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Analyst Name – Charulata Gaidhani – 02267144146

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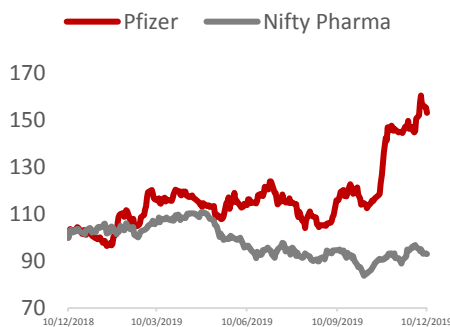
BUY

Current Price	4234
Target Price	5025
Upside	19%
52 Week Range	2626/4499

Key Share Data

Market Cap (Rs.bn)	194.2
Market Cap (US\$bn)	2.74
No of o/s shares (mn)	45.75
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	44.9
BSE Code	500680
NSE Code	PFIZER
Bloomberg	PFIZER:IN

Price performance



Traction from Patented launches, higher margins drive earnings

We strongly believe Pfizer will benefit from the higher growth (23% CAGR FY19-22) of patented formulations in India. Going forward, we expect higher contribution from patented formulations at 25% in FY22 from 20% in FY19. Pfizer continues to benefit from **Prevanar 13**, its largest brand in India (16-17% of sales) in the long run, as higher volumes in Government immunization programs compensate for price erosion, in case of its inclusion under the National List of Essential Medicines (NLEM).

Pfizer's 2019 launches of **ZAVICEFTA and XELJANZ** at significantly **lower price** points (> -70%) compared to US prices, have helped **gain market share** in the Indian market. Further, with the Government's exemption to patented drugs from price control for 5 years, focus of all MNCs has moved towards patented launches. Patented formulations and in-licensing currently comprise 4.4% (Rs 66 bn) of the Indian pharmaceuticals industry, growing at 16-17%.

Notably, Pfizer Inc. has turned its focus to India as a high volume market, along with US and China. Going forward, Pfizer and other MNCs in India are **working towards a dual pricing pact for fixed volumes of patented products in Government health programs**.

We strongly believe the current business environment is conducive to growth. We expect Pfizer to benefit from higher EBITDA margins (27.2%) due to healthy product mix and lower exposure to NLEM (12%), compared to peers. We believe investment in Pfizer India Ltd. will yield good returns in the long term.

Widening reach to Tier III cities through digitization

Pfizer India plans to widen its reach from 5mn in tier I & II to tier III cities through digital networks and healthcare programs. The better reach will increase volumes leading to operational efficiencies across top 20 brands.

Market leadership in 50% of top 20 brands

Pfizer India is the market leader in 10 of its top 20 brands, which include **Prevanar 13, Becosules, Magnex, Dolonex, Enbrel, Corex Dx, Folvite and some more**. The market position of its brands has enabled Pfizer to take price increases in NLEM (4.6%) and non NLEM products (9-9.5%).

Revenue growth in line with industry, lower taxes better earnings growth

We expect revenues to grow at 10% CAGR to Rs 27 bn by FY22. EBITDA to grow at 12% CAGR to Rs 7.8 bn. We expect a 100 bps improvement in EBITDA margins to 28.2% by FY22, led by better product mix. PBT growth is forecast at 12% CAGR to Rs 9.3 bn. Assuming lower tax rate of 26%, we expect PAT growth at 17% CAGR to Rs 6.9 bn by FY22.

Outlook & Valuation

At CMP, Pfizer trades at 31x FY21E EPS of Rs 134.4 We have valued Pfizer India as weighted average (60:40) of P/E 41x FY21E EPS of Rs 134.4 and 28x EV/EBITDA and arrived at a target price of Rs 5025.

We initiate coverage on Pfizer and recommend investors to **BUY** with a target price of Rs 5025.

% Shareholding	Sep-19	Jun-19
Promoters	63.92	63.92
FII	3.61	4.04
DII	9.38	8.97
Others	23.09	23.07
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)
FY17	19,662.7	-2%	3,491.4	17.8%	3,368.0	10%	73.6	57.0	5.1
FY18	19,685.1	0%	5,002.9	25.4%	3,600.7	7%	78.7	53.3	14.1
FY19	20,815.0	6%	5,652.0	27.2%	4,290.5	19%	93.8	44.7	13.9
FY 20E	22,896.5	10%	6,404.7	28.0%	5,220.9	22%	114.1	36.7	13.4
FY21E	25,186.2	10%	7,015.3	27.9%	6,150.6	18%	134.4	31.2	14.2
FY22E	27,704.8	10%	7,820.5	28.2%	6,886.2	12%	150.5	27.9	15.3



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Investment Rationale

Pfizer started its operations in India in 1950. The company has a product basket of *150 products spread over 15 therapies*. Prominent therapies are anti infectives, vaccines, vitamins, gastroenterology, hormones, pain management and some more. Top brands include **Prevanar 13, Corex Dx, Dolonex, Enbrel, Becosules, Gelusil and Folvite** to name a few. Pfizer India has a unique sales mix comprising **Global brands including patented (50%)** like Prevanar 13, Lyrica, Eliquis, Xeljanz, **Global lineage brands (25%)** like Dolonex, Amlogard and **local brands (25%)** like Corex, Becosules, Folvite and Gelusil.

Largest contributor to patented formulations sales in India

As per AIOCD AWACS for November’19, patented & in-licensed products contribute 4.43% of the Indian pharmaceuticals industry. During November’19, the Indian pharmaceuticals market grew 14.5% to Rs 12624 crs driven by volumes (+5.9%), prices (+5.7%) and new launches (+3%). Of the 14.5% growth in the industry, 7% came from patented and in-licensed products. Patented formulations grew 16.3% during November’19. We believe Pfizer is the largest contributor to patented products in India with sales of Rs 4 – 5 bn.

Table: Patented launches by Pfizer in India

Brand	Patent expiry	Molecule	Therapy	Price in India	India launch	Price in US	US price in INR	Market share in India	% discount to US
Prevenar13	2026	NA	Vaccines	3800	2010	\$200	14200	59%	-73%
Enbrel		Etanercept	Rheumatoid Arthritis	34000	2010	\$5,200	369200	10%	-91%
Enbrel		Etanercept	Plaque Psoriasis	8700	2010	\$5,200	369200	30%	-98%
Zavicefta	2027	Ceftazidime-avibactam	Anti-infective	4336	May’19	\$360	25560	New	-83%
Xeljanz	Dec’2020 & May’21	TOFACITINIB CITRATE	Psoriatic Arthritis & Ulcerative Colitis	66344	2019	\$2,300	163300	New	-59%

Patented Products at India prices

Of the top 20 products, Prevenar13, Enbrel, Zavicefta and Xeljanz are patented products, launched at 70% lower prices than the US, in the Indian market. Pfizer’s revenue from patented products comprises 20% of sales (Rs 4-5 bn), significantly higher compared to its peers.

Prevanar 13 (16-17% of revenues) –Leads the market with 59% market share, to benefit with wider network

- Prevanar 13 helps prevent pneumococcal pneumonia and infections caused by 13 strains of streptococcus pneumonia bacteria.
- The product is used by both children between 6 weeks to 17 years and adults above 50 years of age, with a lower penetration in adult vaccines.
- Prevanar 13 is the 12th ranked brand in the industry and is patented till 2026 in India.
- The Indian vaccine market reached a value of INR 81 bn in 2018, growing at a CAGR of nearly 18% during 2011-2018. The private vaccine market is valued at INR 21 bn, growing at 1%. In FY19, GlaxoSmithKline represented the largest player in the private vaccine market. Other major players included Sanofi Aventis, Pfizer, Serum Institute of India and Panacea Biotec.
- Prevanar 13 and GlaxoSmithKline's Synflorix are the only two pneumococcal conjugate vaccines (PCV) available in the country.



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- Pfizer's largest product in India comprising 16-17% of sales (Rs 3500 mn) in FY19, growing more than the industry (+12-13%).
- Pfizer is the market leader with a market share of 59%.
- Currently adult vaccines comprise 12% share of Prevenar 13 revenues as compared to 6% in Q1FY20.
- GlaxoSmithKline Pharmaceutical's vaccine SYNFLORIX competes with Pfizer, with lower pricing at Rs 1690 against Rs 3801 for Prevenar 13. Despite competition, Prevenar 13 has maintained its market share at 59%.
- Prevenar 13 is likely to be a part of the Government immunization program and hence carries a risk of inclusion under NLEM 2020.

Going forward, we assume a 15%/25%/25% volume growth and a lower price per unit of Rs 3537/2746/2746 from FY20-22. We expect a 7% growth in Prevenar13 revenues in FY20 to Rs 3745 mn and a 3% de-growth in FY21 to Rs 3634 mn, impacting revenues by Rs 111 mn, in the event of Prevenar 13 falling under NLEM. In FY22 the robust volumes from Government programs and increased penetration of adult vaccines will compensate for price decline and return to growth (25%). We expect Prevenar 13 sales to grow at 9% CAGR to Rs 4543 mn by FY22.

Pfizer plans to launch Prevenar 20, the 20-valent variant of the vaccine in India in the near future.

Enbrel – Generic competition pulls down prices

- Enbrel is used to treat autoimmune diseases including rheumatic arthritis. Enbrel is a soluble form of a tumour necrosis factor receptor with a clinical efficacy and safety profile established over 15 years of collective clinical experience.
- Enbrel faces tough competition from Indian players like Cipla and Intas who have launched bio-similars in India. Enbrel prices have come down.
- According to epidemiological data, Rheumatoid arthritis (RA) affects about 0.92% of adult population in India, which is about ~1.5 crore people of which ~83% are female patients.
- Enbrel is the market leader in the Psoriatic Arthritis with a market share of 30%. In Rheumatoid Arthritis, Enbrel has a market share of 10%.

Xeljanz – 2019 launch, no competition in near term

- **Xeljanz** (Tofacitinib), is a medication used to treat rheumatoid arthritis, psoriatic arthritis and ulcerative colitis.
- **The product is a Janus Kinase inhibitor, used to treat patients with moderate to severe rheumatoid arthritis.**
- In the US, Rheumatoid Arthritis market grew from \$33.8 Billion in 2014 to \$43.0 Billion in 2018, growing at 7% CAGR.
- Xeljanz's market share Increased From 1% to 4% with \$ 2 bn sales in the US.
- AbbVie's Humira is the leader based on drug's total sales. However, Humira is used for other indications as well, such as Crohn's Disease and Ulcerative colitis among others.
- **Pfizer's Xeljanz is protected from any biosimilar competition till 2025, and it could see sales growth in the near term.**
- Xeljanz's has no generic player till date and is not expected to come in the near future.
- Further, Immunology and Inflammation contribute ~7% to sales and we believe this to be a major contributor of this segment.

ZAVICEFTA – Advanced medicine at affordable price

- **Zavicefta**® Ceftazidime-avibactam is an intravenously administered combination of the third-generation cephalosporin ceftazidime and the non beta-lactam inhibitor- avibactam.
- The product has been approved for the treatment of complicated Urinary Tract infections (cUTI), complicated intra-abdominal infections, hospital acquired pneumonia including ventilator associated pneumonia.

Pfizer India launched **Zavicefta** in India at Rs 4339 in May'19. The product has clocked revenues of INR 250 mn in 5 months. We expect Zavicefta revenues to range between Rs 650-700 mn in FY20 and more than double to Rs 1500 mn by FY22.

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We expect patented products to grow at 23% CAGR to Rs 7.5 bn by FY22. The growth will be mainly driven by the launch of Zavicefta and Xeljanz, and a 9% growth in Prevanar 13 and ENBREL. We expect contribution of patented products to increase from 20% in FY19 to 25% by FY22.

Government policies conducive to growth

In January'19 the Government of India exempted patented new drugs launched in India from price control, for a period of 5 years. The Government has extended benefit to formulations manufacturers/importers and marketers in India. The policy changes in the industry have enabled MNCs launch patented products in the Indian market, narrowing the gap between launches in the developed and Indian markets.

Pfizer Inc., US have a rich pipeline of products, which are not in the Indian market. Further, the parent company also has a rich innovator pipeline with global trials. In view of the **significantly (>70%) lower prices of patented products in India**, and significant volumes Pfizer expects to launch more patented products into the Indian market.

Near term launches are ZINFORO and NEKSIMUM.

ZINFORO (ceftaroline fosamil) is a cephalosporin antibiotic used in the treatment of hospital acquired Pneumonia. The drug is active against methicillin-resistant Staphylococcus aureus (MRSA), and other gram positive bacteria. Globally 7.5 lakh people die of antimicrobial infections every year, thus the need for treatment and vaccinations to protect the immune system.

NEKSIMUM In May'2017 Pfizer acquired NEKSIMUM (Esomeprazole) from AstraZeneca, Sweden for INR 750 mn. The product is a proton pump inhibitor and is used to lower the acid secretion in the stomach. The product will strengthen the gastroenterology portfolio which currently has Gelusil and Mucaïne.

Growth from major brands to continue...**Becosules – leads the market with 71% market share**

- Becosules has a legacy of more than 60 years at Pfizer Inc.
- Pfizer's second largest brand, contributing to 12% of sales (Rs 2700 mn).
- Becosules leads the vitamins market with a market share of 71.2%.
- The company has also launched pediatric variants of the brand Becosules Junior.
- In FY19 Becosules grew 10% to Rs 2.7 bn, in line with the industry.
- Going forward, we expect Becosules to grow at 10% CAGR to Rs 3.9 bn from FY19-22.

MINIPRESS XL – Shortages resolved, stocks restored

- **MINIPRESS XL** being a chronic drug, used in the treatment of hypertension has stickiness to the brand.
- During FY19, the company globally faced supply chain issues for MINIPRESS XL, I Pfizer Inc. faced shortages/non-availability of the Minipress XL brand, largely due to manufacturing issues at the plant level (with manufacturing shifting to another plant).
- **MINIPRESS** revenues de-grew 13-14% to Rs 1.2-1.3 bn
- The supply chain issues have been ironed out and the product has been restored in the current quarter.
- However, the shortage over the last 3 quarters may lead to a shift of its customer base.
- We expect a gradual pickup in MINIPRESS XL, and forecast revenues to grow at 12% CAGR to Rs 1.9 bn by FY22.

Corex – returning to growth with brand extensions

- Pfizer India discontinued the manufacturing of Corex Cough Syrup (Chlorpheniramine Maleate + Codeine Phosphate) in FY17.
- Corex Dx leads the market with a share of 17%, with a prescriber growth of 20%.
- The company launched brand extensions namely Corex T (Triprolidine Hydrochloride 1.25mg & Codeine Phosphate 10mg), Corex LS, a new offering that will better address patient and Physician needs.



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- Corex T and Corex LS Junior will extend the equity of the Corex brand to a wider segment of prescribers.
- Corex is the third largest brand, contributing 10% to sales.

The launch of Corex extensions helped revive the brand with revenues of Rs 1.6-1.8 bn in FY19. We expect Corex to grow at 13% CAGR to Rs 2.6 bn by FY22.

Dolonex – Generic competition, steady growth in line with industry

- Piroxicam a major anti-arthritis drug was launched in India in the last quarter of the year 1989 under the brand name of DOLONEX.
- Dolonex is available in capsules and gel form. Used in the treatment of pain and swelling of joints due to arthritis.
- Pfizer also launched brand extension Dolonex DT.
- Dolonex has been growing at 10%, with revenues ranging from Rs 1.6- 1.8 bn.
- Dolonex faces competition from generic players in the pain management market, valued at Rs 104 bn.

We expect Dolonex to grow at 10% CAGR to Rs 2.3 bn by FY22.

Magnex - Generic competition, steady growth in line with industry

- Magnex is a combination injectable of Cefoperazone (500 mg) + Sulbactam (500 mg).
- The product is used in the treatment of bacterial infections, infection of the respiratory tract, endometritis.
- Magnex faces competition from generic players in anti-infectives.

We expect Magnex revenues to grow at 10% CAGR to Rs 2 bn by FY22.

Mucaine – faces generic competition, grows above industry

- Mucaine is a gastroenterology product, in gel form.
- Used in the treatment of Hiatus hernia, Stomach ulcer, Inflammation of food pipe, Inflammation of stomach.
- (Aluminium hydroxide and Magnesium hydroxide) with a topical local anaesthetic (Oxethazaine), helps relieve the pain associated with hyper acidic conditions to neutralize stomach acid.
- The product faces generic competition in the Indian market.

We expect Mucaine to grow at 12% CAGR to Rs 1.5 bn by FY22.

We expect Pfizer revenues to grow at 10% CAGR to Rs 27.7 bn by FY22E. We expect the next 6 products (ex Prevanar 13) to grow at 11% CAGR to Rs 14 bn by FY22E.



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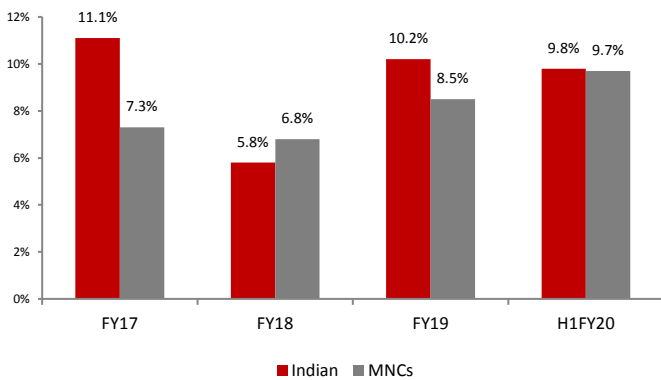
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Sales growth of Pharma MNCs - Back on Track

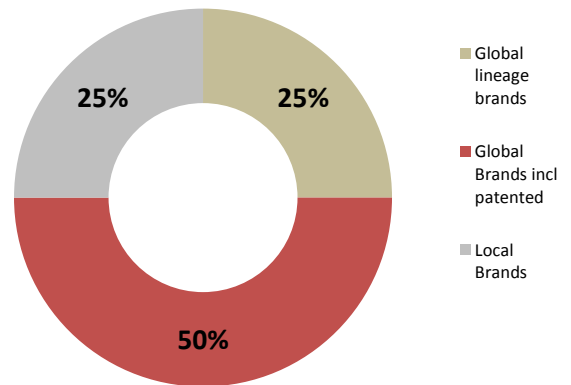
In FY19 the pharmaceutical market in India recovered from the structural changes like GST in the industry. The Indian players grew at 10.2%, whereas the MNCs grew at 8.5%. The industry witnessed competition from smaller players due to the opening of Jan Aushadi stores and medicine supplies at lower prices. The regulatory and corporate governance issues relating to large domestic players also created shortages in the market.

The MNC players were well placed to face the disruptions in the Indian market, in view of good manufacturing and corporate governance practices. During TTM September'19 the Indian players grew 9.8% and MNCs grew 9.7%.

Pharma MNCs Market Share growing in line with Indian Players



Pfizer India's unique sales mix (Q2FY20)



• Focus on market leadership through differentiated Brands

Pfizer has focused on achieving market leadership for its products in the Indian market. Of the top 20 brands, Pfizer is the market leader in 10 products. Also, 8 brands rank amongst the top 50 brands in the Indian pharmaceutical market. A few key brands are as under -

Name of the Product	M.R.P	Portfolio/ Therapeutics	Other Important Points
Folvite	INR 164.99 (0.05mg)	Vitamins & Minerals	Newly-launched Folvite DHA captured 7.5% market share and is one of the top five brands in its represented market within a year of launch.
Ovral L	INR 70.88 (Estradiol 0.03mg+Levonorgestrel 0.15mg)	Hormone replacement therapy/ oral contraceptives/ other gynecological products	Market leader in represented market. Contains ethinyl estradiol and norgestrel, is a combination of female hormones that prevent pregnancy.
Autrin	INR 123.84 (30 capsules)	Vitamins and Minerals	Ferrous Fumarate and folic acid used in the treatment of anemia. Launched AUTRIN XT (brand extension), combination of 4 nutrients for expecting mothers.
Ativan	INR 66.75 (1mg 60 tablets)	CNS	Ativan (Lorazepam) continues to be the number one anxiolytic brand in the Benzodiazepine Tranquilizer market
Premarin	INR 429 Cream 14 G	Women's Healthcare	Used to treat menopause symptoms like hot flashes, vaginal changes and prevent osteoporosis in menopausal women.
Pacitane	INR 39	CNS	Trihexyphenidyl used to treat all kinds of Parkinson's disease.



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	2MG tablets		
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- **Widening reach through expansion to Tier 3 cities**

The company plans to widen the reach of its brands through the expansion of its digital network. Pfizer has a sales force of 1500 medical representatives (MRs) in India and has a strong presence in Tier 1 & 2 cities. The company now plans to expand its network to Tier 3 cities through digital marketing and sales promotion schemes. Pfizer India has 5 mn touchpoints with 55000 distributors. We believe the widening of network will enable volume growth across its top 20 products.

- **Deeper penetration of Ayushman Bharat to improve volumes**

- 1. Current status of Ayushman Bharat – States, therapy focus, number of patients**

The Ayushman Bharat–Pradhan Mantri Jan Arogya Yojana (AB–PMJAY) was launched by the Government of India in 2018. The AB–PMJAY defines a benefit cover of ₹5 lakh per family per year for secondary and tertiary care hospitalization and it is aimed at covering a total of 10 crore families (approximately 50 crore persons or 40% of the country’s population based on the socio-economic and caste census database).

- 2. Number of Hospitals Covered**

- As per the PMJAY website, totally 19,668 hospitals have been empaneled under Ayushman Bharat scheme in India. (As of 25.11.2019). These include over 9000 hospitals in the private sector.
- Further, state wise, Gujarat topped the list with 2856 empaneled hospitals followed by Karnataka with 2849 and Uttar Pradesh with 2312 hospitals.

- 3. Number of Patients Covered**

- Within first 12 months of inception, **46.4 lakh hospital treatments, worth Rs 7,500 crores** have been carried out under Ayushman Bharat scheme, and 60% of the amount spent is on tertiary care and more than 10.3 crore ecards have been issued.

- 4. Packages offered and Treatments covered**

- PM-JAY has 1,393 treatment packages out of which 1,083 are surgical, 309 medical and 1 unspecified package. The package includes the cost of diagnostics up-to 3 days before hospitalization, and medicines up to 15 days post hospitalization. Under the surgical packages. The treatment packages are very comprehensive, covering treatment for nearly 24 specialties that include **super specialty care like oncology, neurosurgery and cardio-thoracic and vascular surgery. Benefit to Pfizer – through higher volumes in the market.**



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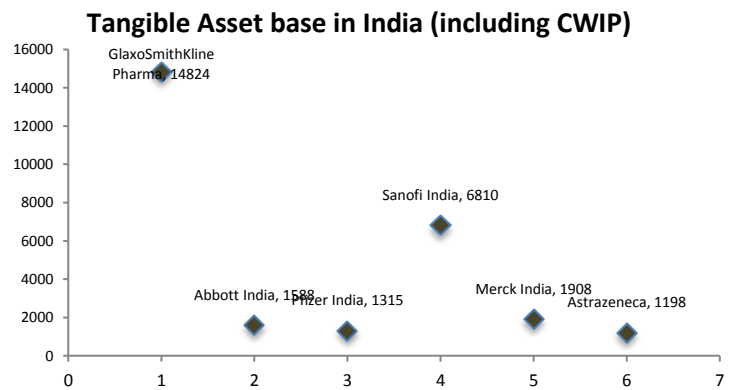
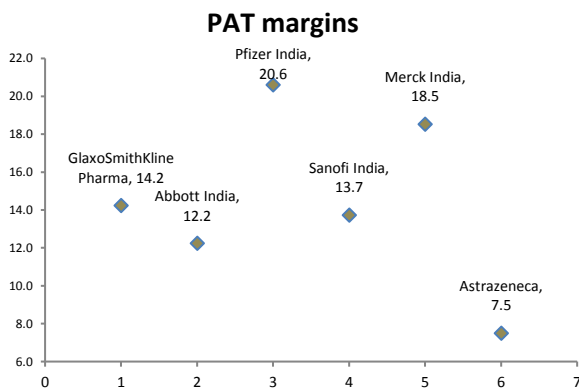
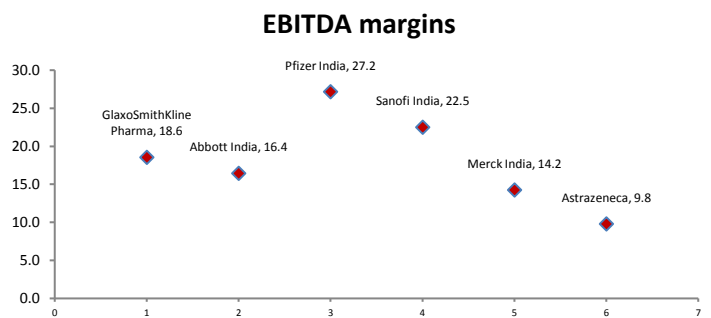
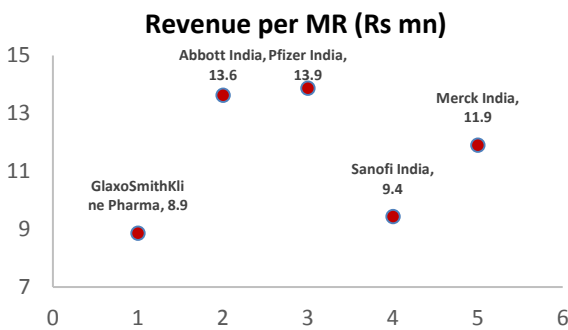
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• **Peer Analysis**

Pfizer has highest profitability amongst MNC peers

During FY19, Pfizer earned EBITDA margins of 27.2%, which are the highest compared to its peer pharmaceutical MNCs. That is due to the higher component of patented products to sales (20-21%) and a lower % of NLEM (15%) products in its portfolio. In H1FY20, Pfizer revenues grew 8% to Rs 11 bn. EBITDA increased 27% to Rs 3.3 bn. EBITDA margins were at 29.7%. PAT increased 42% to Rs 2.67 bn.



Source - Dalal & Broacha Research

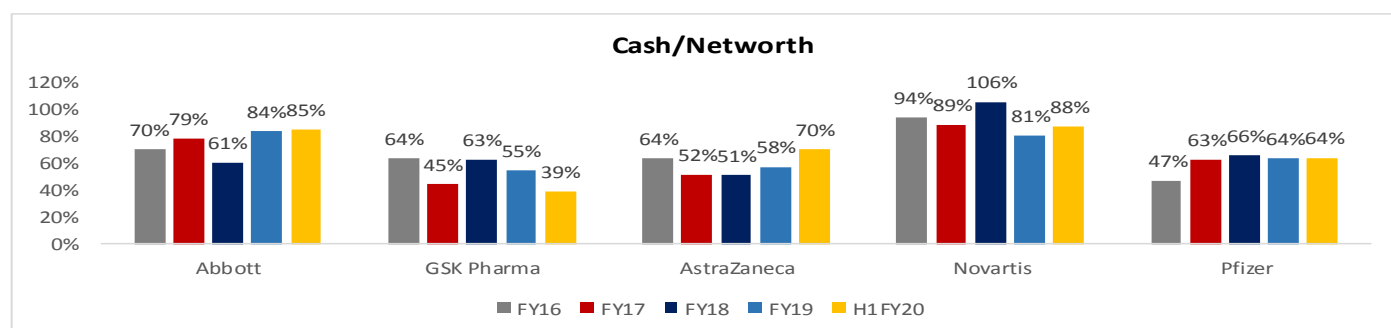
Pfizer has the highest revenue per MR of Rs 13.9 mn, highest EBITDA margins at 27.2% and PAT margins of 20.6% amongst the industry owing to the lower tangible asset base in the Industry. Pfizer doesn't have large fixed asset base as ~45% are outsourced goods, ~30% are manufactured in India, while 25% are imported for trade.



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From the above table it can be seen that, Pfizer has maintained a consistent cash/net worth ratio of 64-65% in the last 4 years whereas other player’s ratio has been fluctuating. Abbott has a high ratio of 84-85%, in view a larger component of OTC products. Novartis has a high ratio of 88% due to the recent sale of assets.

Name of the Company	Sanofi	Abbott	GSK India	Astrazenca	Pfizer
Market Share (FY19)	2.10%	2.62%	3.08%	0.37%	2.19%
Market Share (August 19)	2.10%	2.3%	3.08%	0.37%	2.19%
% Sales from NLEM Drugs	20%	24%	30%	25%	12%
% of Acute Sales	47%	40%	95%	20%	81%
% of Chronic Sales	53%	60%	5%	80%	19%
% Domestic Sales	70%	100%	100%	100%	100%
% Export Sales	30%	0%	0%	0%	0%

In terms of market share, Pfizer has maintained its market share and has the least exposure to NLEM. Further, in an attempt to make drugs affordable to all, the government is capping trade margins across the supply chain (initial method is to cap price at first point of sale which will limit profiteering on margins). With this regulation on margin caps, impact on trade generics would be high making channel play more attractive for branded players, as the end users would prefer to buy a branded product at the same rate as that of a generic one.

All the MNCs are penetrating in Tier 2-4 towns currently and are showing growth for chronic as well as acute therapies, with the differential being higher for acute therapies. For sustained growth, acute focused firms are increasing depth of coverage as metros become saturated. In case of Pfizer’s 81% revenue of its revenue is derived from acute and 19% from chronic. We believe, Pfizer would benefit from the MNC movement in view of limited competition in major products, and its ability to retain market share.



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Financial Outlook

Sales: Between FY15-19, Pfizer’s sales grew at 3% CAGR to Rs 20.8 bn in FY19, due to the Corex recall and inclusion of many Wyeth products under NLEM. Going forward, we expect revenues to grow at 10% CAGR to Rs 27.7 bn by FY22, driven by existing products and line extensions and new patented launches. During H1FY20, sales increased 8% to Rs 11 bn. adjusting for the impact of shortage of MINIPRESS during the last few quarters, the sales growth was in line with the industry.

EBITDA: Between FY15-19, EBITDA grew 10% CAGR to Rs 5.6 bn in FY19. We expect EBITDA to grow at 12% CAGR to Rs 7.8 bn, driven by 100 bps improvements in gross margins to 65% due to better product mix. In H1FY20, EBITDA grew 33% to Rs 3.3 bn. EBITDA margins improved 450 bps to 29.7%.

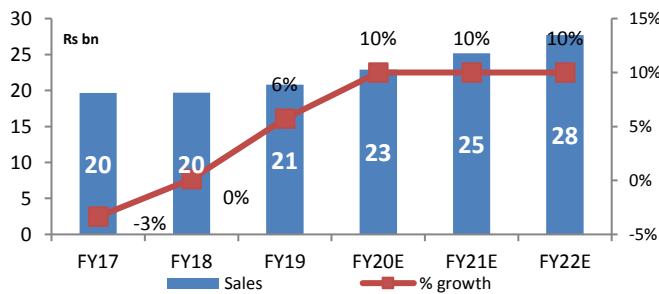
Further, the 6 products that will move to the Upjohn Mylan joint venture have lower margins. We anticipate EBITDA margins to improve from 27.2% in FY19 to 28.2% by FY22.

IND AS 116 impact on finance charges includes interest on lease liabilities capitalized. The company has capitalized lease liabilities exceeding 1 year.

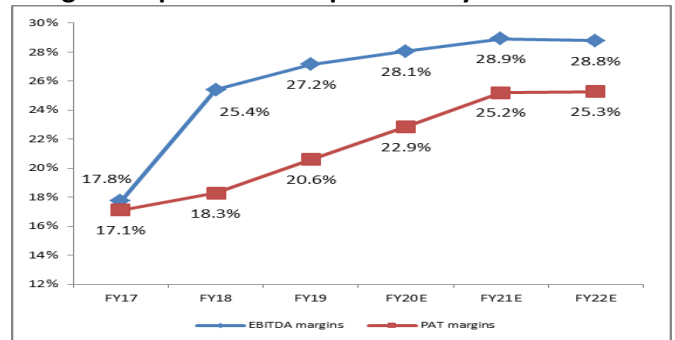
During H1FY20, PBT grew 23% to Rs 2.75 bn. In view of lower taxes @25% compared to 36% earlier, PAT grew 55% to Rs 1.86 bn. We forecast Profit before tax to increase by 14% CAGR to Rs 9.5 bn. With lower taxes at 26%, we expect Profit after tax to grow at 18% CAGR to Rs 7 bn by FY22.

ROE/ROCE We assume ROE will range from 15-16% and ROCE around 20-21%, in line with the current levels.

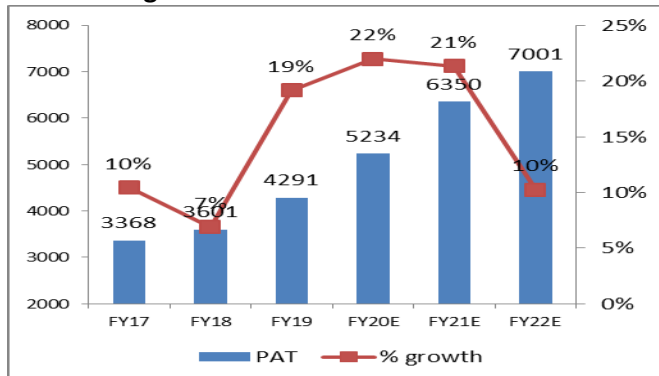
Revenues to grow in line with industry



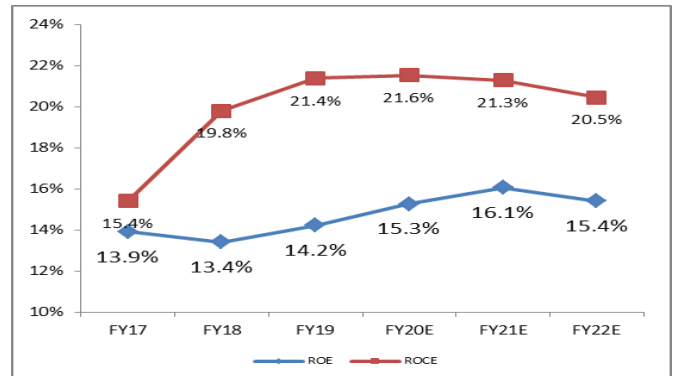
Marginal improvement in profitability



PAT & PAT growth



Return ratios



Source - Dalal & Broacha Research



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Key Risks

1. Any of the company’s products coming under price control (NLEM) is a risk to the company’s performance.
2. Generic copies of Pfizer patented products in the Indian market are a risk to the company sales. The patents have been protected from price control in India for 5 years.
3. Depreciation of the Indian Rupee works against Pfizer India as the company’s imports of raw materials and goods for resale, service charges was at Rs 786 mn (11% of total raw material costs).

• **Valuation**

We expect Pfizer to benefit from traction in patented products (+23% CAGR) and higher contribution to sales (20%) and brand extensions of existing products. The company’s differentiated brands and leadership in 50% of the top 20 products augurs well to grow with a wider network. Pfizer’s higher EBITDA margins give it an edge due to lower exposure to NLEM (12%).

We have valued Pfizer as a weighted average of 28x EV/EBITDA (40%) and 41x P/E (60%) for FY21. We have arrived at a target price of Rs 5025. At CMP, Pfizer trades at 31x FY21E EPS of Rs 134.4. We recommend investors to BUY the stock.

Company	10/12/2019		P/E			EV/EBITD		EV/EBITD		EBITDA		EPS	
	CMP	MCAP	ALES	P/E FY19	FY20E	FY21E	EV	A 20E	A 21E	EBITDA 20E	EBITDA 21E	EPS 20E	EPS 21E
GlaxoSmithKline Pharma	1,601	271,177	9.0	66.7	49.1	42.2	259465.1	35.3	28.2	7343.6	9190.0	33.8	39.3
Abbott India	12,491	265,435	7.3	59.9	49.9	40.7	248592.0	32.0	27.5	7774.0	9035.0	254.0	312.0
Pfizer India	4,222	193,156	8.9	43.3	36.6	30.9	174037.7	27.2	24.8	6404.7	7015.3	114.1	134.4
Sanofi India	6,937	159,755	5.8	42.0	36.5	32.6	151435.5	21.1	18.7	7190.0	8109.0	190.0	213.0
Merck India	4,179	69,368	8.6	69.2	66.6	47.3	56933.9	35.8	25.1	1590.1	2264.8	63.7	89.7
Astrazeneca	2,673	66,831											
AVERAGE			7.9	56.2	50.5	40.7		30.3	24.9				

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• Company Background

Pfizer Ltd. began commercial operations in India in 1950. The company is a step down subsidiary of Pfizer Inc, USA and a direct subsidiary of Pfizer Netherlands.

Pfizer manufactures vaccines and pharmaceutical formulations in **anti infectives, vaccines, vitamins, gastro intestinal, and pain management**. The company has its manufacturing plant at Goa.

Pfizer India has a product basket of 150 brands. **Key brands include Prevanar13, Becosules, Magnex, Dolonex, Minipress, Corex** to name a few.

Acquisition of Wyeth In 2009, Pfizer Inc. globally acquired Wyeth Laboratories. The Indian arms continued as separate listed companies until 2014. In FY15 the two Indian arms merged into a single entity. Wyeth has been prominently into **Women's Healthcare with brands like Folvite, Autrin, and Premarin, which are market leaders in their respective represented market.**

In FY17 major Wyeth products came under NLEM, impacting revenues by Rs 800 mn and EBITDA by Rs 1050 mn.

In June'2017, Pfizer India acquired **NEKSIMUM** from Astrazeneca AB, Sweden for Rs 750 mn. NEKSIMUM is a proton pump inhibitor used to reduce acid secretion in the stomach. The product is complementary to Pfizer's gastroenterology products namely Gelusil and Mucaine gel.

In July'2019, Pfizer Inc announced a **joint venture between Upjohn (Subsidiary of Pfizer Inc.) and Mylan, US**. Six brands will move to the Upjohn Mylan joint venture. The products are **Lyrica, Amlogard, Daxid, Diantin, Viagra and Fumycin**, comprising 5-6% of Pfizer India revenues. Lyrica and Daxid are amongst the top 25 products. Lyrica partially went off patent in June'19 in the US with patents for pediatric application of the drug, gradually going off patent upto 2022. The venture is expected to be approved by mid-2020.



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PFIZER India Limited													
P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	19,662.7	19,685.1	20,815.0	22,896.5	25,186.2	27,704.8	Net Profit	3,368.0	3,600.7	4,290.5	5,220.9	6,150.6	6,886.2
Raw materials	7,964.8	7,396.8	7,479.0	8,128.3	9,067.0	9,973.7	Add: Dep. & Amort.	629.3	662.5	713.9	707.7	714.2	727.2
Employee costs	3,038.9	3,142.9	3,238.4	3,562.2	3,918.5	4,310.3	Cash profits	3,997.2	4,263.2	5,004.4	5,928.6	6,864.8	7,613.3
Other Expenses	5,167.6	4,142.5	4,445.6	4,801.3	5,185.4	5,600.2	(Inc)/Dec in						
Cost of sales	16,171.3	14,682.2	15,163.0	16,491.8	18,170.9	19,884.3	-Sundry debtors	215.2	(340.2)	(168.6)	(165.3)	(188.2)	(207.0)
Operating Profit	3,491.4	5,002.9	5,652.0	6,404.7	7,015.3	7,820.5	-Inventories	387.8	248.4	(896.0)	(210.9)	(407.7)	(448.5)
Depreciation	629.3	662.5	713.9	707.7	714.2	727.2	-Loans/advances	(21.6)	(307.6)	292.8	(18.6)	(19.6)	(20.5)
PBIT	2,862.1	4,340.4	4,938.1	5,697.0	6,301.1	7,093.3	-Sundry creditors	1,378.8	1,580.0	(657.6)	(331.3)	1,036.3	491.0
Other income	1,011.7	1,143.0	1,674.0	1,841.4	2,025.5	2,228.0	-Others	106.3	(968.1)	(955.4)	(222.0)	(202.5)	(258.2)
Interest	9.6	4.2	12.9	80.0	15.0	15.8	Change in working capital	2,066.4	212.6	(2,384.8)	(948.1)	218.3	(443.3)
Profit before tax	3,864.2	5,479.1	6,599.1	7,458.4	8,311.6	9,305.6	CF from Oper. activities	6,063.6	4,475.8	2,619.6	4,980.5	7,083.1	7,170.1
Provision for tax	1,800.6	1,878.4	2,308.6	2,237.5	2,161.0	2,419.5	CF from Inv. activities	(158.3)	(1,000.7)	(62.2)	(609.8)	(559.8)	(609.8)
Reported PAT	2,063.6	3,600.7	4,290.5	5,220.9	6,150.6	6,886.2	CF from Fin. activities	(920.9)	(987.4)	(1,132.6)	(1,104.9)	(1,104.7)	(1,104.5)
Exceptional Item	1,304.4	-	-	-	-	-	Cash generated/(utilised)	4,984.4	2,487.8	1,424.8	3,265.8	5,418.6	5,455.9
Adjusted PAT	3,368.0	3,600.7	4,290.5	5,220.9	6,150.6	6,886.2	Cash at start of the year	10,246.5	15,230.9	17,718.6	19,143.4	22,409.2	27,827.8
							Cash at end of the year	15,230.9	17,718.7	19,143.4	22,409.2	27,827.8	33,283.6
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E	FY21E
Equity capital	457.5	457.5	457.5	457.5	457.5	457.5	OPM	18%	25%	27%	28%	28%	28%
Reserves	23,731.3	26,374.5	29,655.9	33,769.6	38,813.0	44,592.0	NPM	16%	17%	19%	21%	23%	23%
Net worth	24,188.8	26,832.0	30,113.4	34,227.1	39,270.5	45,049.5	Tax rate	47%	34%	35%	30%	26%	26%
Other Non Current Liabilities	722.5	661.8	725.9	762.2	800.3	840.3	Growth Ratios (%)						
Deferred Tax Liabilities	175.6	145.8	22.3	24.5	27.0	29.7	Net Sales	-2.29%	0.11%	5.74%	10.00%	10.00%	10.00%
Total debt	25.0	25.0	25.0	25.0	25.0	25.0	Operating Profit	-19%	43%	13%	13%	10%	11%
CAPITAL EMPLOYED	25,112.0	27,664.6	30,886.6	35,038.8	40,122.8	45,944.6	PAT	10%	7%	19%	22%	18%	12%
Gross block	1,140.2	1,260.6	1,314.7	1,414.7	1,464.7	1,564.7	Per Share (Rs.) *						
Accumulated depreciation	307.5	445.6	600.4	784.3	974.7	1,178.1	Net Earnings (EPS)	73.6	78.7	93.8	114.1	134.4	150.5
Net block	832.7	815.0	714.3	630.4	490.0	386.6	Cash Earnings (CPS)	332.9	387.3	418.4	489.8	608.3	727.5
Capital WIP	153.4	10.4	-	-	-	-	Dividend	15.0	20.1	19.9	20.0	20.0	20.0
Total fixed assets	986.1	825.4	714.3	630.4	490.0	386.6	Book Value	528.7	586.5	658.2	748.1	858.4	984.7
Intangible Assets	7,838.1	8,351.0	7,824.3	7,824.3	7,824.3	7,824.3	Free Cash Flow	(10.1)	51.5	26.9	37.2	36.7	37.7
Investments	351.3	337.2	323.3	309.3	295.3	281.3	Valuation Ratios						
Other non current assets	2930	3356	3508	3634	3735	3886	P/E(x)	57.0	53.3	44.7	36.7	31.2	27.9
Inventories	3,219.0	2,970.6	3,866.6	4,077.5	4,485.2	4,933.7	P/B(x)	0.1	0.1	0.1	0.2	0.2	0.2
Sundry debtors	1,207.8	1,548.0	1,716.6	1,881.9	2,070.1	2,277.1	EV/EBIDTA(x)	545.1	379.9	336.0	296.0	269.5	241.1
Cash & bank	15,230.8	17,718.6	19,143.4	22,409.2	27,827.8	33,283.6	EV/SALES(x)	96.8	96.6	91.2	82.8	75.1	68.1
Loans & advances	354.5	550.2	372.7	391.3	410.9	431.4	Div. Yield(%)						
Other current assets	588.6	1,243.0	1,930.6	2,027.1	2,128.5	2,234.9	FCF Yield(%)						
Other liabilities	6,565.1	8,222.4	7,542.3	7,126.1	8,073.4	8,470.8	Return Ratios (%)						
Provisions	1,029.1	1,012.6	971.0	1,019.6	1,070.5	1,124.1	ROE	5%	14%	14%	13%	14%	15%
Working capital	13,006.5	14,795.4	18,516.6	22,641.3	27,778.6	33,565.9	ROCE	15%	20%	21%	22%	21%	20%
Miscellaneous exp.	-	-	-	-	-	-							
CAPITAL DEPLOYED	25,112.0	27,664.6	30,886.6	35,038.8	40,122.8	45,944.6							

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