

## Lower sales growth, better margins

**Pfizer's Q3FY12 numbers were below our expectations due to 4%YoY sales growth. The company's EBIDTA margin improved by 70bps and net profit grew by 11%YoY. Pfizer has realigned its marketing team with the addition of 200 MRs from Wyeth and created a new marketing team for the diabetes segment. The recently introduced insulin brands are doing well in the domestic market. Pfizer has established a 100% subsidiary to hive off its animal healthcare (AHC) business in line with the global re-structuring of AHC business. We reiterate Buy with a target price of Rs1483 (based on 19x FY13 EPS).**

- **Lower sales growth of pharma division:** During the quarter, Pfizer reported 4%YoY growth in total revenues from Rs2.61bn to Rs2.71bn due to lower sales from the pharma division. The results are strictly not comparable as the previous quarter ended Nov'10. Pharma sales (81% of revenues) grew by 6%YoY from Rs2.06bn to Rs2.18bn. AHC sales (12% of revenues) grew by 13%YoY from Rs302mn to Rs340mn. However, clinical services (7% of revenues) revenues declined by 27%YoY from Rs249mn to Rs183mn.
- **Margin improves by 70bps:** Pfizer reported 70 bps YoY improvements in EBIDTA margin from 18.5% to 19.2% mainly due to the decline in material cost and other expenses. Its material cost declined by 240bps YoY from 32.8% to 30.4% of total revenues due to the change in product mix. Its personnel cost increased by 270bps YoY from 15.1% to 17.8% of total revenues due to the addition of field force and transfer of 200 MRs from Wyeth. Pfizer's other expenses declined by 100bps YoY from 33.6% to 32.6% due to improvement in productivity of field force. The company's net profit grew by 11%YoY from Rs436mn to Rs483mn due to margin improvement & rise in other income.

Y/E March (Rsmn)	Q3FY12	Q3FY11	% YoY	% QoQ	Q3FY12E	Var %
<b>Total revenues</b>	<b>2,706</b>	<b>2,610</b>	<b>3.7</b>	<b>(6.6)</b>	3,000	(10)
<b>EBIDTA</b>	<b>519</b>	<b>483</b>	<b>7.4</b>	<b>0.5</b>	<b>555</b>	(7)
EBIDTA margin (%)	19.2	18.5			18.5	
Other income	229	203	12.6	<b>3.2</b>	240	(5)
<b>PBDIT</b>	<b>748</b>	<b>687</b>	<b>8.9</b>	<b>1.3</b>	<b>795</b>	(6)
Depreciation	23	24	(4.1)	<b>(10.5)</b>	27	(14)
PBT	725	662	9.4	<b>1.7</b>	768	(6)
Prov. For tax	238	224	6.6	<b>(1.8)</b>	250	(5)
% of PBT	32.9	33.7			32.6	1
<b>PAT</b>	<b>487</b>	<b>439</b>	<b>10.9</b>	<b>3.5</b>	<b>518</b>	(6)
Extraordinary item	4	3			0	
Reported PAT	483	436	10.8	<b>2.7</b>	518	(7)
Equity capital	298	298	-	-	298	-
<b>EPS (Rs)</b>	<b>16.3</b>	<b>14.7</b>	<b>10.9</b>	<b>3.5</b>	<b>17.4</b>	(6)

Source: Company, Centrum Research

- **Good upside from insulin products:** Pfizer has successfully launched two insulin brands in the domestic market. The company sources these products from Biocon. Pfizer has created a dedicated field force for the anti-diabetic segment and has plans to launch more products in this segment. It is also giving a thrust to its hospital business and rural marketing.
- **Growing in line with the market:** As per IMS MAT-November'11, Pfizer grew by 14% in line with the market growth of 14%. Eight of the company's products appear in the list of top 300 brands in the domestic market. Pfizer's Lyrica and Claribid grew by 28% and 37% respectively in the domestic market.
- **Hives off AHC business:** In line with the international re-structuring to focus on pharma business, Pfizer has created a 100% subsidiary to hive off its AHC business. The AHC business contributes around 12% to the consolidated revenues.
- **Merger with Wyeth:** In line with the international merger, Wyeth would merge with Pfizer in India. The merged company would rank 9<sup>th</sup> in the domestic market and 4<sup>th</sup> among MNC pharma companies in India. The merged company would have 13 products in the top 300 products (8 from Pfizer and 5 from Wyeth).
- **Reiterate Buy:** We have maintained our EPS estimates for FY12 and for FY13. We expect the company to benefit from good growth of its brands, launch of new products in the domestic market and expected merger of Wyeth. At the CMP of Rs1224, the stock trades at 18.8x FY12E EPS of Rs65.2and 15.7x FY13E EPS of Rs78.0. We reiterate Buy with a target price of Rs1483 (based on 19x FY13E EPS).

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Net profit	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)
FY09 *	7,944	12.9	1,559	19.6	1,477	8.0	49.5	15.5	15.9
FY11(16 months)	12,446	56.7	2,589	20.8	2,294	55.3	76.9	21.3	21.9
FY12E	11,155	(10.4)	2,068	18.5	1,945	(15.2)	65.2	15.7	16.2
FY13E	13,120	17.6	2,557	19.5	2,328	19.7	78.0	16.6	17.2
FY14E	15,296	16.6	3,109	20.3	2,764	18.7	92.6	17.3	17.9

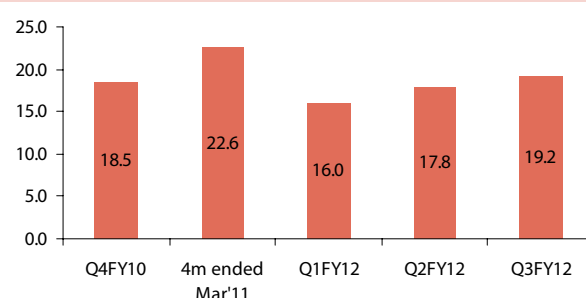
Source: Company, Centrum Research Estimates, \* Year End November

### Key Data

Reco (Prev)	Buy (Buy)	Bloomberg Code	PFIZ IN
<b>Target (Prev)</b>	<b>Rs 1,483 (Rs1,483)</b>	Reuters Code	PFIZ.BO
CMP	Rs1,224	Current Shares O/S (mn)	29.8
Upside (%)	21%	Diluted Shares O/S(mn)	29.8
<b>Price Performance (%)</b>		Mkt Cap (Rsbn/USDmn)	36.8/742.9
		52 Wk H / L (Rs)	1,638/1,072
		Daily Vol. (3M NSE Avg.)	4,447
		Face Value (Rs)	10
		<b>USD = Rs49.5</b>	

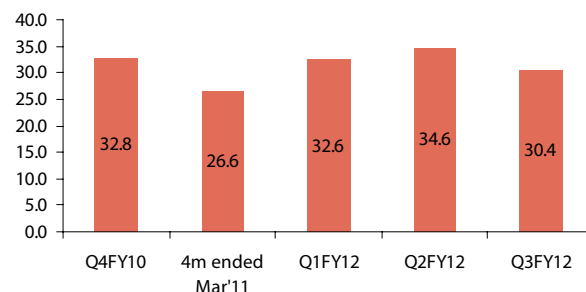
Source: Bloomberg, Centrum Research  
\*as on 27 January 2012

### Trend in EBIDTA margin (%)



Source: Company, Centrum Research

### Trend in material cost (%)



Source: Company, Centrum Research

### Top product performance

Products	Therapeutic category	MAT (Rs mn)	Gr. Rate %
Company		16,812	14.0
Corex	Cough Syrup	2,259	6.2
Becosules	Multivitamin	1,425	(5.6)
Gelusil-MPS	Antacid	857	9.7
Dolonex	NSAIDs	819	19.7
Minipress-XL	Antihypertensive	711	9.9
Magnex	Antiinfective	587	(3.8)
Lyrica	Anticonvulsant	350	28.1
Claribid	Antibacterial	303	37.1

Source: IMS MAT-Nov'11

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## Financials

### Exhibit 1: Income Statement

Y/E March (Rs mn)	FY09*	FY11(16m)	FY12E	FY13E	FY14E
Net Sales	7,944	12,446	11,155	13,120	15,296
Growth (%)	12.9	56.7	(10.4)	17.6	16.6
Operating Expenses	6,385	9,857	9,087	10,563	12,187
% of sales	80.4	79.2	81.5	80.5	79.7
EBIDTA	1,559	2,589	2,068	2,557	3,109
EBIDTA margin (%)	19.6	20.8	18.5	19.5	20.3
Depreciation	83	120	97	113	134
EBIT	1,476	2,469	1,972	2,443	2,975
PBT from operations	1,476	2,469	1,972	2,443	2,975
Other non operating income	733	1,007	921	1,007	1,126
PBT	2,209	3,476	2,892	3,450	4,101
PBT margin (%)	27.8%	27.9%	25.9%	26.3%	26.8%
Provision for tax	732	1,182	947	1,122	1,337
Effective tax rate (%)	33.1%	34.0%	32.7%	32.5%	32.6%
EO items	(109)	(30)	(4)	(5)	(5)
Net profit	1,368	2,264	1,941	2,323	2,759
Growth (%)	8.0	55.3	(15.2)	19.7	18.7
Net profit margin (%)	17.2	18.2	17.4	17.7	18.0

Source: Company, Centrum Research Estimates, \* Year end November

### Exhibit 2: Balance Sheet

Y/E March (Rs mn)	FY09*	FY11(16m)	FY12E	FY13E	FY14E
Share capital	298	298	298	298	298
Reserves & surplus	9,644	11,336	12,787	14,585	16,749
Total shareholder's fund	9,942	11,634	13,085	14,883	17,047
Deferred tax liability	(275)	(354)	(424)	(504)	(594)
<b>Total capital employed</b>	<b>9,667</b>	<b>11,281</b>	<b>12,662</b>	<b>14,380</b>	<b>16,453</b>
Gross block	1,878	1,927	2,145	2,415	2,835
Accumulated depreciation	(953)	(1,073)	(1,170)	(1,283)	(1,417)
Net Block	925	854	975	1,132	1,418
Capital WIP	8	8	9	10	11
Net fixed assets	933	862	984	1,142	1,429
Investments	5	0	0	0	0
Cash and bank	5,274	5,771	7,072	8,127	9,474
Inventories	1,134	1,593	1,650	2,020	2,170
Debtors	644	982	1,000	1,220	1,350
Other curr. assets & loans & adv.	3,769	4,272	4,300	4,615	5,150
Tot curr. assets & loans & adv.	10,821	12,618	14,022	15,982	18,144
Current liabilities & provisions	2,091	2,200	2,345	2,744	3,120
Net current assets	8,730	10,419	11,677	13,238	15,024
<b>Total assets</b>	<b>9,668</b>	<b>11,281</b>	<b>12,662</b>	<b>14,380</b>	<b>16,453</b>

Source: Company, Centrum Research Estimates, \* Year end November

### Exhibit 3: Cash Flow

Y/E March (Rs mn)	FY09*	FY11(16m)	FY12E	FY13E	FY14E
<b>Cash flow from operations</b>					
Net Profit	1,368	2,264	1,941	2,323	2,759
Depreciation & amortization	83	120	97	113	134
Change in working capital	(3,056)	(1,191)	42	(506)	(439)
Deferred tax liability	(71)	(79)	(70)	(80)	(90)
Other non-cash charges	(47)	5	0	0	0
<b>Cash flow from operations</b>	<b>(1,723)</b>	<b>1,119</b>	<b>2,010</b>	<b>1,850</b>	<b>2,364</b>
<b>Cash flow from investments</b>					
Capex	(402)	(49)	(219)	(271)	(421)
Other investing activities	0	5	0	0	0
<b>Cash flow from investments</b>	<b>(402)</b>	<b>(44)</b>	<b>(219)</b>	<b>(271)</b>	<b>(421)</b>
<b>Cash flow from financing</b>					
Dividends paid	(436)	(578)	(490)	(525)	(595)
<b>Cash flow from financing</b>	<b>(436)</b>	<b>(578)</b>	<b>(490)</b>	<b>(525)</b>	<b>(595)</b>
<b>Net Cash Flow</b>	<b>(2,561)</b>	<b>497</b>	<b>1,301</b>	<b>1,054</b>	<b>1,348</b>

Source: Company, Centrum Research Estimates, \* Year end November

### Exhibit 4: Key Ratios

Y/E March (Rs mn)	FY09*	FY11(16m)	FY12E	FY13E	FY14E
<b>Profitability ratios (%)</b>					
EBIDTA margin	19.6	20.8	18.5	19.5	20.3
PBIT margin	27.8	27.9	25.9	26.3	26.8
PBT margin	27.8	27.9	25.9	26.3	26.8
PAT margin	17.2	18.2	17.4	17.7	18.0
<b>Return ratios (%)</b>					
ROCE	15.9	21.9	16.2	17.2	17.9
ROE	15.5	21.3	15.7	16.6	17.3
<b>Turnover Ratios</b>					
Working capital (days)	147.4	148.7	130.1	120.5	111.1
Inventory (days)	50.5	56.7	56.8	54.9	53.9
Debtors (days)	32.2	33.8	34.7	33.2	33.0
Creditors (days)	78.0	71.6	66.8	66.3	66.5
<b>Per share (Rs)</b>					
Basic EPS	49.5	76.9	65.2	78.0	92.6
Book value	333.2	390.4	439.1	499.4	572.0
<b>Valuation</b>					
P/E (x)	24.7	15.9	18.8	15.7	13.2
P/BV (x)	3.7	3.1	2.8	2.5	2.1
Market Cap/Sales (x)	4.7	3.1	3.5	3.0	2.6
EV/EBIDTA (x)	20.0	11.9	17.1	13.7	11.2
EV/Sales (x)	4.0	2.6	3.4	2.9	2.5

Source: Company, Centrum Research Estimates, \* Year end November

## Appendix A

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