

### Impact of pandemic

Pfizer's Q4FY20 results were below our estimates largely due to lower sales and EBITDA. Revenues declined by 6% YoY. The adjusted growth for the quarter and year ended March 31, 2020 would have been 3.5% and 5.8% respectively. The current quarter sales have been impacted by divestiture of rights and interests in certain brands and the COVID-19 pandemic. The costs have been largely similar or lower except the employee costs which short up 24% YoY in Q4. Gross margins for the quarter stood at 61.9% Vs 65.7% YoY Vs 62.7% QoQ. Tax reversal of Rs 445mn saved the bottom line to that extent. Top brands for Pfizer continue to reflect average growth of 7.5% for the quarter. The leading brands: Magnex, Prevenar 13, Wysolone, Minioress and Corex DX delivered average double digit growth cumulatively in Q4, ahead of the market growth rate of 10%. The company recently launched Zavicefta (patented product), with an excellent initial sale ramp-up. Company now awaits next planned patented product launch of Zinforo.

We maintain our Buy rating on the stock with target price of Rs 4,700, valued at 36x FY22E. Multiple in-line with GSK post the dividend pay-out. We have adjusted our earnings estimates for other income in FY21E (increased 6%) and FY22E (decreased 13%) for the interim dividend pay-out of Rs 320 per share. FY21E we have assumed some gain post the Pfizer Upjohn hive-off concludes. At CMP of Rs 4,133 the stock trades at 29x FY21E EPS Rs 140.5 and 32x FY22E EPS of Rs 130.5.

#### Major brands growth to drive earnings traction

Pfizer reported 6% YoY decline in revenues during Q4FY20 to Rs5.38bn. The revenue growth is largely supported by some of its major brands growing at an average 11% YoY -namely: Magnex, Prevenar 13, Wysolone, Minioress and Corex DX. Revenue decline could be largely attributable to Mar20 month decline in Vaccines, hospital segment sales which was offset by strong demand in Corex-DX franchise sales. We expect the company's revenues to improve due to price increase for non-NLEM products during FY21. Pfizer's derives 12% of revenue from price controlled products (20 brands fall under NLEM), price increased linked to WPI index (at 1.4% FY20)

#### Adjusted Revenue growth stood at 3.5% for Q4 and 5.8% for FY20.

The adjusted revenue growth of 3.5% for Q4 could have led to EBITDA margins at 26.2% and APAT at Rs 1.4bn. for FY20, the full year adjusted EBITDA margins based on adjusted revenue growth of 5.8% would have been 27.5% with adjusted EPS of Rs 119.

#### Prevenar 13 accounts for ~16% of sales, potential risk of NLEM

The only vaccine brand from Pfizer India portfolio, that continues to hold the highest market share in a two-player private pneumococcal vaccine market. The brand may face some growth struggle, considering the anticipated risk of pneumococcal vaccines under the government's UIP program could bring price regulation. This brand contributes nearly 16% of sales and any risk to its price would hurt that year's P&L. As a risk mitigation plan the management has improved its focus on marketing the Prevnar vaccine for adult patients in India (only player approved for this indication globally); currently, 10-12% of the brand's sales come from treatment of adult patients. Also, management is addressing several ways to participate in government tender programme. Amid Covid-19 vaccine sales were impacted in April month however we feel these sales would be deferred to coming months.

#### Seven brands to contribute 5% sales in Pfizer Upjohn - Mylan Merger

Based on parents announcement, Pfizer India has announced that seven brands would be a part of the Mylan-Upjohn merger (Lyrica, Amlogard, Daxid, Dilantin, Viagra, and Fumycin), contributing 5% of sales. Management has indicated that the profitability of these brands is slightly lower than the company average. The carved-out brands are largely present in the most genericised therapeutic market. We wait to see how this deal would be structured from financial and marketing points of view. The timeline for this transaction could be mid-CY2020(may be even late CY2020)

#### Valuation and risks

Pfizer's management is hopeful of achieving in-line or slightly better growth than its MNC peers. The company expects better performance from recently launched Zavicefta and upcoming products like, Zinforo in the near term. Post the global announcement of the Mylan-Upjohn deal, more details on the deal are still awaited from financial perspective; meanwhile, management has highlighted its focus on protecting minority shareholder interest. The fiscal year FY20 largely the 2H disappointed due to several reasons. However, we believe the fiscal year FY21E could be better on both revenue growth and margin front. FY21E brings - 1) with the exit of Upjohn and CH brands, margins could be better, 2) more clarity on Prevenar-13 risk from the DPCO perspective and additional competitive scenario. The key risk on the stock remains Prevnar13 status and any further expansion of NLEM portfolio in the domestic market.

### Financial and valuation summary

YE Mar (Rs mn)	Q4FY20	Q4FY19	YoY(%)	Q3FY20	QoQ(%)	FY20	FY21E	FY22E
Revenue	5,020	5,357	-6.3%	5,381	-6.7%	21,517	22,075	24,669
EBIDTA	1,087	1,510	-28.0%	1334	-18.5%	5,726	6,298	7,659
EBIDTA margin (%)	22	28.2%	400bps	2479.7%	260bps	26.6%	28.5%	31.0%
Adj. Net Profit	1,030	1,095	-5.9%	1,391	-25.9%	4,648	6,428	5,968
Diluted EPS Rs.	22.5	23.9	-5.9%	30.4	-25.9%	101.6	140.5	130.5
P/E (x)						40.7	29.4	31.7
EV/EBIDTA (x)						29.1	28.1	22.5
RoE (%)						14.5	23.0	25.3

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures.

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

#### Market Data

Bloomberg:	PFIZ IN
52 week H/L:	Rs4999/2612
Market cap:	Rs189bn
Shares outstanding:	46mn
Free float:	31.4%
Avg. daily vol. 3mth:	90943

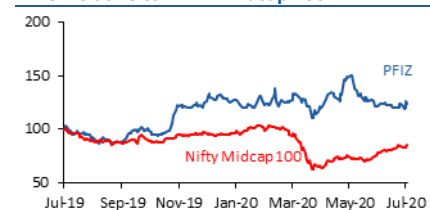
Source: Bloomberg

#### Changes in the report

Rating:	unchanged
Target Price:	Rs4700 from Rs5000
EPS:	FY21E 6% , FY22E (13%)

Source: Centrum Research

#### Pfizer relative to NIFTY Midcap 100



Source: Centrum Research

#### Shareholding pattern

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	63.9	63.9	63.9	63.9
FIs	3.7	3.7	3.7	4.0
DIs	12.4	12.7	12.4	12.0
Public/oth	20.0	19.6	20.0	20.0

Source: BSE



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## Thesis Snapshot

### Estimate revisions

YE Mar (Rs mn)	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Sales	22,075	23,187	-4.8%	24,669	23,345	5.7%
EBITDA	6,298	7,071	-10.9%	7,659	7,877	-2.8%
EBITDA margin (%)	28.5%	30.5%		31.0%	30.5%	
Net profit	6,428	6,077	5.8%	5,968	6,883	-13.3%

Source: Centrum Research estimates #resuming new coverage

### Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q4FY20	Centrum Q4FY20	Variance (%)
Revenue	5,020	5,678	-11.59%
EBITDA	1,087	1,669	-34.88%
EBITDA margin	21.7	29.4	(775bps)
Tax rate (%)	15.5	25.0	(950bps)
Adj. net profit	1,030	1,487	-30.7%

Source: Bloomberg Centrum Research estimates

### Pfizer versus NIFTY Midcap 100

	1m	6m	1 year
PFIZ IN	1.5	4.9	29.0
NIFTY Midcap 100	8.0	(13.0)	(15.6)

Source: Bloomberg, NSE

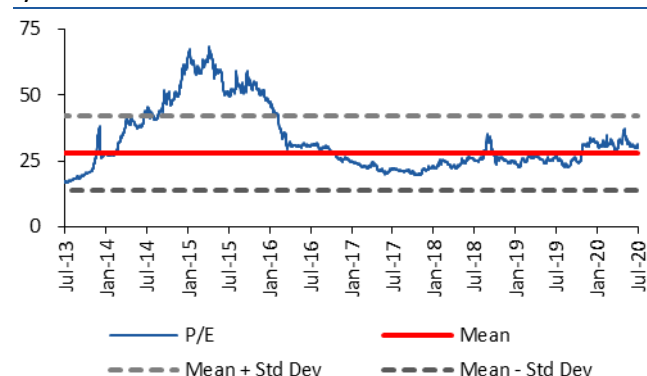
### Valuations

We value Pfizer at 36x FY22E EPS, with Buy rating and target price of Rs 4700. The stock traded at 29x FY21E EPS Rs 140.5 and 32x FY22E EPS of Rs 130.5

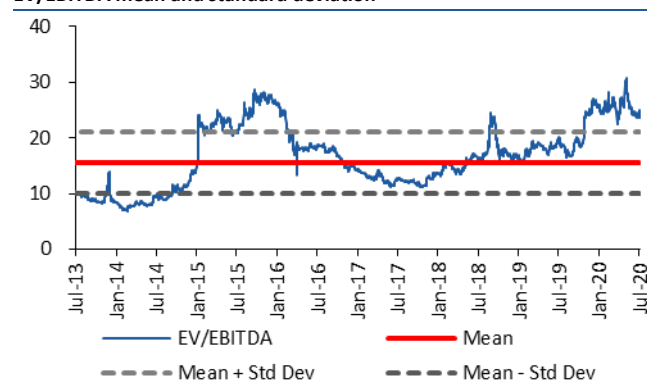
#### Valuations

EPS FY22E	Rs130.5
PER FY22E	36x

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Research estimates

### Peer comparison

Company	Mkt Cap Rs mn	CAGR FY20-FY22E (%)				PE (x)			EV/EBITDA (x)			RoE (%)		
		Sales	EBIDTA	PAT	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
<b>Pfizer</b>	<b>188,611</b>	<b>4.7</b>	<b>10.2</b>	<b>8.69</b>	<b>40.7</b>	<b>29.4</b>	<b>31.7</b>	<b>29.1</b>	<b>28.1</b>	<b>22.5</b>	<b>14.5</b>	<b>23.0</b>	<b>25.3</b>	
Glaxo SK Pharma	248,366	6.4	13.4	103.3	57.1	38.2	31.7	36.2	30.5	24.7	22.9	36.9	38.1	
Abbott India	332,710	7.8	14.9	14.9	56.0	45.6	36.8	41.0	33.5	27.1	26.7	29.5	34.0	
Sanofi India *	179,550	3.4	5.9	9.4	38.6	37.0	32.9	48.3	47.0	38.2	19.7	21.3	24.2	

Source: Company, Centrum Research, \*December ending, Prices as on 13 July 2020

## Major Products & Their Performance

As per IQVIA (IMS) Dec'19 MAT data, Pfizer grew at 4% against the industry growth of 10%. Pfizer has 11 major brands that feature in the top 300 brands. Five out of 11 major brands of Pfizer namely: Dolonex, Becosules, Prevenar 13, Wysolone and Corex Dx delivered average growth of 10.9 % sequentially, above the market growth rate of 10%. Corex-Dx reported healthy growth of 12% on a MAT basis. The company has plans to launch line extension of existing products. Pfizer's 11 major products contributed ~61% to the company revenues.

**Fig 1: Major Brands & their performance**

Company Name	Therapy Category	Jan20		Feb20		Mar20		MAT Mar20	
		Value	Growth (%)	Value	Growth (%)	Value	Growth (%)	Value	Growth (%)
<b>Pfizer</b>			<b>4.0%</b>		<b>6.0%</b>		<b>3.0%</b>		<b>4.7%</b>
<b>IPM</b>			<b>8.3%</b>		<b>13.8%</b>		<b>7.0%</b>		<b>10.6%</b>
<b>BECOSULES</b>	Multivitamin	209	6.9	219	5.7	217	5.5	2825.5	5.0
<b>DOLONEX</b>	NSAIDs	144	8.6	135	1.6	116	-4.4	1724.6	7.2
<b>COREX-DX</b>	Cough Syrup	134	-4.5	144	7.2	157	33.2	1444.4	11.4
MINIPRESS-XL	Antihypertensive	103	14.0	95	26.8	119	13.6	1214.0	(4.5)
MUCAINE	Hyperacidity, Reflux, Ulcers	85	8.0	87	10.1	82	0.1	1100.5	7.4
<b>WYSOLONE</b>	Antiallergic	94	8.3	88	-5.8	92	13.0	1084.0	11.4
GELUSIL-MPS	Antacid	83	0.4	85	2.2	82	11.7	1062.7	8.7
MAGNEX	Anti infective	86	14.9	88	11.2	51	-35.0	1004.2	8.3
<b>PREVENAR-13</b>	pneumonia vaccine	73	9.0	72	18.0	53	-18.7	823.9	12.3
<b>Top Brands</b>	Average								<b>7.5</b>

Source: IQVIA (IMS) Monthly data-December 19

**Fig 2: Quarterly Financials**

YE March (Rs bn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	3QFY20	4QFY20
<b>Revenues</b>	<b>5,123</b>	<b>5,197</b>	<b>5,138</b>	<b>5,357</b>	<b>5,444</b>	<b>5,670</b>	<b>5,381</b>	<b>5,020</b>
Materials cost	1,844	2,029	1,768	1,838	1,910	2,094	2,007	1,912
% of revenues	36.0%	39.0%	34.4%	34.3%	35.1%	36.9%	37.3%	38.1%
Employee cost	807	780	837	815	876	862	900	1,007
% of revenues	15.7%	15.0%	16.3%	15.2%	16.1%	15.2%	16.7%	20.0%
Others	1,171	1,091	990	1,194	995	1,072	1,140	1,015
% of revenues	22.9%	21.0%	19.3%	22.3%	18.3%	18.9%	21.2%	20.2%
<b>EBITDA</b>	<b>1,301</b>	<b>1,298</b>	<b>1,543</b>	<b>1,510</b>	<b>1,662</b>	<b>1,641</b>	<b>1,334</b>	<b>1,087</b>
EBITDA margin (%)	25.4%	25.0%	30.0%	28.2%	30.5%	28.9%	24.8%	21.7%
Depreciation & amortisation	183	177	178	176	250	251	247	284
Interest expenses	1.7	2.2	2.9	6.1	21.5	26.2	24.6	36.2
Other income	305	371	644	355	358	448	582	452
Exceptional items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>1,422</b>	<b>1,489</b>	<b>2,006</b>	<b>1,682</b>	<b>1,749</b>	<b>1,812</b>	<b>1,645</b>	<b>1,219</b>
Taxes	504	531	687	588	621	269	254	189
Effective tax rate (%)	35.4%	35.7%	34.2%	34.9%	35.5%	14.9%	15.4%	15.5%
<b>PAT</b>	<b>918</b>	<b>958</b>	<b>1,319</b>	<b>1,095</b>	<b>1,128</b>	<b>1,542</b>	<b>1,391</b>	<b>1,030</b>
Minority/Associates	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>918</b>	<b>958</b>	<b>1,319</b>	<b>1,095</b>	<b>1,128</b>	<b>1,542</b>	<b>1,391</b>	<b>1,030</b>

Source: Company, Centrum Research

P&L					
YE March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>19,685</b>	<b>20,815</b>	<b>21,517</b>	<b>22,075</b>	<b>24,669</b>
Materials cost	7,397	7,479	7,924	7,937	8,370
% of revenues	37.6%	35.9%	36.8%	36.0%	33.9%
Employee cost	3,143	3,238	3,645	3,532	3,824
% of revenues	16.0%	15.6%	16.9%	16.0%	15.5%
Others	4,143	4,446	4,222	4,299	4,807
% of revenues	21.0%	21.4%	19.6%	19.5%	19.5%
<b>EBITDA</b>	<b>5,003</b>	<b>5,652</b>	<b>5,726</b>	<b>6,298</b>	<b>7,659</b>
EBITDA margin (%)	25.4%	27.2%	26.6%	28.5%	31.0%
Depreciation & amortisation	663	714	1,032	1,088	1,056
<b>EBIT</b>	<b>4,340</b>	<b>4,938</b>	<b>4,693</b>	<b>5,210</b>	<b>6,603</b>
Interest expenses	4	13	109	103	109
Other income	1,143	1,674	1,840	3,579	1,571
Exceptional items	-	-	-	-	-
<b>PBT</b>	<b>5,479</b>	<b>6,599</b>	<b>6,425</b>	<b>8,686</b>	<b>8,065</b>
Taxes	1,878	2,309	1,777	2,258	2,097
Effective tax rate (%)	34.3%	35.0%	27.7%	26.0%	26.0%
<b>PAT</b>	<b>3,601</b>	<b>4,291</b>	<b>4,648</b>	<b>6,428</b>	<b>5,968</b>
Minority/Associates	-	-	-	-	-
<b>Reported PAT</b>	<b>3,601</b>	<b>4,291</b>	<b>4,648</b>	<b>6,428</b>	<b>5,968</b>

Ratios					
YE March	FY18	FY19	FY20	FY21E	FY22E
<b>Growth (%)</b>					
Revenue	0.1	5.7	3.4	2.6	11.8
EBITDA	43.3	13.0	1.3	10.0	21.6
Adjusted PAT	41.7	19.2	8.3	38.3	(7.1)
<b>Margin (%)</b>					
EBITDA	25.4	27.2	26.6	28.5	31.0
PBT from Operations	27.8	31.7	29.9	39.3	32.7
Adjusted PAT	18.3	20.6	21.6	29.1	24.2
<b>Return (%)</b>					
RoE	14.1	15.1	14.5	23.0	25.3
RoIC	68.5	75.7	67.9	97.3	117.1
RoCE	20.3	22.5	19.9	30.0	32.7
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	0.6	0.5	0.5	0.6	0.7
Debtors	28.7	30.1	29.2	30.1	30.1
Inventory	55.1	67.8	73.0	72.2	70.9
Creditors	123.2	104.9	98.6	91.2	93.1
<b>Solvency (x)</b>					
Net debt-equity	(0.7)	(0.6)	(0.7)	(0.6)	(0.7)
Debt-equity	0.0	-	-	-	-
Interest coverage ratio	1,305.6	512.6	60.2	85.3	75.0
Gross debt/EBITDA	-	-	-	-	-
Current ratio	2.8	3.0	3.4	2.4	2.7
<b>Per share (Rs)</b>					
Adjusted EPS	78.7	93.8	101.6	140.5	130.5
BVPS	586.5	658.2	742.2	477.1	555.0
CEPS	93.2	109.4	124.2	164.3	153.5
DPS	22.0	22.0	22.0	330.0	40.0
Dividend payout (%)	32.70	27.45	26.09	283.03	36.95
<b>Valuation (x)(Avg Mkt Cap)</b>					
P/E (adjusted)	52.5	44.1	40.7	29.4	31.7
P/BV	7.0	6.3	5.6	8.7	7.4
EV/EBITDA	34.3	30.1	29.1	28.1	22.5

Source: Company, Centrum Research estimates

Balance sheet					
YE March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Equity share capital	457	457	457	457	457
Reserves & surplus	26,375	29,656	33,497	21,370	24,933
Shareholders' fund	26,832	30,113	33,955	21,827	25,390
Total debt	25	0	0	0	0
Def tax liab. (net)	1,051	22	0	0	0
Minority Interest	0	0	0	0	0
<b>Total liabilities</b>	<b>27,908</b>	<b>30,136</b>	<b>33,955</b>	<b>21,827</b>	<b>25,390</b>
Gross block	8,841	8,148	8,696	6,227	5,813
Less: acc. depreciation	663	714	1,032	1,088	1,056
Net block	9,503	8,862	9,729	7,315	6,869
Capital WIP	147	137	359	8	8
Net fixed assets	9,650	8,999	10,088	7,322	6,877
Investments	0	0	0	0	0
Inventories	2,971	3,867	4,306	4,365	4,793
Sundry debtors	1,548	1,717	1,720	1,820	2,034
Cash	17,719	19,142	22,199	12,389	16,675
Loans & advances	3,769	3,425	3,864	3,950	3,964
Other current assets	1,243	2,251	1,871	1,871	1,871
Total current asset	27,249	30,401	33,960	24,395	29,337
Trade payables	4,956	4,359	4,268	3,943	4,337
Other current liab.	3,023	3,934	4,776	4,876	5,345
Provisions	1,013	971	1,056	1,071	1,140
Net current assets	18,257	21,137	23,861	14,505	18,514
<b>Total assets</b>	<b>27,908</b>	<b>30,136</b>	<b>33,955</b>	<b>21,827</b>	<b>25,390</b>

Cash flow					
YE March (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Op profit bef WC changes	5,003	5,652	5,726	6,298	7,659
Trade and other receivables	1,515	1,728	502	245	656
Trade payables	1,668	272	(52)	(209)	933
Net change – WC	3,183	2,001	450	36	1,588
Direct taxes	1,899	3,337	1,806	2,252	2,097
<b>Net cash from operations</b>	<b>3,256</b>	<b>859</b>	<b>3,366</b>	<b>3,593</b>	<b>5,839</b>
Capital expenditure	(949)	(62)	(2,122)	1,677	(610)
Acquisitions, net	-	-	-	-	-
Others	1,143	1,674	1,840	3,579	1,571
<b>Net cash from investing</b>	<b>193</b>	<b>1,612</b>	<b>(282)</b>	<b>5,256</b>	<b>961</b>
<b>FCF</b>	<b>3,449</b>	<b>2,471</b>	<b>3,084</b>	<b>8,849</b>	<b>6,800</b>
Issue of share capital	-	607	-	-	-
Increase/(decrease) in debt	(216)	477	(1,185)	466	309
Dividend paid	(1,178)	(1,178)	(1,213)	(18,192)	(2,205)
<b>Net cash from financing</b>	<b>(962)</b>	<b>(1,047)</b>	<b>(28)</b>	<b>(18,658)</b>	<b>(2,514)</b>
<b>Net change in cash</b>	<b>2,488</b>	<b>1,424</b>	<b>3,056</b>	<b>(9,809)</b>	<b>4,285</b>

Source: Company, Centrum Research estimates

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Source: Bloomberg

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