

Pharmaceuticals

Target price: Rs4,705

Earnings revision

(%)	FY21E	FY22E
Sales	(5.6)	(4.3)
EPS	(21.6)	(15.8)

Target price revision

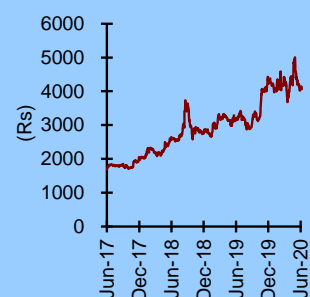
Rs4,705 from Rs5,590

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	63.9	63.9	63.9
Institutional investors	16.7	16.7	16.4
MFs and others	9.4	9.4	9.3
Banks / FIs	0.7	0.7	0.7
Insurance	2.6	2.6	2.4
FIs	4.0	4.0	4.0
Others	19.4	19.4	19.7

Source: BSE India

Price chart



Dichotomy continues

Pfizer Limited's (PFL) Q4FY20 performance was weak during the quarter. Revenue declined 6.3% YoY to Rs5.0bn (I-Sec: Rs6.3bn). Revenue was impacted by divestment of two brands in Q3FY20 and COVID-19. Adjusted growth was 3.5%. EBITDA margin declined 650bps YoY (-310bps QoQ) to 21.7% (lowest in several quarters) due to lower revenue. Adjusted PAT declined 5.9% YoY to Rs1.0bn. Dichotomy between primary and secondary sales continue as AIOCD data suggests revenue growth for the company was 12.5%. We expect this disparity to normalise in the coming quarters. We remain positive on the company's growth visibility with exposure only in domestic formulations and strong balance sheet with deep cash reserves, however, pressure due to COVID-19 would restrict growth in the near term as the company's product portfolio is largely acute (~75%). Maintain BUY.

► **Weak performance:** Dichotomy between primary and secondary sales is stark with reported revenue decline of 6.3% while AIOCD suggests growth of 12.5% (akin to performance in Q3FY20). Revenue was impacted by COVID-19 and loss of sales from the divested brands. Adjusting for these impacts the revenue growth stood at 3.5%. Gross margin fell 380bps YoY (+80bps QoQ). Employee cost surged 23.6% YoY but it was somewhat cushioned by 15.0% decline in the S,G&A expenses. Overall EBITDA declined 28.0% YoY (-18.5% QoQ) to Rs1.1bn and margin dropped 650bps YoY (-310bps QoQ). This weak performance resulted in 10.5% YoY decline in PAT for the quarter to Rs980mn (I-Sec: Rs1.5bn) after adjusting for Rs445mn of tax benefit pertaining to prior years.

► **Key products performance:** As per AIOCD data PFL has reported a growth of 12.5% driven by its top ten products. *Minipress XL*, *Mucaine* and *Meronem* have reported very strong double digit YoY growth of 31.2%, 22.5% and 37.1% respectively. *Becosules*, *Magnex*, *Gelusil MPS*, *Dolonex*, *Corex DX* and *Wysolone* reported YoY growth of mid-teens (15.8%, 18.1%, 15.6%, 16.1%, 13.8% and 19.4% respectively). *Prevenar 13* reported a decline of 10.7% YoY for the quarter with reduced footfalls in OPDs. *Eliquis* reported a growth of 17.7% YoY for the quarter despite its patent expiry and entry of a competitor in Dec'19. Remaining products reported an average growth of 8.3% during the quarter.

► **Outlook:** We believe that difference between primary and secondary sales would normalise in the coming quarters. However, revenue would remain subdued in the near term impacted by COVID-19 as the company's product portfolio is largely acute (~75%). Operating leverage would drive margin improvement of 360bps. This would help generate healthy free cashflows of ~Rs13bn over FY21E-FY22E.

► **Valuations and risks:** We revise our rev/earnings estimates for FY21E-FY22E by 4-5%/16-22% to incorporate reduced other income post high dividend payout in FY21 and near term uncertainty due to COVID-19. Maintain **BUY** rating with a revised target price of Rs4,705/share based on 35x FY22E EPS (earlier: Rs5,590/share). Key downside risks are: addition of key drugs in NLEM, product concentration, government intervention, and presence of unlisted promoter company.

Market Cap	Rs187bn/US\$2.5bn
Reuters/Bloomberg	PFIZ.BO/PFIZ IN
Shares Outstanding (mn)	45.7
52-week Range (Rs)	5001/2869
Free Float (%)	36.1
FII (%)	4.0
Daily Volume (USD/'000)	3,740
Absolute Return 3m (%)	1.8
Absolute Return 12m (%)	38.6
Sensex Return 3m (%)	(2.3)
Sensex Return 12m (%)	(14.9)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	20,815	21,517	23,643	26,372
Net Income (Rs mn)	4,291	4,646	4,961	6,150
EPS (Rs)	93.8	109.3	108.4	134.4
% Chg YoY	19.2	16.5	(0.8)	24.0
P/E (x)	43.5	37.3	37.6	30.3
CEPS (Rs)	97.9	120.3	120.0	146.5
EV/E (x)	29.6	28.7	25.8	21.0
Dividend Yield (%)	0.5	0.6	7.8	0.7
RoCE (%)	14.9	15.4	16.5	22.1
RoE (%)	15.1	15.6	17.0	23.0

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Table 1: Q4FY20 performance*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg	Q3FY20	QoQ % Chg
Net Sales	5,020	5,357	(6.3)	5,382	(6.7)
EBITDA	1,087	1,510	(28.0)	1,334	(18.5)
Other income	452	355	27.6	272	66.1
PBIDT	1,539	1,864	(17.4)	1,607	(4.2)
Depreciation	284	176	61.3	247	15.0
Interest	36	6	493.4	25	47.2
PBT	1,219	1,682	(27.5)	1,645	(25.9)
Tax	634	588	7.9	254	149.2
Minority Interest	-	-	-	-	-
Adjusted PAT	980	1,095	(10.5)	1,129	(13.2)
Extra ordinary income/ (exp.)	-	-	-	310	-
Reported PAT	1,030	1,095	(5.9)	1,391	(25.9)
EBITDA margins (%)	21.7	28.2	(650)bps	24.8	(310)bps

Source: Company data, I-Sec research

Revising sales and earnings estimates

For FY20-FY22E, we forecast net sales and earnings to increase at CAGRs of 10.7% and 10.9% respectively. We revise our rev/earnings estimates for FY21E-FY22E by 4-5%/16-22% to incorporate reduced other income post high dividend payout in FY21 and near term uncertainty due to COVID-19.

Table 2: Earnings revision

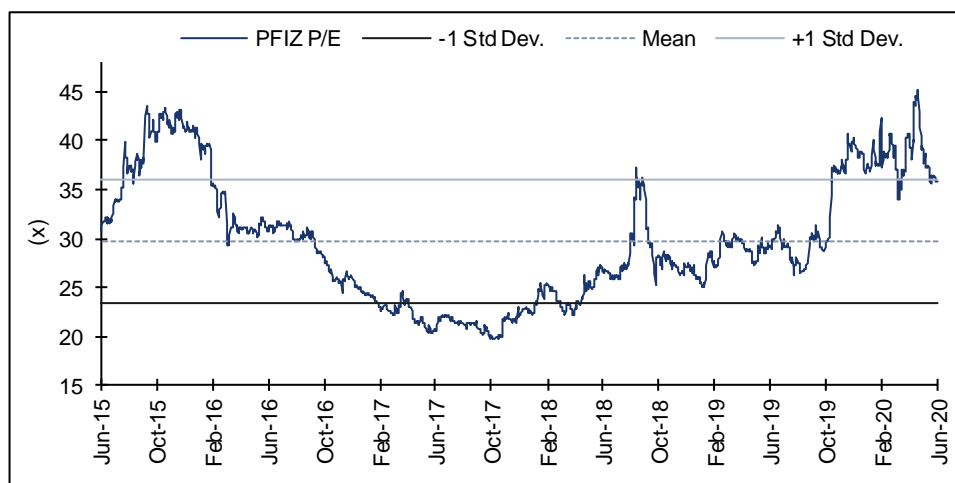
	FY21E	FY22E
Total sales (Rs mn)		
Sales – new	23,643	26,372
Sales – old	25,041	27,568
Change (%)	(5.6)	(4.3)
EPS (Rs)		
EPS – new	108.4	134.4
EPS – old	138.3	159.7
Change (%)	(21.6)	(15.8)

Source: I-Sec research

Valuations

We expect PFL to witness an earnings CAGR of 10.9% over FY20-FY22E driven by revenue CAGR of 10.7% and EBITDA margin expansion to 30.2% in FY22E from 26.6% in FY20. Return ratios (RoE and RoCE) would improve with margin expansion led by strong growth. The stock currently trades at valuations of 37.6x FY21E and 30.3x FY22E earnings and EV/EBITDA multiple of 25.8x FY21E and 21.0x FY22E. We remain positive on the long-term outlook considering the company's strong growth trajectory led by the next set of power brands, healthy return profile and rich cash reserves however, pressure due to COVID-19 would restrict growth in the near term as the company's product portfolio is largely acute (~75%). We maintain our **BUY** rating on the stock with a revised target price of Rs4,705/share based on 35x FY22E earnings (earlier: Rs5,590/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Net Revenue	20,815	21,517	23,643	26,372
yoy Growth%	5.7	3.4	9.9	11.5
Total Op. Exp.	15,163	15,791	16,923	18,397
EBITDA	5,652	5,726	6,719	7,975
Margins %	27.2	26.6	28.4	30.2
yoy Growth%	13.0	1.3	17.4	18.7
Depreciation	714	1,032	1,055	1,079
EBIT	4,938	4,693	5,664	6,896
Other Income	1,674	1,530	1,077	1,435
Interest	13	109	109	109
EO Income	-	310	-	-
PBT	6,599	6,425	6,632	8,223
Tax	2,309	1,779	1,671	2,072
Tax Rate (%)	35.0	27.7	25.2	25.2
Minority Interest	-	-	-	-
Reported PAT	4,291	4,646	4,961	6,150
Adj. PAT	4,291	4,422	4,961	6,150
Net Margins (%)	20.6	20.6	21.0	23.3

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	458	458	458	458
Reserves & Surplus	29,656	33,497	23,818	28,739
Total Equity	30,113	33,955	24,276	29,196
Minority Interest	-	-	-	-
Total Debt	25	25	25	25
Deferred Liabilities	22	(6)	(6)	(6)
Capital Employed	30,161	33,974	24,295	29,215
Current Liabilities	9,239	10,074	10,877	11,980
Total Liabilities	39,400	44,048	35,171	41,195
Net Fixed Assets	8,862	9,736	8,831	7,902
Investments	-	-	-	-
Inventory	3,867	4,306	4,615	5,016
Debtors	1,717	1,720	1,890	2,108
Other Current Assets	5,811	6,087	6,447	6,908
Cash and Equivalents	19,143	22,199	13,389	19,260
Total Cur. Assets	30,538	34,312	26,340	33,293
Total Assets	39,400	44,048	35,171	41,195

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT (Adj. for Extraordinary)	6,599	6,425	6,632	8,223
Depreciation	187	1,032	1,055	1,079
Net Chg in WC	(1,692)	(432)	(162)	(141)
Taxes	(2,376)	(2,133)	(1,671)	(2,072)
Others	(1,754)	(1,769)	126	162
CFO	965	3,123	5,980	7,251
Capex	269	(18)	(150)	(150)
Net Investments made	-	-	-	-
Others	83	15,321	-	-
CFI	351	15,303	(150)	(150)
Change in Share capital	-	-	-	-
Change in Debts	-	(390)	-	-
Div. & Div Tax	(1,099)	(1,241)	(14,640)	(1,230)
Others	13	104	-	-
CFF	(1,086)	(1,527)	(14,640)	(1,230)
Total Cash Generated	231	16,900	(8,810)	5,871
Cash Opening Balance	507	738	17,638	8,828
Cash Closing Balance	738	17,638	8,828	14,699

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj EPS	93.8	109.3	108.4	134.4
YoY Growth%	19.2	16.5	(0.8)	24.0
Cash EPS	97.9	120.3	120.0	146.5
EBITDA - Core (%)	27.2	26.6	28.4	30.2
NPM (%)	20.6	20.6	21.0	23.3
Net Debt to Equity (x)	(0.6)	(0.7)	(0.6)	(0.7)
P/E (x)	43.5	37.3	37.6	30.3
EV/EBITDA Core (x)	29.6	28.7	25.8	21.0
P/BV (x)	6.2	5.5	7.7	6.4
EV/Sales (x)	8.0	7.6	7.3	6.3
RoCE (%)	14.9	15.4	16.5	22.1
RoE (%)	15.1	15.6	17.0	23.0
RoIC (%)	30.5	32.4	33.3	43.4
Book Value (Rs)	658	742	531	638
DPS (Rs)	19.9	22.5	320.0	26.9
Dividend Payout (%)	21.2	20.6	295.1	20.0
Div Yield (%)	0.5	0.6	7.8	0.7
Asset Turnover Ratio	2.3	2.3	2.5	3.2
Avg Collection days	29	29	28	28
Avg Inventory days	82	94	96	96

Source: Company data, I-Sec research

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