

Q2FY13 Result Update/Rating change 10 Nov 2012

## Margin improves

**Pfizer results for Q2FY13 were in line with our expectations. The company reported 7%YoY decline in revenues, 500bps improvement in EBITDA margin and 19%YoY growth in net profit despite lower growth of pharma business. The sales growth of pharma segment was flat due to slower growth of four key brands namely: Corex, Becosules, Gelusil and Dolonex. The introduction of new products in the domestic market is likely to drive growth. We have revised the rating from Neutral to Buy and maintained the target price at Rs1,325 (based on 17x FY14E EPS of Rs77.9) with an upside of 16.9%.**

- **Slow domestic growth:** Pfizer reported 7%YoY decline in total revenues from Rs2.90bn to Rs2.69bn due to slower growth of the pharma business and divestment of AHC business to its 100% subsidiary. The pharma business (89% of revenues) was flat at Rs2.40bn. AHC revenues were 'nil' against Rs326mn. The services business grew by 60%YoY from Rs177mn to Rs283mn.
- **Good margin improvement:** Pfizer's EBITDA margin improved by 500bps YoY from 17.9% to 22.9% due to overall decline in expenses. Material cost declined by 140bps from 34.7% to 33.3% of revenues due to the change in product mix with the absence of AHC products. Personnel cost declined by 50bps YoY from 17.4% to 16.9% due to lower incentives to field staff and credit of Rs40mn from the retirement scheme. Other expenses declined by 320bps from 30.0% to 26.8% due to lower ad spend and lower new product launches.

Y/E Mar (Rs mn)	Q2FY13	Q2FY12	YoY (%)	Q1FY13	QoQ (%)	Q2FY13E	Var (%)
<b>Total revenues</b>	<b>2686</b>	<b>2895</b>	<b>(7.2)</b>	<b>2426</b>	<b>10.7</b>	2,890	(7.0)
<b>EBIDTA</b>	<b>616</b>	<b>517</b>	<b>19.0</b>	<b>323</b>	<b>90.9</b>	<b>555</b>	<b>11.0</b>
EBIDTA margin (%)	22.9	17.9		13.3		19.2	
Other income	226	225	0.2	252	(10.4)	310	(27.2)
<b>PBDIT</b>	<b>842</b>	<b>743</b>	<b>13.3</b>	<b>575</b>	<b>46.4</b>	<b>865</b>	<b>(2.7)</b>
Depreciation	20	26	(21.3)	21	(2.9)	22	(7.7)
Interest	6	4	41.9	6	(1.6)	3	103.3
PBT	815	713	14.4	548	48.9	840	(3.0)
Prov. For tax	257	243	5.8	305	(15.9)	280	(8.4)
% of PBT	31.5	34.0		55.7		33.3	
<b>PAT</b>	<b>559</b>	<b>470</b>	<b>18.9</b>	<b>243</b>	<b>130.3</b>	<b>560</b>	<b>(0.3)</b>
Extraordinary item	36	-		3,046		36	0.0
Reported PAT	523	470	11.2	3,289	(84.1)	596	(12.3)
Equity capital	298	298	-	298	-	298	0.0
<b>EPS (Rs)</b>	<b>18.7</b>	<b>15.7</b>	<b>18.9</b>	<b>8.1</b>	<b>130.3</b>	<b>18.8</b>	<b>(0.3)</b>

Source: Company, Centrum Research

- **BVO-future growth driver:** Pfizer has added a field force of 500 MRs over the last 2 years and has launched 53 Branded Value Offering (BVO) products. Of this, 6-7 BVOs have crossed the annual revenues of Rs70-80mn. The BVO segment has contributed 7% to the revenue and has grown by 77%YoY. We expect BVO segment to drive future growth.
- **Four brands have good growth:** As per IMS MAT-Sept'12, Pfizer's four brands are growing faster than the market. These are: Corex 18.4%, Minipress-XL 16.8%, Lyrica 14.4% and Claribid 13.1%. The lower growth in Becosules is attributed to the trade scheme and that for Gelusil due to slowdown of the category. The management has indicated that Corex faces regulatory challenges currently.
- **Valuations:** We expect Pfizer to benefit from good growth of BVO products and the introduction of new products. At the CMP of Rs1,133, the stock trades at 16.6x FY13E EPS of Rs68.1 and 14.5x FY14E EPS of Rs77.9. We have revised the rating from Neutral to Buy and maintained the target price at Rs1,325 (based on 17x FY14E EPS of Rs77.9) with an upside of 16.9%.

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)
FY11(16m)	12,524	57.6	2,692	21.5	2,293	55.2	76.8	21.3	22.0	14.7
FY12	10,954	(12.5)	1,990	18.2	1,850	(19.3)	62.0	15.0	15.6	18.3
FY13E	11,264	2.8	1,983	17.6	2,031	9.7	68.1	13.3	13.7	16.6
FY14E	13,080	16.1	2,426	18.5	2,325	14.5	77.9	12.6	13.0	14.5
FY15E	15,062	15.1	2,969	19.7	2,666	14.6	89.3	13.1	13.6	12.7

Source: Company, Centrum Research Estimates

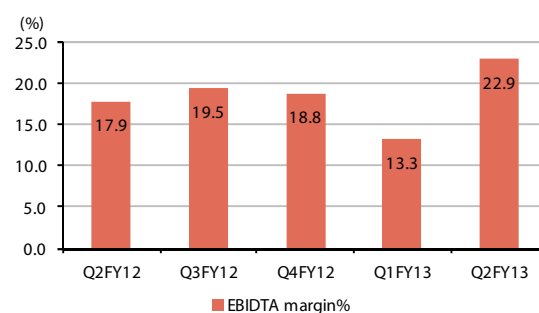
## Key Data

Target Price	Rs1,325	Bloomberg Code	PFIZ IN
CMP	Rs1,133	Reuters Code	PFIZ BO
Upside	16.9%	Current Shares O/S (mn)	29.8
Stock to Sector	Outperform	Diluted Shares O/S(mn)	29.8
Sector to Market	Outperform	Mkt Cap (Rsbm/USDmn)	33.8/617.2
<b>Price Performance (%)*</b>		52 Wk H / L (Rs)	1,410/1,061
	<b>1M</b>	<b>6M</b>	<b>1Yr</b>
Pfizer	(5.8)	(11.4)	(15.1)
NIFTY	0.2	15.4	10.0
		Daily Vol. (3M NSE Avg.)	6,297
		Face Value (Rs)	10
		<b>1 USD = Rs54.8</b>	

Source: Bloomberg, Centrum Research

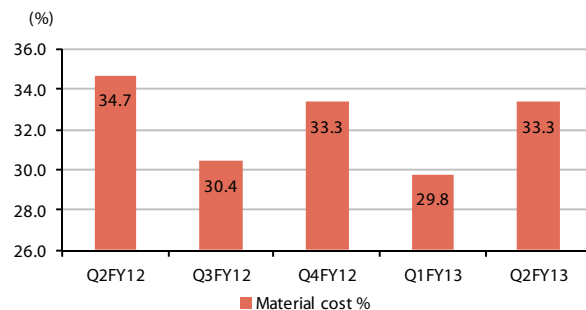
\*as on 09 November 2012

## Trend in EBITDA margin (%)



Source: Company, Centrum Research

## Trend in Material Cost (%)



Source: Company, Centrum Research

## Major Products & Performance

Products (Top 10)	Therapeutic Category	MAT (Rs mn)	Gr. Rate (%)
<b>Company</b>		<b>18,370</b>	<b>11.8</b>
Corex	Cough Syrup	2,538	18.4
Becosules	Multivitamin	1,468	2.2
Gelusil-MPS	Antacid	879	4.0
Dolonex	NSAIDs	863	8.9
Minipress-XL	Antihypertensive	810	16.8
Magnex	Antiinfective	606	2.4
Lyrica	Anticonvulsant	390	14.4
Claribid	Antibacterial	330	13.1
<b>Total</b>		<b>7,884</b>	

Source: IMS MAT-September'12

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Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

## Financials

### Exhibit 1: Income Statement

Y/E March (Rsmn)	FY11 (16m)	FY12	FY13E	FY14E	FY15E
<b>Net Sales</b>	<b>12,524</b>	<b>10,954</b>	<b>11,264</b>	<b>13,080</b>	<b>15,062</b>
-Growth (%)	57.6	(12.5)	2.8	16.1	15.1
Operating Expenses	9,833	8,965	9,281	10,654	12,093
% of sales	78.5	81.8	82.4	81.5	80.3
EBIDTA	2,692	1,990	1,983	2,426	2,969
-EBIDTA margin (%)	21.5	18.2	17.6	18.5	19.7
Depreciation	120	96	102	113	127
<b>EBIT</b>	<b>2,572</b>	<b>1,894</b>	<b>1,881</b>	<b>2,314</b>	<b>2,842</b>
Interest Income/(expenses)	25	19	25	30	40
PBT from operations	2,597	1,913	1,906	2,344	2,882
Other non operating income	929	906	1,230	1,242	1,254
<b>PBT</b>	<b>3,526</b>	<b>2,818</b>	<b>3,136</b>	<b>3,585</b>	<b>4,136</b>
-PBT margin (%)	28.2	25.7	27.8	27.4	27.5
Provision for tax	1,183	930	1,055	1,200	1,390
Effective tax rate (%)	33.6	33.0	33.6	33.5	33.6
EO items	(30)	(4)	3046	(5)	(5)
<b>Net profit</b>	<b>2,263</b>	<b>1,846</b>	<b>5,077</b>	<b>2,320</b>	<b>2,661</b>
-Growth (%)	55.2	(19.3)	9.7	14.5	14.6
-Net profit margin (%)	18.1	16.9	45.1	17.7	17.7

Source: Company, Centrum Research Estimates

### Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY11 (16m)	FY12	FY13E	FY14E	FY15E
Share capital	298	298	298	298	298
Reserves & surplus	11,335	12,748	17,299	19,025	20,985
Total shareholder's fund	11,633	13,046	17,597	19,323	21,283
Deferred tax liability	(354)	(371)	(446)	(526)	(616)
<b>Total capital employed</b>	<b>11,279</b>	<b>12,675</b>	<b>17,151</b>	<b>18,797</b>	<b>20,667</b>
Gross block	1,927	1,156	1,458	1,773	2,153
Accumulated depreciation	(1,073)	(849)	(951)	(1,063)	(1,190)
Net Block	854	307	507	710	963
Capital WIP	8	16	10	11	12
Net fixed assets	862	323	517	721	975
Investments	0	474	460	450	440
Cash and bank	5,779	9,535	11,238	11,176	13,027
Inventories	1,593	1,832	1,655	2,370	2,260
Debtors	982	1,417	1,010	1,800	1,450
Other Total CA & loans & adv.	4,263	1,811	4,615	5,150	5,590
Total CA & loans and adv.	12,617	14,595	18,518	20,496	22,327
Current liabilities & provisions	2,200	2,717	2,344	2,870	3,075
Net current assets	10,417	11,878	16,174	17,626	19,252
<b>Total assets</b>	<b>11,279</b>	<b>12,675</b>	<b>17,151</b>	<b>18,797</b>	<b>20,667</b>

Source: Company, Centrum Research Estimates

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY11 (16m)	FY12	FY13E	FY14E	FY15E
<b>Cash flow from operations</b>					
Net Profit	2,263	1,846	5,077	2,320	2,661
Depreciation and amortization	120	96	102	113	127
Change in working capital	(1,182)	2,295	(2,593)	(1,514)	225
Deferred tax liability	(79)	(17)	(75)	(80)	(90)
Other non-cash charges	5	0	0	0	0
<b>Cash flow from operations</b>	<b>1,127</b>	<b>4,220</b>	<b>2,511</b>	<b>839</b>	<b>2,923</b>
<b>Cash flow from investments</b>					
Capex	(49)	444	(297)	(316)	(381)
Other investing activities	5	(474)	14	10	10
<b>Cash flow from investments</b>	<b>(44)</b>	<b>(30)</b>	<b>(283)</b>	<b>(306)</b>	<b>(371)</b>
<b>Cash flow from financing</b>					
Dividends paid	(578)	(434)	(525)	(595)	(700)
<b>Cash flow from financing</b>	<b>(578)</b>	<b>(434)</b>	<b>(525)</b>	<b>(595)</b>	<b>(700)</b>
<b>Net Cash Flow</b>	<b>505</b>	<b>3,756</b>	<b>1,703</b>	<b>(62)</b>	<b>1,852</b>

Source: Company, Centrum Research Estimates

### Exhibit 4: Key Ratios

Y/E March	FY11 (16m)	FY12	FY13E	FY14E	FY15E
<b>Profitability ratios (%)</b>					
EBIDTA margin	21.5	18.2	17.6	18.5	19.7
PBIT margin	28.0	25.6	27.6	27.2	27.2
PBT margin	28.2	25.7	27.8	27.4	27.5
PAT margin	18.1	16.9	45.1	17.7	17.7
<b>Return ratios (%)</b>					
ROCE	22.0	15.6	13.7	13.0	13.6
ROE	21.3	15.0	13.3	12.6	13.1
<b>Turnover Ratios (days)</b>					
Working capital	147.5	53.7	90.3	159.7	446.8
Inventory	56.3	61.3	61.9	62.1	62.6
Debtors	33.6	42.9	43.1	43.3	44.0
Creditors	71.8	65.9	65.8	65.0	65.2
<b>Per share (Rs)</b>					
Basic EPS	76.8	62.0	68.1	77.9	89.3
Book value	390.4	437.8	590.5	648.4	714.2
<b>Valuation (x)</b>					
P/E	14.7	18.3	16.6	14.5	12.7
P/BV	2.9	2.6	1.9	1.7	1.6
Market Cap/Sales	2.9	3.3	3.3	2.9	2.5
EV/EBIDTA	10.4	16.4	16.5	13.4	10.9
EV/Sales	2.4	3.2	3.2	2.7	2.4

Source: Company, Centrum Research Estimates

## Appendix A

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	Neutral	Neutral
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