

## Steady performance amid divestiture, disturbances...

Q2FY21 revenues grew 5% YoY to ₹ 595 crore. Adjusting for divestiture of rights & interests in certain brands and Covid-19, YoY growth for the quarter was at 10.1%. Also, hospital and vaccines business reflected improved performance due to easing of lockdown. EBITDA margins expanded 520 bps to 34.1% YoY due to a better overall operational performance. Decline in other expenses is likely on account of lower promotional & marketing activities. Hence, EBITDA grew 23.8% YoY to ₹ 203 crore. However, PAT de-grew 14.8% YoY to ₹ 131 crore. Delta vis-à-vis EBITDA was due to lower other income, higher tax rate (28.2% vs. 14.9% in Q2FY20).

## 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, PAT CAGR of 8.4%, 23%, respectively, in 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 had declared a ₹ 330 (₹ 320: special, ₹ 10: final) dividend for FY20. Additionally, it has maintained a dividend payout of 25-30% during FY16-19.

## Valuation & Outlook

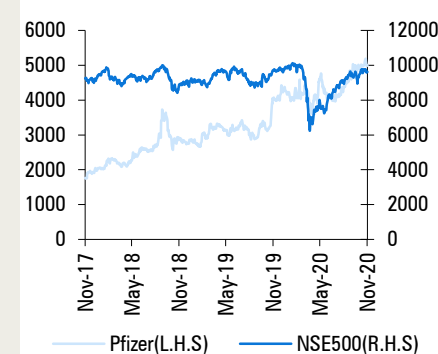
Revenues were in line with I-direct estimates whereas profitability was higher due to better-than-expected operational performance. Despite divestiture of certain brands in earlier quarters and Covid-19 related operational challenges, the company continues to deliver a decent set of numbers. Pfizer is 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. Similarly, the company is continuously trying to enhance the share of the parent's global products portfolio, which has grown from ~36% in FY17 to ~49% as of FY20. The vaccines segment, led by Prevnar 13, 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, Zinforo, Meronem (all anti-infective), Eliquis (CVS), Xeljanz (pain management) among others). We maintain **BUY** recommendation and arrive at a target price of ₹ 5890 based on 40x FY23 EPS of ₹ 147.3.



### Particulars

Particular	Amount
Market Capitalisation	₹22860 crore
Debt (FY 20)	₹3 crore
Cash (FY 20)	₹2220 crore
EV	₹20643 crore
52 week H/L	5274/3588
Equity capital	₹45.8 crore
Face value	₹10

### Price Performance



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### Key Financial Summary

₹Crore	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E (%)
Revenues	2151.7	2243.7	2572.0	2880.7	10.2
EBITDA	572.6	718.9	758.8	871.1	15.0
EBITDA margins (%)	26.6	32.0	29.5	30.2	
Net Profit	509.2	499.4	579.8	673.6	9.8
EPS (₹)	111.3	109.2	126.7	147.3	
PE (x)	44.9	45.8	39.4	33.9	
M.Cap/ Revenues (x)	10.6	10.2	8.9	7.9	
EV to EBITDA (x)	36.0	30.0	27.8	23.7	
RoCE (%)	18.5	27.5	26.8	26.6	
ROE	15.0	20.9	20.8	20.5	

Source: ICICI Direct Research; Company

**Exhibit 1: Power brands**

<b>Brands</b>	<b>Therapy</b>	<b>SEP15</b>	<b>SEP16</b>	<b>SEP17</b>	<b>SEP18</b>	<b>SEP19</b>	<b>SEP20</b>	<b>CAGR 15-20</b>
BECOSULES	Vitamins	253.7	220.3	222.5	259.4	307.2	366.4	7.6
GELUSIL MPS	Gastro	140.0	137.0	133.9	142.3	157.4	191.0	6.4
MAGNEX	Anti-Infective	153.2	136.2	149.3	160.1	197.8	189.4	4.3
MUCAINE	Gastro	94.7	114.2	115.5	128.2	142.4	178.1	13.5
DOLODEX	Pain	132.8	139.9	147.2	142.8	153.8	169.8	5.0
MINIPRESS XL	Cardiac	129.0	134.7	143.5	142.1	127.8	159.0	4.3
WYSOLONE	Hormone	95.3	103.7	124.6	107.9	114.6	138.9	7.8
COREDX	Respiratory	52.0	70.0	83.2	97.3	119.0	137.3	21.4
PREVENAR 13	Vaccines	35.9	52.6	125.4	119.5	140.7	129.4	29.2
MERONEM	Anti-Infective	95.0	155.1	131.7	69.6	110.8	124.9	5.6
<b>Top 10</b>		<b>1181.6</b>	<b>1263.8</b>	<b>1376.7</b>	<b>1369.2</b>	<b>1571.6</b>	<b>1784.1</b>	<b>8.6</b>
<b>Total AIOCD sales</b>		<b>2796.3</b>	<b>2991.0</b>	<b>2917.4</b>	<b>2904.1</b>	<b>3106.2</b>	<b>3458.4</b>	<b>4.3</b>
Top 10% of sales		42%	42%	47%	47%	51%	52%	

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

## Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	2,151.7	2,243.7	2,572.0	2,880.7
Growth (%)	3.4	4.3	14.6	12.0
Raw Material Expenses	792.4	797.4	913.1	1,022.8
Gross Profit	1,359.3	1,446.3	1,659.0	1,857.9
Gross Profit Margins (%)	63.2	64.5	64.5	64.5
Employee Expenses	364.5	375.8	450.1	489.7
Other Expenditure	422.2	351.6	450.1	497.0
Total Operating Expenditure	1,579.1	1,524.9	1,813.3	2,009.6
<b>EBITDA</b>	<b>572.6</b>	<b>718.9</b>	<b>758.8</b>	<b>871.1</b>
Growth (%)	1.3	25.5	5.5	14.8
Interest	10.9	13.7	12.0	12.0
Depreciation	103.2	109.2	113.0	116.9
Other Income	184.0	86.0	141.5	158.4
<b>PBT before Exceptional</b>	<b>642.6</b>	<b>682.0</b>	<b>775.2</b>	<b>900.6</b>
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Item	642.6	682.0	775.2	900.6
Total Tax	133.4	182.6	195.3	226.9
PAT before MI	509.2	499.4	579.8	673.6
<b>PAT</b>	<b>509.2</b>	<b>499.4</b>	<b>579.8</b>	<b>673.6</b>
Growth (%)	18.7	-1.9	16.1	16.2
<b>EPS (Adjusted)</b>	<b>111.3</b>	<b>109.2</b>	<b>126.7</b>	<b>147.3</b>

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	429.2	499.4	579.8	673.6
Add: Depreciation & Amort	103.2	109.2	113.0	116.9
Net Increase in Current As	-59.5	-21.8	-112.9	-110.1
Net Increase in Current Lia	7.1	87.5	117.6	118.4
Others	-156.8	13.7	12.0	12.0
<b>CF from Operating activi</b>	<b>323.2</b>	<b>688.0</b>	<b>709.6</b>	<b>810.9</b>
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed A	-1.8	-50.0	-50.0	-50.0
Others	147.7	-35.6	-39.4	-43.6
<b>CF from Investing activit</b>	<b>145.9</b>	<b>-85.6</b>	<b>-89.4</b>	<b>-93.6</b>
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-124.1	-1,509.7	-173.8	-183.0
Other	-39.4	-13.7	-12.0	-12.0
CF from Financing activitie	-163.5	-1,523.4	-185.9	-195.0
<b>Net Cash Flow</b>	<b>305.5</b>	<b>-921.0</b>	<b>434.3</b>	<b>522.3</b>
Cash and Cash Equivalent	1,914.3	2,219.9	1,298.9	1,733.2
<b>Cash</b>	<b>2,219.9</b>	<b>1,298.9</b>	<b>1,733.2</b>	<b>2,255.4</b>
<b>Free Cash Flow</b>	<b>321.4</b>	<b>638.0</b>	<b>659.6</b>	<b>760.9</b>

Source: ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	45.8	45.8	45.8	45.8
Reserve and Surplus	3,349.7	2,339.5	2,745.5	3,236.1
Total Shareholders funds	3,395.5	2,385.2	2,791.2	3,281.9
Total Debt	2.5	2.5	2.5	2.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	47.8	48.8	49.8	50.8
Other Non Current Liabiliti	88.7	90.5	92.3	94.1
<b>Source of Funds</b>	<b>3,534.5</b>	<b>2,527.0</b>	<b>2,935.8</b>	<b>3,429.2</b>
Gross Block - Fixed Asses	749.5	799.5	849.5	899.5
Accumulated Depreciation	335.1	444.2	557.2	674.2
Net Block	414.4	355.3	292.3	225.3
Capital WIP	0.7	0.7	0.7	0.7
Goodwill on Consolidation	527.5	527.5	527.5	527.5
Fixed Assets	942.6	883.5	820.5	753.6
Investments	31.0	31.0	31.0	31.0
Long Term Loans and Adv	241.2	265.3	291.9	321.1
Other non-Current Assets	142.3	156.5	172.2	189.4
Inventory	430.6	416.8	477.8	535.1
Debtors	172.0	185.0	212.1	237.6
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	225.8	248.3	273.2	300.5
Cash	2,219.9	1,298.9	1,733.2	2,255.4
Total Current Assets	3,048.3	2,149.0	2,696.2	3,328.6
Creditors	426.8	469.9	538.7	603.3
Provisions	103.7	114.1	125.5	138.0
Other Current Liabilities	340.4	374.4	411.8	453.0
Total Current Liabilities	870.9	958.4	1,076.0	1,194.4
Net Current Assets	2,177.4	1,190.6	1,620.2	2,134.2
<b>Application of Funds</b>	<b>3,534.5</b>	<b>2,527.0</b>	<b>2,935.8</b>	<b>3,429.2</b>

Source: ICICI Direct Research

Exhibit 5: Ratio Analysis				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Reported EPS	111.3	109.2	126.7	147.3
Cash EPS	84.7	-220.8	88.7	107.3
BV per share	742.2	521.4	610.1	717.4
Cash per Share	485.2	283.9	378.9	493.0
Dividend per share	330.0	38.0	40.0	40.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	63.2	64.5	64.5	64.5
EBITDA margins	26.6	32.0	29.5	30.2
PAT Margins	23.7	22.3	22.5	23.4
Cash Conversion Cycle	29.8	21.5	21.5	21.5
Asset Turnover	2.9	2.8	3.0	3.2
EBITDA conversion Rate	56.4	95.7	93.5	93.1
<b>Return Ratios (%)</b>				
RoE	15.0	20.9	20.8	20.5
RoCE	18.5	27.5	26.8	26.6
RoIC	35.7	49.7	53.7	64.3
Core ROE	30.9	40.2	44.8	54.1
<b>Valuation Ratios (x)</b>				
P/E	44.9	45.8	39.4	33.9
EV / EBITDA	36.0	30.0	27.8	23.7
EV / Net Sales	9.6	9.6	8.2	7.2
Market Cap / Sales	10.6	10.2	8.9	7.9
Price to Book Value	6.7	9.6	8.2	7.0
<b>Solvency Ratios</b>				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	0.9	0.9	0.9

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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