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Core brands, launches to act as therapy for Abbott India

Analysts expect double-digit growth for pharma major despite Q1 disappointment

RAM PRASAD SAHU
Mumbai, 14 September

The stock of the country's second-largest drug firm by market share, Abbott India, is down 13 per cent from its highs in August. Lower than expected revenues in the June quarter for the 2022-23 financial year (Q1FY23), muted margins and premium valuations led to the decline.

Despite the miss, the Street believes that its chronic therapy portfolio and brands would help sustain double-digit growth ahead, as was the case in August, when it outperformed the pharmaceutical market with a growth of 14.3 per cent.

Commenting on the pharma sector sales (based on consultancy IQVIA data) for August, JM Financial highlights that chronic therapies outperformed acute ones in August by 4 per cent with gastrointestinal and gynaecological segments being top performing therapies, rising 14 per cent each largely benefitting Sun Pharma, Abbott India and Alkem Laboratories.

Anand Rathi Research, while quoting data from industry body AIOCD, says that Abbott India (including Novo Nordisk) has outperformed the sector in August with growth of 14.3 as compared to the Indian pharma market growth of 12.1 per cent.

The company has also outperformed the sector on a moving annual total basis, with growth of 9.7 per cent, as compared to the sector's 6.3 per cent growth. As was the case for the sector, most of the gains in August came from price hikes.

A positive for the company is the limited impact of regulatory action related to the new drugs in the National List of Essential Medicines (NLEM). The proportion of drugs under NLEM has increased from 24 per cent to 27 per cent for the company. In contrast, for multinational peers such as Sanofi India, the impact is higher with the proportion increasing from 18 per cent to 35 per cent while for GlaxoSmithKline Pharmaceuticals, it has increased from 30 to 43 per cent.

MEDICINAL VALUE

Sales (₹cr)

Brand	Therapy	Q1FY23	YoY change (%)
Udiliv	Gastrointestinal	118	14.4
Cremaffin Plus	Gastrointestinal	48	10.7
Thyronorm	Hormones	120	9.8
Vertin	Neuro & CNS	65	9.1
Duphalac	Gastrointestinal	68	8.6
Eptoin	Neuro & CNS	25	-2.3
Digene	Gastrointestinal	34	-2.7
Cremaffin	Gastrointestinal	25	-7.0
Duphaston	Gynaecological	75	-8.0
Paraxin	Anti-infectives	20	-17.7

CNS: Central Nervous System
Source: Elara Securities

The Street will focus on the ability of the company to sustain double-digit growth after the company disappointed in Q1FY23. Even as key brands reported strong sales, overall revenues grew 7 per cent year-on-year (YoY) to ₹1,304 crore lower than what the Street has estimated. Higher competition (Mankind had launched Dydrogesterone) for hormonal therapy drug Duphaston had pegged back sales a bit (1.4 per cent growth) in the quarter.

Despite the lower than expected sales, the company has outperformed its MNC peers and also did better than the India pharma market growth of 2 per cent in the quarter.

Udiliv (cholesterol drug), Thyronorm (thyroid) and Novomix (blood sugar) were key drivers of Q1FY23 growth, and sales momentum is likely to sustain, believes Abdulkader Puranwala of Elara Securities. He expects the company's core brands to post annual sales growth of 18 per cent over the FY22-25 period.

The company also plans to scale up its consumer health business on the back of new drug launches and expand its presence in the vaccines segment which currently account for a 5 per cent share of the business.

The Street will also track the margin trajectory. Gross margins fell 118 basis points (bps) on a sequential basis but were up 74 bps YoY to 45 per cent in the quarter.

Changes in the product mix with a higher proportion of anti-infectives and an increase in raw material prices led to the decline. Higher other expenses (promotional and overhead costs) led to a 104 bps YoY fall (268 bps quarter-on-quarter fall) to 20.7 per cent.

Despite the sub-par quarterly performance, ICICI Direct Research remains positive on the company due to its robust and sustainable business model, backed by stable growth, debt-free balance sheet, 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, say analysts led by Siddhant Khandekar of the brokerage.trade.