3 September 2012

Pfizer India

Riding the brandwagon; Initiating with a Buy

Rating: **Buy**
Target Price: ₹1,518
Share Price: ₹1,286

Continued support from a strong parent and brand equity are Pfizer's backbone. Focus on expanding branded generics business in emerging markets and higher productivity on account of field force addition in past two years are key growth drivers, going forward. Further, the company's strong cash position is sure to give it enough leverage to grow the inorganic way. Thus, we initiate coverage on Pfizer with a Buy rating and price target of ₹1,518.

- **Strong parentage and formidable product profile.** Pfizer has strong virtues arising from its lasting relationship with parent, Pfizer, Inc. (US) Its product kitty comprises many established brands like Corex, Gelusil, Becosules, Magnex – all ranking among the top-three in their therapeutic areas. Over the years, these products have endowed Pfizer with sustainable revenues growth (14.1% CAGR over FY09-12).

- **Branded generics a key growth driver.** We expect 13.3% CAGR in revenues over FY12-15 in its domestic pharma segment, in line with the industry growth rate. Revenue growth will be primarily aided by a higher share of branded generics, up from 5% currently to 10% by FY15, in our view. Other products are likely to continue posting steady volumes.

- **Strong balance sheet and return ratios.** Pfizer has net cash of ~₹13bn on its books (~35% of market cap), which gives it adequate leverage to grow inorganically. With no major capex plans in the immediate future, we expect its core business RoE and RoCE (excl. cash) to improve to over 30% from 25% currently, led by steady net profit growth.

- **Valuation.** The stock is trading at attractive valuations of 17.8x FY13e and 15.6x FY14e earnings. We value it at ₹1,518, based on 20x Dec'13e core earnings and ₹428 for the cash balance (considering 15% discount). **Risks:** Proposed new pricing policy and keener competition in generics.

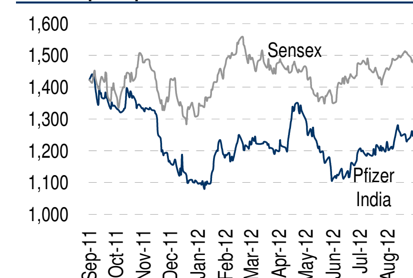
Key financials (YE Mar)	FY 11*	FY12	FY13e	FY14e	FY15e
Sales (₹m)	12,435	10,924	10,725	12,193	13,864
Net profit (₹m)	2,283	1,849	2,154	2,453	2,834
EPS (₹)	76.5	61.9	72.2	82.2	95.0
Growth (%)	61.0	-19.0	16.5	13.9	15.5
PE (x)	16.8	20.8	17.8	15.6	13.5
EV/EBITDA (x)	16.7	15.2	11.6	9.3	7.4
P/B (x)	3.3	2.9	2.2	2.0	1.8
RoE (%)	15.9	15.0	14.0	13.1	13.7
RoCE (%)	16.4	15.6	14.4	13.4	13.9
Dividend yield (%)	1.0	1.0	1.1	1.3	1.5
Net gearing (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Key data	PFIZ IN / PFIZ.BO
52-week high / low	₹1,455 / ₹1,072
Sensex / Nifty	17384 / 5254
3-m average volume	US$0.26m
Market cap	₹38.4bn / US$0.69bn
Shares outstanding	29.8m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	70.75	70.75	70.75
- of which, Pledged	0	0	0
Free Float	29.25	29.25	29.25
- Foreign Institutions	2.19	2.02	1.92
- Domestic Institutions	7.17	7.01	7.09
- Public	19.89	20.22	20.24

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Net revenues	12,435	10,924	10,725	12,193	13,864
Revenue growth (%)	12.2	17.1	-1.8	13.7	13.7
- Op. expenses	9,832	8,966	8,580	9,694	10,952
EBIDTA	2,602	1,958	2,145	2,500	2,911
EBITDA margin (%)	20.9	17.9	20.0	20.5	21.0
- Interest expenses	25	19	0	0	0
- Depreciation	120	96	101	101	101
+ Other income	1,019	936	1,182	1,275	1,433
- Tax	1,183	929	1,833	1,220	1,409
Effective tax rate (%)	34	33	26	33	33
Reported PAT	2,263	1,846	5,203	2,453	2,834
+/- Extraordinary items	-30	-4	3811	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	2,283	1,849	2,154	2,453	2,834
Adj. FDEPS (₹/share)	76.5	61.9	72.2	82.2	95.0
Adj. FDEPS growth (%)	61.0	-19.0	16.5	13.9	15.5

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Share capital	298	298	298	298	298
Reserves & surplus	11,336	12,749	17,451	19,334	21,509
Net worth	11,634	13,047	17,749	19,632	21,808
Minority interest	0	0	0	0	0
Total debt	0	0	0	0	0
Def. tax liab. (net)	-355	-371	-371	-371	-371
Capital employed	11,279	12,676	17,378	19,261	21,437
Net fixed assets	862	797	796	794	793
Investments	0	1	1	1	1
- of which, Liquid	0	1	1	1	1
Net working capital	4,647	3,216	3,177	3,434	3,727
Cash and bank balance	5,770	8,663	13,406	15,032	16,916
Capital deployed	11,279	12,676	17,378	19,261	21,437
Net debt	-5,770	-8,663	-13,406	-15,033	-16,917
WC days	27.5	47.6	54.7	50.9	50.9
Book value (₹/sh)	389.9	437.2	594.7	657.8	730.7

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
PAT	2,183	1,831	5,203	2,453	2,834
+ Non-cash items	40	80	101	101	101
Cash profit	2,223	1,911	5,304	2,555	2,935
- Incr./(decr.) in WC	1,190	(1,775)	(39)	257	293
Operating cash-flow	1,032	3,685	5,344	2,297	2,643
- Capex	(177)	(519)	100	100	100
Free cash-flow	1,209	4,205	5,244	2,197	2,543
- Dividend	572	434	501	570	659
+ Equity raised	0	0	0	0	0
+ Debt raised	0	0	0	0	0
- Investments	(5)	1	0	0	0
- Misc. items	146	893			
Net cash-flow	496	2,878	4,743	1,627	1,884
+ Op. cash & bank bal.	5,274	5,785	8,663	13,406	15,032
Cl. cash & bank bal.	5,770	8,663	13,405	15,032	16,916

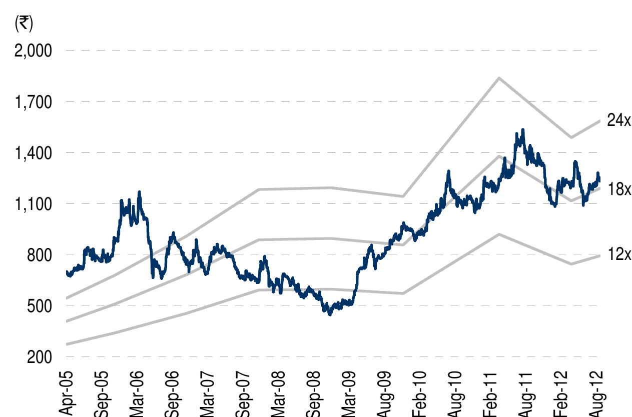
Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 4 – Ratio analysis @ ₹1,286

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
P/E (x)	16.8	20.8	17.8	15.6	13.5
P/B (x)	3.3	2.9	2.2	2.0	1.8
EV/EBITDA (x)	16.7	15.2	11.6	9.3	7.4
RoE (%)	15.9	15.0	14.0	13.1	13.7
RoCE (%)	16.4	15.6	14.4	13.4	13.9
Dividend yield (%)	1.0	1.0	1.1	1.3	1.5
Dividend payout (%)	16.2	20.2	20.0	20.0	20.0
Asset turnover (x)	5.2	7.6	8.7	9.2	9.7
Net debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (x)	-2.2	-4.4	-6.3	-6.0	-5.8
Net debt/op. CF (x)	-5.6	-2.4	-2.5	-6.5	-6.4
Interest coverage (x)	100.7	97.5	NA	NA	NA
P/CEPS (x)	21.3	19.7	17.0	15.0	13.1
EV/ sales (x)	2.6	2.7	2.3	1.9	1.5
M-cap/sales (x)	3.1	3.5	3.6	3.1	2.8

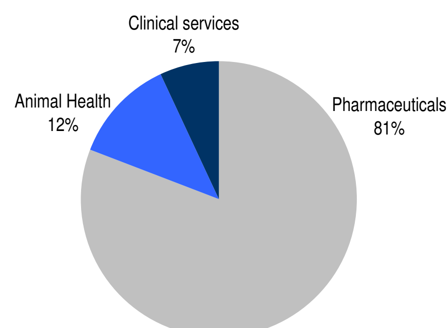
Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 5 – Valuation chart (P/E)



Source: Bloomberg, Anand Rathi Research

Fig 6 – Share of revenue, by segment (FY12)



Source: Company

Investment Argument and Valuation

Continued support from a strong parent and brand equity are Pfizer's backbone. Focus on expanding branded generics business in emerging markets and higher productivity on account of field force addition in past two years are key growth drivers, going forward. Further, the company's strong cash position is sure to give it enough leverage to grow the inorganic way. Thus, we initiate coverage on Pfizer with a Buy rating and price target of ₹1,518.

Strong parentage and formidable product profile

Pfizer has strong virtues arising from its strong relationship with parent, Pfizer, Inc. (US) Its product kitty comprises many established brands like Corex, Gelusil, Becosules, Magnex – all ranking among the top-three in their respective therapeutic areas. Over the years, these products have endowed Pfizer with sustainable revenues (14.1% CAGR over FY09-12). In India, Pfizer has retained its ranking (No. 12-14) and market share (2.1-2.2%) over the past four years (IMS). At present, combined with Wyeth, it is ranked no.9 (AIOCD AWACS). In India, its leading brand rankings are not well mirrored in overall market share/company-ranking, in line with the MNC under-performance due to lack of product patents.

Its three major brands Corex, Becosules and Gelusil account for almost half of its pharma division revenue. For years these brands have held leading positions (No. 1-3) by molecule/segment, though of late, competition has been challenging their statuses. These brands continue to play a dominant role in Pfizer's out-performance in the Indian pharmaceutical market. According to AIOCD AWACS, Pfizer is growing at over 30%.

Branded generics a key growth driver

We expect a 13.3% CAGR over FY12-15 in Pfizer's domestic pharma segment revenue, in line with the industry growth rate. Branded generics now bring in 5% of pharma revenue and we expect it to touch 10% by FY15, with steady volume growth continuing in other products. To counter the impact of looming patent expiries and their impact on growth, Pfizer, Inc. like other global pharma majors, sharpened its emphasis on enhancing its share of brand-named generics sales in emerging markets. Over CY07-11, the share of its Established Products & Emerging Markets (EP & EM) unit has risen from 26% to 32% of the biopharma division's sales. Pfizer achieved this through increased sourcing from generics manufacturers in these emerging markets. The strategy is expected to continue as more and more blockbuster products go off patent.

Over this period Pfizer India adopted various measures such as aggressive launches of its parent company's latest introductions, revived OTC-centric brands and penetrating tier-II and -III cities. In FY09 it entered the brand-named generics segment by launching off-patented products of other innovator companies. So far it has launched about 40 such products (about 25 were launched in FY12 itself). It plans to maintain the pace of such launches. The share of sales in brand-named generics has risen to about 5% in FY12 (from about 3% in FY11) and we expect it to reach double digits by FY15.

Strong balance sheet and return ratios

We estimate CAGRs of 8.3% in revenue and 15.3% in net profit over FY12-15, with margin expansion of 310bps. The lower growth is due to the divestment of the animal healthcare business, which had brought in 12% of revenue in FY12. The divestment added ~₹3.8bn in cash to the net cash position of ₹8.7bn. We have factored in the divestment of the animal healthcare business, which brought in about 12% to its FY12 revenue. Return ratios have been hit by the fall in EBITDA margins in all three segments in FY12. However, we expect a significant improvement in returns from the core business, excluding the cash balance.

Pfizer has net cash of ~ ₹13bn on its books (~35% of market-cap). This gives it room to accelerate inorganic growth. Since it has no major capex plans, we expect the core business RoE and RoCE (excl. cash) to improve to well over 30% (from the present 25%), led by steady net-profit growth,.

Valuations

The stock trades at attractive valuations of 17.8x FY13e and 15.6x FY14e earnings. We value it at ₹1,518, based on 20x Dec'13e core earnings (excluding interest on cash balance) of ₹54 and ₹428 for the cash balance (considering a 15% discount).

Risks

- Pricing pressure from the proposed pricing policy
- Intensifying competition in generics.

Strong parentage; formidable products

Continued support from a strong parent and brand equity are Pfizer's backbone. Its product kitty comprises many established brands like Corex, Gelusil, Becosules, Magnex – all ranking among the top-three in their respective therapeutic areas. Over the years, these products have endowed Pfizer with sustainable revenues (14.1% CAGR over FY09-12).

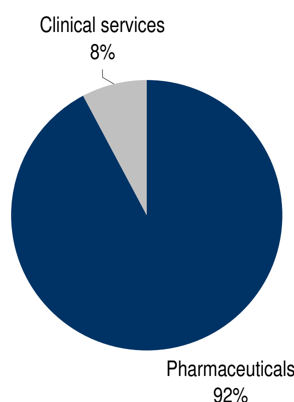
Focus on expanding branded generics business in emerging markets and higher productivity on account of field force addition in past two years are key growth drivers, going forward. Further, the company's strong cash position is sure to give it enough leverage to grow the inorganic way. In India, Pfizer has retained its ranking (No. 12-14) and market share (2.1-2.2%) in the past four years (IMS).

Business model

Broadly, the company has three business segments: pharmaceuticals, animal healthcare and clinical services. Pharmaceuticals consists of brand-named formulations and brand-named generics in the home market. Brand-named formulations are primarily products brought from the parent company and launched in India, such as Corex, Becocules, etc. Also, the company has started branded generics from FY10, where products are manufactured by third parties and Pfizer markets them.

Animal healthcare was transferred to a wholly-owned subsidiary in FY12, in line with the parent company's strategy of focusing on its core pharmaceuticals. It was transferred at ₹4.4bn and will finally be passed on to the parent. The animal healthcare financials would not be reflected in the consolidated results from 1QFY13 as the intention is to completely divest the division in the near future. Animal healthcare brought in 12.2% of revenue in FY12. Finally, the clinical services operations division takes care of all the clinical trials conducted by the company in India.

Fig 7 – Share of revenue, by segment (FY13e)



Source: Anand Rathi Research

Strong brands ensure sustainable revenue

Pfizer has established big brand-named products such as Corex, Gelusil, Becosules, Magnex, which rank among the top-three brands in their therapeutic areas. These established brands are its backbone in terms of a sustainable revenue stream and volume growth. Its three major brands, Corex, Becosules and Gelusil account for almost half of its pharma division revenue. For years these brands have held leading positions (the top 1-3) by molecule/segment, though of late competition has been challenging their statuses. These brands continue to play a dominant role in Pfizer's out-performance in the Indian pharmaceutical market. According to AIOCD AWACS, Pfizer is growing at over 30%.

Fig 8 – Leading products

Product	Therapeutic segment	% market share	% growth	Rank
Becosules	Vitamin B-Complex + C, Zinc	49.7	22.1	1
Corex	Cough preparations	14.7	8.4	1
Gelusil	Antiacid	30.2	23	2
Dolonex	NSAID	3.7	17.9	4
Claribid	Macrolides	3.3	27	6
Daxid	Antidepressant	2.3	8.2	6
EquiO	NSAID	2.8	-	7

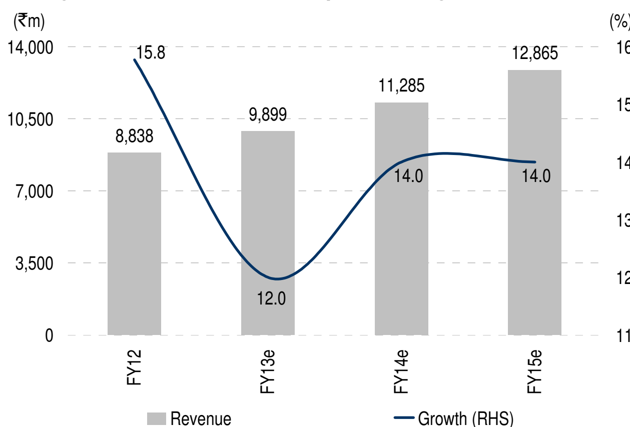
Source: Company, IMS-SSA MAT Mar 2011

For a long time Corex had been the largest selling brand; of late, it moved to rank three due to intense competition in the segment, which resulted in lower growth for Pfizer. However, on the high bases of all the three large products (Corex, Becosules, Gelusil) growth has been positive.

Expect 13.3% CAGR in revenue in pharma segment

Over FY12-15, we expect Pfizer to report a 13.3% CAGR in revenue in its domestic pharmaceuticals, largely in line with the industry growth rate. The growth would be primarily driven by volume growth in its well-established brand-named products, the launch of products in brand-named generics and an increase in productivity of the field force added in the past two years. The present field force comprises ~2,500 marketing representatives. Over FY09-12, the company saw a similar 14.1% CAGR, again in line with overall industry growth. This would continue in our view.

Fig 9 – Revenue growth trend in domestic pharma segment



Source: Company, Anand Rathi Research

Branded generics a key growth driver

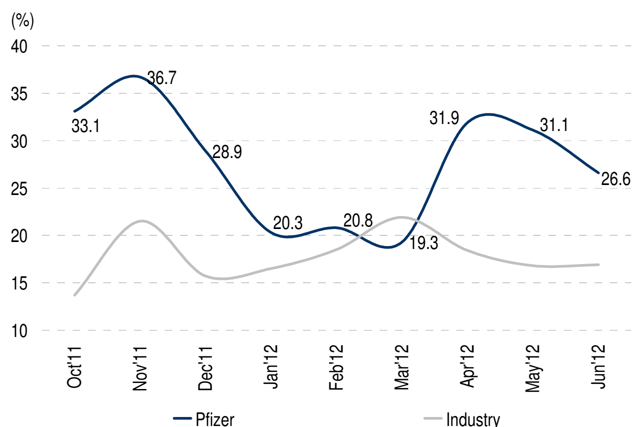
We expect a 13.3% CAGR in revenue over FY12-15 in its domestic pharma segment, in line with the industry growth rate. Brand-named generics now bring in 5% of pharma revenue and we expect it to touch 10% by FY15, with steady volume growth continuing in other products. To counter the impact of looming patent expiries and their impact on growth, Pfizer, Inc. like other global pharma majors, sharpened it focus on enhancing its share of branded generics in emerging markets.

Share of revenue to grow consistently

In FY09, Pfizer entered the brand-named generics segment by launching off-patent products of other innovator companies. So far it has launched about 40 such products (about 25 were launched in FY12 itself). It plans to maintain the pace of such launches. The share of sales of brand-named generics has risen to about 5% in FY12 (from about 3% in FY11) and we expect it to touch double digits by FY15, rising consistently.

The company has been launching about 4-5 brand-named generic products every quarter. The launches cut across therapeutic categories incl. chronic areas, which were not focus areas earlier. The brand-named generic launches are in anti-infectives, cardiac, the central nervous system (CNS), etc. Profit margins in brand-named generics would be lower than those in the parent's product portfolio. However, the increasing productivity of the field force would help maintain overall margins in the segment.

Fig 10 – Pfizer's pharma growth consistently higher than Industry growth



Source: AIOCD

Animal healthcare divestment to improve financials

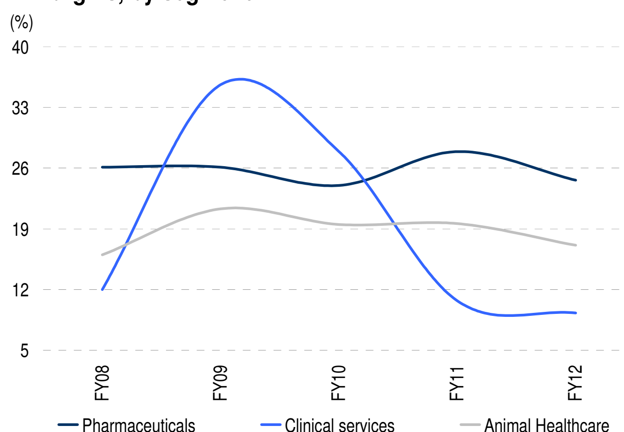
Pfizer India has transferred its animal healthcare division to a fully-owned subsidiary, intending to finally divest it in favour of its parent company for approx. ₹4.4bn. It has already booked profit of ₹3.8bn in 1QFY13 on this divestment and animal health financials would not reflect in consolidated results from FY13. We believe this transaction would help it better focus on its core pharmaceuticals business and strengthen its balance sheet. Further, margins and return ratios would be better as the animal health business had lower profits than its pharmaceutical business.

310bps EBITDA margin improvement

Since the animal healthcare EBIDA margin was lower than that in its core pharmaceuticals business, we expect that after the divestment in FY13, the reported EBITDA margin would be ~200bps better than in FY12, with a 310bps improvement over FY12-15. The pharmaceuticals business reported a 25% PBIT margin in FY12, compared to 17% in animal healthcare. This margin expansion would also help substantially better return ratios, by more than 500bps, over FY12-15.

The pharmaceutical segment PBIT margin was the highest (24-26% of sales), whereas the animal healthcare margin was 16-20%, depending upon the pricing situation. The clinical services PBIT margin was volatile due to the short-term nature of contracts, where margins vary from contract to contract. We expect the overall EBITDA margin to be a stable 20-21%.

Fig 11 –PBIT margins, by segment

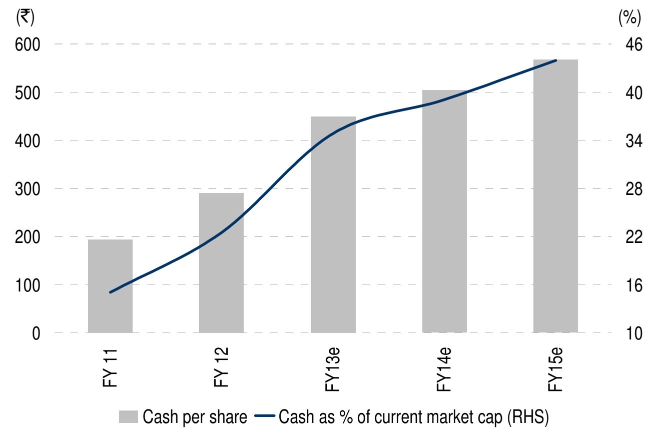


Source: Company

Enough room for inorganic growth

With significant net cash (~₹13bn) on its books (almost one-third of its market capitalization and three-fourths of capital employed), Pfizer has enough scope to consider inorganic opportunities to accelerate the growth momentum. We believe that any such inorganic growth move would be positive as the idle cash on its books generates merely single-digit returns.

Fig 12 – Cash position consistently increasing



Source: Company, Anand Rathi Research

Financials

We estimate CAGRs of 8.3% in revenue and 15.3% in net profit over FY12-15, with margin expansion of 310bps. The lower growth would be due to the divestment of its animal healthcare division, which brought in 12% of revenue in FY12. The divestment has added ~₹3.8bn cash to its net cash position of ₹8.7bn, which we have factored in. Return ratios have been hit due to the fall in EBITDA margins in all three segments in FY12. Nevertheless, we expect a significant improvement in returns from its core business, excl. the cash balance.

Revenues to grow steadily

In domestic formulations Pfizer improved its market share, from 2.12% at end-FY11 to 2.3% at end-FY12 (source: IMS). It recorded double-digit growth (12.6%) and, in several of its therapeutic segments (respiratory, pain management, neuro CNS) growth was faster than the industry growth rate. We estimate a 13.3% CAGR in pharma revenue over FY12-15, driven by volumes and branded generic launches in its home market. Though it reported low single-digit growth in 1QFY13, it has over 20% growth at the retail level (secondary sales).

Despite this very high growth of the last two years, we expect nominal revenue growth in its services division (clinical development), this being a non-thrust area for the company, and fewer launches planned from the parent's pipeline and due to the high base. Reported revenue growth appears lower in FY13 due to the divestment of the animal healthcare business, which brought in 12.2% of FY12 revenue.

Fig 13 – Revenue breakdown

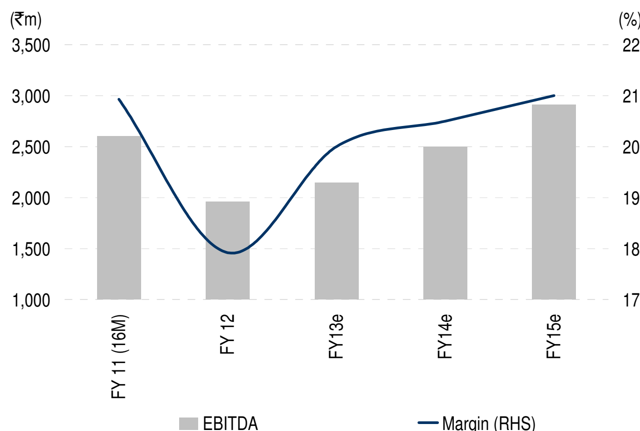
(₹m)	FY11	FY12	FY13e	FY14e	FY15e
Pharmaceuticals	**10,179**	**8,838**	**9,899**	**11,285**	**12,865**
% of sales	87.0	80.9	92.3	92.6	92.8
% growth	14.7	15.8	12.0	14.0	14.0
Clinical services	**739**	**751**	**826**	**908**	**999**
% of sales	6.3	6.9	7.7	7.4	7.2
% growth	151.0	35.4	10.0	10.0	10.0
Animal Health	**1,592**	**1,335**	**0**	**0**	**0**
% of sales	13.6	12.2	0	0	0
% growth	12.9	11.8	0	0	0
Total revenue	**12,510**	**10,924**	**10,725**	**12,193**	**13,864**

Source: Company, Anand Rathi Research.

Margin to expand over 300bps

We expect EBITDA margin expansion of 310bps over FY12-15, with 210bps improvement in FY13 itself. A large portion of this expansion would come from the altered revenue mix, led by the animal healthcare divestment; the rest from the expected better field-force productivity. We estimate the EBITDA margin to move up, from 17.9% in FY12 to 20% in FY13, and to 21% in FY15.

Fig 14 – EBITDA trend

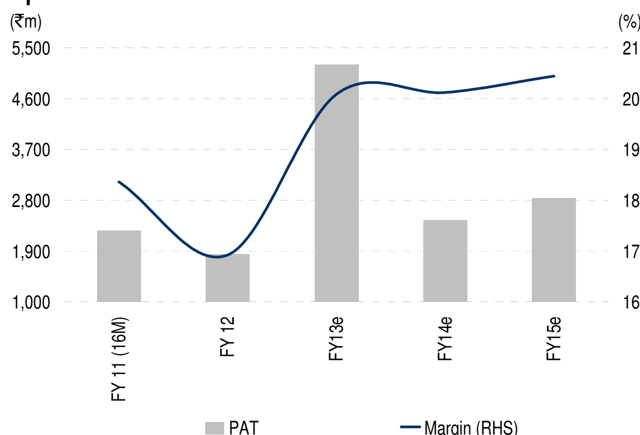


Source: Company, Anand Rathi Research

Net profit CAGR of 15.3% over FY12-15

We expect a 15.3% CAGR in adjusted net profit over FY12-15, to ₹2.8bn, as a result of an 8.3% CAGR in revenue, a 310bps margin expansion and a rise in interest income. The adjusted net profit growth rate would be almost double the revenue growth rate. Led by the huge cash balance on its books, we expect 'other income' to rise from ₹936m in FY12 to ₹1.4bn in FY15. Following the strong net-profit growth, the net-profit margin would also improve, from 16.9% in FY12 to 20.4% in FY15.

Fig 15 – Net-profit trend

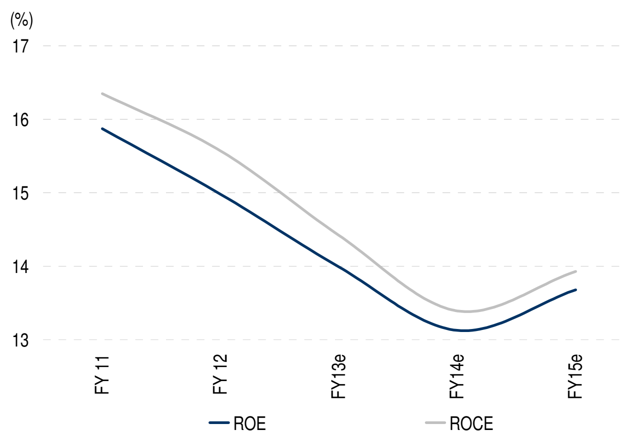


Source: Company, Anand Rathi Research

Core business return ratios to improve

We expect reported return ratios to be subdued due to the higher proportion of idle cash on the balance sheet. (This generates much lower returns than the business.) However, excluding the impact of cash and associated interest income, we believe return ratios would expand substantially as there are no major capex plans. We expect the RoE and RoCE to improve from 25.9% and 24.5% respectively in FY12 to 41.9% and 39.4% in FY15.

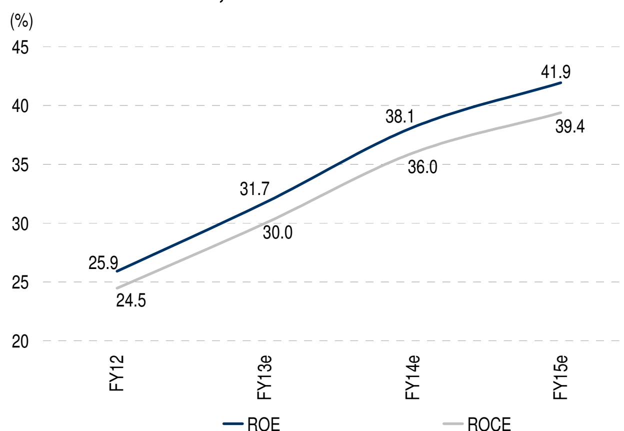
Fig 16 – Return-ratio trend



Source: Company, Anand Rathi Research

However, excl. the cash balance and associated interest income on this, the RoE and RoCE would improve almost 500bps in FY13 due to better margins and no major capex. Any inorganic growth from free cash would help in accelerating the revenue and net-profit-growth momentum and, hence, overall return ratios as well. The overall return ratios appear lower because interest income on free cash is just 6-8% compared to returns from its pharmaceutical business (30% plus) as shown in the figure below.

Fig 17 – Core-return-ratio trend, excl. cash and associated interest income



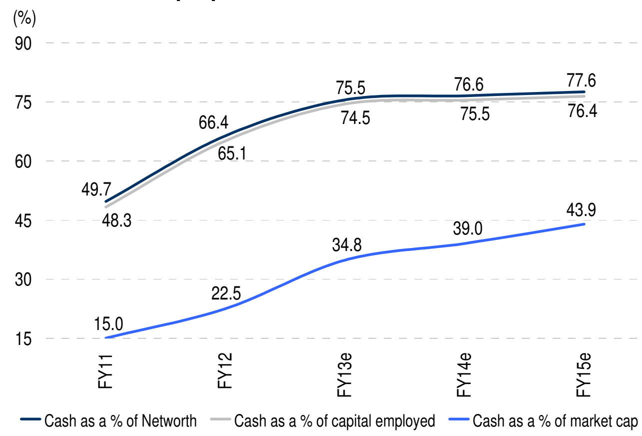
Source: Company, Anand Rathi Research

Huge cash balance may provide upside opportunity

Free cash, unutilized at present, constitutes a significant portion of the balance sheet. The company received ₹3.8bn from the animal healthcare divestment. We believe this free cash on its books (~₹13bn) may offer it considerable opportunities in inorganic growth. This would improve overall return ratios and enthuse shareholders through a special dividend or buy-back.

In FY12 two-thirds of Pfizer's net worth was in cash. We expect this to go up to 76% in FY13. Cash (as percent of capital employed) is also almost at the same percentage since there is no debt on the books.

Fig 18 – Consistent rise in proportion of cash



Source: Company, Anand Rathi Research

Fig 19 – Income statement (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Revenues	**12,435**	**10,924**	**10,725**	**12,193**	**13,864**
Growth in revenues (%)	*12.2*	*17.1*	*(1.8)*	*13.7*	*13.7*
Raw materials	3,905	3,591	3,325	3,780	4,298
% of sales	*31.4*	*32.9*	*31.0*	*31.0*	*31.0*
Personnel expenses	2,270	1,896	1,984	2,195	2,426
% of sales	*18.3*	*17.4*	*18.5*	*18.0*	*17.5*
Selling and other expenses	3,658	3,479	3,271	3,719	4,228
% of sales	*29.4*	*31.8*	*30.5*	*30.5*	*30.5*
EBITDA	**2,602**	**1,958**	**2,145**	**2,500**	**2,911**
EBITDA margin	*20.9*	*17.9*	*20.0*	*20.5*	*21.0*
Depreciation	120	96	101	101	101
PBIT	**2,482**	**1,862**	**2,044**	**2,398**	**2,810**
Interest expenses	25	19	-	-	-
PBIT from operations	**2,458**	**1,843**	**2,044**	**2,398**	**2,810**
Other non-operating income	1,019	936	1,182	1,275	1,433
PBT before extraordinary items	3,476	2,779	3,225	3,673	4,244
Extraordinary income/ (expenses)	(30)	(4)	3,811	-	-
PBT	**3,446**	**2,775**	**7,036**	**3,673**	**4,244**
Provision for tax	1,183	929	1,833	1,220	1,409
Effective tax rate	*34.3*	*33.5*	*26.1*	*33.2*	*33.2*
PAT	**2,263**	**1,846**	**5,203**	**2,453**	**2,834**
Minority interest	-	-	-	-	-
PAT after minority interest	**2,263**	**1,846**	**5,203**	**2,453**	**2,834**
Adjusted PAT	**2,283**	**1,849**	**2,154**	**2,453**	**2,834**
Growth in PAT (%)	*20.7*	*8.0*	*16.5*	*13.9*	*15.5*
PAT margin	*18.4*	*16.9*	*20.1*	*20.1*	*20.4*

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 20 – Balance sheet (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Equity share capital	298	298	298	298	298
Reserves	11,336	12,749	17,451	19,334	21,509
Shareholders' fund	11,634	13,047	17,749	19,632	21,808
Minority interest	-	-	-	-	-
Debt	-	-	-	-	-
Deferred tax liability	(355)	(371)	(371)	(371)	(371)
Total capital employed	**11,279**	**12,676**	**17,378**	**19,261**	**21,437**
Gross block	1,690	1,180	1,280	1,380	1,480
Accumulated depreciation	847	390	491	593	694
Net block	843	790	789	787	786
Capital WIP	19	7	7	7	7
Total fixed assets	862	797	796	794	793
Investments	0	1	1	1	1
Inventories	1,593	1,832	1,753	1,981	2,238
Debtors	982	1,418	1,392	1,583	1,799
Cash and bank balances	5,770	8,663	13,406	15,032	16,916
Loans and advances	4,272	2,587	2,564	2,738	2,937
Total current assets	12,617	14,596	19,209	21,441	24,013
Current liabilities and provisions	2,200	2,718	2,627	2,975	3,370
Net current assets	10,417	11,879	16,582	18,467	20,643
Misc. expenditure	-	-	-	-	-
Total assets	**11,279**	**12,676**	**17,378**	**19,261**	**21,437**

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 21 – Cash-flow statement (₹m)

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Cash flow from operating activities					
Profit before tax	3,446	2,775	7,036	3,673	4,244
Depreciation	120	96	101	101	101
Interest expenses	25	19	-	-	-
Operating profit before working capital change	**3,591**	**2,890**	**7,138**	**3,774**	**4,345**
Working capital adjustment	(1,190)	1,775	39	(257)	(293)
Gross cash generated from operations	**2,400**	**4,665**	**7,177**	**3,517**	**4,052**
Direct taxes paid	(1,263)	(945)	(1,833)	(1,220)	(1,409)
Cash generated from operations	**1,137**	**3,720**	**5,344**	**2,297**	**2,643**
Cash flow from investing activities					
Capex	177	519	(100)	(100)	(100)
Investment	5	(1)	-	-	-
Cash generated from investment activities	**182**	**519**	**(100)**	**(100)**	**(100)**
Cash flow from financing activities					
Proceeds from share capital and premium					
Borrowings/ (repayments)	-	-	-	-	-
Interest paid	(25)	(19)	-	-	-
Dividend paid	(572)	(434)	(501)	(570)	(659)
Cash generated from financing activities	**(597)**	**(453)**	**(501)**	**(570)**	**(659)**
Other adjustments	(227)	(893)			
Net cash increase/ (decrease)	**496**	**2,893**	**4,743**	**1,627**	**1,884**

Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Fig 22 – Ratio @ ₹1,286

Year-end: Mar	FY11*	FY12	FY13e	FY14e	FY15e
Margin ratios (%)					
EBITDA margin	20.9	17.9	20.0	20.5	21.0
PBIT margin	20.0	17.0	19.1	19.7	20.3
PBT margin	27.7	25.4	65.6	30.1	30.6
PAT margin	18.4	16.9	20.1	20.1	20.4
Growth ratios (%)					
Revenues	12.2	17.1	(1.8)	13.7	13.7
EBITDA	66.9	(24.8)	9.6	16.5	16.5
Net profit	20.7	8.0	16.5	13.9	15.5
Return ratios (%)					
RoCE	16.4	15.6	14.4	13.4	13.9
RoIC	41.7	46.4	54.2	58.0	62.7
RoE	15.9	15.0	14.0	13.1	13.7
Turnover ratios (x)					
Asset turnover ratio (x)	5.2	7.6	8.7	9.2	9.7
Working capital cycle (days)	28	48	55	51	51
Average collection period (days)	32	40	48	45	45
Average payment period (days)	72	63	69	64	64
Inventory holding (days)	67	70	76	70	70
Per share (₹)					
EPS	76.5	61.9	72.2	82.2	95.0
CEPS	60.4	65.1	75.6	85.6	98.4
Book value	389.9	437.2	594.7	657.8	730.7
Solvency ratios					
Debt/ equity	-	-	-	-	-
Interest coverage	100.7	97.5	NA	NA	NA
Net debt/ EBITDA	(2.2)	(4.4)	(6.2)	(6.0)	(5.8)
Valuation parameters (x)					
P/E	16.8	20.8	17.8	15.6	13.5
P/BV	3.3	2.9	2.2	2.0	1.8
EV/ EBITDA	16.7	15.2	11.6	9.3	7.4
EV/ sales	2.6	2.7	2.3	1.9	1.5
M-cap/ sales	3.1	3.5	3.6	3.1	2.8

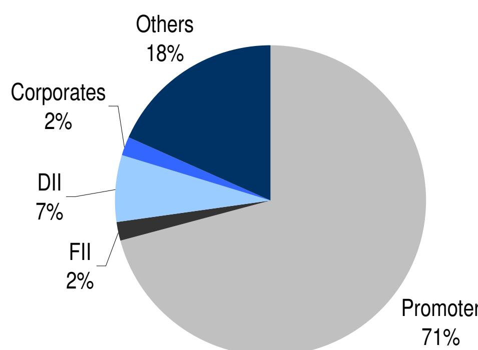
Source: Company, Anand Rathi Research *Note:* FY11 numbers are for 16 months.*

Company Background & Management

In 1958, Pfizer took over a company Ducem and changed its name to Pfizer Pvt. Ltd. in 1961, and further to Pfizer Ltd. in 1966. Pfizer India was mainly into pharmaceuticals, animal health products (recently divested) and medical and research services. The former Parke-Davis (India) was merged in 2003 and the erstwhile Pharmacia Healthcare in 2005. In FY10 the parent company raised its stake from 41% to 70.8%. Today, it (combined with Wyeth) is No. 9 by formulation sales in India, with a combined market share of about 3.6%. About 95 brands are marketed by Pfizer-Wyeth in India. Pfizer and Wyeth India's operational integration is now almost complete.

Pfizer has cut down in-house manufacturing and now functions with only one, Thane-based, plant. Almost 45% of its products are outsourced and most of the rest is manufactured by others, reflected in the very high proportion of processing charges in its manufacturing expenditure. Seven Pfizer brands feature among the top-100 pharmaceutical brands in India. Two of Pfizer India's brands--Corex (cough syrup) and Becosules (multivitamins)-- rank among the top-10 pharmaceutical brands. Pfizer won the Golden Peacock Innovative Product for Magnex (sulperazon). Becosules won the Most Trusted Brand Award. Major therapeutic segments are respiratories, multi-vitamins, gastrointestinals, anti-infectives, inflammation, cardiovasculars, CNS, and urology.

Fig 23 – Shareholding pattern



Source: BSE

Fig 24 – Key management

Name	Position	Profile
R.A. Shah	Chairman	Senior partner with advocates & solicitors Crawford Bayley & Co. Board member since 1965
Kewal Handa	Managing Director (CEO)	Board member since 1996; joined in 1990; promoted to Financial Controller in 1991. Chairman of the Pricing Committee of the Organisation of Pharmaceutical Producers of India (OPPI). M. Com., post-graduate and member of The Cost and Works Accountants of India and The Institute of Company Secretaries of India
Pradip P. Shah	Director	Board member since 1999. MBA from the Harvard Business School; also a Chartered Accountant (ranked first in India) and a Cost Accountant. Director on the Boards of several companies. At present, chairman of Indasia Fund Advisors Pvt. Ltd.
S. Sridhar	Director – Finance (CFO)	Executive committee member since joining in June 2008. Was finance director at Diageo India Pvt Ltd.

Source: Company

Appendix

Analyst Certification
The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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Mid/Small Caps (<US$1bn)	>30%	10-30%	<10%

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% who are investment banking clients	5%	6%	0%

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