

Growth trajectory intact - Maintain Accumulate

November 2, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs1,325	Rs1,574
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,258
Sensex	17,464

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(13)	2	18
Rel. to Nifty	(7)	(9)	8	38

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Pharmaceuticals
Bloomberg	PFIZ@IN
Equity Capital (Rs mn)	298
Face Value(Rs)	10
No of shares o/s (mn)	30
52 Week H/L	1,636/1,030
Market Cap (Rs bn/USD mn)	40/812
Daily Avg Volume (No of sh)	5826
Daily Avg Turnover (US\$mn)	0.2

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	70.8	70.8	70.8
FII/NRI	2.5	2.7	2.7
Institutions	7.2	6.8	6.4
Private Corp	1.9	1.9	1.9
Public	17.7	17.9	18.2

Source: Capitaline

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- **Decent performance by Pfizer with a) Revenue up by 11% QoQ to Rs2.9bn, b) EBITDA up by 23% QoQ to Rs516mn and c) PAT increased by 14% QoQ to Rs470mn**
- **Pharma revenue growth on a like-to-like basis was at 13% led by volume increase (9-10% growth) and price increase (3% growth)**
- **The company has launched insulins for diabetic patients from Biocon's portfolio in the Indian market. We expect stronger traction from this opportunity going ahead**
- **On back of good growth in formulations business & launch of Biocon's Insulin, we maintain our target price of Rs1574 (20x FY13 EPS of Rs78.7) on the stock**

Overall growth in revenues was led by domestic formulations business

During Q2FY12, revenues grew by 11% QoQ to Rs2.9bn driven by

- 14% QoQ growth (like-to-like growth 13% YoY) in pharma segment, (cont. 83% to sales)
- 4% QoQ growth in Animal healthcare business (cont. 11% of the business)
- 7% QoQ de-growth in Clinical services business (cont. 6% of the business)

Pharma segment grew at 13% on a like-to-like basis led by 11 branded generics launches this quarter in areas of diabetics, CNS, anti-allergic and anti-malarial. However, lower growth in the company's top brands Corex and Becosules dragged the overall segment growth. Excluding Corex and Becosule, Pharma sales grew at a stronger rate of 17% YoY. Higher other operating income was primarily due to income from services provided to Wyeth.

Growth will ramp up going forward

- Company has added 100% to the field force in last one and a half year to 2500, which has still to produce the results. This field force will be focusing on tier II and tier III cities where Pfizer has weak performance.
- The company has launched two new divisions – CNS and Diabetes and has added 300 people across two divisions. The company has launched insulin products from Biocon's portfolio for which it has set up a dedicated team of ~200 people. This will help the company to focus on branded generics and fill the gaps in its portfolio.
- Pfizer is focusing on 4-5 new launches per quarter to sustain 14-15% growth in the formulations business.

Valuation

We expect Pfizer to report 14% revenue growth in FY12E and 16% in FY13E. We expect company's EBITDA to improve from 20.8% in FY11 to 21.6% in FY12 and further improve to 22.1% in FY13. We value Pfizer at 20x FY13 EPS of Rs78.7 to arrive at a target price of Rs1574 and maintain accumulate rating. At CMP of Rs1325, the stock is trading at 20x FY12E and 17x FY13E earnings respectively.

Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
CY09	7,944	1,559	19.6	1,445	48.4	(1.0)	14.4	27.4	22.0	4.0
FY11(16m)*	12,446	2,589	20.8	2,294	57.6	19.0	15.7	23.0	17.4	3.4
FY12E	10,642	2,299	21.6	1,974	66.2	14.8	15.9	20.0	14.2	3.0
FY13E	12,345	2,728	22.1	2,349	78.7	19.0	16.7	16.8	11.6	2.6

* Note: Company has changed its financial year from November to March 31st

Key Financials – Quarterly

Rs mn

Rs mn	Q2CY10	Q3CY10	Q4CY10	Dec10-Mar'11	Q1FY12	Q2FY12	QoQ (%)
Revenue	2,248	2,367	2,610	3,107	2,612	2,898	11.0
Expenditure	1,886	1,844	2,127	2,403	2,193	2,382	8.6
as % of sales	83.9	77.9	81.5	77.4	84.0	82.2	(176.9)
Consumption of RM	742	703	856	826	851	1,004	18.0
as % of sales	33.0	29.7	32.8	26.6	32.6	34.7	206.7
Employee Cost	511	462	395	590	583	504	(13.6)
as % of sales	22.7	19.5	15.1	19.0	22.3	17.4	(493.6)
Other expenditure	633	680	876	987	759	874	15.2
as % of sales	28.2	28.7	33.6	31.8	29.1	30.2	110.0
EBITDA	362	523	483	703	419	516	23.2
Depreciation	22	25	24	26	24	26	9.8
EBIT	340	498	459	678	396	491	24.0
Other Income	215	159	203	275	220	222	0.8
Interest	0	0	0	0	0	0	
PBT	555	657	662	953	616	713	15.7
Total Tax	195	218	224	321	204	243	19.2
Adjusted PAT	355	435	439	631	412	470	13.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0	
APAT after MI	355	435	439	631	412	470	13.9
Extra ordinary items	12	15	3	0	0	0	
Reported PAT	347	425	436	631	412	470	13.9
AEPS	11.9	14.6	14.7	21.2	13.8	15.7	13.9

Margins (%)

(bps)

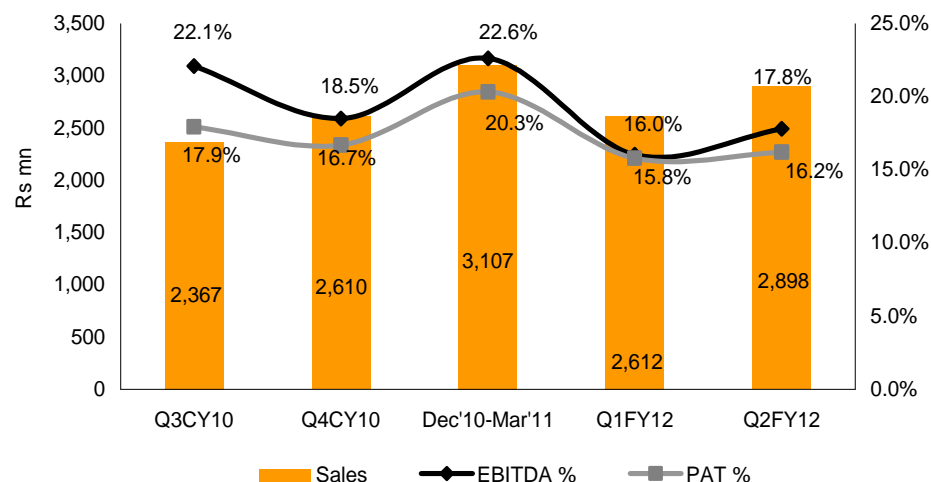
EBIDTA	16.1	22.1	18.5	22.6	16.0	17.8	177
EBIT	15.1	21.1	17.6	21.8	15.1	16.9	178
EBT	24.7	27.8	25.4	30.7	23.6	24.6	100
PAT	15.8	18.4	16.8	20.3	15.8	16.2	42
Effective Tax rate	35.2	33.1	33.7	33.7	33.0	34.0	101

Quarterly Revenue break-up

Rs mn	Q2CY10	Q3CY10	Q4CY10	Dec10-Mar'11	Q1FY12	Q2FY12	QoQ (%)
Pharmaceutical	1847	2038	2056	2512	2104	2392	13.7
Animal Health	276	289	302	425	315	326	3.6
Services business	107	109	249	228	190	177	(7.2)
Total	2230	2436	2608	3165	2609	2895	11.0

Note: Company has changed its financial year from November to March 31st. As a result Q2FY12 numbers are not comparable with the reported period YoY

Revenue Breakup



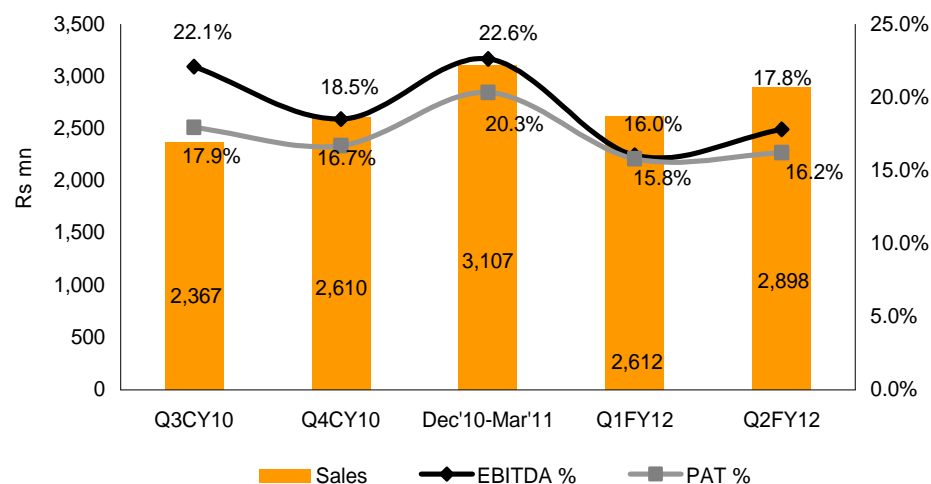
EBITDA margin expands by 177bps QoQ

Strong top-line growth coupled with lower employee cost (down 494 bps QoQ) led to 177bps expansion in EBITDA margins. Increase in other expenses by 110bps was led by higher material consumption and increase in rail & freight cost. Going ahead, we expect operating margins to improve, once the new field force starts contributing to the top line and positive contribution from CNS and the Diabetes divisions.

PAT up by 14% QoQ

PAT grew by 14% QoQ due to strong operational performance.

Revenue and Profitability Trend



Source: Company, Emkay Research

Valuations

We are of the view that Pfizer will continue to grow in-line with the industry growth rate on account of recent field force addition and new product launches in the branded generic segment. On margins front also, easing of SGA and staff cost, EBITDA margins should increase as the incremental sales force will start contributing profitably.

We expect Pfizer to report 14% revenue growth in FY12E and 16% in FY13E. We expect company's EBITDA to improve from 20.8% in FY11 to 21.6% in FY12 and further improve to 22.1% in FY13. We value Pfizer at 20x FY13 EPS of Rs78.7 to arrive at a target price of Rs1574 and maintain accumulate rating. At CMP of Rs1325, the stock is trading at 20x FY12E and 17x FY13E earnings respectively.

Pfizer India – Domestic Metrics

Therapeutic growth

Therapies	FY11 % Contribution	MAT Sep'11	MAT Sep'10	YoY Gr.
Respiratory	20.2%	262.5	242.6	8.2%
Anti-Infectives	19.9%	258.3	238.6	8.3%
Vitamins	11.9%	154.9	133.4	16.1%
CVS	9.0%	116.7	94.3	23.8%
Gastro	8.7%	113.1	94.5	19.7%
Hormones	8.0%	104.1	79.1	31.6%
Pain Mgmt	7.5%	97.2	69.9	39.0%
Gynecology	3.9%	51.2	41.6	23.2%
CNS	3.4%	44.7	31.2	43.3%
Others	7.5%	97.6	32.5	200.0%
Acute	86.9%	1129.7	925.1	22.1%
Chronic	13.1%	170.6	132.5	28.7%
Total Sales	100.0%	1300.3	1057.6	22.9%

Sep'11 MAT growth for Pfizer is 23%

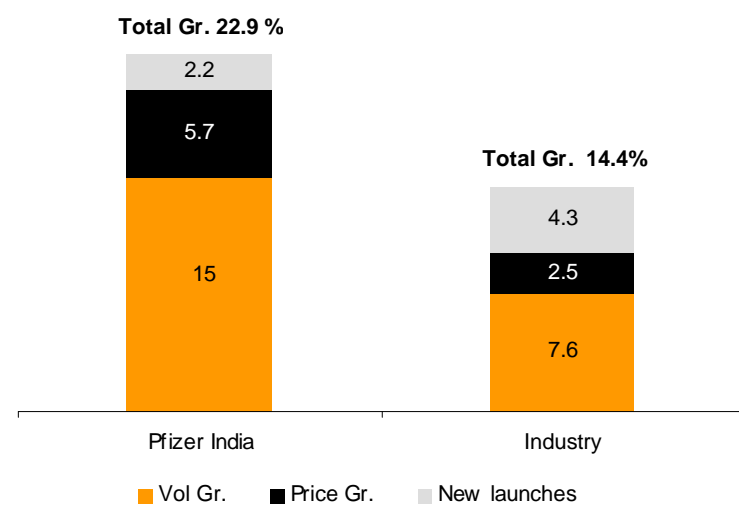
- Acute segment which contributes 87% grew by 22%
- Chronic segment which contributes 13% grew by 29%

Top 10 brand performance

Rs Cr	Therapies	MAT Sep'11	MAT Sep'10	YoY Gr.
Corex	Respiratory	212.1	206.7	2.6%
Becosules	Vitamins	122.0	105.9	15.2%
Magnex	Anti-Infective	93.7	73.2	28.1%
Gelusil MPS	Gastro	85.4	74.8	14.1%
Dolonex	Pain	84.9	64.5	31.8%
Solu Medrol	Hormones	57.4	41.0	39.8%
Minipress XL	CVS	57.3	46.1	24.2%
Dalacin C	Anti-Infective	40.7	36.7	11.0%
Claribid	Leprosy	28.8	18.6	55.1%
Corex DX	Respiratory	27.7	17.1	61.9%
Total		810.1	684.6	18.3%

- Top 10 brands contribute 62% to the domestic formulation sales; grew at a healthy rate of 18% YoY

Growth drivers - Volume/ Price/ New launches



- Pfizer outpaced industry in volume growth & price growth during MAT Sep'11

Source: AIOCD, Emkay Research

Financials

Income Statement

Y/E, Mar (Rs. mn)	CY09	FY11(16m)*	FY12E	FY13E
Net Sales	7,944	12,446	10,642	12,345
<i>Growth (%)</i>	<i>12.9</i>	<i>18</i>	<i>14</i>	<i>16</i>
Expenditure	6,385	9,857	8,343	9,616
Raw Materials	2,877	3,905	3,384	3,864
SGA	925	0	0	0
Employee Cost	1,239	2,270	1,873	2,173
Other Exp	1,344	3,682	3,086	3,580
EBITDA	1,559	2,589	2,299	2,728
<i>Growth (%)</i>	<i>3.0</i>	<i>25</i>	<i>18</i>	<i>19</i>
EBITDA margin (%)	19.6	20.8	21.6	22.1
Depreciation	83	120	107	113
EBIT	1,477	2,469	2,192	2,615
EBIT margin (%)	18.6	19.8	20.6	21.2
Other Income	733	1,007	800	891
Interest expenses	0	0	0	0
PBT	2,209	3,446	2,992	3,505
Tax	840	1,183	1,017	1,157
<i>Effective tax rate (%)</i>	<i>38.0</i>	<i>34.3</i>	<i>34.0</i>	<i>33.0</i>
Adjusted PAT	1,445	2,294	1,974	2,349
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	1,445	2,294	1,974	2,349
<i>Growth (%)</i>	<i>1.4</i>	<i>19</i>	<i>15</i>	<i>19</i>
Net Margin (%)	18.2	18.4	18.6	19.0
E/O items	0	-30	0	0
Reported PAT	1,369	2,263	1,974	2,349
<i>Growth (%)</i>	<i>-1.9</i>	<i>24</i>	<i>16</i>	<i>19</i>

Cash Flow

Y/E, Mar (Rs. mn)	CY09	FY11(16m)*	FY12E	FY13E
PBT (Ex-Other income)	2,209	3,446	2,992	3,505
Depreciation	83	120	107	113
Interest Provided	0	0	0	0
Other Non-Cash items	0	0	0	0
Chg in working cap	-945	-1,190	-318	-785
Tax paid	-780	-1,183	-1,017	-1,157
Operating Cashflow	568	1,193	1,763	1,677
Capital expenditure	-185	-49	-171	-100
Free Cash Flow	383	1,144	1,592	1,577
Exceptional items	109	0	0	0
Investments	0	5	0	0
Investing Cashflow	492	1,149	1,592	1,577
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	0	0	0	0
Interest Paid	0	0	0	0
Dividend paid (incl tax)	-436	-547	-463	-550
Income from investments	0	0	0	0
Others	-218	8	41	0
Financing Cashflow	-655	-653	-422	-550
Net chg in cash	-162	496	1,170	1,027
Opening cash position	5,436	5,274	5,770	6,940
Closing cash position	5,274	5,770	6,940	7,968

Balance Sheet

Y/E, Mar (Rs. mn)	CY09	FY11(16m)*	FY12E	FY13E
Equity share capital	298	298	298	298
Reserves & surplus	9,645	11,336	12,848	14,647
Net worth	9,943	11,634	13,147	14,946
Minority Interest	0	0	0	0
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
Loan Funds	0	0	0	0
Net deferred tax liability	-275	-355	-356	-355
Total Liabilities	9,668	11,279	12,791	14,591
Gross Block	1,878	1,927	2,078	2,178
Less: Depreciation	953	1,073	1,160	1,273
Net block	925	854	918	905
Capital work in progress	8	8	8	8
Investment	5	0	0	0
Current Assets	10,821	12,617	13,965	16,211
Inventories	1,134	1,593	1,617	1,887
Sundry debtors	644	982	1,011	1,180
Cash & bank balance	5,274	5,770	6,940	8,012
Loans & advances	3,721	4,213	4,346	5,072
Other current assets	48	59	51	60
Current lia & Prov	2,090	2,200	2,100	2,533
Current liabilities	1,329	1,572	1,431	1,652
Provisions	761	628	669	881
Net current assets	8,730	10,417	11,864	13,678
Misc. exp & Def. Assets	0	0	0	0
Total Assets	9,668	11,279	12,791	14,591

Key Ratios

Y/E, Mar	CY09	FY11(16m)*	FY12E	FY13E
Profitability (%)				
EBITDA Margin	19.6	20.8	21.6	22.1
Net Margin	18.2	18.4	18.6	19.0
ROCE	15.6	17.2	17.7	18.6
ROE	14.4	15.7	15.9	16.7
RoIC	37.4	35.2	36.4	39.8
Per Share Data (Rs)				
EPS	48.4	57.6	66.2	78.7
CEPS	51.2	61.4	69.8	82.5
BVPS	333.2	389.9	440.6	500.9
DPS	12.5	16.5	13.2	15.7
Valuations (x)				
PER	27.4	23.0	20.0	16.8
P/CEPS	25.9	21.6	19.0	16.1
P/BV	4.0	3.4	3.0	2.6
EV / Sales	4.3	3.6	3.1	2.6
EV / EBITDA	22.0	17.4	14.2	11.6
Dividend Yield (%)	0.9	1.2	1.0	1.2
Gearing Ratio (x)				
Net Debt/ Equity	-0.5	-0.5	-0.5	-0.5
Net Debt/EBITDA	-3.4	-2.2	-3.0	-2.9
Working Cap Cycle (days)	194	206	192	194

Recommendation History: Pfizer – PFIZ IN

Date	Reports	Reco	CMP	Target
26/09/2011	Pharma Sector Report Domestic			
05/08/2011	Pfizer Q1FY12 Result Update	Accumulate	1,471	1,574
04/05/2011	Pfizer Dec-Mar'11 Result Update	Accumulate	1,247	1,417
12/01/2011	Pfizer Q4CY10 Result Update	Accumulate	1,178	1,193

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2011	Divis Lab Q2FY12 Result Update	Buy	759	927
01/11/2011	Jubilant Life Sciences Q2FY12 Result Update	Buy	200	359
31/10/2011	IPCA Lab Q2FY12 Result Update	Buy	254	392
25/10/2011	Dr Reddys Lab Q2FY12 Result Update	Hold	1,580	1,604

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