

Brands driven growth; upgrade to Buy

We upgrade Pfizer to Buy from Hold rating and revise our TP of Rs2,300 (earlier Rs1,690), based on 23x March'19E EPS of Rs100.0. Pfizer's Q2FY18 results exceeded our and consensus estimates. The drug maker reported a 2% YoY growth in revenues, while margin improved by 1,290bps to 29.3% and net profit grew 90%YoY. We expect the company to deliver superior performance due to strong growth in its major brands. Recently, the company launched new line extension Corex-T. Pfizer would launch Meronem and Neksium in India, which are acquired from Astra Zeneca Pharma. The key downside risk to our assumption is slowdown of domestic pharma market growth and the additional brands coming under price control.

- **Revenues grew by 2% YoY:** Pfizer's revenues grew 2% YoY to Rs5.71bn from Rs5.58bn against the industry growth of ~9% during the quarter. The discontinuation of Corex and uncertainties in GST implementation led to lower revenue growth. As per AIOCD AWACS data-September'17, the sales were driven by its ten flagship brands. We expect the company to report better revenue growth in FY18, led by the launch of a series of products as line extensions under the Corex brand name and the impending launch of Meronem and Neksium in India.
- **Margin grew by 1,290bps YoY:** Pfizer's EBITDA margin for the quarter grew 1,290bps YoY to 29.3% from 16.4% due to overall decline in costs. Its material cost declined by 30bps YoY to 41.9% from 42.2% due to a profitable product mix. Personnel expenses declined by 60bps to 13.9% from 14.5%. Other expenses declined by 1,210bps to 14.9% from 27.0% as Q2FY17 had one-off expenses. The change in the product mix and new product launches would improve Pfizer's margins going forward.
- **Net profit grew 90%YoY:** Pfizer's net profit before EO items grew by 90.0% YoY to Rs1,111mn from Rs586mn due to margin improvement and the lower tax rate. Net profit after EO items declined by 12%YoY to Rs1,111mn from Rs1,263mn. The company's tax rate declined to 36.4% from 40.9% of PBT. Pfizer is a debt-free, cash-rich company with cash/share of ~Rs330 and is poised for good growth due to its well-known brands. We expect the company to report superior performance led by its strong brands, sale of matured OTC brands to Piramal Enterprises, and closure of the Thane facility.
- **Recommendation and key risks:** Pfizer has closed down its Thane manufacturing facility as a rationalisation measure. We upgrade Pfizer to Buy from Hold rating and revise our TP to Rs2,300 (earlier Rs1,690) based on 23x March'19E EPS of Rs100.0 and a upside of 19.4%. We have revised our FY18E and FY19E EPS by 35% and 36% respectively in view of additional revenues from Meronem and Neksium.

Particulars (Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	% Var.
Net sales	5,711	5,577	2.4	4,326	32.0	4,800	19.0
Raw material cost	2,395	2,352	1.8	1,428	67.7	1,580	51.6
Employee cost	793	808	(1.9)	808	(1.9)	869	(8.7)
Other expenses	851	1,505	(43.5)	1,324	(35.7)	1,440	(40.9)
EBITDA	1,672	912	83.3	766	118.3	911	83.5
EBITDA margin (%)	29.3	16.4	-	17.7	-	19.0	-
Depreciation	160	161	(0.6)	152	5.3	160	-
Other income	237	243	(2.5)	273	(13.2)	290	(18.3)
PBT	1,747	992	76.1	885	97.4	1,038	68.3
Prov. For tax	636	406	56.7	313	103.2	410	55.1
Adj. PAT	1,111	586	89.6	572	94.2	628	76.9

Source: Company, Centrum Research Estimates

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	18,533	66.7	3,831	20.7	1,808	(18.1)	39.5	13.7	14.3	41.7	14.9
FY16	20,938	13.0	4,327	20.7	2,950	63.2	64.5	14.3	14.4	34.5	23.5
FY17	20,424	(2.5)	3,502	17.1	2,445	(17.1)	53.4	10.7	10.6	33.3	25.2
FY18E	21,051	3.1	4,872	23.1	3,552	45.3	77.6	14.0	13.9	22.9	18.1
FY19E	25,042	19.0	6,321	25.2	4,577	28.9	100.0	16.2	16.1	17.8	13.9

Source: Company, Centrum Research Estimates

In the interest of timeliness, this document is not edited.

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs2,300	Key Data	
CMP*	Rs1,926	Bloomberg Code	PFIZ IN
Upside	19.4%	Curr Shares O/S (mn)	45.7
Previous Target	Rs1,690	Diluted Shares O/S(mn)	45.7
Previous Rating	Hold	Mkt Cap (Rsbn/USDbn)	88.1/1.4
Price Performance (%)*		52 Wk H / L (Rs)	1999/1620.4
		5 Year H / L (Rs)	2724.9/982
PFIZ IN	12.2	10.0	8.9
Nifty	0.9	8.4	27.8
		Daily Vol. (3M NSE Avg.)	17428

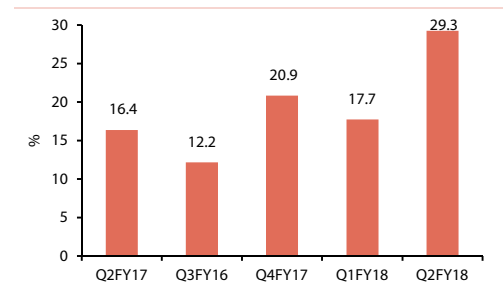
*as on 16th November 2017 Source: Bloomberg, Centrum Research

Shareholding pattern*(%)

	Sept-17	Jun-17	Mar-17	Dec-16
Promoter	63.9	63.9	63.9	63.9
FIs	2.9	2.8	2.9	2.9
DIs	11.6	11.1	10.5	10.4
Others	21.6	22.2	22.7	22.8

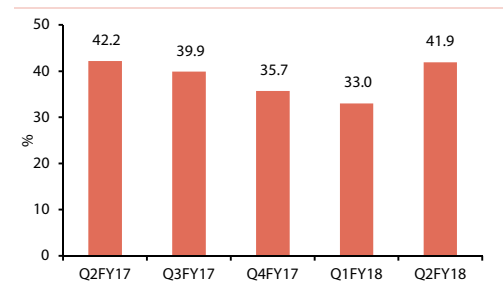
Source: BSE, *as on 16th November 2017

Trend in EBITDA margin (%)



Source: Company, Centrum Research

Trend in material cost (%)



Source: Company, Centrum Research

Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	21,051	20,852	1.0	25,042	24,224	3.4
EBITDA	4,872	3,866	26.0	6,321	4,808	31.5
Ebitda margin (%)	23.1	18.5	460 bps	25.2	19.8	540 bps
Adj PAT	3,552	2,633	34.9	4,577	3,364	36.1

Source: Centrum Research Estimates

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Other developments

Major products and their performance

- Pfizer has plans to launch Meronem injections in India. This product came from Astra Zeneca Pharma (AZP) as a part of a global deal. As per AIOCD AWACS MAT data-September'17, Meronem had revenues of Rs1.40bn and declined by 9.4%. We expect Meronem to generate Rs650mn and Rs1270mn revenues during FY18 and FY19 respectively.
- The lower sales growth was due to the discontinuation of Corex, de-stocking by trade prior to GST implementation, price control imposed by NPPA, divestment of four brands to Piramal Enterprises and the return of the anti-infective brand Claribid to Abbott India. The revenue of its continuing business grew by 27% YoY during the quarter and grew by 13% in H1FY18.
- Pfizer's Prevenar 13 vaccine posted a strong growth of 137% YoY in September'17 and commands a leadership position. Prevenar 13 has received permission in the US and can now be used by people in the 18-49 year age group. The company is likely to obtain a similar permission in India. This would expand the Prevenar 13 market.
- Pfizer acquired antiulcer brand Neksium from Astra Zeneca India for Rs750mn. Neksium generated revenues of Rs286mn and declined at 28.3%. We expect Neksium to generate revenues of Rs150mn and Rs330mn in FY18 and FY19 respectively.
- Hospira has no commercial business in India and Pfizer is exploring the possibility of launching Hospira products in India.

Discontinuation of Corex

- The company has discontinued the manufacture of Corex and would launch 2-3 line extensions over a period. Pfizer launched the line extension Corex-T cough syrup as a prescription product.
- There is no ban on Corex-Dx and it had a strong double digit growth during the quarter. The product is available across India.
- Pfizer has introduced Corex-T as line extension. This product is a prescription product and contains codeine phosphate for the treatment of dry cough.

EBIDTA margin

- EBIDTA margin grew by 1,290bps YoY to 29.3% from 16.4% during Q2FY18, with 30bps improvement in the gross margin. Pfizer has reported one of the best margins during the quarter. The quarterly results were impacted by uncertainties of GST implementation, discontinuation of Corex cough syrup and divestment of four OTC brands to Piramal Healthcare.

Restructuring would improve profitability

- Closure of Thane manufacturing unit and transfer of its employees from Sept'15 to Vidhi Research & Development LLP has resulted in margin improvement.

Financials

- The company is debt-free and cash-rich, with cash/share of ~Rs330. Pfizer is looking for acquisitions in the domestic market.

Performance of major brands

The performance of Pfizer's major brands as per AIOCD AWACS July-September'17 data is as follows:

Exhibit 1: Leading brands of Pfizer

Products	Therapeutic Category	July'17		August'17		September'17	
		Rs mn	Gr. Rate %	Rs mn	Gr. Rate %	Rs mn	Gr. Rate %
Pharma industry		92,795	(2.4)	1,03,167	2.4	1,04,196	2.8
Pfizer		2,181	(11.9)	2,462	(3.1)	2,442	(2.3)
Corex	Cough Syrup	1	(99.8)	1	(99.5)	1	(99.5)
Becosules	Multivitamin	194	(9.8)	232	11.7	209	(1.8)
Magnex	Anti infective	118	(1.2)	141	11.1	155	43.9
Gelusil-MPS	Antacid	121	(1.9)	121	(1.4)	123	6.5
Dolonex	NSAIDs	113	(13.0)	126	3.3	135	5.8
Minipress-XL	Antihypertensive	119	(27.2)	131	0.0	118	19.4
Mucaine	Hyperacidity, Reflux, Ulcers	105	2.7	115	9.5	101	(2.3)
Wysolone	antiallergic	73	(24.3)	90	(13.0)	91	(18.0)
Folvite	Vitamins	69	11.0	72	20.7	62	(0.8)
Dalacin-C	anti-infective	70	24.2	77	16.8	72	11.0
Solu Medrol	antiallergic	59	13.2	63	7.4	63	1.3
Lyricea	CVS	55	27.7	46	-8.3	44	(8.8)
Ativan	CNS	39	8.2	41	1.5	40	3.8
Corex-Dx	Cough Syrup	58	10.1	65	1.1	74	7.7
Ovral-L	Oral Contraceptives	58	21.3	73	42.9	75	57.3
Depo Medrol	antiallergic	44	21.4	43	21.6	42	2.4
Autrin	iron deficiency, anaemia	44	5.4	48	18.9	50	24.6
Medrol	antiallergic	34	1.5	39	8.0	38	(1.5)
Prevenar 13	pneumonia vaccine	76	29.9	88	29.1	104	16.7
Total		1,450		1,612		1,597	

Source: AIOCD AWACS monthly data-July-September'17

As per AIOCD AWACS September'17 data, Pfizer's revenue declined by 2.3% YoY compared to the industry growth of 2.8% YoY. Pfizer's top 19 brands contributed 65% to the company's revenues. Ten of these brands grew faster than the market growth rate of 2.8%. Ovral-L had the highest growth rate of 57.3%. We expect these eleven brands to drive future growth.

Growth drivers

We expect Pfizer's future growth to be driven by Meronem, Corex-Dx, Prevenar 13, Nexsium and the recently introduced Corex-T. Corex's revenues have declined since April'16 whereas those of Corex-Dx have been rising during the same period. We expect Corex-Dx's revenues to partly offset the void created by the discontinuation of Corex. The sales and growth rates of the same are as follows:

Exhibit 2: sales and growth rates of major brands

Product	Th. Category	TTM sales Rs mn	Gr. Rate%
Meronem	anti-infective	1,406	(9.4)
Prevenar 13	pneumonia vaccine	1,246	136.8
Corex-Dx	cough syrup	838	19.8
Nexsium	antiulcerant	286	(28.3)
Total		3,776	NA

Source: AIOCD AWACS MAT data, September'17, Centrum Research

Earnings revision

Pfizer has discontinued its flagship brand Corex cough syrup which generated revenues of Rs1.86bn in FY17. The company has launched Corex-T as a line extension and plans to launch another two to three line extensions.

We expect Pfizer to perform well due to strong growth expected from the launch of Meronem in the domestic market. Meronem came to Pfizer from Astra Zeneca Pharma (AZP) in line with the parent company's global acquisition of AZP's anti-infective portfolio. Meronem's sales stood at Rs1.40bn per annum as per AIOCD AWACS-September'17 data. Pfizer has acquired antiulcer brand Nexium from Astra Zeneca for Rs750mn. Nexium had annual sales of Rs286mn. We expect these two brands to generate additional revenues of Rs1.60bn in FY19.

Pfizer's pneumonia vaccine Prevenar 13 has been approved for being used by people in the 18-49 year age group. This would expand the Prevenar 13 market due to inclusion of more people.

Pfizer's strong portfolio of well-established brands and the closure of its Thane facility would drive future growth. The company plans to introduce Hospira's generic injectables in India.

At the CMP of Rs1,926, Pfizer trades at 22.9x FY18E EPS of Rs77.6 and 17.8x FY19E EPS of Rs100.0. We upgrade Pfizer to Buy from Hold rating and revise the TP to Rs2,300 (earlier Rs1,690) based on 23x March'19E EPS of Rs100.0 and an upside of 19.4%.

Exhibit 3: Earning Revision

Particulars (Rsmn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	21,051	20,852	1.0	25,042	24,224	3.4
EBITDA	4,872	3,866	26.0	6,321	4,808	31.5
Ebitda margin (%)	23.1	18.5	460 bps	25.2	19.8	540 bps
Adj PAT	3,552	2,633	34.9	4,577	3,364	36.1

Source: Centrum Research Estimates

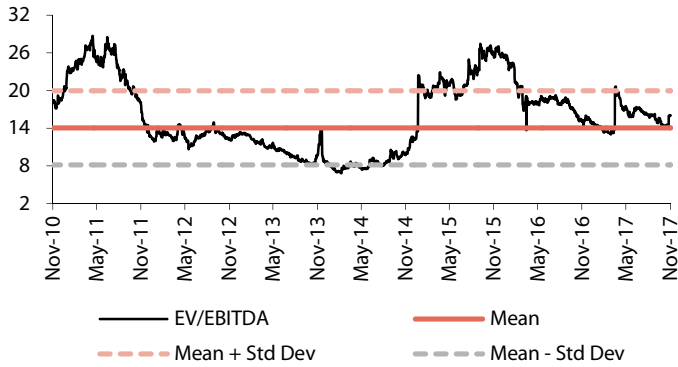
Valuation & key risks

Exhibit 4: Sensitivity Analysis

Sensitivity to key variables – FY18E	% change	% impact on EBITDA	% impact on EPS
Sales	1	4.3	5.9
Material cost	1	(1.6)	(2.2)

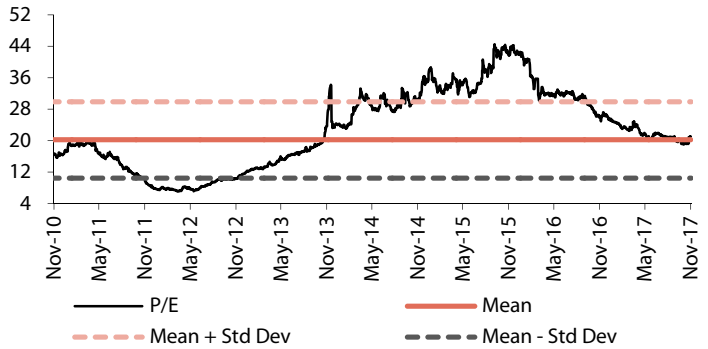
Source: Company, Centrum Research Estimates

Exhibit 5: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 6: 1 year forward P/E chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 7: Comparative Valuations

Sector	Mkt Cap (Rs mn)	CAGR FY17-19E (%)			EBITDA Margin (%)			PE (x)			EV/EBITDA (x)			RoE (%)			Div Yield (%)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Pfizer	88,115	10.7	34.3	36.8	17.1	23.1	25.2	33.3	22.9	17.8	25.2	18.1	13.9	10.7	14.0	16.2	1.0	1.0	1.3
Abbott India	1,03,403	15.3	33.9	35.4	13.5	16.1	18.2	35.6	23.4	18.1	22.0	14.6	10.7	21.4	25.6	27.3	1.0	1.2	1.4
Glaxo SK Ph	2,17,256	14.2	33.5	35.8	14.0	16.5	19.1	88.8	54.1	39.1	59.5	36.2	26.8	13.9	19.1	25.2	1.2	1.7	1.9
Sanofi India*	1,02,852	14.6	16.9	23.3	22.3	21.8	23.2	33.3	27.2	21.3	17.7	15.4	12.0	17.7	19.5	22.6	1.9	2.2	2.3

Source: Company, Centrum Research Estimates, * December ending, Prices as on 16th November 2017

Quarterly financials, Operating Metrics and Key Performance Indicators

Exhibit 8: Quarterly Financials

PARTICULARS (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
P & L								
Revenues	5,263	5,349	5,209	5,577	5,102	4,532	4,326	5,711
Material cost	2,056	1,924	1,959	2,352	2,037	1,617	1,428	2,395
Personnel expenses	781	645	756	808	876	599	808	793
Other expenses	1,621	1,552	1,481	1,505	1,568	1,371	1,324	851
Total Expenses	4,458	4,121	4,196	4,665	4,481	3,587	3,560	4,039
EBIDTA	805	1,228	1,013	912	621	945	766	1,672
Other income	247	287	215	243	265	288	273	237
PBDIT	1,052	1,515	1,228	1,155	886	1,233	1,039	1,909
Interst	2	1	4	2	2	1	2	2
Depreciation	149	153	150	161	154	164	152	160
Profit before tax	901	1,361	1,074	992	730	1,068	885	1,747
Tax provision	303	489	327	406	297	388	313	636
PAT before EO items	598	872	747	586	433	680	572	1,111
EO items	2	0	54	677	190	0	0	0
PAT after EO items	600	872	801	1,263	623	680	572	1,111
Growth (%)								
Revenues	11.0	15.5	7.8	5.1	(3.1)	(15.3)	(17.0)	2.4
EBIDTA	32.2	(1.6)	(10.5)	(21.0)	(22.9)	(23.0)	(24.4)	83.3
Net profit before EO items	180.8	104.3	(0.6)	(23.4)	(27.6)	(22.0)	(23.4)	89.6
Margin (%)								
EBIDTA	15.3	23.0	19.4	16.4	12.2	20.9	17.7	29.3
Profit before tax	17.1	25.4	20.6	17.8	14.3	23.6	20.5	30.6
Net margin before EO items	11.4	16.3	14.3	10.5	8.5	15.0	13.2	19.5

Source: Company, Centrum Research

Exhibit 9: Key performance indicators

Key performance indicator	FY15	FY16	FY17	FY18E	FY19E
Revenue growth (%)	66.7	13.0	(2.5)	3.1	19.0
Material cost (%)	39.9	37.6	39.0	37.9	37.5

Source: Centrum Research Estimates

Financials

Exhibit 10: Income Statement

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	18,533	20,938	20,424	21,051	25,042
Material cost	7,399	7,871	7,964	7,987	9,390
% of revenues	39.9	37.6	39.0	37.9	37.5
Employee cost	2,364	2,774	3,039	3,310	3,940
% of revenues	12.8	13.2	14.9	15.7	15.7
Other Expenses	4,940	5,966	5,918	4,882	5,391
% of revenues	26.7	28.5	29.0	23.2	21.5
EBIDTA	3,831	4,327	3,502	4,872	6,321
EBIDTA margin (%)	20.7	20.7	17.1	23.1	25.2
Depreciation & Amortisation	1,311	579	629	680	730
EBIT	2,520	3,748	2,873	4,192	5,591
Interest Expenses	8	14	20	20	24
PBT from operations	2,512	3,734	2,853	4,172	5,567
Other income	673	870	1,011	1,140	1,270
PBT	3,185	4,604	3,864	5,312	6,837
Tax provision	1,377	1,654	1,419	1,760	2,260
Effective tax rate (%)	43.2	35.9	36.7	33.1	33.1
Net profit	1,808	2,950	2,445	3,552	4,577
EO items	(1,110)	99	922	-	-
Reported net profit	698	3,049	3,367	3,552	4,577
Adj. Net profit	1,808	2,950	2,445	3,552	4,577

Source: Company, Centrum Research Estimates

Exhibit 11: Key Ratios

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Growth Ratios (%)					
Revenues	66.7	13.0	(2.5)	3.1	19.0
EBIDTA	60.6	13.0	(19.1)	39.1	29.7
Adj. Net Profit	(18.1)	63.2	(17.1)	45.3	28.9
Margin Ratios (%)					
EBIDTA margin	20.7	20.7	17.1	23.1	25.2
PBT from operations margin	13.6	17.8	14.0	19.8	22.2
Adj. PAT margin	9.8	14.1	12.0	16.9	18.3
Return Ratios (%)					
RoCE	14.3	14.4	10.6	13.9	16.1
RoE	13.7	14.3	10.7	14.0	16.2
RoC	17.7	19.5	17.4	28.1	34.7
Turnover ratios (days)					
Gross Block Turnover (x)	2.6	1.6	1.5	1.5	1.7
Debtors	31	25	22	26	24
Creditors	67	59	71	36	87
Inventories	76	63	58	66	66
Cash Conversion Cycle	41	29	8	56	3
Solvency Ratio					
Debt-Equity	0.0	0.0	0.0	0.0	0.0
Net Debt-Equity	(0.3)	(0.5)	(0.6)	(0.6)	(0.6)
Current Ratio	2.4	2.8	2.8	3.6	3.1
Interest Coverage Ratio	0.0	0.0	0.0	0.0	0.0
Gross Debt/EBIDTA	0.0	0.0	0.0	0.0	0.0
Per Share (Rs)					
FDEPS (adjusted)	39.5	64.5	53.4	77.6	100.0
CEPS	68.2	77.1	67.2	92.5	116.0
Book Value	431.2	472.9	528.7	582.7	653.3
Dividend	12.5	15.0	20.0	20.0	25.0
Dividend Payout (%)	98.6	27.1	32.1	30.4	29.5
Valuations (x) (Avg Mkt Cap)					
PER	41.7	34.5	33.3	22.9	17.8
P/BV	3.8	4.7	3.4	3.1	2.7
EV/EBIDTA	14.9	23.5	25.2	18.1	13.9
Dividend Yield (%)	0.6	0.8	1.0	1.0	1.3
5-yr Avg AOCF/EV yield(%)	1.3	1.3	3.4	4.4	5.9

Source: Company, Centrum Research Estimates

Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share capital	458	458	458	458	458
Reserves & surplus	19,268	21,176	23,730	26,202	29,430
Total shareholders Funds	19,726	21,634	24,187	26,659	29,888
Total Debt	25	25	25	25	25
Minority interest	-	-	-	-	-
Deferred tax Liab.	(671)	282	176	185	200
Total Liabilities	19,080	21,941	24,388	26,870	30,113
Gross Block	12,886	12,654	14,013	14,637	15,307
Less: Acc. Depreciation	3,443	3,044	4,936	5,613	6,339
Net Block	9,444	9,611	9,077	9,024	8,968
Capital WIP	126	33	153	200	250
Net Fixed Assets	9,570	9,644	9,230	9,224	9,218
Investments	427	-	-	-	-
Inventories	3,879	3,607	3,219	3,810	4,545
Debtors	1,579	1,423	1,208	1,500	1,650
Loans & Advances	3,755	553	490	540	608
Cash & Bank Balance	6,088	10,246	15,227	16,088	19,311
Other assets	142	3,405	3,382	2,490	4,680
Total Current Assets	15,443	19,234	23,526	24,428	30,795
Trade payable	3,390	3,379	3,978	2,100	6,000
Other current Liabilities	818	1,815	2,414	2,630	1,500
Provisions	2,152	1,743	1,976	2,052	2,400
Net Current Assets	9,083	12,297	15,159	17,646	20,895
Total Assets	19,080	21,941	24,388	26,870	30,113

Source: Company, Centrum Research Estimates

Exhibit 13: Cash Flow

Y/E March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
CF before WC changes	1,539	2,757	3,890	4,241	5,322
Working Capital Changes	(404)	679	2,120	(1,627)	(25)
CF from Operations	1,135	3,436	6,010	2,614	5,297
Adj OCF (OCF-Interest)	1,580	4,000	6,010	2,614	5,297
Change in fixed assets	(202)	1,370	(215)	(674)	(724)
Adj. FCF (AOCF-Capex)	1,378	5,370	5,795	1,940	4,573
CF from Investing	685	(6,991)	(215)	(674)	(724)
CF from Financing	(14)	(619)	(1,080)	(1,080)	(1,350)
Net change in Cash	1,805	(4,174)	4,715	860	3,223

Source: Company, Centrum Research Estimates

Appendix A

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Pfizer price chart



Source: Bloomberg, Centrum Research

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