

## Power-brands continue to drive growth...

**About the stock:** Abbott India is one of the fastest growing listed MNC pharma companies. It has outperformed the industry on a consistent basis in women's health, GI, metabolic, pain, CNS among others.

- The company's top five brands - (Mixtard, Thyronorm, Novomix, Udiliv and Duphaston) together posted revenue CAGR of ~6.6% MAT, March 2019-22
- Abbott has 140+ brands in segments of women's health, gastroenterology, metabolics, CNS, multi-specialty, vaccines & consumer health

**Q1FY23 Results:** Abbott India's revenues were in line with our expectations while margins were marginally lower.

- Sales were up 7% YoY to ₹ 1304 crore
- EBITDA was at ₹ 270 crore, up 2% YoY with margins at 20.7%
- Consequent PAT was at ₹ 206 crore (up 5% YoY)

**What should investors do?** Abbott's share price has grown by ~2.2x over the past three years (from ~₹ 8434 in August 2019 to ~₹ 18762 levels in Aug 2022).

- Downgrade from BUY to **HOLD** as valuations at current level largely factor power brands growth momentum and growing traction for new brands

**Target Price and Valuation:** Valued at ₹ 21140 i.e. 40x FY24E EPS of ₹ 528.6.

### Key triggers for future price performance:

- Consistency in brand-driven growth driven by favourable market dynamics with doctor prescription stickiness and lower perceived risk factors
- NLEM price hike of ~10.8% for estimated NLEM portfolio exposure of ~21% for Abbott may have positive impact on price led growth
- Focus on new launches, which is fairly consistent (+100 launches and line extensions in the last 10 years)
- Future launches from key divisions, along with brand extensions and access to innovative molecules from global parent to drive growth

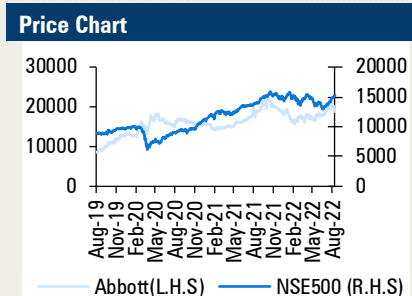
**Alternate Stock Idea:** Apart from Abbott, in our healthcare coverage we like Pfizer.

- Pfizer is following a measured approach with de-focusing and hiving off of tail brands and focusing on core strengths areas such as vaccines, pain management, VMS, GI and CVS



Particulars	
Particular	Amount
Market Capitalisation	₹ 39868 crore
Debt (FY22)	₹ 0 crore
Cash (FY22)	₹ 2749 crore
EV	₹ 37119 crore
52 week H/L	23902/15525
Equity capital	₹ 21.3 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	75.0	75.0	75.0	75.0
Others	25.0	25.0	25.0	25.0



- ### Recent Event & Key risks
- Inclusion of Thyronorm under price control
  - Key Risk:** (i) Better traction for legacy brands (ii) Higher than expected competition

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### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	4093.1	4310.0	4919.3	11.1	5450.0	6104.0	7.5
EBITDA	756.4	921.5	1087.7	22.3	1214.0	1501.8	11.4
EBITDA margins (%)	18.5	21.4	22.1		22.3	24.6	
Net Profit	592.9	690.7	798.7	23.6	908.8	1123.1	12.0
EPS (₹)	279.0	325.0	375.9		427.7	528.6	
PE (x)	67.2	57.7	49.9		43.9	35.5	
RoCE (%)	30.7	33.8	36.6		37.1	37.3	
ROE	24.4	26.5	28.3		28.9	28.8	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Steady revenues with dip in margins

- Revenues grew 7% YoY to ₹ 13404 crore. EBITDA margins contracted 104 bps YoY to 20.7%, mainly on the back of higher other expenditure. EBITDA for the quarter grew 2% YoY to ₹ 270 crore. PAT was up 5% YoY to ₹ 206 crore
- Abbott India's numbers were below our estimates on both revenues and margins front. We attribute steady quarter due to high base in VMN therapies last year while top brands like Thyronorm, Udiliv and Ryzodeg are seeing robust growth. Notwithstanding quarterly gyrations, we remain positive on the company due to its robust and sustainable business model backed by stable growth, debt-free b/s, favourable market dynamics with doctor prescription stickiness and lower perceived risk factors. We continue to believe in Abbott's strong growth track in power brands and capability of new launches on a fairly consistent basis

**Exhibit 1: Variance Analysis**

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,304.4	1,217.8	7.1	1,255.0	3.9	
Raw Material Expenses	718.0	679.4	5.7	676.0	6.2	
Employee Expenses	152.1	145.5	4.6	135.5	12.3	
Other Expenditure	163.9	127.8	28.2	149.7	9.5	
Total Operating Expenditure	1,034.0	952.7	8.5	961.2	7.6	
EBITDA	270.4	265.2	2.0	293.8	-8.0	
EBITDA (%)	20.7	21.8	-104 bps	23.4	-268 bps	
Interest	4.2	5.0	-16.3	5.1	-17.9	
Depreciation	17.4	15.7	10.3	17.4	-0.5	
Other income	26.4	19.2	37.2	21.1	25.2	
PBT before EO	275.2	263.6	4.4	292.3	-5.9	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	
PBT	275.2	263.6	4.4	292.3	-5.9	
Tax	69.6	67.8	2.5	80.9	-14.0	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	205.6	195.8	5.0	211.4	-2.7	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,509.6	5,450.0	-1.1	6,170.7	6,104.0	-1.1	
EBITDA	1,260.5	1,214.0	-3.7	1,465.9	1,501.8	2.5	
EBITDA Margin (%)	22.9	22.3	-60 bps	23.8	24.6	85 bps	
PAT	934.6	908.8	-2.8	1,092.3	1,123.1	2.8	
EPS (₹)	439.8	427.7	-2.8	514.0	528.6	2.8	

Source: ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4352	5,080	Buy	62577	7.9	59.1	79.0	101.0	553.7	73.6	55.1	43.1	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	697	800	Buy	14240	-0.7	16.7	20.6	22.7	NA	41.6	33.9	30.7	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	120	150	Buy	1292	3.9	5.4	7.5	9.9	30.5	22.1	16.0	12.1	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	206	250	Buy	10300	3.0	10.5	10.8	16.7	69.7	19.6	19.1	12.4	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	284	345	Buy	3947	-13.9	3.9	4.5	8.8	-13.9	73.5	62.4	32.1	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
<b>MNC Pharma</b>																					
Abbott India	ABBIND	19152	21,140	Hold	40696	325.0	375.9	427.7	528.6	58.9	51.0	44.8	36.2	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4403	4,955	Hold	7309	106.5	121.5	130.5	141.6	41.3	36.2	33.7	31.1	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6355	6,885	Hold	14637	207.4	410.1	270.5	264.8	30.6	15.5	23.5	24.0	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4257	4,480	Hold	19475	108.8	133.9	140.4	149.3	39.1	31.8	30.3	28.5	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1272	1,495	Buy	16298	51.0	55.6	60.1	71.1	24.9	22.9	21.2	17.9	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	663	590	Reduce	13030	62.8	27.8	15.3	26.9	10.6	23.9	43.4	24.6	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	588	615	Hold	34430	55.0	47.4	41.1	51.3	10.7	12.4	14.3	11.5	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	315	320	Hold	37819	6.3	5.7	5.5	11.3	50.3	55.3	57.8	27.8	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	394	405	Hold	39891	23.3	21.0	21.0	23.8	16.9	18.8	18.8	16.6	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1030	1,135	Buy	83148	29.9	32.9	38.6	45.8	34.5	31.3	26.7	22.5	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4306	4,750	Buy	71668	117.3	126.9	203.4	191.0	36.7	33.9	21.2	22.5	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	387	460	Hold	10911	32.9	42.7	41.0	48.3	11.8	9.1	9.4	8.0	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	929	985	Hold	23560	44.9	34.8	27.5	35.1	20.7	26.7	33.8	26.4	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	345	340	Reduce	5495	37.4	26.0	15.9	26.1	9.2	13.3	21.7	13.2	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	681	610	Reduce	30980	26.9	11.9	11.8	27.7	25.4	57.4	57.9	24.6	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	656	735	Hold	11969	24.2	9.3	41.6	42.3	27.1	70.4	15.8	15.5	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	918	1,125	Buy	220151	30.0	32.0	34.8	40.1	30.5	28.7	26.4	22.9	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1580	1,800	Buy	53459	37.0	32.0	43.7	54.6	42.7	49.3	36.2	29.0	17.6	19.7	24.7	29.4	21.4	18.2	20.9	21.8
Indoco Remedies	INDREM	372	525	Buy	3429	10.1	16.8	21.6	29.2	36.9	22.2	17.2	12.8	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	811	1,000	Buy	6146	81.7	85.3	70.4	73.0	9.9	9.5	11.5	11.1	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	270	265	Reduce	3017	13.1	10.7	8.5	12.1	20.6	25.2	31.9	22.4	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2125	2,015	Reduce	1808	44.4	45.7	35.9	51.8	47.9	46.5	59.2	41.1	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
<b>API/CRAMS</b>																					
Divi's Lab	DIVLAB	3745	4,315	Buy	99406	74.7	111.5	93.0	113.5	50.1	33.6	40.3	33.0	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	293	290	Hold	3618	10.8	13.0	3.8	14.4	27.2	22.5	76.6	20.3	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	587	710	Buy	23568	10.1	9.9	11.5	14.6	58.0	59.5	50.9	40.3	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	316	375	Buy	7837	22.2	16.6	21.9	26.8	14.3	19.0	14.4	11.8	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	572	675	Buy	30737	18.3	15.4	20.7	27.0	31.3	37.1	27.6	21.2	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	449	530	Hold	11436	14.2	17.8	17.0	17.6	31.6	25.2	26.4	25.5	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Total Operating Income	4,310.0	4,919.3	5,450.0	6,104.0	
Growth (%)	5.3	14.1	10.8	12.0	
Raw Material Expenses	2,390.9	2,657.2	2,935.7	3,158.0	
Gross Profit	1,919.1	2,262.1	2,514.2	2,946.0	
Gross Profit Margins (%)	44.5	46.0	46.1	48.3	
Employee Expenses	492.6	579.5	635.5	711.7	
Other Expenditure	505.0	594.9	664.8	732.5	
Total Operating Expenditure	3,388.6	3,831.6	4,236.0	4,602.2	
<b>EBITDA</b>	<b>921.5</b>	<b>1,087.7</b>	<b>1,214.0</b>	<b>1,501.8</b>	
Growth (%)	21.8	18.0	11.6	23.7	
Interest	18.3	19.1	18.3	18.3	
Depreciation	58.1	66.1	69.4	73.6	
Other Income	80.9	77.2	88.5	91.6	
<b>PBT before Exceptional Items</b>	<b>926.0</b>	<b>1,079.7</b>	<b>1,214.9</b>	<b>1,501.5</b>	
Less: Exceptional Items	0.0	0.0	0.0	0.0	
PBT after Exceptional Items	926.0	1,079.7	1,214.9	1,501.5	
Total Tax	235.3	281.0	306.1	378.4	
PAT before MI	690.7	798.7	908.8	1,123.1	
<b>PAT</b>	<b>690.7</b>	<b>798.7</b>	<b>908.8</b>	<b>1,123.1</b>	
Growth (%)	16.5	15.6	13.8	23.6	
<b>EPS (Adjusted)</b>	<b>325.0</b>	<b>375.9</b>	<b>427.7</b>	<b>528.6</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	690.5	790.7	908.8	1,123.1	
Add: Depreciation & Amortization	58.1	66.1	69.4	73.6	
Net Increase in Current Assets	-113.7	-19.0	-116.0	-109.9	
Net Increase in Current Liabilities	125.0	147.9	124.6	108.9	
Others	-33.1	-38.1	18.3	18.3	
<b>CF from Operating activities</b>	<b>726.7</b>	<b>947.7</b>	<b>1,005.1</b>	<b>1,214.0</b>	
(Purchase)/Sale of Fixed Assets	-23.2	-43.8	-30.0	-30.0	
Investments	-135.1	-421.0	0.0	0.0	
Others	225.0	494.7	-11.6	-10.6	
<b>CF from Investing activities</b>	<b>66.7</b>	<b>29.9</b>	<b>-41.6</b>	<b>-40.6</b>	
(inc)/Dec in Loan	0.0	0.0	0.0	0.0	
Dividend & Dividend tax	-531.2	-584.4	-584.4	-371.9	
Other	-50.6	-53.0	-18.3	-18.3	
CF from Financing activities	-581.8	-637.4	-602.6	-390.1	
<b>Net Cash Flow</b>	<b>211.7</b>	<b>340.2</b>	<b>360.9</b>	<b>783.3</b>	
Cash and Cash Equivalent	2,197.4	2,409.0	2,749.2	3,110.1	
<b>Cash</b>	<b>2,409.0</b>	<b>2,749.2</b>	<b>3,110.1</b>	<b>3,893.4</b>	
<b>Free Cash Flow</b>	<b>703.6</b>	<b>903.8</b>	<b>975.1</b>	<b>1,184.0</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
Year-end March	FY21	FY22	FY23E	FY24E	
Equity Capital	21.3	21.3	21.3	21.3	
Reserve and Surplus	2,580.9	2,798.5	3,123.0	3,874.3	
Total Shareholders funds	2,602.2	2,819.8	3,144.2	3,895.5	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	89.8	92.4	101.6	111.8	
Lease Liability	117.7	108.7	97.9	88.1	
<b>Source of Funds</b>	<b>2,809.6</b>	<b>3,020.9</b>	<b>3,343.8</b>	<b>4,095.4</b>	
Gross Block - Fixed Assets	381.2	467.5	497.5	527.5	
Accumulated Depreciation	130.4	196.5	265.9	339.5	
Net Block	250.8	271.0	231.6	188.0	
Capital WIP	0.7	0.7	0.7	0.7	
Fixed Assets	251.4	271.7	232.3	188.7	
Investments	0.0	0.0	0.0	0.0	
Other Non Current Assets	70.5	99.4	109.4	120.3	
Inventory	717.6	687.8	759.9	817.4	
Debtors	250.2	288.2	319.2	357.6	
Loans and Advances	5.0	0.0	0.0	0.0	
Other Current Assets	136.7	127.8	140.6	154.7	
Cash	2,409.0	2,749.2	3,110.1	3,893.4	
Total Current Assets	3,518.5	3,853.0	4,329.9	5,223.1	
Creditors	762.7	889.5	982.7	1,057.1	
Provisions	116.0	127.9	140.6	154.7	
Other Current Liabilities	152.2	185.9	204.5	224.9	
Total Current Liabilities	1,030.9	1,203.2	1,327.8	1,436.7	
Net Current Assets	2,487.7	2,649.9	3,002.1	3,786.4	
<b>Application of Funds</b>	<b>2,809.6</b>	<b>3,020.9</b>	<b>3,343.8</b>	<b>4,095.4</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year-end March	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	325.0	375.9	427.7	528.6
Cash EPS	77.4	132.0	285.4	358.2
BV per share	1,224.6	1,327.0	1,479.7	1,833.2
Cash per Share	1,133.7	1,293.8	1,463.6	1,832.3
Dividend per share	275.0	275.0	175.0	205.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	44.5	46.0	46.1	48.3
EBITDA margins	21.4	22.1	22.3	24.6
PAT Margins	16.0	16.2	16.7	18.4
Cash Conversion Cycle	14.3	-6.3	-6.3	-6.3
Asset Turnover	11.3	10.5	11.0	11.6
EBITDA conversion Rate	78.9	87.1	82.8	80.8
<b>Return Ratios (%)</b>				
RoE	26.5	28.3	28.9	28.8
RoCE	33.8	36.6	37.1	37.3
RoIC	226.0	402.1	534.1	790.0
<b>Valuation Ratios (x)</b>				
P/E	57.7	49.9	43.9	35.5
EV / EBITDA	40.7	34.1	30.3	24.0
EV / Net Sales	8.7	7.5	6.7	5.9
Market Cap / Sales	9.3	8.1	7.3	6.5
Price to Book Value	15.3	14.1	12.7	10.2
<b>Solvency Ratios</b>				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	0.9	0.9	0.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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