Pfizer Ltd (PFIZER)

ICICI direct Research

CMP: ₹ 4120 | Target: ₹ 4740 (15%) | Target Period: 12 months | BUY

July 7, 2020

Steady performance amid divestiture, disturbances

Q4FY20 revenues declined 6.3% YoY to ₹ 502 crore due to divestiture of certain brands and Covid-19 related challenges (adjusted growth ~4%). EBITDA margins contracted 653 bps to 21.7% YoY due to higher raw material and personnel costs. Subsequently, EBITDA came in at ₹ 108.7 crore, down 28% YoY. Net profit de-grew 5.9% YoY to ₹ 103 crore. In FY20, revenues grew 3.4% YoY to ₹ 2152 crore (adjusted growth ~6%). EBITDA margins declined slightly by 54 bps to 26.6% with EBITDA remaining flat at ₹ 573 crore (₹ 565 crore in FY19). However, net profit grew 18.7% YoY to ₹ 509 crore, mainly due to a significant decline in tax outgo.

Persistent margin improvement despite slow growth

Besides legacy NLEM/GST related adjustments, Pfizer has been continuously restructuring its portfolio in the last few years to improve the productivity of its core brands and also in accordance with development at the parent level. Despite stagnant turnover growth (FY15-20 CAGR of ~3%), the company has delivered margin improvement on a fairly consistent basis (FY20 EBITDA margins 26.6% vis-à-vis FY15 EBITDA margins of 20.7%; EBITDA and PAT CAGR of 8.4% and 23%, respectively, during FY15-20).

Strong balance sheet, return ratios

Pfizer India is a net debt-free company with healthy core RoE of ~31% in FY20. Strong brand recall, consistent new product launches and acquisition of new brands, volume growth in top brands and intermittent price hikes provide comfort on the financials front. The company declared ₹ 330 (₹ 320: special, ₹ 10: final) dividend for FY20. Additionally, it has maintained a dividend payout of 25-30% during FY16-19.

Valuation & Outlook

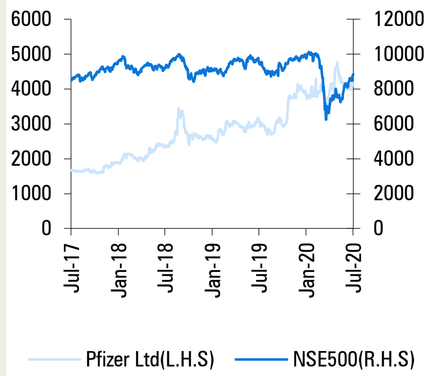
Pharma MNCs with domestic focus continue to drive investor's interest on the back of: 1) consistency in stable growth despite higher competition and regulatory changes, 2) strong focus on legacy power brands as well as introduction from global parent's staple, 3) consistent free cash-flow generation, 4) debt-free balance sheet, strong core RoEs and 5) healthy dividend payout track record. Despite divestiture of certain brands and Covid-19 related challenges in Q4FY20, the company posted steady growth. 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, vitamins, GI and CVS. The vaccines segment especially remains at the core of future growth and new launches. We continue to believe in Pfizer's strong growth track record in power brands and capability in new launches on a fairly consistent basis (recent launches from parent's staple- Zavicefta (anti-infective), Eliquis (CVS), Xeljanz (pain management). We maintain **BUY** and arrive at a target price of ₹ 4740 based on 40x FY22 EPS of ₹ 118.6.

Company Update

Particulars

Particular	Amount
Market Capitalisation	₹18848 crore
Debt (FY20)	₹3 crore
Cash (FY20)	₹2220 crore
EV	₹16631 crore
52 week H/L	4999/2612
Equity capital	₹45.8 crore
Face value	₹10

Price Performance



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ICICI Securities – Retail Equity Research

Key Financial Summary

₹Crore	FY19	FY20	FY21E	FY22E	CAGR FY20-22E (%)
Revenues	2081.5	2151.7	2229.0	2562.2	9.1
EBITDA	565.2	572.6	566.2	704.9	11.0
EBITDA margins (%)	27.2	26.6	25.4	27.5	
Net Profit	429.1	509.2	419.0	542.4	3.2
EPS (₹)	93.8	111.3	91.6	118.6	
PE (x)	43.9	37.0	45.0	34.8	
M.Cap/Revenues (x)	9.1	8.8	8.5	7.4	
EV to EBITDA (x)	30.0	29.0	31.1	24.5	
RoCE (%)	21.7	18.5	23.3	26.1	
ROE	14.2	15.0	18.2	20.3	

Source: ICICI Direct Research; Company

Exhibit 1: Power brands

Brands	Therapy	FY15	FY16	FY17	FY18	FY19	FY20	CAGR 15-20
BECOSULES	Vitamin	243.2	228.6	222.4	229.8	288.3	328.7	6.2
MAGNEX	Anti-infective	131.4	146.1	138.3	151.1	180.0	219.3	10.8
GELUSIL MPS	GI	127.1	139.8	134.2	135.7	146.8	173.6	6.4
DOLONEX	Pain	128.5	136.0	142.4	144.3	152.2	164.3	5.0
MUCAINE	GI	85.5	104.9	116.1	118.6	134.2	157.5	13.0
MINIPRESS XL	CVS	144.2	121.5	147.8	144.5	136.4	141.8	-0.3
MERONEM	Anti-infective	69.9	124.7	168.8	82.3	85.9	140.6	15.0
PREVENAR 13	Vaccine	29.3	38.8	101.0	126.0	125.4	139.7	36.6
COREX DX	Cough Syrup	49.1	59.3	80.2	92.4	108.6	128.4	21.2
WYSOLONE	Allergy	87.6	96.3	120.6	113.5	109.0	128.3	7.9
Top 10		**1095.8**	**1195.8**	**1371.7**	**1338.1**	**1466.7**	**1722.1**	**9.5**
Total sales		**1853.3**	**2012.3**	**1966.3**	**1968.5**	**2081.5**	**2151.7**	**3.0**
Top 10% of sales		59%	59%	70%	68%	70%	80%	

Source: AIOCD; Company; MAT based value in ₹ crore

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,081.5	2,151.7	2,229.0	2,562.2
Growth (%)	5.7	3.4	3.6	14.9
Raw Material Expenses	747.9	792.4	818.6	922.4
Gross Profit	1,333.6	1,359.3	1,410.4	1,639.8
Gross Profit Margins (%)	64.1	63.2	63.3	64.0
Employee Expenses	323.8	364.5	400.3	428.3
Other Expenditure	444.6	422.2	443.9	506.6
Total Operating Expenditure	1,516.3	1,579.1	1,662.8	1,857.3
EBITDA	**565.2**	**572.6**	**566.2**	**704.9**
Growth (%)	13.0	1.3	-1.1	24.5
Interest	1.3	10.9	10.9	10.9
Depreciation	71.4	103.2	106.6	109.9
Other Income	167.4	184.0	111.5	140.9
PBT before Exceptional I	**659.9**	**642.6**	**560.2**	**725.1**
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Item	659.9	642.6	560.2	725.1
Total Tax	230.9	133.4	141.2	182.7
PAT before MI	429.1	509.2	419.0	542.4
PAT	**429.1**	**509.2**	**419.0**	**542.4**
Growth (%)	19.2	18.7	-17.7	29.4
EPS (Adjusted)	**93.8**	**111.3**	**91.6**	**118.6**

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	422.4	429.2	419.0	542.4
Add: Depreciation & Amort	71.4	103.2	106.6	109.9
Net Increase in Current As	-186.0	-59.5	-17.8	-114.2
Net Increase in Current Lia	-59.1	7.1	84.4	118.6
Others	-150.9	-156.8	10.9	10.9
CF from Operating activi	**97.8**	**323.2**	**603.1**	**667.5**
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed A	26.9	-1.8	-50.0	-50.0
Others	127.7	147.7	-35.6	-39.4
CF from Investing activit	**154.5**	**145.9**	**-85.6**	**-89.4**
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-109.9	-124.1	-1,509.7	-173.8
Other	0.0	-39.4	-10.8	-10.9
CF from Financing activitie	-109.9	-163.5	-1,520.5	-184.7
Net Cash Flow	**142.5**	**305.5**	**-1,003.1**	**393.4**
Cash and Cash Equivalent	1,771.9	1,914.3	2,219.9	1,216.8
Cash	**1,914.3**	**2,219.9**	**1,216.8**	**1,610.3**
Free Cash Flow	**124.7**	**321.4**	**553.1**	**617.5**

Source: ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	45.8	45.8	45.8	45.8
Reserve and Surplus	2,965.6	3,349.7	2,259.1	2,627.6
Total Shareholders funds	3,011.3	3,395.5	2,304.8	2,673.4
Total Debt	2.5	2.5	2.5	2.5
Deferred Tax Liability	2.2	0.0	0.0	0.0
Long-Term Provisions	34.7	47.8	48.8	49.8
Other Non Current Liabilitie	0.0	88.7	90.5	92.3
Source of Funds	**3,050.8**	**3,534.5**	**2,446.6**	**2,817.9**
Gross Block - Fixed Assets	572.8	764.8	814.8	864.8
Accumulated Depreciation	246.4	349.7	456.3	566.2
Net Block	326.4	415.2	358.5	298.6
Goodwill on Consolidation	527.5	527.5	527.5	527.5
Fixed Assets	853.9	942.6	886.0	826.1
Investments	32.3	31.0	31.0	31.0
Long Term Loans and Adva	224.2	241.2	265.3	291.9
Other non-Current Assets	112.9	142.3	156.5	172.2
Inventory	386.7	430.6	414.1	476.0
Debtors	171.7	172.0	183.8	211.3
Loans and Advances	23.0	0.0	0.0	0.0
Other Current Assets	221.0	225.8	248.3	273.2
Cash	1,914.3	2,219.9	1,216.8	1,610.3
Total Current Assets	2,716.7	3,048.3	2,063.0	2,570.7
Creditors	435.9	426.8	466.8	536.6
Provisions	159.1	103.7	114.1	125.5
Other Current Liabilities	294.2	340.4	374.4	411.8
Total Current Liabilities	889.2	870.9	955.3	1,073.9
Net Current Assets	1,827.5	2,177.4	1,107.7	1,496.8
Application of Funds	**3,050.8**	**3,534.5**	**2,446.6**	**2,817.9**

Source: ICICI Direct Research

Exhibit 5: Ratio Analysis

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	93.8	111.3	91.6	118.6
Cash EPS	67.2	84.7	-238.4	80.6
BV per share	658.2	742.2	503.8	584.4
Cash per Share	418.5	485.2	266.0	352.0
Dividend per share	26.6	330.0	38.0	40.0
Operating Ratios (%)				
Gross Profit Margins	64.1	63.2	63.3	64.0
EBITDA margins	27.2	26.6	25.4	27.5
PAT Margins	20.6	23.7	18.8	21.2
Cash Conversion Cycle	21.5	29.8	21.5	21.5
Asset Turnover	3.6	2.8	2.7	3.0
EBITDA conversion Rate	17.3	56.4	106.5	94.7
Return Ratios (%)				
RoE	14.2	15.0	18.2	20.3
RoCE	21.7	18.5	23.3	26.1
RoIC	43.5	35.7	37.4	49.3
Core ROE	29.2	30.9	30.9	41.1
Valuation Ratios (x)				
P/E	43.9	37.0	45.0	34.8
EV / EBITDA	30.0	29.0	31.1	24.5
EV / Net Sales	8.1	7.7	7.9	6.7
Market Cap / Sales	9.1	8.8	8.5	7.4
Price to Book Value	6.3	5.6	8.2	7.1
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	1.0	0.9	0.9

Source: ICICI Direct Research

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