC peers who are struggling for growth in line with the market rate for last couple of quarters. In Q1FY24, Abbott grew 13.4% ahead of the market growth of 9% despite mandated price cut on NLEM products (26% of core portfolio sales). Company continues to surprise us on the margin front. Tight control on overhead costs fuelled a 330bps expansion in EBITDA margin and price hike on key products will likely further sweeten the margin profile Q2FY24E onwards. We remain positive on the company given its exposure exclusively in the domestic formulations space and strong balance sheet. We raise our EPS estimates for FY24E/FY25E by 3%/5% respectively. Maintain **BUY** with a revised target price of INR 28,300, based on 44x FY25E EPS.

Healthy revenue traction; curtailed costs boost margins

Revenue grew 13.4% YoY (+10.1% QoQ) to INR 14.8bn (I-Sec: INR 14.6bn) led by traction in key brands. Gross margin declined 70bps YoY (+90bps YoY) to 44.3% with product mix change and NLEM price cuts. Employee spend was down 1.7% YoY (up 18% QoQ) to INR 1.5bn. SG&A spend declined 7.9% YoY (-14.3% QoQ) to INR 1.5bn likely on account of curtailed advertising and marketing costs. Consequently, EBITDA margin expanded by 330bps YoY (+310bps QoQ) to 24% (I-Sec: 21.3%). Other income surged 112% YoY to INR 560mn. Adjusted PAT rose 41.1% YoY (+25.4% QoQ) to INR 2.9bn.

Key growth drivers as per IQVIA

Based on IQVIA data, Abbott revenue growth during the quarter was likely driven by anti-diabetic, hormone and gastro-intestinal therapies. Key brands like Thyronorm, Udiliv and Ryzodeg recorded healthy growth at 15.7%, 13.1% and 29.1% YoY respectively, during the quarter. Novomix and Duphaston declined 10.3% and 7.4% respectively.

Outlook

We expect revenue and PAT CAGRs of 13.7% and 19.7% over FY23-FY25E. We believe improved product mix and easing raw material prices should support 260bps EBITDA margin expansion in the near-to-medium term and reach ~25% by FY25E. Limited capex requirement would help generate healthy FCF of ~INR 33.5bn over FY23-FY25E, which could be used to reward shareholders with high dividends or M&As.

Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	48,490	52,723	60,112	68,299
EBITDA	10,877	12,056	14,392	17,363
EBITDA Margin (%)	22.1	22.5	23.6	25.1
Net Profit	7,987	9,494	11,360	13,610
EPS (Rs)	375.9	446.8	534.6	640.5
EPS % Chg YoY	15.6	18.9	19.7	19.8
P/E (x)	63.2	53.2	44.4	37.1
EV/EBITDA (x)	43.9	40.3	32.3	26.3
RoCE (%)	37.7	40.5	41.2	40.0
RoE (%)	29.5	31.6	31.9	30.7

Abdulkader Puranwala

abdulkader.puranwala@icicisecurities.com
+91 22 6807 7339

Rohan John

rohan.john@icicisecurities.com

Market Data

Market Cap (INR)	505bn
Market Cap (USD)	6,092mn
Bloomberg Code	BOOT IN
Reuters Code	ABOT.BO
52-week Range (INR)	24,682 / 17,218
Free Float (%)	25.0
ADTV-3M (mn) (USD)	3.3

Price Performance (%)	3m	6m	12m
Absolute	9.8	15.5	18.6
Relative to Sensex	7.8	9.6	13.6

ESG Disclosure	2021	2022	Change
ESG score	47.6	44.1	(3.6)
Environment	26.7	22.8	(3.9)
Social	31.1	24.4	(6.7)
Governance	84.9	84.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	0.7	0.8
EBITDA	2.0	5.1
EPS	2.5	5.4

Previous Reports

22-05-2023: [Q4FY23 results review](#)

15-05-2023: [Re-initiating coverage](#)

Valuations and risks

We raise our EBITDA estimates by ~2-5% for FY23-FY25E to factor-in the controlled overhead costs. The stock currently trades at valuations of 44.4x FY24E and 37.1x FY25E earnings and EV/EBITDA multiple of 32.3x FY23E and 26.3x FY25E. We remain positive on its long-term outlook considering the company's strong growth trajectory, established brand franchise, healthy return profile and rich cash reserves of ~INR 19.4bn. We maintain **BUY** with a revised target price of INR 28,300/share based on 44x FY25E EPS (earlier: INR 26,800/share, based on 44x FY25E EPS). Key downside risks: Addition of key drugs in NLEM list and government intervention.

Exhibit 1: Q1FY24 review

Y/E Mar (INR mn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ (%)	FY23E	FY22	YoY(%)
Net Sales	14,790	13,044	13.4	13,431	10.1	53,487	49,193	8.7
EBITDA	3,550	2,704	31.3	2,801	26.7	12,056	10,877	10.8
EBITDA Margins (%)	24.0	20.7	327%	20.9	315%	22.1	22.1	
Other Income	560	264	112.4	496	(77.3)	1,542	772	99.7
Interest	33	42	(20.9)	40	(16.7)	160	191	
Depreciation	172	174	(1.0)	173	(1.0)	700	661	5.9
PBT	3,905	2,752	41.9	3,084	26.6	10,797	10,797	-
Tax	1,003	696	44.1	770	30.2	3,210	2,810	14.2
Tax Rate (%)	25.7	25.3		25.0		26.0	26.0	
PAT	2,902	2,056	41.1	2,314	25.4	7,987	7,987	-
EO income	-	-		-		-	-	
Net Income	2,902	2,056	41.1	2,314	25.4	7,987	7,987	-
NPM (%)	19.6	15.8		17.2		16.2	16.2	

Source: Company data, I-Sec research

Exhibit 2: Brand-wise performance

Brands	Therapy	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
Mixtard	Anti Diabetic	2,202	2,244	1.9	2,150	4.4	8,394	8,733	4.0
Thyronorm	Hormones	1,366	1,581	15.7	1,436	10.1	4,633	5,647	21.9
Udiliv	Gastro Intestinal	1,098	1,242	13.1	1,130	9.9	3,860	4,611	19.4
Ryzodeg	Anti Diabetic	1,031	1,332	29.1	1,248	6.7	3,177	4,446	39.9
Novomix	Anti Diabetic	1,168	1,048	-10.3	1,030	1.7	4,507	4,459	-1.1
Duphaston	Gynaecological	1,080	1,000	-7.4	920	8.8	3,304	3,783	14.5
Duphalac	Gastro Intestinal	684	753	10.2	689	9.4	2,295	2,895	26.1
Vertin	Neuro / CNS	665	751	12.9	717	4.6	2,564	2,784	8.6
Novo Rapid	Anti Diabetic	621	667	7.4	603	10.5	2,357	2,457	4.2
Cremaffin Plus	Gastro Intestinal	524	641	22.4	619	3.6	2,080	2,334	12.2

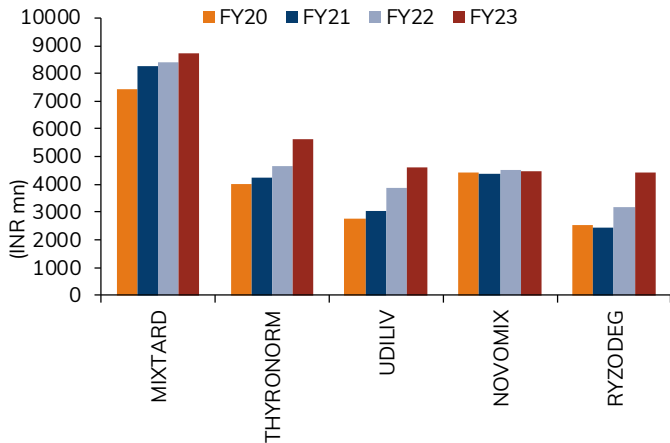
Source: IQVIA, I-Sec research

Exhibit 3: Therapy-wise performance

SUPERGROUP	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)	FY22	FY23	YoY (%)
Anti Diabetic	7,256	8,156	12.4	7,635	6.8	26,636	29,576	11.0
Gastro Intestinal	4,590	4,850	5.7	4,324	12.2	16,031	18,052	12.6
Neuro / CNS	2,290	2,409	5.2	2,336	3.1	8,695	9,418	8.3
Hormones	1,961	2,208	12.6	2,020	9.3	6,506	8,053	23.8
Gynaec.	1,484	1,425	-4.0	1,308	8.9	4,674	5,381	15.1

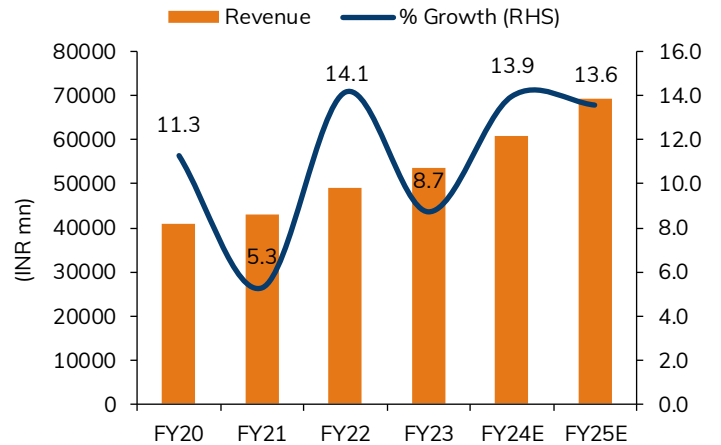
Source: IQVIA, I-Sec research

Exhibit 4: Growth in top 5 brands



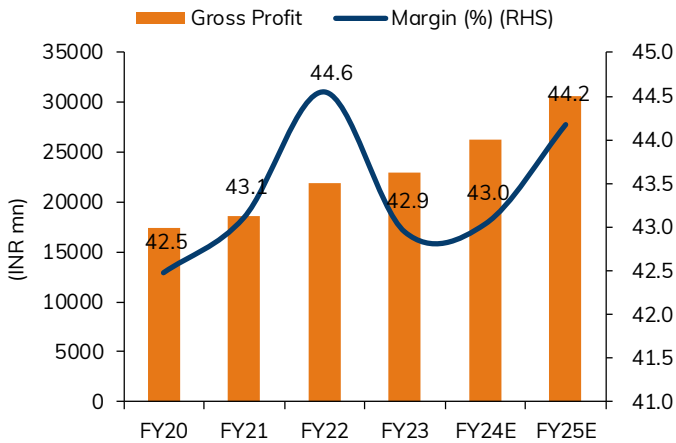
Source: Company data, I-Sec research

Exhibit 5: Expect revenue CAGR of 13.7% over FY23-FY25E



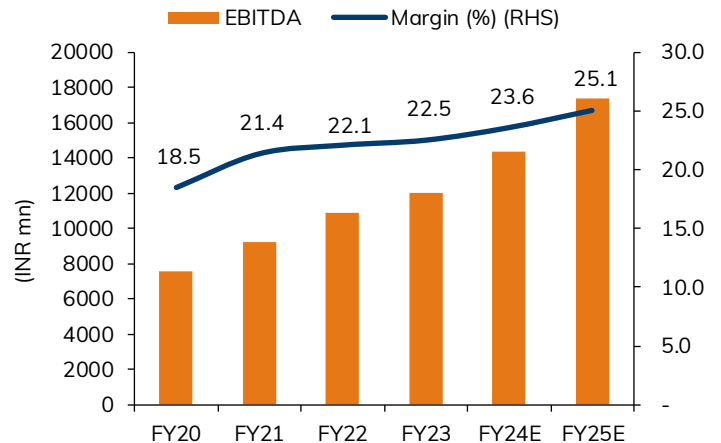
Source: Company data, I-Sec research

Exhibit 6: Gross margin likely to see steady increase with improving product mix



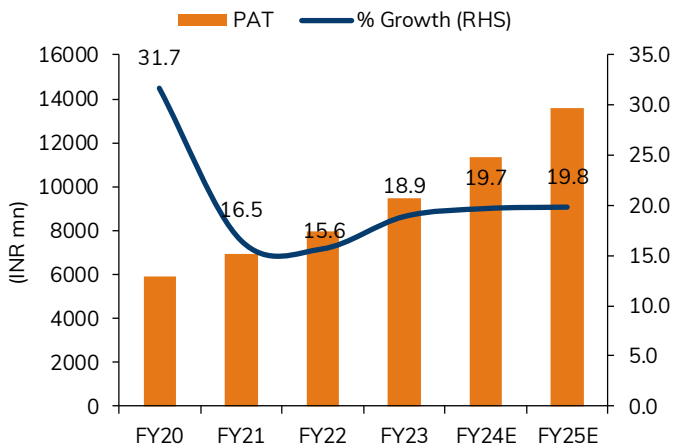
Source: Company data, I-Sec research

Exhibit 7: Expect margins to expand by 260bps to ~25% by FY25E with better product mix and controlled costs



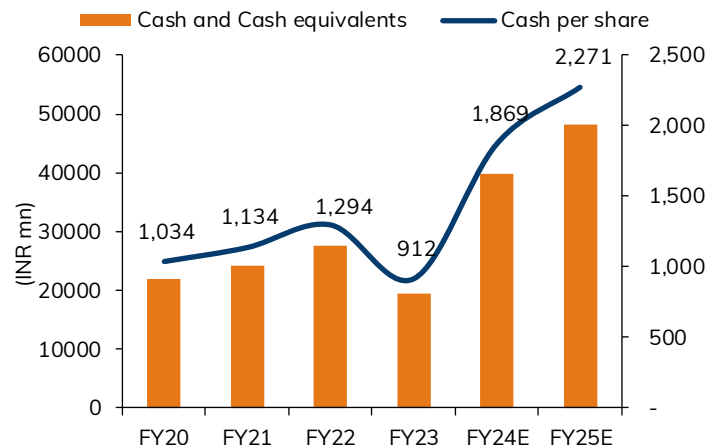
Source: Company data, I-Sec research

Exhibit 8: Net profit to grow 19.7% over FY23-FY25E



Source: Company data, I-Sec research

Exhibit 9: Healthy cash generation over the years



Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	75.0	75.0	75.0
Institutional investors	8.6	8.8	9.0
MFs and others	6.4	6.9	7.3
FIs/Banks	0.0	0.0	0.0
Insurance	1.8	1.6	1.4
FIIIs	0.4	0.3	0.3
Others	16.4	16.2	16.0

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	48,490	52,723	60,112	68,299
Operating Expenses	38,316	41,432	46,552	51,842
EBITDA	10,877	12,056	14,392	17,363
EBITDA Margin (%)	22.1	22.5	23.6	25.1
Depreciation & Amortization	661	700	669	732
EBIT	10,216	11,356	13,723	16,631
Interest expenditure	191	160	160	160
Other Non-operating Income	772	1,542	1,624	1,724
Recurring PBT	10,797	12,738	15,187	18,195
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	2,810	3,244	3,827	4,585
PAT	7,987	9,494	11,360	13,610
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	7,987	9,494	11,360	13,610
Net Income (Adjusted)	7,987	9,494	11,360	13,610

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	38,884	30,744	54,808	64,974
of which cash & cash eqv.	27,492	19,371	39,722	48,257
Total Current Liabilities & Provisions	12,032	12,060	16,588	16,644
Net Current Assets	26,852	18,684	38,220	48,331
Investments	-	-	-	-
Net Fixed Assets	2,717	2,406	2,120	1,770
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	39	16	49	54
Deferred Tax assests	170	169	169	169
Total Assets	30,209	33,495	41,020	50,805
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	924	935	924	924
other Liabilities	1,087	675	675	675
Equity Share Capital	212	212	212	212
Reserves & Surplus	27,985	31,673	39,208	48,993
Total Net Worth	28,198	31,885	39,421	49,206
Minority Interest	-	-	-	-
Total Liabilities	30,209	33,495	41,020	50,805

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	9,527	(3,359)	23,095	11,177
Working Capital Changes	(1,420)	12,120	(12,531)	1,600
Capital Commitments	864	389	383	383
Free Cashflow	8,663	(3,747)	22,712	10,795
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(864)	(389)	(383)	(383)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(5,844)	(6,906)	(3,825)	(3,825)
Others	159	(637)	1,464	1,564
Cash flow from Financing Activities	(5,685)	(7,543)	(2,361)	(2,261)
Chg. in Cash & Bank balance	2,979	(11,291)	20,352	8,534
Closing cash & balance	27,069	16,202	39,722	48,257

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	375.9	446.8	534.6	640.5
Adjusted EPS (Diluted)	375.9	446.8	534.6	640.5
Cash EPS	407.0	479.7	566.1	674.9
Dividend per share (DPS)	275.0	325.0	180.0	180.0
Book Value per share (BV)	1,327.0	1,500.5	1,855.1	2,315.6
Dividend Payout (%)	73.2	72.7	33.7	28.1
Growth (%)				
Net Sales	14.1	8.7	14.0	13.6
EBITDA	18.0	10.8	19.4	20.6
EPS (INR)	15.6	18.9	19.7	19.8
Valuation Ratios (x)				
P/E	63.2	53.2	44.4	37.1
P/CEPS	58.4	49.5	42.0	35.2
P/BV	17.9	15.8	12.8	10.3
EV / EBITDA	43.9	40.3	32.3	26.3
P / Sales	10.4	9.6	8.4	7.4
Operating Ratios				
Gross Profit Margins (%)	46.0	44.4	44.4	45.5
EBITDA Margins (%)	22.1	22.5	23.6	25.1
Effective Tax Rate (%)	26.0	25.5	25.2	25.2
Net Profit Margins (%)	16.2	17.7	18.6	19.7
Net Debt / Equity (x)	(1.0)	(0.6)	(1.0)	(1.0)
Net Debt / EBITDA (x)	(2.5)	(1.6)	(2.8)	(2.8)
Profitability Ratios				
RoCE (%)	37.7	40.5	41.2	40.0
RoE (%)	29.5	31.6	31.9	30.7
RoIC (%)	219.9	326.9	153.2	199.0
Fixed Asset Turnover (x)	18.8	20.9	26.9	35.6
Inventory Turnover Days	54	46	60	58
Receivables Days	23	23	23	23
Payables Days	70	63	86	75

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Abdulkader Puranwala, MBA; Rohan John, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report.

Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This 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 ICICI Securities 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.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
