

Strong demand in India and exports, profitability improvement continues



Pfizer India Q2FY22 results were below estimates. Sequential degrowth in sales was due to additional sales from Wysolone and Becosules during the second wave in Q1FY22. Operating margins were lower due to increased employee costs and other expenses.

- Sales came in at Rs 6363 mn +7% yoy, 4% below our estimate.
- EBITDA came in at Rs 1894 mn -7% yoy/-34% qoq.
- EBITDA margins were at 29.8% (-430 bps yoy/-830 bps qoq)
- PAT came in at Rs 1326 mn -1% yoy/-34% qoq.
- EPS for the quarter was at Rs 29.

Sales by geography

- Amongst Pfizer’s top 10 brands, Corex Dx, Minipress XI, Dolonex and Eliquis grew during the quarter.
- Becosules and Magnex degrew during the quarter.

Financial Summary

| Y/E Mar (Rs mn) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------|--------|--------|--------|--------|--------|
| Net sales | 20,815 | 21,517 | 22,386 | 26,191 | 28,810 |
| EBITDA | 5,652 | 5,726 | 7,121 | 8,360 | 9,256 |
| Adjusted net profit | 4,291 | 5,091 | 4,976 | 5,678 | 6,337 |
| Free cash flow | 1229 | 670 | 15292 | 2228 | 2406 |
| EPS (Rs) | 93.8 | 111.3 | 108.8 | 124.1 | 138.5 |
| growth (%) | 19% | 19% | -2% | 14% | 12% |
| P/E (x) | 55.4 | 46.6 | 47.7 | 41.8 | 37.5 |
| P/B (x) | 7.9 | 7.0 | 9.9 | 8.5 | 7.3 |
| EV/EBITDA (x) | 38.6 | 37.6 | 31.7 | 26.3 | 20.9 |
| D/E | 0 | 0 | 0 | 0 | 0 |
| RoIC (%) | 40 | 44 | 43 | 57 | 66 |
| RoE (%) | 14 | 13 | 14 | 15 | 21 |
| Dividend yield (%) | 0.4 | 6.4 | 0.7 | 0.6 | 0.6 |

Source: Company

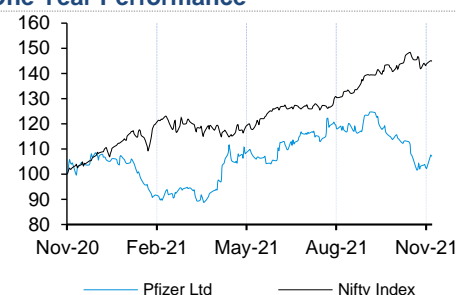
| Rating | TP (Rs) | Up/Dn (%) |
|-------------------|--------------|-----------|
| ACCUMULATE | 5,672 | 6 |

Market data

| | | |
|----------------------|-----------|---------------|
| Current price | Rs | 5,240 |
| Market Cap (Rs.Bn) | (Rs Bn) | 240 |
| Market Cap (US\$ Mn) | (US\$ Mn) | 3,657 |
| Face Value | Rs | 10 |
| 52 Weeks High/Low | Rs | 6,175 / 4,196 |
| Average Daily Volume | ('000) | 410 |
| BSE Code | | 500680 |
| Bloomberg | | PFIZ.IN |

Source: Bloomberg

One Year Performance



Source: Bloomberg

| % Shareholding | Sep-21 | Jun-21 |
|----------------|------------|------------|
| Promoters | 63.92 | 63.92 |
| Public | 36.08 | 36.08 |
| Total | 100 | 100 |

Source: Bloomberg

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Quarterly Financials

| Particulars (Rs. mn) | Q2FY22 | Q1FY22 | Q2FY21 | % yoy | % qoq | H1FY22 | H1FY21 | % growth |
|---------------------------|--------------|--------------|--------------|-------|-------|--------------|--------------|----------|
| Net Sales | 6363 | 7492 | 5954 | 7% | -15% | 13854 | 11103 | 25% |
| Raw material costs | 2314 | 2745 | 2118 | | | 5059 | 3894 | 30% |
| Employee costs | 1073 | 944 | 862 | | | 2016 | 1721 | 17% |
| Other Expenses | 1082 | 946 | 941 | | | 2027 | 1592 | 27% |
| Total Expenses | 4469 | 4634 | 3921 | 14% | -4% | 9103 | 7207 | 26% |
| EBITDA | 1894 | 2858 | 2033 | -7% | -34% | 4751 | 3896 | 22% |
| EBITDA margins | 29.8% | 38.1% | 34.1% | | | 34.3% | 35.1% | |
| Interest | 22 | 23 | 47 | | | 45 | 77 | |
| Depreciation | 272 | 270 | 277 | | | 542 | 549 | |
| Other Income | 150 | 122 | 122 | 24% | 23% | 273 | 294 | |
| Profit before tax | 1750 | 2687 | 1830 | -4% | -35% | 4437 | 3564 | 25% |
| Tax | 423 | 688 | 517 | | | 1112 | 1006 | |
| Profit after tax | 1326 | 1999 | 1314 | 1% | -34% | 3325 | 2558 | 30% |
| PAT margins | 20.8% | 26.7% | 22.1% | | | 24.0% | 23.0% | |
| Equity | 457.5 | 457.5 | 457.5 | | | 457.5 | 457.5 | |
| Earnings per share | 29.0 | 43.7 | 28.7 | | | 72.7 | 55.9 | |

Healthy yoy sales growth, sequentially lower sales due to second wave in Q1FY22

80 bps drop in gross margins due to higher material costs

Lower EBITDA margins due to increased employee costs and other expenses

| Profitability | Q2FY22 | Q1FY22 | Q2FY21 | bps +/- yoy | bps +/- qoq | H1FY22 | H1FY21 | bps +/- |
|---------------|--------|--------|--------|-------------|-------------|--------|--------|---------|
| Gross margin | 63.6 | 63.4 | 64.4 | -80 | 27 | 63.5 | 64.9 | -145 |
| EBITDA margin | 29.8 | 38.1 | 34.1 | -438 | -838 | 34.3 | 35.1 | -80 |
| PBT margin | 27.5 | 35.9 | 30.7 | -324 | -837 | 32.0 | 32.1 | -7 |
| PAT margin | 20.8 | 26.7 | 22.1 | -122 | -584 | 25.1 | 28.2 | -316 |

| Expenses contribution to sales | Q2FY22 | Q1FY22 | Q2FY21 | H1FY22 | H1FY21 |
|--------------------------------|--------|--------|--------|--------|--------|
| Raw materials | 36 | 37 | 36 | 37 | 35 |
| Employee costs | 17 | 13 | 14 | 15 | 16 |
| Other expenses | 17 | 13 | 16 | 15 | 14 |
| Tax as % to PBT | 24 | 26 | 28 | 25 | 28 |

Valuation & Outlook

Pfizer has grown better than other pharmaceutical MNCs. We expect growth in patented products going forward with the easing of Covid related restrictions. Pfizer also plans to launch 2 more patented products in India in FY22.

At Rs 5191, Pfizer trades at 38x FY23E EPS of 138 and 21x EV/EBITDA. We have valued Pfizer as a weighted average (50:50) of 41x P/E and 28x EV/EBITDA.

We maintain ACCUMULATE.

Financials

| P&L (Rs mn) | FY19 | FY20 | FY21 | FY22E | FY23E | Cash Flow St. (Rs. mn) | FY19 | FY20 | FY21 | FY22E | FY23E |
|---------------------------|---------------|---------------|---------------|---------------|---------------|----------------------------------|--------------|--------------|-----------------|--------------|--------------|
| Net Sales | 20,815 | 21,517 | 22,386 | 26,191 | 28,810 | Net Profit | 4,291 | 5,091 | 4,976 | 5,678 | 6,337 |
| Raw materials | 7,479 | 7,924 | 7,977 | 9,560 | 10,660 | Add: Dep. & Amort. | 714 | 1,032 | 1,094 | 1,096 | 1,151 |
| Employee costs | 3,238 | 3,645 | 3,611 | 4,080 | 4,284 | Cash profits | 5,004 | 6,124 | 6,070 | 6,775 | 7,488 |
| Other Expenses | 4,446 | 4,222 | 3,676 | 4,191 | 4,610 | (Inc)/Dec in | | | | | |
| Cost of sales | 15,163 | 15,791 | 15,264 | 17,831 | 19,554 | -Sundry debtors | (169) | (4) | 423 | (856) | (215) |
| Operating Profit | 5,652 | 5,726 | 7,121 | 8,360 | 9,256 | -Inventories | (896) | (439) | (45) | (313) | (466) |
| Depreciation | 714 | 1,032 | 1,094 | 1,096 | 1,151 | -Loans/advances | 293 | 123 | (12) | (13) | (14) |
| PBIT | 4,938 | 4,693 | 6,027 | 7,264 | 8,105 | -Sundry creditors | (658) | (1,848) | (1,274) | 2,565 | 775 |
| Other income | 1,674 | 1,840 | 811 | 568 | 625 | -Others | (955) | (398) | 27 | (243) | (263) |
| Interest | 13 | 109 | 151 | 159 | 167 | Change in working capital | (2,385) | (2,567) | (881) | 1,140 | (183) |
| Profit before tax | 6,599 | 6,425 | 6,687 | 7,673 | 8,563 | CF from Oper. activities | 2,620 | 3,557 | 5,189 | 7,914 | 7,305 |
| Provision for tax | 2,309 | 1,334 | 1,711 | 1,995 | 2,226 | CF from Inv. activities | (62) | (1,914) | (554) | (620) | (788) |
| Reported PAT | 4,291 | 5,091 | 4,976 | 5,678 | 6,337 | CF from Fin. activities | (1,133) | (1,278) | (14,994) | (1,661) | (1,661) |
| Exceptional Item | - | - | - | - | - | Cash generated/(utilised) | 1,425 | 365 | (10,359) | 5,634 | 4,856 |
| Adjusted PAT | 4,291 | 5,091 | 4,976 | 5,678 | 6,337 | Cash at start of the year | 17,719 | 19,143 | 22,199 | 11,966 | 17,741 |
| | | | | | | Cash at end of the year | 19,143 | 19,508 | 11,840 | 17,600 | 22,597 |
| | | | | | | | | | | | |
| Balance Sheet | FY19 | FY20 | FY21 | FY22E | FY23E | Ratios | FY19 | FY20 | FY21 | FY22E | FY23E |
| Equity capital | 458 | 458 | 458 | 458 | 458 | OPM | 27% | 27% | 32% | 32% | 32% |
| Reserves | 29,656 | 33,497 | 23,473 | 27,490 | 32,166 | NPM | 19% | 22% | 21% | 21% | 22% |
| Net worth | 30,113 | 33,955 | 23,930 | 27,948 | 32,624 | Tax rate | 35% | 21% | 26% | 26% | 26% |
| Other Non Current Liab. | 726 | 2,067 | 2,171 | 2,279 | 2,393 | Growth Ratios (%) | | | | | |
| Deferred Tax Liabilities | 22 | - | - | - | - | Net Sales | 5.74% | 3.37% | 4.04% | 17.00% | 10.00% |
| Total debt | 25 | 25 | 25 | 25 | 25 | Operating Profit | 13% | 1% | 24% | 17% | 11% |
| CAPITAL EMPLOYED | 30,887 | 36,047 | 26,126 | 30,252 | 35,042 | PAT | 19% | 19% | -2% | 14% | 12% |
| Gross block | 1,315 | 3,161 | 3,211 | 3,311 | 3,411 | Per Share (Rs.) * | | | | | |
| Accumulated deprn | 600 | 1,016 | 1,577 | 2,140 | 2,590 | Net Earnings (EPS) | 93.8 | 111.3 | 108.8 | 124.1 | 138.5 |
| Net block | 714 | 2,145 | 1,634 | 1,171 | 821 | Cash Earnings (CPS) | 418.4 | 485.2 | 261.6 | 387.8 | 497.2 |
| Capital WIP | - | 8 | - | - | - | Dividend | 19.9 | 330.0 | 35.0 | 30.0 | 30.0 |
| Total fixed assets | 714 | 2,153 | 1,634 | 1,171 | 821 | Book Value | 658.2 | 742.2 | 523.1 | 610.9 | 713.1 |
| Intangible Assets | 7,824 | 7,274 | 7,274 | 7,274 | 7,274 | Free Cash Flow | 26.9 | 14.6 | 334.3 | 48.7 | 52.6 |
| Investments | 323 | 310 | 296 | 282 | 269 | Valuation Ratios | | | | | |
| Other non current assets | 3,508 | 4,187 | 4,071 | 4,227 | 4,398 | P/E(x) | 55.4 | 46.6 | 47.7 | 41.8 | 37.5 |
| Inventories | 3,867 | 4,306 | 4,351 | 4,664 | 5,131 | P/B(x) | 7.9 | 7.0 | 9.9 | 8.5 | 7.3 |
| Sundry debtors | 1,717 | 1,720 | 1,297 | 2,153 | 2,368 | EV/EBIDTA(x) | 38.6 | 37.6 | 31.7 | 26.3 | 20.9 |
| Cash & bank | 19,143 | 22,199 | 11,966 | 17,741 | 22,745 | EV/SALES(x) | 10.5 | 10.0 | 10.1 | 8.4 | 6.7 |
| Loans & advances | 373 | 248 | 261 | 274 | 287 | Div. Yield(%) | 0.4% | 6.4% | 0.7% | 0.6% | 0.6% |
| Other current assets | 1,931 | 1,658 | 1,740 | 1,827 | 1,919 | FCF Yield(%) | 0.5% | 0.3% | 6.4% | 0.9% | 1.0% |
| Other liabilities | 4,359 | 4,268 | 2,837 | 5,238 | 5,841 | Return Ratios (%) | | | | | |
| Provisions | 971 | 1,056 | 1,109 | 1,164 | 1,222 | ROIC | 40 | 44 | 43 | 57 | 66 |
| Working capital | 18,517 | 22,124 | 12,852 | 17,299 | 22,281 | ROE | 14 | 13 | 14 | 15 | 21 |
| Miscellaneous exp. | - | - | - | - | - | ROCE | 21.4 | 18.1 | 26.2 | 25.9 | 24.9 |
| CAPITAL DEPLOYED | 30,887 | 36,047 | 26,126 | 30,252 | 35,042 | | | | | | |

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