Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Annual Report Review

Abbott India Ltd

Double-digit growth to sustain

Pharmaceuticals	Sharekhan code: ABBOTINDIA		
Reco/View: Buy ↔	CMP: Rs.18,435	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 Feb 08, 2022

High Risk

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

Source: Morningstar

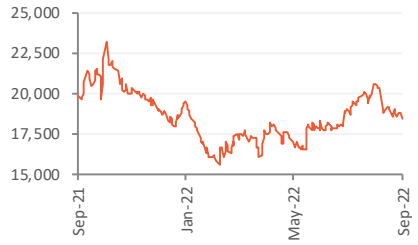
Company details

Market cap:	Rs. 39,225 cr
52-week high/low:	Rs. 23,902/15,525
NSE volume: (No of shares)	19,000
BSE code:	5,00,488
NSE code:	ABBOTINDIA
Free float: (No of shares)	0.5 cr

Shareholding (%)

Promoters	75.0
FII	0.2
DII	6.7
Others	18.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.1	0.5	6.1	-6.9
Relative to Sensex	-11.2	-4.8	0.0	-8.5

Sharekhan Research, Bloomberg

Summary

- Abbott India Limited's (Abbott) annual report for FY2022 mentions of performance reflecting the impact of pandemic pointing towards uncertain times.
- The company reported double-digit revenue as well as strong earnings growth during these challenging times backed by agile business model leading to minimal disruptions.
- Abbott identified critical areas to strengthen business model and foster customer relations, which involved leveraging digital platforms to improve access, expand portfolio depth and tapping different engagement channels.
- Healthy growth prospects, a strong, debt-free balance sheet, and strong dividend payout are key positives. Based on this, we retain Buy on the stock with an unchanged PT of Rs. 22,780.

Abbott India Limited's (Abbott) annual report for FY2022 mentions of performance reflecting the impact of pandemic pointing towards uncertain times. The company during these challenging times has reported a double digit revenue as well as earning growth and the agility of evolving business model ensured that the company could tackle the dynamic environment with minimal disruptions. Abbott identified critical areas to strengthen business model and foster customer relations, which involved leveraging digital platforms to improve access, expand portfolio depth and tapping different engagement channels. The commentary mentioned of consistent portfolio expansion with the company launching around 10 new products in the FY2022, which is backed by a strategy of having a presence in key therapeutic areas across the industry. During FY2022 Abbott focused to increase the penetration in rural areas and looks to further increase penetration in these areas.

IPM to report close to double-digit growth for 2022: Management sees IPM to grow inn high single digit of 9.5%. Growth is expected to be driven by improved access to healthcare, increase awareness and diagnosis of non-communicable diseases, new product launches, and expansion of the hospital infrastructure. In addition, new co-marketing agreements and expansion of pharmacy chains/online models would drive IPM's growth. Price hikes would add to IPM's growth. Further, likely sustained traction in acute therapies bodes well for Abbott from a growth perspective.

Abbott identifies critical areas to strengthen its business model and foster customer relations: Backed by management's determination to achieve market beating growth and continue market share gains, Abbott has identified critical areas for focus, which provide opportunities to improvise its business model and fortify customer relations. Some of the key areas include increasing portfolio depth/expansion of the product portfolio, tapping different channels, and leveraging digital channels to improve access. Collectively, based on the above, the company aims to strengthen its business model, foster customer relations, and add to its growth.

Presence across therapy areas with a leadership position bodes well: Abbott's key brands include Duphaston, Thyronorm, Duphalac, and Udiliv. The company has outperformed the market and maintained its leadership in these brands. Further, in the past three years, over 52 products were launched, including line extensions. The company has a sturdy product pipeline, which would unfold gradually going ahead. Abbott expects to launch ~100 new products by FY2024-FY2025. Collectively, sustained growth and leadership from existing brands, product portfolio expansion, efforts to improve the reach, and penetration would be the key growth drivers for Abbott.

Our Call

Valuation: Double-digit growth on the cards; Retain Buy: In its annual report, Abbott has mentioned about double-digit growth in FY22 despite challenges posed by the pandemic, backed by an evolving business model, which led to minimal disruptions. Moreover, the company has identified critical focus areas, which would further strengthen its business model and foster customer relations, which could drive growth ahead. Abbott's revenue and earnings are expected to stage a strong 11% and 14% CAGR over FY2022-FY2024E. Close to double-digit growth in 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 strong performance of its top brands are key growth drivers for Abbott. At the CMP, the stock trades at 43.3x /37.6x its FY2023E/FY2024E, respectively. Healthy growth prospects, a strong, debt-free balance sheet, and strong dividend payout are key positives. Based on this, we retain Buy on the stock with an unchanged price target (PT) of Rs. 22,780.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY2021	FY2022	FY2023E	FY2024E
Net sales	4310.2	4919.3	5460.0	6060.6
Operating profit	921.6	1087.7	1228.5	1393.9
OPM (%)	21.4	22.1	22.5	23.0
PAT	690.8	798.7	905.6	1040.9
EPS (Rs.)	325.1	375.9	426.2	489.8
PER (x)	56.7	49.0	43.3	37.6
EV/EBITDA (x)	36.8	31.4	27.9	24.3
ROCE (%)	33.2	35.9	36.8	37.1
RONW (%)	26.5	28.3	29.2	29.5

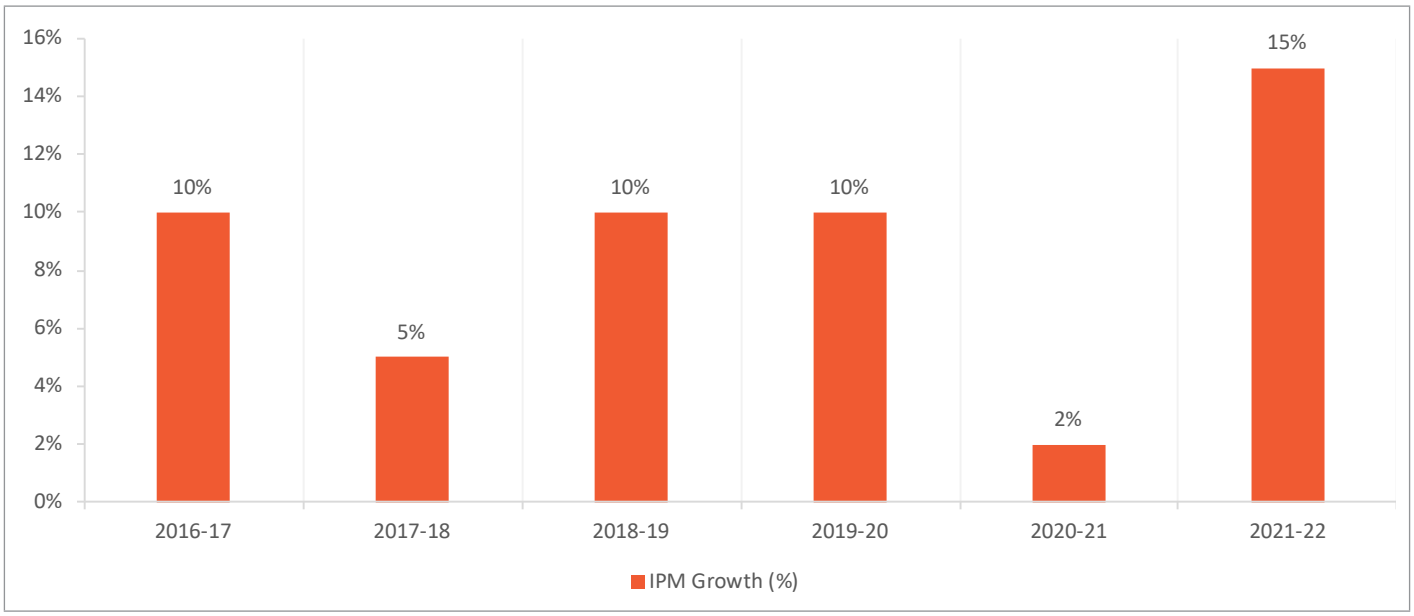
Source: Company; Sharekhan estimates

Key highlights from FY2022 Annual Report

Abbott India Limited's (Abbott) annual report for FY2022 mentions about the company's performance during the uncertain times of Covid-19. The company reported double-digit revenue as well as strong earnings growth during these challenging times. Moreover, the agility of its evolving business model ensured that the company could tackle the dynamic environment with minimal disruptions. Abbott identified critical areas to strengthen its business model and foster customer relations, which involved areas such as leveraging digital platforms to improve access, expand portfolio depth, and tapping different engagement channels. The commentary mentioned about consistent portfolio expansion with the company launching around 10 new products in FY2022, backed by a strategy of being present in key therapeutic areas across the industry. Moreover, management mentions about leveraging actionable insights through meaningful engagement with doctors delivering value-driven, science-based content to end-users. During FY2022, Abbott focused on increasing its penetration in rural areas and plans to keep improving penetration levels with an objective to improve access to its medicines to the population at large.

IPM growth likely to be close to double-digits for 2022: Abbott is an India-focused pharmaceutical company. Hence, growth is reflective of IPM growth. After 15.5% y-o-y growth for FY2022 and 9% y-o-y growth adjusting for high base months of April and May 2021, IPM growth during Q1FY2023 slowed down to 2% y-o-y; and for June 2022, growth bounced back in double digits to 13.2%, which is encouraging. Going ahead, management sees IPM to grow in high single digit of 9.5%. Growth is expected to be driven by improved access to healthcare, increased awareness, diagnosis of non-communicable diseases, new product launches, and an expansion of hospital infrastructure. In addition, new co-marketing agreements and expansion of pharmacy chains/online models would also drive IPM's growth. Industry reports point out that pricing growth and the share of products are expected to sustain and would be well supported by volume growth. Moreover, OPD consultations are increasing and elective surgeries are expected to increase, which would lead to higher prescriptions for acute therapies, which bodes well for companies such as Abbott. Overall, industry reports indicate that IPM is expected to report close to double-digit/high single-digit growth in CY2022 as well. Further, likely sustained traction in acute therapies bodes well for Abbott from a growth perspective.

IPM Growth Trends



Source: Company; Sharekhan Research

Abbott identifies critical areas to strengthen business model and foster customer relations: Management expects the industry's growth to be around 9.5% for CY2022. Growth is likely to be driven by growth in non-Covid 19 therapies. In 2022, management is striving for market beating growth to continue gaining market share. Abbott has identified a few critical areas, which provide opportunities to improvise the business model and, in the process, fortify customer relations.

Therapy shaping to accelerate pillar brands: Abbott aims to gain therapy leadership and grow faster than the market through an approach focused on accelerating existing pillar brands as compared to innovative marketing campaigns and partnerships. Brand strategies are a result of a detailed analysis of market trends across therapies coupled with Abbott's capabilities.

Leveraging digital platform to improve access: Abbott has always strived to deliver a holistic healthcare experience for patients, intervening at each stage. Patient engagement by providing them with adequate information, counselling, and compliance support will enable higher awareness, therapy adoption, and adherence. Abbott has initiated several support programmes such as "Tender Love & Care" – based on this, the company provides virtual counselling and curated lifestyle management support for couples undergoing pregnancy and "Gutfit" – which is a counselling and nutrition advice programme. So, to maximise the reach of these support programmes, the company has launched "A-Care" – a patient-facing mobile application – and plans to set up a centralised management team to drive all patient service programmes. Thrust on leveraging the digital platform could increase patient reach and penetration.

Expand Portfolio depth: In a bid to ensure/strengthen its presence in strategic therapeutic areas and benefit from the loss of exclusivity of competition brands, the company has built a robust pipeline of new products, planned new launches, and is building new launches in pillar brands. Abbott is present across various therapeutic areas such as Women's Health, Gastroenterology, Central Nervous System, Metabolics, Multi-Specialty, Vaccines, and Consumer Health. In the woman health segment, the company has launched three new products in FY2022 – Riligol, Preservgest, and Femoston 2/10. In the gastroenterology space, Abbott plans to focus on identifying need gaps in core therapy areas to maintain therapy leadership and launch new products to augment portfolio offerings. In FY2022, the company launched Florchamp in the gastro space. In the metabolics segment, Abbott's Thyronorm has been the market leader and the company has been able to sustain its market leadership position in the segment. In the central nervous system (CNS) space, strengthening key therapies, such as epilepsy with new-generation drug launches such as Brivetoin, form a part of the long-term growth strategy.

Tapping different channels to improve the performance: Abbott plans to focus on building its business across traditional retail and institutional chains. Moreover, emerging organized retail channel of pharmacy chains and e-pharmacies provide a good growth avenue, given the increasing reach of pharmacy chains. Building strong relationships with pharmacists, building partnerships with players in emerging channels, and further strengthening in-house channel management capabilities will be important focus areas going ahead.

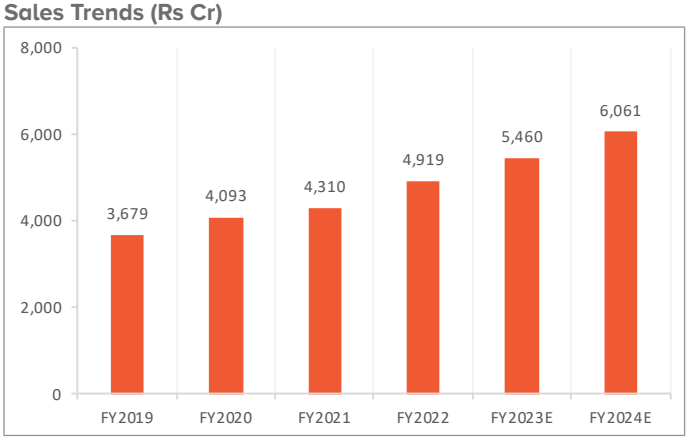
Presence across therapy areas with a leadership position bodes well: Abbott's key brands include Duphaston, Thyronorm, Duphalac, and Udiliv. The company has outperformed the market and maintained its leadership in these brands. In Duphaston, the company has a substantially large market share (in excess of ~70% and is among the top players). Despite some competition, the brand has been able to sustain its leadership position, which points at a strong competitive position. Further, Abbott is focussed on addressing the competition and, hence, acceptance for the brand has improved. Further, within gastro-intestinal, Abbott

has a strong presence through its brands – Cremaffin Plus, Udiliv, and Duffalac, which have been growing strongly and have facilitated market share gains in their respective categories. In the metabolic space, Abbott's Thyronorm holds a substantially large market share, which is likely to sustain, given the steps taken to enhance its digital footprint. Further, in the past three years, over 52 products were launched, including line extensions. The company has a sturdy product pipeline, which would unfold gradually going ahead. Abbott expects to launch ~100 new products by FY2024-FY2025. Gastro-intestinals, women's health, CNS, vaccines, and consumer health are the key segments wherein new launches are planned. Collectively, sustained growth and leadership from existing brands, product portfolio expansion, efforts to improve the reach, and penetration would be the key growth drivers for Abbott.

Leveraging digital platform to foster doctor connect: Pandemic-led FY2022 was a year full of challenges for companies as operations were hindered due to the lockdown and travel restrictions. Being a pharmaceutical company, Abbott's operations were going on but faced challenges. Consequently, the company leveraged its digital channel to address the same. Abbott developed an array of digital tools and implemented the same for its employees as well as for improving the field-force productivity. To better connect with patients so as to address their needs and enhance doctor engagement, the company has put in place a communication strategy and campaigns accordingly. Abbott has digitalised a substantial portion of its training content, which is a key plus point.

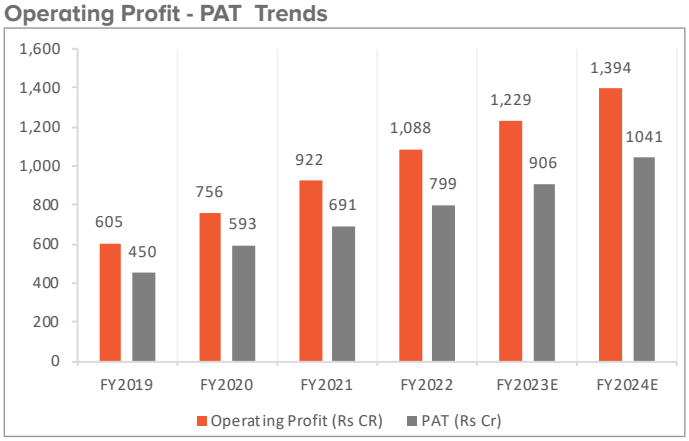
Financials in charts

Sales Trends (Rs Cr)



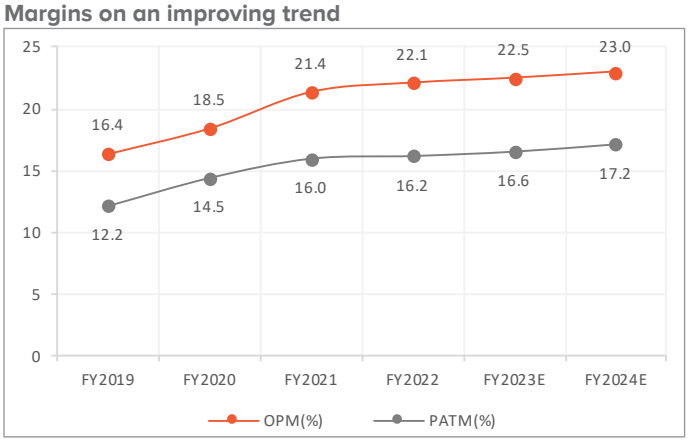
Source: Sharekhan Research

Operating Profit - PAT Trends



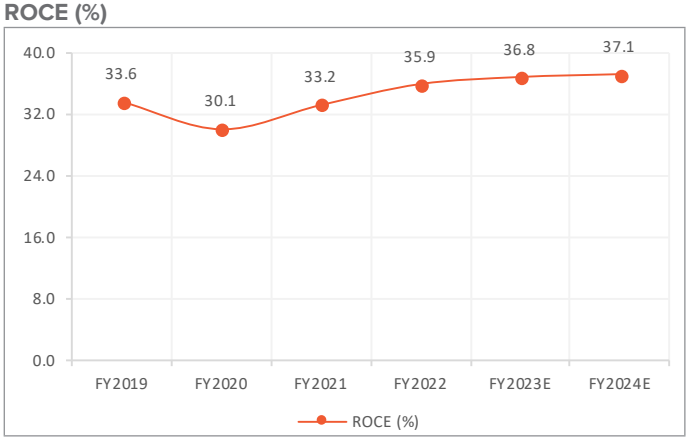
Source: Sharekhan Research

Margins on an improving trend



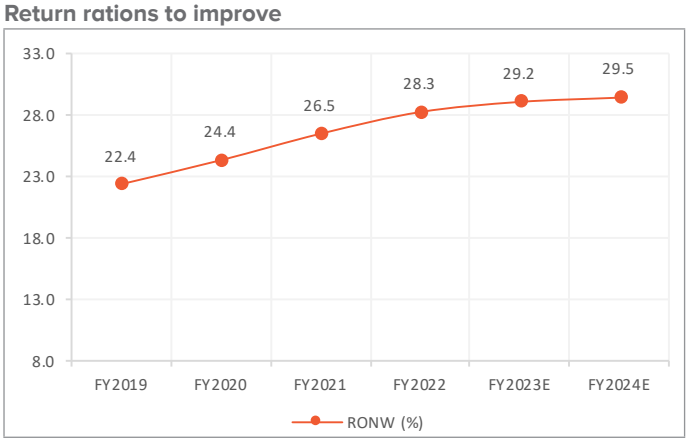
Source: Sharekhan Research

ROCE (%)



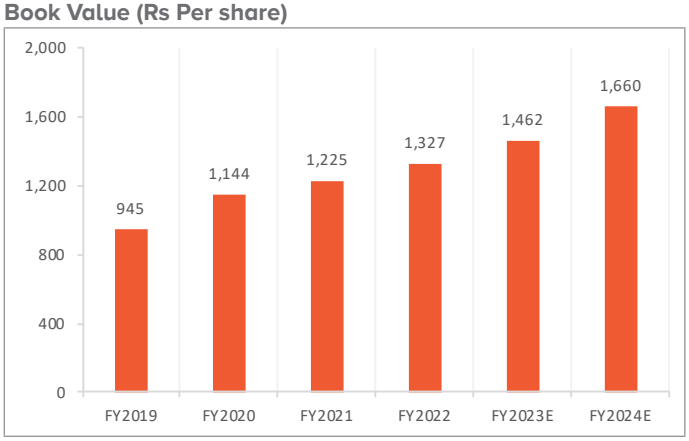
Source: Sharekhan Research

Return rations to improve



Source: Sharekhan Research

Book Value (Rs Per share)



Source: 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), 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.

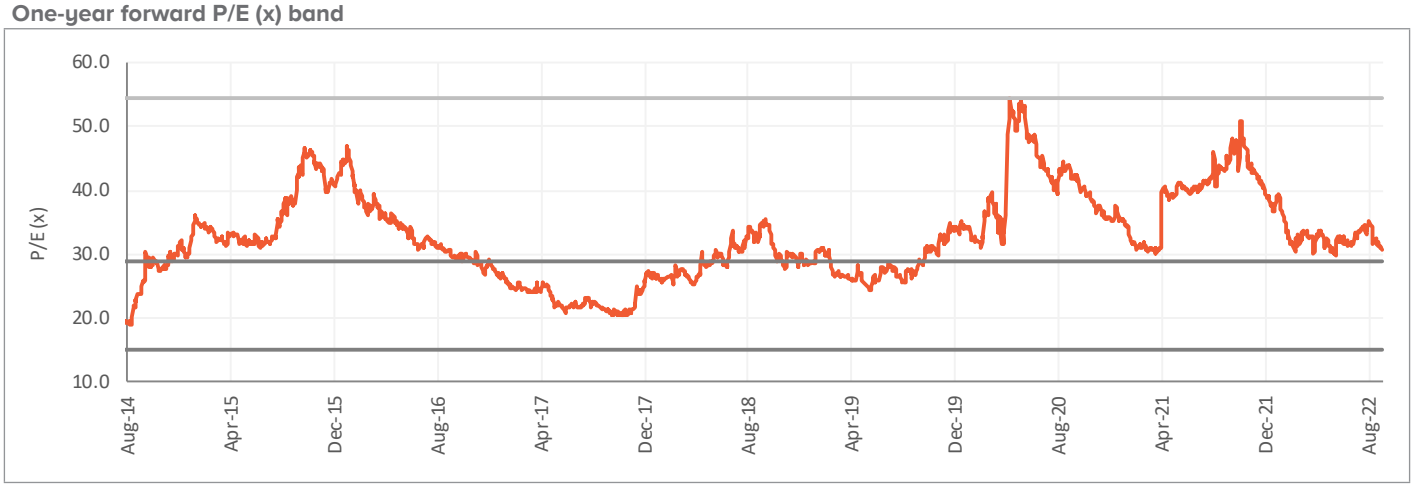
Company Outlook – Ample visibility on earnings growth

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-1 cities and gradually expanding to tier-II and -III cities coupled with a sturdy new product pipeline would drive top line growth. Moreover, after modest 2% growth in IPM as of FY2021, YTD April – July 2021 saw strong 32% growth, which is a significant improvement and the same is expected to improve further for FY2022. In addition to sustained pricing and new product growth, volumes are 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 14% PAT CAGR from FY2022 to FY2024. 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 the ongoing fiscal. Overall, by FY2024-FY2025, the company plans to launch around 100 new products.

Valuation – Double-digit growth on the cards; Retain Buy

In its annual report, Abbott has mentioned about double-digit growth in FY22 despite challenges posed by the pandemic, backed by an evolving business model, which led to minimal disruptions. Moreover, the company has identified critical focus areas, which would further strengthen its business model and foster customer relations, which could drive growth ahead. Abbott's revenue and earnings are expected to stage a strong 11% and 14% CAGR over FY2022-FY2024E. Close to double-digit growth in 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 strong performance of its top brands are key growth drivers for Abbott. At the CMP, the stock trades at 43.3x /37.6x its FY2023E/FY2024E, respectively. Healthy growth prospects, a strong, debt-free balance sheet, and strong dividend payout are key positives. Based on this, we retain Buy on the stock with an unchanged price target (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 *	6,125	2.3	14,106	24.8	24.4	21.4	14.5	14.7	12.6	42.5	29.7	29.7
Abbott India	18,435	2.1	39,629	49.0	43.3	37.6	31.4	27.9	24.3	28.3	29.2	29.5

*Source: Company, Sharekhan estimates; * Nos for CY21/CY22E/CY23E*

About company

Abbott 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 focusing 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	British Colloids	6.92
2	L&T Mutual Fund trustee	0.7
3	Goldman sachs Group Inc	0.7
4	Canara Robeco Asset Managemet Co Ltd	0.49
5	L&T Investment Management Ltd	0.43
6	Nippon India Asset Management	0.41
7	UTI Asset Management Co Ltd	0.4
8	SBI Fund Management Pvt Ltd	0.33
9	Axis Management Co Ltd	0.26
10	Motilal Oswal Asset Management Co Ltd	0.22

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

Sharekhan

by BNP PARIBAS

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