Pfizer

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,212	PFIZ IN
	REUTERS CODE
S&P CNX: 4,124	PFIZ BO

Equity Shares (m)	29.8
52-Week Range	1,225/621
1,6,12 Rel. Perf. (%)	4/-15/-70
M.Cap. (Rs b)	24.4
M.Cap. (US$ b)	0.6

29 January 2007

Neutral

Previous Recommendation: Neutral Rs816

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
11/06A	6,885	1,176	39.4	42.2	20.7	5.6	26.9	42.0	3.2	13.7
11/07E	6,257	1,002	33.6	-14.8	24.3	5.1	20.8	31.6	3.4	14.6
11/08E	6,882	1,155	38.7	15.4	21.1	4.5	21.5	32.3	3.0	12.3

Pfizer's 4QFY06 top-line was impacted by slow-down in consumer business & trade issues. Key highlights include:

- Net Sales were flat at Rs1.76b due to slow-down in consumer business (accounts for about 24% of sales), trade related issues in Maharashtra and de-growth in the animal healthcare and clinical services business. Pharma sales grew by 2.7% to Rs1.57b while the animal healthcare business de-grew by 9.1% to Rs138.6m. The clinical services business (for the parent company) declined by 22% to Rs55.5m for the quarter. EBITDA margins improved 140bp YoY to 18% led mainly by a 3% decline in material consumption and a 6% decline in staff costs.
- Management expects double-digit top-line growth for FY07 excluding the consumer business. EBITDA margins are likely to improve gradually over the next 2 years. The company has applied for patents in India for 2 products (not named), which will be launched through the listed entity post the successful grant of patents by the Indian authorities.
- Pfizer's (USA) decision to divest its consumer healthcare business to J&J would result in divestment of the domestic consumer healthcare business to J&J. Our estimates factor in this divestment and hence we expect a 15% PAT decline in FY07.

Given the strong parentage, Pfizer is well positioned to take advantage of the new IPR regime in India. However, uncertainties still exists on the presence of the parent's 100% subsidiary in the country and the patented products to be launched through this company. Pfizer is expected to achieve double digit top line growth (for continuing business) over the next couple of years. However, valuations at 24.3x FY07E and 21.1x FY08E adequately reflect Pfizer's business fundamentals. Maintain **Neutral**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E NOVEMBER	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Revenues	**1,383**	**1,421**	**1,695**	**1,753**	**1,535**	**1,729**	**1,856**	**1,765**	**6,252**	**6,885**
YoY Change (%)	*-2.4*	*1.2*	*15.3*	*13.8*	*11.0*	*21.7*	*9.5*	*0.7*	*7.2*	*10.1*
Total Expenditure	1,101	1,104	1,291	1,462	1,104	1,302	1,378	1,447	4,929	5,232
EBITDA	**282**	**317**	**404**	**291**	**431**	**426**	**478**	**317**	**1,322**	**1,652**
Margins (%)	*20.4*	*22.3*	*23.8*	*16.6*	*28.1*	*24.7*	*25.7*	*18.0*	*21.2*	*24.0*
Depreciation	29	37	32	40	31	32	37	31	139	131
Interest	2	0	0	0	0	0	0	1	2	1
Other Income	34	31	34	45	45	51	54	64	144	333
PBT before EO Items	**285**	**311**	**406**	**296**	**445**	**445**	**496**	**350**	**1,326**	**1,854**
EO Expense/(Income)	58	58	58	34	58	-60	58	58	234	234
PBT after EO items	**226**	**252**	**347**	**262**	**387**	**505**	**437**	**292**	**1,092**	**1,620**
Tax	92	98	129	88	139	146	157	121	411	563
Rate (%)	*40.5*	*38.7*	*37.2*	*33.7*	*35.9*	*28.9*	*35.8*	*41.6*	*37.6*	*34.7*
Reported PAT	**135**	**155**	**218**	**174**	**248**	**359**	**281**	**170**	**681**	**1,057**
YoY Change (%)	*30.1*	*99.9*	*62.4*	*23.6*	*84.0*	*132.0*	*28.6*	*-2.0*	*49.6*	*55.2*
PAT adj. for Excep Items	**169**	**191**	**255**	**196**	**290**	**291**	**323**	**228**	**827**	**1,210**
YoY Change (%)	*27.0*	*60.0*	*64.4*	*19.8*	*71.4*	*52.5*	*26.9*	*16.3*	*44.5*	*46.3*
Margins (%)	*12.2*	*13.4*	*15.0*	*11.2*	*18.9*	*16.8*	*17.4*	*12.9*	*13.2*	*17.6*

E: MOSt Estimates

Nimish Desai (Nimishdesai@MotilalOswal.com); Tel: +91 22 39825406 / Jinesh K Gandhi (Jinesh@MotilalOswal.com); Tel +91 22 39825416

Slow-down in consumer business & trade issue impact top-line growth

Net Sales were flat at Rs1.76b (vs est. of Rs1.89b) due to slow-down in consumer business (accounts for about 24% of sales), trade related issues in Maharashtra (sales loss of Rs30-40m) and de-growth in the animal healthcare and clinical services business. Pharma sales grew by 2.7% to Rs1.57b while the animal healthcare business de-grew by 9.1% to Rs138.6m. The clinical services business (for the parent company) declined by 22% to Rs55.5m for the quarter.

Growth in pharmaceutical business would have been higher, but for lower growth in consumer healthcare business (not quantified). However, the three recent launches (Viagra, Lyrica and Caduet) have started contributing meaningful revenues (FY06 Rs95m). The performance of animal healthcare business was mainly impacted due to discontinuance of Coxistac.

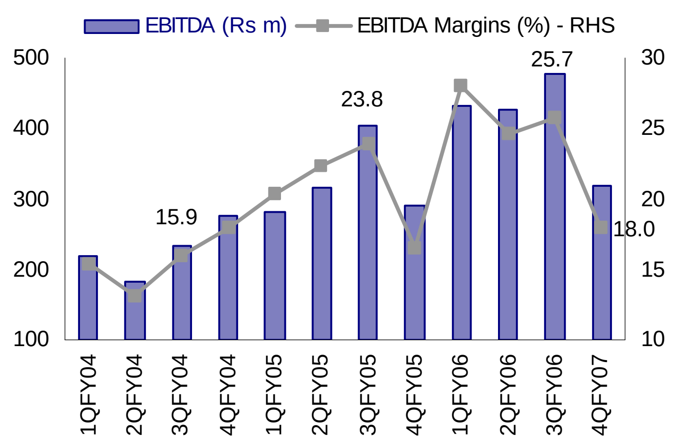
SEGMENT MIX (RS M)

	4QFY06	4QFY05	YOY (%)	3QFY06	QOQ (%)
Pharmaceuticals	1,571	1,529	2.7	1,635	-3.9
% of Sales	*89.0*	*87.2*		*88.1*	
Animal Health	139	152	-9.1	152	-8.6
% of Sales	*7.9*	*8.7*		*8.2*	
Services Income	56	71	-22.3	70	-20.5
% of Sales	*3.1*	*4.1*		*3.8*	
Total	**1,765**	**1,753**	**0.7**	**1,856**	**-4.9**

Source: Company/Motilal Oswal Securities

EBITDA margins improved 140bp YoY to 18% led mainly by a 3% decline in material consumption and a 6% decline in staff costs. However, EBITDA margins were lower as compared to the 26% average recorded for the past three quarters, mainly due to the slow-down in the consumer business.

EBITDA MARGIN TREND



Source: Company/Motilal Oswal Securities

Sale of Consumer Healthcare business: Significant impact on earnings

Pfizer (USA) has divested its consumer healthcare (CH) business to Johnson and Johnson (J&J). As a result of the global sellout of the consumer healthcare business, Pfizer India will also have to divest its domestic consumer healthcare business in favor of J&J. Key products in this portfolio include the Benadryl and Listerine ranges as well as Gelusil. These products enjoy very high brand equity. This division contributed about Rs1.4b (20% of sales) to Pfizer's revenues in FY05. We have lowered our earnings estimate to factor in the divestment of the CH business. The divestment of CH business would result in loss of sales at Rs1.5b and reduction in PAT by Rs291m (EPS of Rs9.8/ share) for FY07E. Although, our estimates don't factor in the cash-flow accruing from the divestment of this business, however, the company might utilize this cash-flow for giving one-time special dividend or buy-back of shares.

CONSUMER HEALTHCARE (CH) BUSINESS - IMPACT ANALYSIS (RS M)

	2007E
Total Sales	6,257
CH Sales	1,532
% of Total	24
CH NPM (%) – Assumed	19
CH PAT	291
Total PAT	1,002
% of Total	29
CH EPS	9.8
EPS Post-divestment (Rs)	33.6
P/EPpost-divestment (x)	24.3

Source: Motilal Oswal Securities

Aggressive launches in the recent past

Pfizer has launched three new drugs in the past one year in the domestic market. These include Viagra (for erectile dysfunction – Rs800m market), Caduet (combination of Atorvastatin and Amlodipine in the CVS category) and Lyrica (for neuropathic pain – Rs1b market). While it is too early to comment on the success of these drugs, we see this as a positive development, as it indicates efforts for mapping the parent's global product portfolio into the domestic entity. Pfizer management has indicated that it is looking at launching more products from the parent's portfolio and will also explore the in-licensing route for new launches. Pfizer Inc's CEO has recently indicated that India and China will be key focus markets in the company's Asia plans.

Pfizer has adopted a premium pricing strategy for these products since they are imported directly from the parent. For e.g. Viagra is priced at about 20x the price of generic versions already launched in the market.

NEW LAUNCHES – PREMIUM PRICING

PRODUCT	RETAIL PRICE (RS)
Viagra (50mg tablet)	463
Viagra (100mg tablet)	594
Lyrica (75mg x 14)	739
Lyrica (150mg x 14)	1,108
Caduet (5mg Amlodipine/10mg Atorvastatin)/tab	58
Caduet (5mg Amlodipine/20mg Atorvastatin)/tab	104

Source: Motilal Oswal Securities

But, despite the premium pricing Pfizer has been able to garner more than 2% share for Viagra in the Rs800m erectile dysfunction (ED) market in India. Pfizer is targeting about 10%-15% share for Viagra over the next 2-3 years led by its promotional efforts coupled with the scientific skills available with the parent.

The three new launches (Viagra, Lyrica and Caduet) together contributed about Rs95m for FY06.

Strong pipeline of the parent should augur well

Pfizer (USA) has among the strongest R&D pipelines amongst global pharmaceutical companies. The parent has a pipeline of about 100 new molecules at various stages of development. Some of these products could be launched in India with a time lag.

R&D PIPELINE

Phase I	49
Phase II	32
Phase III & Registrations	11
Total NCEs	**92**

Source: Pfizer USA

Expects double-digit topline growth with continuing focus on improving efficiency

Pfizer management is targeting double-digit top-line growth (on like-to-like basis) for next couple of years on back of new product launches and improving field-force productivity. The management continues to be focused to improve efficiency and control cost. After successful implementation of LEAP program, which boosted EBITDA margins (by 11pp over FY03-06E), the management expects margins to improve by 200-300bp over next couple of years. The company expects to improve efficiency in areas of manufacturing operations, inventory management and supply chain management.

Has applied for patents on two drugs in India

The company has applied for patents in India for 2 products (not named), which will be launched through the listed entity post the successful grant of patents by the Indian authorities. It is also evaluating the launch of Exubera (inhaled Insulin) in India. More clarity on these products is likely over the next two quarters.

One-time gains from property divestment

The company is in the process of disposing off the Chandigarh property on 'As is where is' basis and an agreement for sale has been entered into with a prospective buyer. It is awaiting regulatory clearances for this sale and has already received an advance of Rs278m which is forfeitable in case the sale transaction does not consummate for reasons other than government clearances. We believe that the company is likely to book a one-time income from the sale of this property over the next quarter.

Valuations reflect positives

Pfizer is now firmly on the path of margin improvement, with improved efficiencies and control on costs expected to drive rapid improvement in margins. The company has gone through a couple of value dilutive mergers (with Parke Davis and Pharmacia) in the past, which took a severe toll on margins in the past. However, things are back on track and the LEAP program is expected to lead to higher EBITDA margins. With revenues expected to grow at double digit (for continuing business), we expect EBITDA margins to trend upward by 100-200bp to 24.6% in the FY06-FY08E period. We have assumed lower EBITDA margins for FY07E to take into account the pre-launch promotional expenditure that the company is likely to incur for its patented products (expected to be launched in 2008).

Given the strong parentage, Pfizer is well positioned to take advantage of the new IPR regime in India. However, uncertainties still exists on the presence of the parent's 100% subsidiary in the country and the patented products to be launched through this company. Pfizer is expected to achieve double digit top line growth (for continuing business) over the next couple of years. However, valuations at 24.3x FY07E and 21.1x FY08E adequately reflect Pfizer's business fundamentals. Maintain **Neutral** with target price of Rs820.

Pfizer: an investment profile

Company description

Pfizer India, a 40% subsidiary of Pfizer Inc, has interests in pharmaceutical business (~86% of sales), animal health (~10% of sales) and services (~4% of sales). Pfizer India's profile is completely different from its parent and many other emerging market subsidiaries. Pfizer has a strong field force; however these are skewed towards mature categories owing to the nature of its product portfolio.

Key investment arguments

- With merger integration related issues out of the way, Pfizer has started focusing on gearing up for the product patent era
- Focus on revamping the sales force in line with the parent's focus therapeutic areas
- Over the longer term, Pfizer with its parent's robust pipeline and strong brand equity in India could emerge as a key gainer from product patent introduction

Key investment risks

- Has a 100% subsidiary in India through which some of the patented products could be launched in the coming years.
- Ineffective implementation of product patents in India could suppress growth potential

Recent developments

- Divestment of consumer healthcare business by Pfizer Inc would result in divestment of domestic consumer healthcare business.

Valuation and view

- Valuations of 24.3x and 21.1x FY07E and FY08E earnings respectively fairly discount the rapid growth prospects and rich pipeline of the parent
- Maintain **Neutral** with target price of Rs820.

Sector view

- Indian Pharma market expected to witness steady growth, on the back of gradual increase in the low penetration levels – companies with strong brands and marketing muscle to benefit the most
- IPR regime unlikely to lead to any major change in the near term; MNCs and large Indian players to benefit over the longer term.
- Among MNCs, we are bullish on companies whose domestic portfolio is well aligned with its parent and where risk of conflict with 100% subsidiaries is limited

COMPARATIVE VALUATIONS

		PFIZER	AVENTIS	GLAXO
P/E (x)	FY07E	24.3	17.1	24.1
	FY08E	21.1	15.1	20.7
P/BV (x)	FY07E	5.1	4.4	6.2
	FY08E	4.5	3.7	5.2
EV/Sales (x)	FY07E	3.4	2.7	4.8
	FY08E	3.0	2.3	4.1
EV/EBITDA (x)	FY07E	14.6	9.7	15.4
	FY08E	12.3	8.2	12.9

SHAREHOLDING PATTERN (%)

	DEC-06	SEP-06	DEC-05
Promoter	41.2	41.2	41.2
Domestic Inst	29.0	28.4	26.1
Foreign	2.8	3.0	6.6
Others	27.0	27.4	26.0

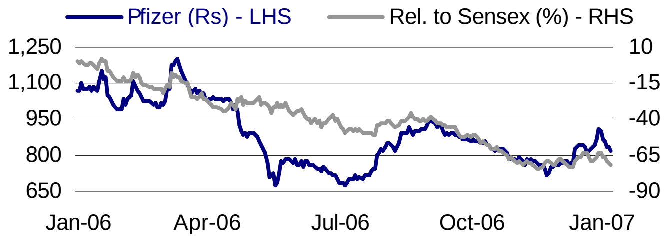
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	33.6	43.8	-23.4
FY08	38.7	44.5	-13.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
816	820	0.5	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					(Rs Million)
Y/E NOVEMBER	2004	2005	2006E	2007E	2008E
Net Income	**5,820**	**6,161**	**6,885**	**6,257**	**6,882**
Change (%)	*15.5*	*5.8*	*11.8*	*-9.1*	*10.0*
Total Expenditure	4,910	4,838	5,265	4,796	5,188
EBITDA	**911**	**1,322**	**1,620**	**1,461**	**1,695**
Change (%)	*44.1*	*45.2*	*22.5*	*-9.8*	*16.0*
Margin (%)	*15.6*	*21.5*	*23.5*	*23.3*	*24.6*
Depreciation	103	138	131	146	160
Int. and Finance Charges	8	2	1	0	0
Other Income - Rec.	141	144	333	217	232
PBT & EO Items	**941**	**1,326**	**1,821**	**1,531**	**1,767**
Change (%)	*49.2*	*41.0*	*37.3*	*-15.9*	*15.4*
Extra Ordinary Items	-192	-234	-234	-133	-78
PBT after EO Items	**748**	**1,092**	**1,588**	**1,398**	**1,689**
Tax	293	411	563	484	584
Tax Rate (%)	*39.2*	*37.6*	*35.5*	*34.6*	*34.6*
Reported PAT	**455**	**681**	**1,025**	**914**	**1,105**
PAT Adj for EO Items	**572**	**827**	**1,176**	**1,002**	**1,155**
Change (%)	*52.8*	*44.5*	*42.2*	*-14.8*	*15.4*
Margin (%)	9.8	13.4	17.1	16.0	16.8

BALANCE SHEET					(Rs Million)
Y/E NOVEMBER	2004	2005	2006E	2007E	2008E
Equity Share Capital	298	298	298	298	298
Reserves	3,129	3,467	4,067	4,520	5,065
Net Worth	**3,428**	**3,766**	**4,366**	**4,819**	**5,364**
Loans	120	0	0	0	0
Deferred Tax Liabilities	-64	-90	-25	30	98
Capital Employed	**3,484**	**3,675**	**4,340**	**4,849**	**5,462**
Gross Block	1,588	1,701	1,988	2,188	2,388
Less: Accum. Deprn.	871	946	1,077	1,223	1,383
Net Fixed Assets	**717**	**756**	**911**	**965**	**1,005**
Capital WIP	39	21	30	30	30
Investments	32	0	0	0	0
Curr. Assets	**3,772**	**4,516**	**5,317**	**5,812**	**6,702**
Inventory	739	898	1,157	1,051	1,156
Account Receivables	717	828	943	857	943
Cash and Bank Balance	1,611	2,099	2,185	2,965	3,570
Others	705	691	1,033	939	1,032
Curr. Liability & Prov.	**1,677**	**1,985**	**2,149**	**2,023**	**2,261**
Account Payables	1,135	1,340	1,377	1,251	1,376
Provisions	542	645	772	772	884
Net Current Assets	**2,094**	**2,531**	**3,169**	**3,789**	**4,441**
Deferred Revenue Exp (VRS)	601	367	211	78	0
Appl. of Funds	**3,484**	**3,675**	**4,340**	**4,849**	**5,462**

E: MOSt Estimates

RATIOS					
Y/E NOVEMBER	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	**19.2**	**27.7**	**39.4**	**33.6**	**38.7**
Cash EPS	22.6	32.4	43.8	38.5	44.1
BV/Share	114.9	126.2	146.3	161.5	179.8
DPS	10.0	10.0	13.4	13.6	16.4
Payout (%)	71.8	50.4	44.6	50.5	50.7
Valuation (x)					
P/E		29.5	20.7	24.3	21.1
Cash P/E		25.2	18.6	21.2	18.5
P/BV		6.5	5.6	5.1	4.5
EV/Sales		3.6	3.2	3.4	3.0
EV/EBITDA		16.8	13.7	14.6	12.3
Dividend Yield (%)		1.2	1.6	1.7	2.0
Return Ratios (%)					
RoE	16.7	22.0	26.9	20.8	21.5
RoCE	27.2	36.1	42.0	31.6	32.3
Working Capital Ratios					
Asset Turnover (x)	1.7	1.7	1.6	1.3	1.3
Debtor (Days)	45	49	50	50	50
Inventory (Days)	46	53	61	61	61
Working Capital (Days)	30	26	52	48	46
Leverage Ratio					
Current ratio	2.2	2.3	2.5	2.9	3.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT					(Rs Million)
Y/E NOVEMBER	2004	2005	2006E	2007E	2008E
Oper. Profit/(Loss) before Tax	850	1,556	1,776	1,594	1,772
Interest/Dividends Recd.	141	144	333	217	232
Direct Taxes Paid	-258	-438	-498	-428	-517
(Inc)/Dec in WC	427	51	-552	160	-47
CF from Operations	**1,160**	**1,313**	**1,059**	**1,543**	**1,440**
EO Items	-192	-234	-234	-133	-78
CF from Opr.incl EO Item	**968**	**1,080**	**825**	**1,410**	**1,363**
(Inc)/Dec in FA	-248	-159	-314	-169	-198
(Pur)/Sale of Investments	0	32	0	0	0
CF from Investments	**-248**	**-127**	**-314**	**-169**	**-198**
Issue of Shares	10	0	0	0	0
Inc/(Dec) in Debt	120	-120	0	0	0
Dividend Paid	-327	-343	-457	-461	-560
Interest paid	-8	-2	-1	0	0
Others	205	0	33	0	0
CF from Fin. Activity	**0**	**-465**	**-425**	**-461**	**-560**
Inc/Dec of Cash	**720**	**488**	**86**	**780**	**605**
Add: Beginning Balance	891	1,611	2,099	2,185	2,965
Closing Balance	**1,611**	**2,099**	**2,185**	**2,965**	**3,570**

^ 2004 and 2003 balance sheet items are not comparable due to Pharmacia merger

NOTES

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement	Pfizer
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	Yes