

High base effect; focus shifts to digital drives, ex-legacy brands

About the stock: Pfizer collectively addresses 15 therapy areas in the domestic formulations with a portfolio of over 150 products that include therapeutics & vaccines. The company has been continuously restructuring its portfolio in the last few years to improve the productivity of its core brands.

- Fourth largest multinational pharma company in India with manufacturing facility in Goa with a run rate of 3.36 billion tablets per annum
- Top Therapies: VMN, anti-infective, cardiac, gastro and respiratory; Top Brands: Prevenar 13, Becosules, Corex-Dx, Dolonex and Mucaïne

Q1FY23 Results: Revenue growth was subdued this quarter on a high base of Q1FY22 while numbers have picked up sequentially.

- Sales declined 21% YoY to ₹ 593 crore (up 8% QoQ)
- EBITDA de-grew 33% YoY to ₹ 192 crore (up 16% QoQ), while EBITDA margins declined by 578 bps YoY to 32.4% (up 226 bps QoQ)
- PAT for the quarter was down 15% YoY to ₹ 169 crore (up 34% QoQ)

What should investors do? Pfizer's share price has grown by ~1.4x over the past three years (from ~₹ 2952 in August 2019 to ~₹ 4230 levels in August 2022).

- Maintain **HOLD** as we keep watch on growth tempo in brands and implications of the VRS scheme for field force.

Target Price and Valuation: Valued at ₹ 4480 i.e. 30x P/E on FY24E EPS of ₹ 149.3

Key triggers for future price performance:

- Growth in Power brands, Corex Dx, Minipress XL, Eliquis, Mucaïne and Wysolone to offset slowdown in legacy brands, Prevenar 13 and Becosules
- Go-to-market transformation strategy by leveraging technology, partnerships with third parties and subject matter experts.
- Outcome of de-focusing and hiving off tail brands and focusing on core strengths areas such as vaccines, pain management, VMS, GI and CVS
- Strong brand recall, consistent new product launches, volume growth in top brands and intermittent price hikes provide comfort on the financials front

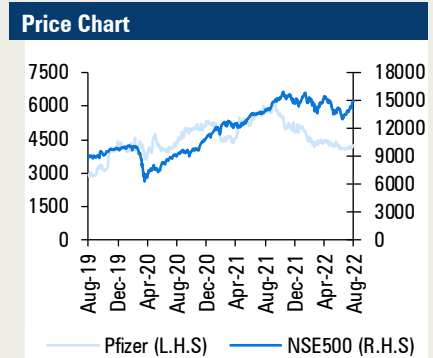
Alternate Stock Idea: Apart from Pfizer, among MNC coverage we like Abbott.

- We continue to believe in Abbott's strong growth track in power brands and capability in new launches on a fairly consistent basis



Particulars	
Particular	Amount
Market Capitalisation	₹ 19174 crore
Debt (FY22)	₹ 3 crore
Cash (FY22)	₹ 1633 crore
EV	₹ 17543 crore
52 week H/L	6165/4056
Equity capital	₹ 45.8 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	63.9	63.9	63.9	63.9
Others	36.1	36.1	36.1	36.1



Recent Event & Key risks

- Completion of business transfer agreement with Mylan for Upjohn business
- **Key Risk:** (i) Addition of products to NLEM list (ii) Higher than expected traction in brands

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	2151.7	2238.6	2611.0	5.8	2547.8	2777.1	3.1
EBITDA	572.6	712.1	835.7	19.1	831.4	930.4	5.5
EBITDA margins (%)	26.6	31.8	32.0		32.6	33.5	
Net Profit	509.2	497.6	612.6	24.3	642.5	683.2	5.6
EPS (₹)	111.3	108.8	133.9		130.8	149.3	
PE (x)	37.7	38.5	31.3		29.8	28.1	
M.Cap/ Revenues (x)	8.9	8.6	7.3		7.5	6.9	
RoCE (%)	18.5	27.6	26.1		22.4	21.8	
ROE (%)	15.0	20.8	21.4		17.9	17.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: Muted performance

- Pfizer posted de-growth of 21% YoY in topline to ₹ 593 crore. EBITDA margins contracted 578 bps YoY to 32.4% while EBITDA de-grew 33%YoY to ₹ 192 crore. Net profit declined 15% YoY to ₹ 169 crore
- Revenues were below our expectations. However, growth was also impacted by high base of Q1FY22. Pfizer reported one-off of ₹ 129.8 crore on account of voluntary retirement scheme (VRS) and ₹ 6.5 crore on account of restructuring to drive business transformation in Q1FY23. The company is focussed on direct-to market initiative and implementation of VRS currently, in a strategic shift to post better margins. We continue to believe in Pfizer's strong growth track record in power brands but despite capability in new launches on a fairly consistent basis, we remain sceptical of Pfizer's ability to garner volume led growth for new launches in market

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	592.9	749.2	-20.9	549.7	7.9	
Raw Material Expenses	215.9	274.5	-21.4	189.7	13.8	
Employee Expenses	92.2	94.4	-2.3	92.3	-0.1	
Other Expenditure	93.0	94.6	-1.7	102.2	-9.0	
Total Operating Expenditure	401.1	463.4	-13.5	384.2	4.4	
EBITDA	191.9	285.7	-32.9	165.5	16.0	
EBITDA (%)	32.4	38.1	-578 bps	30.1	226 bps	
Interest	3.6	2.3	61.8	3.9	-5.5	
Depreciation	26.5	27.0	-1.8	33.6	-21.1	
Other income	18.0	12.2	47.2	17.1	5.3	
PBT before EO	179.7	268.7	-33.1	145.1	23.9	
Less: Exceptional Items	136.3	0.0	0.0	0.0	0.0	One-off of ₹ 129.85 crore on account of Voluntary Retirement Scheme (VRS) and ₹ 6.48 crore on account of restructuring to drive business transformation in Q1FY23
PBT	43.4	268.7	-83.9	145.1	-70.1	
Tax	10.8	68.8	-84.2	19.3	-43.9	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	168.9	199.9	-15.5	125.8	34.3	

Source: Company, ICICI Direct Research

Exhibit 2: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY21	2239	4.0	108.8	-2.3	38.5	25.4	20.8	27.6
FY22	2611	16.6	133.9	23.1	31.3	21.0	21.4	26.1
FY23E	2548	-2.4	130.8	4.9	29.8	20.4	17.9	22.4
FY24E	2777	9.0	149.3	6.3	28.1	17.7	17.7	21.8

Source: ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4374	4,500	Buy	62893	7.9	59.1	80.9	107.4	556.5	74.0	54.1	40.7	6.3	15.1	16.7	19.3	2.5	15.1	17.7	19.9
Narayana Hrudalaya	NARHRU	634	750	Buy	12961	-0.7	16.7	18.9	21.6	NA	37.9	33.5	29.4	1.2	20.5	18.8	19.5	-1.3	23.0	20.8	19.4
Shalby	SHALIM	121	150	Buy	1303	3.9	5.4	7.5	9.9	30.7	22.3	16.1	12.2	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	238	270	Buy	11896	3.0	10.5	14.4	18.4	80.5	22.6	16.6	12.9	5.4	9.0	11.4	12.9	4.4	13.3	15.4	16.4
Healthcare Global	HEAGLO	272	340	Buy	3785	-13.9	3.9	3.6	8.0	-13.9	70.4	75.2	33.9	-0.9	5.0	7.6	10.2	-0.9	5.0	5.5	10.8
MNC Pharma																					
Abbott India	ABBIND	20460	20,560	Buy	43476	325.0	375.9	439.8	514.0	62.9	54.4	46.5	39.8	33.8	36.6	37.9	36.3	26.5	28.3	29.5	28.1
P&G Health	MERLIM	4411	4,955	Hold	7322	106.5	121.5	130.5	141.6	41.4	36.3	33.8	31.2	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6543	6,885	Hold	15068	207.4	410.1	270.5	264.8	31.5	16.0	24.2	24.7	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4230	4,480	Hold	19351	108.8	133.9	140.4	149.3	38.9	31.6	30.1	28.3	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
Pharma																					
Ajanta Pharma	AJAPHA	1279	1,495	Buy	16387	51.0	55.6	60.1	71.1	25.1	23.0	21.3	18.0	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	673	590	Reduce	13222	62.8	27.8	15.3	26.9	10.7	24.2	44.0	25.0	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	569	610	Hold	33319	55.0	47.4	45.6	51.0	10.3	12.0	12.5	11.1	16.9	12.9	12.5	13.1	14.7	11.3	9.9	10.0
Biocon	BIOCON	313	320	Hold	37615	6.3	5.7	5.5	11.3	50.0	55.0	57.5	27.6	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	358	475	Hold	36609	23.3	21.0	20.2	24.0	15.3	17.0	17.7	14.9	13.8	12.0	11.2	12.4	18.4	12.6	11.0	11.7
Cipla	CIPLA	1034	1,135	Buy	83450	29.9	32.9	38.6	45.8	34.6	31.4	26.8	22.6	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4158	4,750	Buy	69206	117.3	126.9	203.4	191.0	35.5	32.8	20.4	21.8	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	378	460	Hold	10673	32.9	42.7	41.0	48.3	11.5	8.9	9.2	7.8	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	1012	1,000	Hold	25675	44.9	34.8	32.7	39.9	22.5	29.0	31.0	25.3	27.1	17.4	16.2	17.4	24.2	16.1	13.4	14.4
Jubilant Pharmova	JUBLIF	348	340	Reduce	5542	37.4	26.0	15.9	26.1	9.3	13.4	21.9	13.3	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	668	610	Reduce	30373	26.9	11.9	11.8	27.7	24.9	56.3	56.8	24.1	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	749	820	Hold	13671	24.2	9.3	28.3	33.2	31.0	80.4	26.5	22.6	13.1	4.6	13.3	14.1	10.7	4.0	11.0	11.6
Sun Pharma	SUNPHA	916	1,125	Buy	219767	30.0	32.0	34.8	40.1	30.5	28.7	26.3	22.8	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1557	1,800	Buy	52681	37.0	32.0	43.7	54.6	42.1	48.6	35.7	28.5	17.6	19.7	24.7	29.4	21.4	18.2	20.9	21.8
Indoco Remedies	INDREM	393	510	Buy	3622	10.1	16.8	21.8	28.4	38.9	23.4	18.0	13.8	11.7	17.5	18.8	24.9	12.1	17.1	18.7	20.2
Caplin Point	CAPPOI	820	1,000	Buy	6216	81.7	85.3	70.4	73.0	10.0	9.6	11.7	11.2	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	291	290	Hold	3250	13.1	10.7	10.2	13.2	22.2	27.2	28.5	22.1	19.4	14.3	12.6	14.7	15.1	11.0	9.6	11.1
Hester Biosciences	HESPHA	2403	2,445	Hold	2044	44.4	45.7	41.3	63.2	54.2	52.6	58.2	38.0	16.2	10.9	9.9	13.4	16.5	15.0	12.2	16.3
API/CRAMS																					
Divi's Lab	DIVLAB	3912	4,655	Buy	103857	74.7	111.5	105.7	122.5	52.3	35.1	37.0	31.9	27.6	30.2	25.8	25.5	21.3	25.2	20.3	20.0
Hikal	HIKCHE	268	340	Buy	3303	10.8	13.0	11.1	19.0	24.8	20.6	24.2	14.1	15.1	13.6	10.9	16.3	14.3	15.0	11.5	16.8
Syngene Int.	SYNINT	562	710	Buy	22541	10.1	9.9	11.5	14.6	55.5	56.9	48.7	38.5	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	311	345	Buy	7712	22.2	16.6	19.6	24.6	14.0	18.7	15.8	12.6	24.0	15.6	16.8	18.6	25.3	16.0	16.0	16.9
Laurus Labs	LAULAB	545	675	Buy	29291	18.3	15.4	20.7	27.0	29.8	35.4	26.3	20.2	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	467	555	Hold	11886	14.2	17.8	17.0	18.5	32.8	26.2	27.4	25.2	31.2	37.5	28.5	26.0	30.7	29.7	23.0	20.8

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	2,238.6	2,611.0	2,547.8	2,777.1	
Growth (%)	4.0	16.6	-2.4	9.0	
Raw Material Expenses	797.7	948.0	926.5	992.7	
Gross Profit	1,440.8	1,663.0	1,621.3	1,784.4	
Gross Profit Margins (%)	64.4	63.7	63.6	64.3	
Employee Expenses	361.1	403.7	390.3	420.7	
Other Expenditure	367.6	423.6	399.6	433.2	
Total Operating Expenditure	1,526.4	1,775.3	1,716.4	1,846.7	
EBITDA	712.1	835.7	831.4	930.4	
Growth (%)	24.4	17.4	-0.5	11.9	
Interest	15.1	10.5	11.5	11.5	
Depreciation	109.4	115.0	118.0	123.9	
Other Income	81.1	62.7	66.9	69.4	
PBT before Exceptional Items	668.7	772.9	768.8	864.5	
Less: Exceptional Items	0.0	0.0	-44.2	0.0	
PBT after Exceptional Items	668.7	772.9	813.0	864.5	
Total Tax	171.1	160.3	170.5	181.3	
PAT before MI	497.6	612.6	642.5	683.2	
PAT	497.6	612.6	642.5	683.2	
Growth (%)	-2.3	23.1	4.9	6.3	
EPS (Adjusted)	108.8	133.9	130.8	149.3	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	464.6	547.0	642.5	683.2	
Add: Depreciation & Amortization	109.4	115.0	118.0	123.9	
Net Increase in Current Assets	5.4	40.4	-5.8	-63.2	
Net Increase in Current Liabilities	-97.2	3.0	52.7	82.9	
Others	-54.9	-38.3	11.5	11.5	
CF from Operating activities	427.3	667.1	818.8	838.3	
Investments	0.0	0.0	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-17.6	-13.3	-50.0	-50.0	
Others	56.6	44.9	-56.0	-61.8	
CF from Investing activities	39.0	31.7	-106.0	-111.8	
(inc)/Dec in Loan	0.0	0.0	0.0	0.0	
Dividend & Dividend tax	-1,519.4	-159.7	-160.1	-160.1	
Other	-51.7	-20.8	-11.5	-11.5	
CF from Financing activities	-1,571.1	-180.5	-171.6	-171.6	
Net Cash Flow	-1,104.8	518.2	541.2	554.9	
Cash and Cash Equivalent	2,219.9	1,115.1	1,633.3	2,174.6	
Cash	1,115.1	1,633.3	2,174.6	2,729.5	
Free Cash Flow	409.7	653.8	768.8	788.3	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	45.8	45.8	45.8	45.8	
Reserve and Surplus	2,347.3	2,818.7	3,301.0	3,824.1	
Total Shareholders funds	2,393.0	2,864.4	3,346.8	3,869.8	
Total Debt	2.5	2.5	2.5	2.5	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	55.8	55.5	56.6	57.7	
Other Non Current Liabilities	42.7	127.7	130.3	132.9	
Source of Funds	2,494.1	3,050.1	3,536.1	4,062.9	
Gross Block - Fixed Assets	751.0	817.8	867.3	917.5	
Accumulated Depreciation	413.8	504.3	622.3	746.2	
Net Block	337.3	313.5	245.0	171.4	
Capital WIP	2.8	1.2	1.7	1.4	
Goodwill on Consolidation	527.5	527.5	527.5	527.5	
Fixed Assets	867.5	842.1	774.1	700.3	
Investments	29.6	28.2	28.2	28.2	
Deferred Tax Assets	13.5	47.0	47.9	48.9	
Long Term Loans and Advances	262.1	400.7	440.7	484.8	
Other non-Current Assets	168.5	186.1	204.7	225.2	
Inventory	435.1	448.9	438.7	470.1	
Debtors	129.7	124.3	121.3	132.2	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	244.9	190.0	209.0	229.9	
Cash	1,115.1	1,633.3	2,174.6	2,729.5	
Total Current Assets	1,924.7	2,396.5	2,943.5	3,561.6	
Creditors	283.7	263.9	258.0	276.4	
Provisions	126.6	78.6	86.4	95.0	
Other Current Liabilities	361.5	507.9	558.7	614.6	
Total Current Liabilities	771.8	850.4	903.0	986.0	
Net Current Assets	1,152.9	1,546.1	2,040.5	2,575.6	
Application of Funds	2,494.1	3,050.1	3,536.1	4,062.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
Reported EPS	108.8	133.9	140.4	149.3	
Cash EPS	97.7	124.0	121.6	141.4	
BV per share	523.1	626.1	731.6	845.9	
Cash per Share	243.7	357.0	475.3	596.6	
Dividend per share	35.0	35.0	35.0	35.0	
Operating Ratios (%)					
Gross Profit Margins	64.4	63.7	63.6	64.3	
EBITDA margins	31.8	32.0	32.6	33.5	
PAT Margins	22.2	23.5	23.5	24.6	
Cash Conversion Cycle	90.4	88.6	88.6	88.6	
Asset Turnover	3.0	3.2	2.9	3.0	
EBITDA conversion Rate	60.0	79.8	98.5	90.1	
Return Ratios (%)					
RoE	20.8	21.4	17.9	17.7	
RoCE	27.6	26.1	22.4	21.8	
RoIC	44.2	52.7	54.4	62.9	
Core ROE	34.2	45.7	50.3	55.1	
Valuation Ratios (x)					
P/E	38.5	31.3	29.8	28.1	
EV / EBITDA	25.4	21.0	20.4	17.7	
EV / Net Sales	8.1	6.7	6.7	5.9	
Market Cap / Sales	8.6	7.3	7.5	6.9	
Price to Book Value	8.0	6.7	5.7	5.0	
Solvency Ratios					
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	0.8	
Quick Ratio	0.5	0.4	0.4	0.4	
Inventory days	199.1	172.8	172.8	172.8	
Debtor days	21.1	17.4	17.4	17.4	
Creditor days	129.8	101.6	101.6	101.6	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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ANALYST CERTIFICATION

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