

Equity

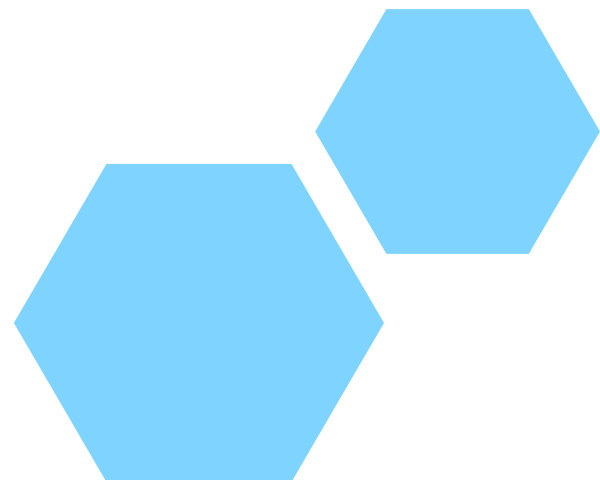
Research



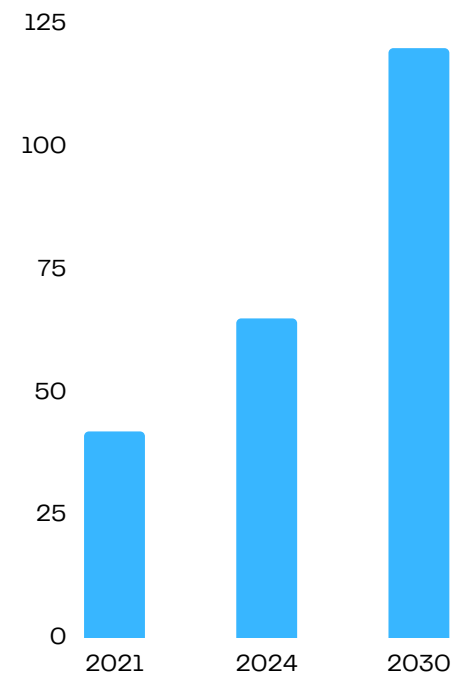
Abbott

Team Brahmaputra IIT Guwahati

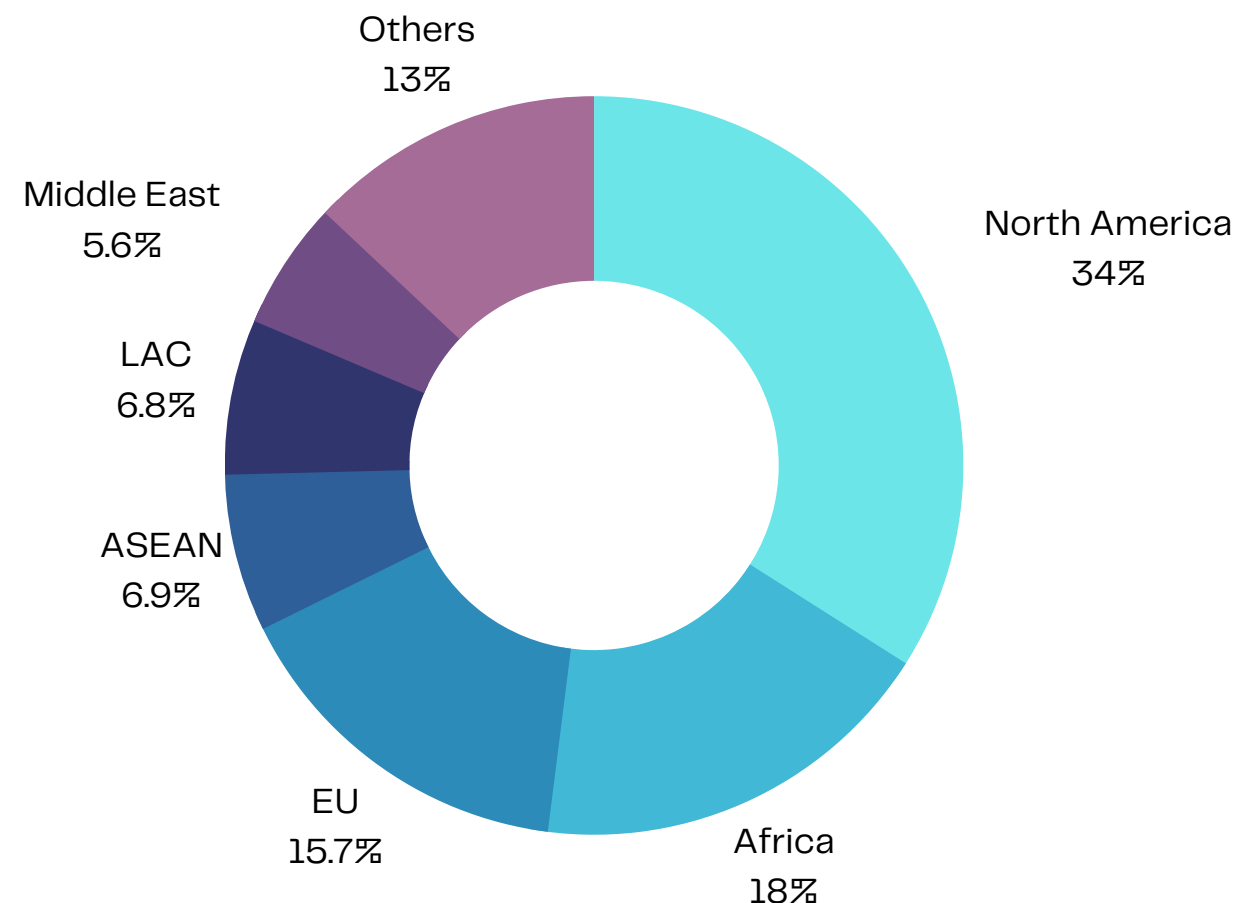
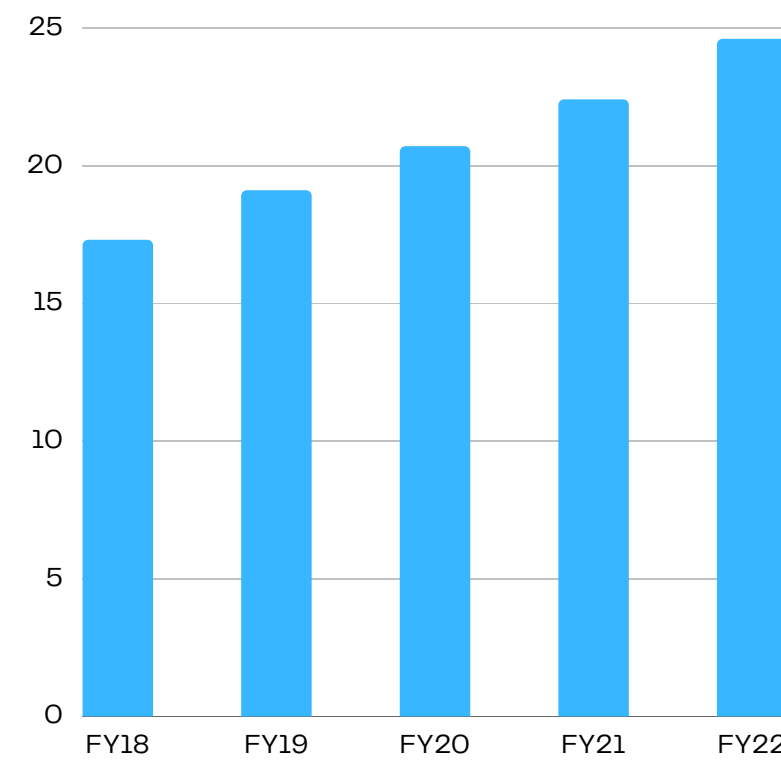
Aprameya Rangarajan
Karn Pratap Singh
Shashwat Pandey
Ambuj Mishra
Varun Saxena
Lakshit Bohra



MARKET SIZE



- Globally, India ranks 3rd in pharmaceutical production by volume and 14th by value.
- The domestic pharmaceutical industry includes a network of 3,000 drug companies and ~10,500 manufacturing units.
- According to the Indian Economic Survey 2021, the domestic market is expected to grow 3x in the next decade.
- India's domestic pharmaceutical market stood at US\$ 42 billion in 2021 and is likely to reach US\$ 65 billion by 2024 and further expand to ~US\$ 120 billion by 2030.
- The Ayurveda sector in India reached US\$ 4.4 billion in 2018 end and will grow at 16% CAGR until 2025.



ADVANTAGES

- **Cost Efficiency:** Low cost of production and R&D boost efficiency of Indian pharma companies, leading to competitive export.
- **Economic Drivers:** High economic growth along with increasing penetration of health insurance to push expenditure on healthcare and medicine in India.
- **Policy support:** In June 2021, Finance Minister Ms. Nirmala Sitharaman announced an additional outlay of Rs.197,000 crore (US\$ 26,578.3 million) that will be utilized over five years for the pharmaceutical PLI scheme in 13 key sectors such as active pharmaceutical ingredients, drug intermediaries and key starting materials.
- **Increasing Investments:** The FDI inflows in the Indian drugs and pharmaceuticals sector reached US\$ 19.90 billion between April 2000-June 2022.

Introduction

Abbott India Limited is a subsidiary of Abbott Laboratories, a global healthcare company that develops and manufactures a wide range of healthcare products and services. Abbott India offers a broad portfolio of healthcare products and services in several categories, including

- Pharmaceutical Products
- Nutritional Products
- Diagnostic Services
- Medical Devices

Overall, Abbott India's products and services are designed to help people live healthier and more fulfilling lives by providing them with high-quality healthcare products and services.

Key Metrics

FOUNDER	YEAR FOUNDED	COMPANY TICKER	MD AND CEO
Wallace Calvin Abbott	1944	Abbott India	Vivek V Kamath
INDUSTRY	MARKET CAPITALIZATION	REVENUE(FY22)	EBITDA(FY22)
Pharmaceutical	42959.43 Cr	5265.35 Cr	1165 Cr
SHARE PRICE	TARGET PRICE	SHARES OUTSTANDING	NET PROFIT
20,190.00	28,944.21	21.25 M	929.40 Cr

Products



Business Model



The company's business model centres on **discovering, developing, and distributing** pharmaceuticals, medical devices, and diagnostic products.





Research and Development: To discover and develop new pharmaceuticals, medical devices, and diagnostic products, they highly invest in R &D.

The company has a **strong pipeline of products** that it is working on, which helps to ensure its long-term growth.

Manufacturing: The company's manufacturing operations are focused on producing high-quality healthcare products that meet the needs of patients in India and around the world.

Marketing and Sales: They have a strong marketing and sales team that works to promote its products to healthcare professionals and patients.

BRAND	DEC-20	DEC-21	DEC-22	GAGR 19-22	YoY
THYRONORM	420.2	455.9	532.7	11.5%	16.8%
UDILIV	294.3	370.7	436.0	18.1%	17.6%
DUPHASTON	328.1	343.7	365.6	-1.3%	6.4%
DUPHALAC	195.5	220.8	276.0	17.0%	25.0%
VERTIN	219.6	252.1	269.8	13.4%	7.0%
CREMAFFIN PLUS	160.9	199.7	220.5	19.9%	10.4%
Top 5 brands	1457.6	1643.2	1880.1	10.7%	14.4%

BUSINESS DIVISIONS*		Key Brands
 Women's Health & Gastrointestine (WH & GI), Gastroenterology, GI Prospera and GI Advance		Duphaston Udiliv Cremaffin Duphalac Creon Heptral
 Specialty Care (Metabolics and Central Nervous System)		Thyronorm Vertin Prothiaden
 GenNext and Vaccines		Zolfresh Influvac Enteroshield Brufen Arachitol Nano
 Consumer Care		Digene Citrosoda Rashfree

*The Company operates in a single reportable segment i.e. Pharmaceuticals.

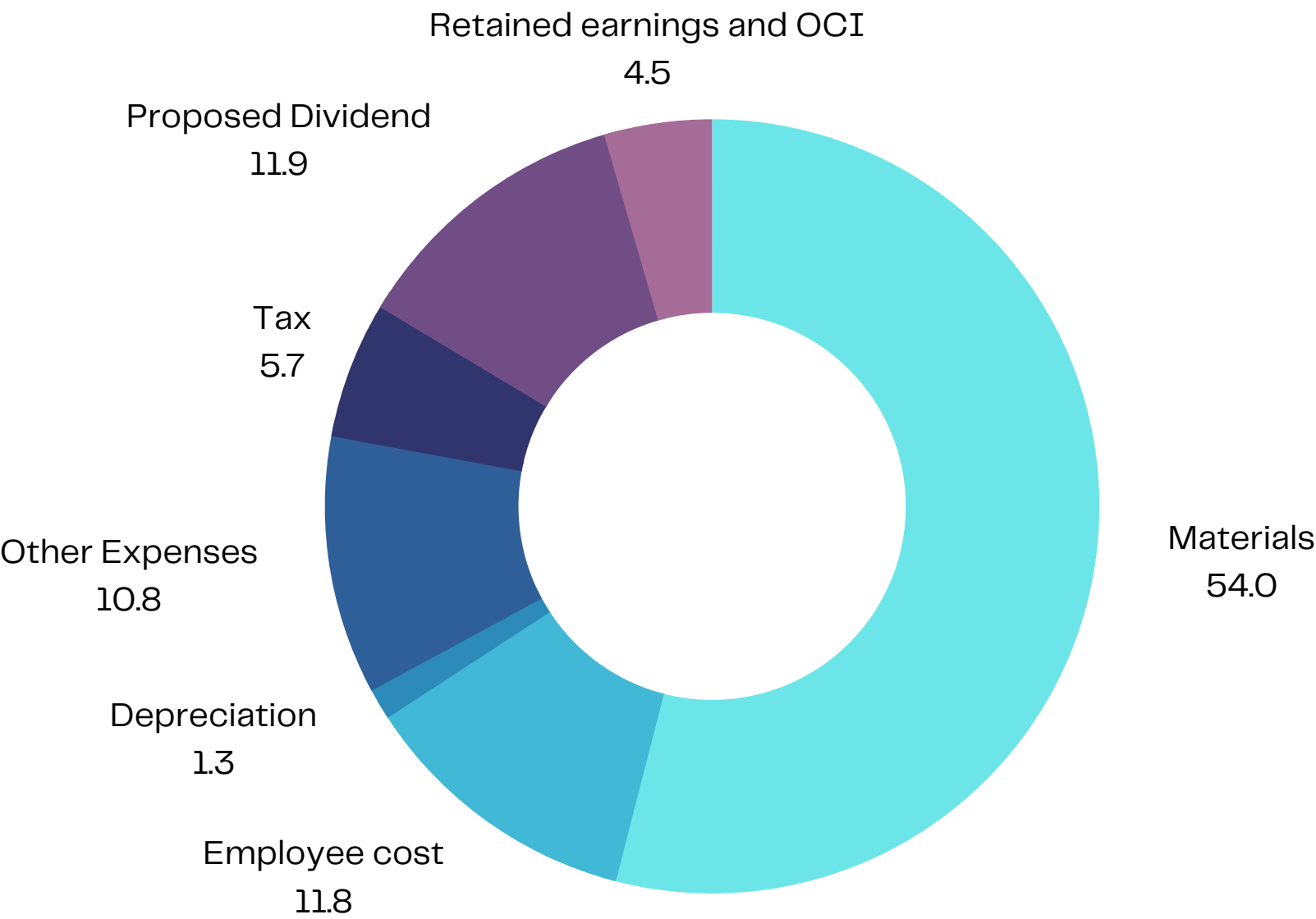
The company's vast distribution network enables it to reach patients nationwide.

Partnerships: Abbott India works closely with healthcare providers, patient organisations, and other stakeholders to develop innovative solutions that address the needs of patients.

Overall, Abbott India's business model is centred around **delivering high-quality healthcare products** and services to patients in India and around the world.

The company's focus on research and development, manufacturing, marketing and sales, and partnerships has helped it to become a leading player in the Indian healthcare industry.

- The product portfolio of over 125 products across various therapeutic areas such as women's health, gastroenterology, central nervous system (CNS), metabolics, multi-specialty (Pain management, insomnia, nutritional supplements, and vitamins), vaccines, consumer health, etc.
- Apart from India, the company also serves Sri Lanka, Nepal, Maldives and Bhutan.[3] In FY21, domestic sales accounted for 98% of revenues and exports accounted for 2.



THERAPY	DEC-20	DEC-21	DEC-22	GAGR 19-22	YoY
GASTRO INTESTINAL	1333.6	1562.7	1761.1	12.8%	12.7%
ANTI INFECTIVES	656.2	900.0	1058.1	15.6%	17.6%
VITAMINS/MINERALS/NUTRIENT	915.2	1104.0	1043.6	10.7%	-5.5%
NEURO/CNS	806.5	867.2	917.5	6.1%	5.8%
CARDIAC	613.5	706.4	763.2	11.0%	8.0%
HORMONES	593.0	641.2	761.5	11.1%	18.8%
GYNAEC	441.1	474.6	523.1	1.8%	10.2%
RESPIRATORY	290.8	364.8	473.4	7.8%	29.8%
HEPATOPROTECTIVES	310.4	388.1	452.8	16.8%	16.7%
Top 5 therapies	4325.0	5140.4	5543.5	11.4%	7.8%

Based on :

ABBOTT INDIA

<p>Production Capacity Levels</p> <ul style="list-style-type: none">• Cipla: Cipla is one of the largest pharmaceutical companies in India and has a strong presence in both the domestic and international markets. The company has a strong production capacity for its various products, including generics, biosimilars, and branded formulations.• Sun Pharmaceutical Industries: Sun Pharma is another well-known pharmaceutical business in India, and it is well-known both in its home country and abroad. For its many products, including generics, specialized goods, and active pharmaceutical components, the company has a strong production capability.• Dr. Reddy's Laboratories: They specialize in generics, biosimilars, and unique pharmaceuticals. The company has a strong production capacity for its various products and has a presence in over 25 countries worldwide.	<p>Pricing</p> <ul style="list-style-type: none">• Glenmark Pharmaceuticals: Glenmark is a leading Indian pharmaceutical company that focuses on generics, specialty products, and branded formulations. The company has a strong focus on affordability and offers its products at competitive prices in both the domestic and international markets.• Lupin: Lupin is a well-known Indian pharmaceutical company that has a strong presence in the domestic and international markets. The company focuses on developing high-quality products at affordable prices and has a wide range of products across various therapeutic areas.• Torrent Pharmaceuticals: Torrent Pharma is a leading Indian pharmaceutical company that focuses on the development and manufacture of generic drugs. The company has a strong focus on cost-effectiveness and offers its products at competitive prices in both the domestic and international markets.	<ul style="list-style-type: none">• Strong production capacity: Abbott India has a state-of-the-art manufacturing facility located in Goa, which has the capacity to produce high-quality pharmaceutical and healthcare products. The company invests heavily in research and development, which allows them to manufacture innovative products that meet the changing needs of consumers.• Competitive Pricing: It offers products at competitive prices, which makes it an attractive choice for consumers. The company is able to achieve this through its focus on efficiency and optimization of its production processes.
<p>Stability of Market Share</p> <ul style="list-style-type: none">• Sanofi India: Sanofi is a leading global pharmaceutical company that has a significant presence in the Indian market. The company has a strong market position in various therapeutic areas, including diabetes, vaccines, and cardiovascular diseases.• GlaxoSmithKline Pharmaceuticals: GSK is another top-tier pharmaceutical company that has a significant presence in the Indian market. The company has a strong market position in various therapeutic areas, including respiratory diseases, vaccines, and HIV.• Pfizer India: Pfizer is a well-known pharmaceutical firm with a sizable market share in India. In several therapeutic fields, such as oncology, vaccines, and rare disorders, the company enjoys a dominant market position.	<p>Distribution</p> <ul style="list-style-type: none">• Cadila Healthcare: Cadila is a leading Indian pharmaceutical company that focuses on the development and manufacture of generic drugs, biosimilars, and proprietary products. The company has a strong distribution network across India and exports its products to over 85 countries worldwide.• Aurobindo Pharma: Aurobindo is another leading Indian pharmaceutical company that has a significant presence in the domestic and international markets. The company has a strong distribution network across India and exports its products to over 150 countries worldwide.• Alkem Laboratories: Alkem is a leading Indian pharmaceutical company that focuses on the development and manufacture of generic drugs, biosimilars, and proprietary products. The company has a strong distribution network across India and exports its products to over 50 countries worldwide.	<ul style="list-style-type: none">• Strong brand recognition: It has a well-established brand and has built a strong reputation over the years. The company's products are recognized for their quality and reliability, which makes them a popular choice for customers.• Diversified product portfolio: It offers a wide range of products, which helps it to maintain its market share in different segments. The company has a presence in the areas of nutrition, branded generics, and medical devices.• Wide distribution network: It has a strong distribution network, which allows it to reach customers across the country. The company has a presence in over 90 cities and towns in India, and its products are available in more than 40,000 retail outlets.

Peer Comparison



MNC Pharma

Indian Pharma

Company	M.Cap (cr)	Sales (cr)	%Sales Var.	Net Profit (cr)	ROCE%	P/E	EV/EBITA
Abbott India	42959.43	5265.35	10.62	929.40	38.38	46.70	30.71
P&G Health	7625.04	1171.23	10.99	232.81	38.23	86.93	21.20
Sanofi India	12347.53	2786.10	-6.79	580.10	34.77	21.28	15.93
Pfizer	17660.45	2401.78	-7.48	620.07	29.18	28.43	18.35
Sun Pharmaceutical	236,215	42401.77	12.38	4302.66	18.35	56.96	20.35
Cipla	82792.79	22274.15	5.52	2682.08	17.50	31.69	16.38
Dr Reddy's Labs	75108.69	23829.50	14.35	3644.10	13.96	20.63	11.89
Zydus Lifesciences	47639.39	16433.50	8.87	2187.00	14.70	23.58	13.89

Valuation



- We have used the FCFE stable growth and Gordon Growth model to arrive at a fair intrinsic value for Abbott India Ltd.
- This model is designed to value the equity in a stable firm on the basis of free cashflows to equity, especially when they are different from dividends paid.
- In the model, we have assumed:
 1. The firm is in steady state and will grow at a stable rate forever.
 2. The firm does not pay out what it can afford to in dividends, i.e., Dividends \neq FCFE.



MODEL INPUT

1. CURRENT EARNINGS PER SHARE : ₹ 437
2. CAPITAL SPENDING AND DEPRECIATION PER SHARE : ₹ 276, ₹ 200
3. CHANGE IN WORKING CAPITAL PER SHARE : ₹ 150
4. DESIRED DEBT LEVEL FOR FINANCING WORKING CAPITAL AND CAPITAL SPENDING NEEDS: ₹ 29.97
5. CAPM (BETA, RISKFREE RATE, RISK PREMIUM): 0.85, 7%, 5.50
6. EXPECTED GROWTH RATE IN FREE CASHFLOWS TO EQUITY FOREVER: 8%

Model Output

Current Earnings per share	437.00	Growth rate	Value
(1- Desired debt fraction) *	70.03	-4.00%	₹ 21,707.07
(Capital Spending ; Depreciation)	76.00;53.22	-3.00%	₹ 21,842.39
(1- Desired debt fraction)	70.03	-2.00%	₹ 21,997.50
∅ Working Capital	150;105.05	-1.00%	₹ 22,177.08
Free Cashflow to Equity	278.73	1.00%	₹ 22,637.19
Cost of Equity	11.68%	2.00%	₹ 22,938.57
Expected Growth rate	₹ 8.30	3.00%	₹ 23,309.44
Gordon Growth Model Value	₹ 8,944.21	4.00%	₹ 23,776.96
		8.30%	₹ 28,944.21

FINANCIALS

Consolidated	FY 22	FY23E	FY24E	FY25E
Revenue	4919.3	5416	6065.9	6793.8
Growth(%)	14	10.1	12	12
Expenses	3831.6	4106.1	4607.1	5160
EBITDA	1087.7	1309.9	1458.8	1633.8
PBT	1079.7	1343.2	1457.9	163
PAT	798.7	1000.7	1090.5	1226.5
Growth(%)	15.6	25.3	9	12.5
EPS	380.3	476.5	519.3	584
Total Current Assets	3853	4437.8	5289.2	6288.5
Total Current Liabilities	1203.2	1335.9	1430.1	1594.2
CF from Operating Act	947.7	1100.7	1178.3	1331
CF from Investing Act	29.9	-41.6	-40.6	-39.7
Net Cash Flow	340.2	464.6	753.1	843.7
Free Cash Flow	903.8	1070.7	1148.3	1301

KEY RATIOS

Ratio	FY 22	FY23E	FY24E	FY25E
Return Ratios (%)				
RoE	28.3	30.9	27.5	25.8
RoCE	36.6	39.7	35.6	33.5
Valuation Ratios (x)				
P/E	54.4	43.4	39.9	35.4
EV/EBITDA	37.4	30.7	27.1	23.7
Current Ratio	0.9	0.9	0.9	0.1
EPS	380.3	476.5	519.3	584
Quick Ratio	0.3	0.3	0.4	0
Inventory Days	94.5	94.5	94.5	94.5
Debtor Days	21.4	21.4	21.4	21.4

- **Healthy cashflow generation strengthening Balance Sheet**



AIL reported a healthy cashflow generation of Rs 950 Cr in FY22 which has increased the cash to Rs 2,750 Cr on the company's Balance Sheet. Branded business is expected to improve overall profitability. The company has strong FCFF at 65.0% of EBITDA with high return ratios and dividend payout.

- **Commitment to Innovation**



Another factor that makes Abbott Industries an attractive investment is its commitment to innovation. The company invests heavily in research and development, with a focus on developing new products that address unmet medical needs. In recent years, Abbott Industries has launched several innovative products, such as the FreeStyle Libre system, a continuous glucose monitoring system that has transformed diabetes management for millions of people around the world.

- **Strong Global Presence**



Abbott Industries has a strong global presence and a diverse portfolio of products, which helps to mitigate risks associated with geographic or product concentration. The company has a well-established distribution network and a track record of successful acquisitions and partnerships that have helped to expand its reach and diversify its offerings.

- **Diverse Portfolio**




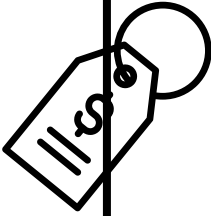
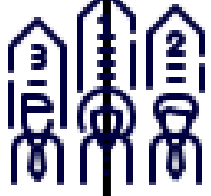
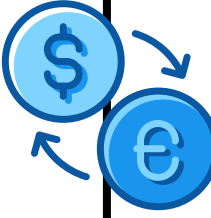

It is a diversified healthcare company that develops, manufactures, and sells medical devices, diagnostics, and nutritional products. It has a broad portfolio of products and services, including medical devices such as pacemakers, diagnostic tests for infectious diseases, and nutritional products for infants, adults, and athletes.

- **Key triggers for future price performance:**



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

Key Business & Investments Risks

Risks	Overview
 Improper Rationalizing of GST Rates	The Indian Government is looking at rationalizing GST rates. Currently, the majority of drugs are in the 12% category. If drugs are put in a higher category and if it is not implemented rationally, it may impact the industry.
 High government control on drug pricing	This is done by NLEM and DPCO along with restrictions on trade margins mark-ups which create price pressure across the industry.
 Increase in competition	The launch of similar molecules in the same therapies could impact revenue growth and the entry of more products into NLEM could impact the company's profitability.
 Foreign Exchange Risk	As Abbott India is a subsidiary of Abbott Laboratories based in the United States, fluctuations in the exchange rate between the Indian rupee and the US dollar could impact the company's financial performance.
 Litigation Risk	Like all healthcare companies, Abbott India is subject to the risk of litigation related to product liability claims or other legal disputes, which could impact the company's financial performance and reputation.

ENVIRONMENTAL



1. Carbon Footprint and Emissions: Abbott India has been reducing its carbon footprint and emissions. In 2020, the company reported a 24% reduction in greenhouse gas emissions compared to its 2015 baseline. They have set a goal to reduce their carbon footprint by 60% by 2025.

2. Energy Efficiency & Sustainable Packaging: Abbott India has implemented several energy-efficient measures, including LED lighting, use of renewable energy sources, and installation of energy-efficient machinery. Abbott India has implemented sustainable packaging practices, such as using eco-friendly materials and reducing the size of packaging to minimize waste.

3. Water Conservation: Abbott India has implemented several measures to conserve water, such as rainwater harvesting, installation of water-efficient fixtures, and recycling of wastewater.

SOCIAL



1. Executive Compensation & Employee Training and Development: Abbott India has a transparent and fair executive compensation structure. The company's compensation policy aligns with its long-term goals and includes both financial and non-financial performance indicators. They also provide its employees with various training and development opportunities to help them grow in their careers

2. Corporate Social Responsibility & Diversity and Inclusion: Abbott India's strong CSR program focuses on healthcare, education, and the environment. The company has partnered with several NGOs and government agencies to implement various projects in these areas.

3. Access to Healthcare: Abbott India is committed to providing affordable and accessible healthcare to communities in need. The company has implemented several initiatives to address healthcare gaps, such as providing free diabetes screenings and partnering with the government to improve maternal and child healthcare.

GOVERNANCE



1. Ethics and Transparency: Abbott India has implemented a strong code of ethics and conducts regular training programs for its employees on ethics and compliance. The company also has a whistleblower policy in place to encourage employees to report any unethical behavior.

2. Executive Compensation: Abbott India has a transparent and fair executive compensation structure. The company's compensation policy aligns with its long-term goals and includes both financial and non-financial performance indicators.

3. Risk Management: Abbott India has a strong risk management framework in place, which includes identifying, assessing, and mitigating risks across the organization. The company also regularly reviews and updates its risk management policies and procedures.

In conclusion, Abbott India's strong commitment to ESG principles is evident through its sustainable business practices, strong corporate social responsibility program, diverse and inclusive workforce, and robust governance practices. The company's focus on employee training and development, access to healthcare, and risk management further supports its commitment to long-term sustainability and success.