

Margins upbeat but power brands yet to see uptick...

About the stock: Pfizer collectively addresses 15 therapy areas in domestic formulations with a portfolio of over 150 products that include therapeutics & vaccines. The company has been continuously restructuring its portfolio in the last few years to improve the productivity of its core brands.

- Fourth largest multinational pharma company in India
- Manufacturing facility in Goa with run rate of 1 billion tablets per annum

Q2FY23 Results: Pfizer reported in line numbers with growth in margins.

- Revenues were flat YoY at ₹ 637.5 crore
- EBITDA grew 22.3% YoY to ₹ 232 crore while EBITDA margins improved 658 bps to 36.3% due to lower employee costs trending VRS scheme
- PAT for the quarter was at ₹ 122.2 crore (down 14.6% YoY)

What should investors do? Pfizer's share price has grown ~1.08 x over the past three years (from ~₹ 4070 in November 2019 to ~₹ 4450 levels in November 2022).

- We maintain **HOLD** as we keep watch on uptick in power brands momentum post Covid impact and implications of the VRS scheme for the field force

Target Price and Valuation: Valued at ₹ 4505 i.e. 30x P/E on FY24E EPS of ₹ 150.2.

Key triggers for future price performance:

- Brands like Eliquis, Mucaine, Magnex, Corex-Dx e have shown uptick (MAT-September 2019-22 CAGR) amid muted performance in Pfizer's top brands like Becosules and Prevenar-13, which bodes well for more power brands
- Measured approach with de-focusing and hiving off of tail brands and focusing on core strengths areas like vaccines, pain management, VMS, GI and CVS
- Strong brand recall, consistent new product launches, volume growth in top brands and intermittent price hikes provide comfort on the financials front

Alternate Stock Idea: Apart from Pfizer, among MNC coverage we like Abbott.

- We continue to believe in Abbott's strong growth track in power brands and capability in new launches on a fairly consistent basis
- BUY with a target price of ₹ 21725

Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	2151.7	2238.6	2611.0	5.8	2572.2	2777.9	3.1
EBITDA	572.6	712.1	835.7	19.1	897.4	985.1	8.6
EBITDA margins (%)	26.6	31.8	32.0		34.9	35.5	
Net Profit	509.2	497.6	612.6	24.3	692.4	686.9	5.9
EPS (₹)	111.3	108.8	133.9		139.9	150.2	
PE (x)	40.0	40.9	33.2		29.4	29.6	
M.Cap/ Revenues (x)	9.5	9.1	7.8		7.9	7.3	
RoCE (%)	18.5	27.6	26.1		25.0	23.7	
ROE (%)	15.0	20.8	21.4		18.8	18.1	

Source: Company, ICICI Direct Research



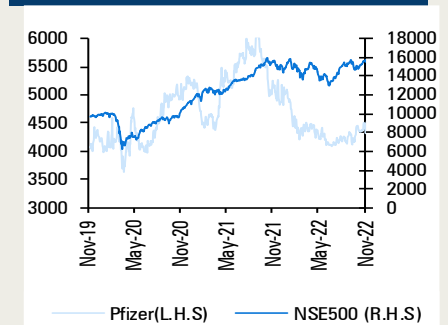
Particulars

Particular	Amount
Market Capitalisation	₹ 19174 crore
Debt (FY22)	₹ 3 crore
Cash (FY22)	₹ 1633 crore
EV	₹ 17543 crore
52 week H/L	6165/4056
Equity capital	₹ 45.8 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	63.9	63.9	63.9	63.9
Others	36.1	36.1	36.1	36.1

Price Chart



Recent Event & Key risks

- Announced VRS for field force
- **Key Risk:** (i) Addition of products to NLEM list (ii) Higher than expected traction in brands

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Key takeaways of recent quarter

Q2FY23 Results: In line numbers with improved margins

- Revenues were flat YoY at ₹ 637.5 crore. EBITDA grew 22.3% YoY to ₹ 232 crore while EBITDA margins improved 658 bps to 36.3%. Exceptional income of ₹ 188.9 crore on the transfer of Upjohn business to Mylan. Adjusted PAT declined 14.6% YoY to ₹ 122.2 crore
- Decent growth on a sequential basis but significant margin expansion due to lower staff cost due to recently announced VRS scheme. We continue to believe in Pfizer's strong growth track record in power brands but despite capability in new launches on a fairly consistent basis, we remain sceptical on Pfizer's ability to garner volume led growth for new launches in the market. Besides performances of new launches, recovery in Prevenar 13 and Becosules would determine the revenue traction in the post-Covid scenario

Exhibit 1: Power brands (₹ crore)

Brand	Therapy	Sep-19	Sep-20	Sep-21	Sep-22	GAGR 19-22	YoY
BECOSULES	VMS	295.3	342.7	392.1	330.3	3.8%	-15.7%
PREVENAR-13	VACCINES	367.0	370.6	367.8	309.3	-5.5%	-15.9%
COREX-DX	RESPIRATORY	144.0	158.4	200.5	203.9	12.3%	1.7%
DOLONEX	PAIN / ANALGESICS	186.1	184.5	178.1	190.2	0.7%	6.8%
MINIPRESS-XL	CARDIAC	136.2	145.4	161.8	180.4	9.8%	11.5%
MAGNEX	ANTI-INFECTIVES	171.9	150.9	173.7	179.6	1.5%	3.4%
MUCAINE	GASTRO INTESTINAL	122.9	140.4	174.3	176.0	12.7%	1.0%
WYSOLONE	HARMONES	110.9	131.0	156.5	157.7	12.4%	0.8%
ELIQUIS	CARDIAC	55.2	89.4	151.2	144.1	37.7%	-4.7%
GELUSIL-MPS	GASTRO INTESTINAL	109.0	126.5	141.8	125.5	4.8%	-11.4%
Top 10 brands		1403.2	1497.2	1705.6	1666.9	5.9%	-2.3%
% of IQVIA sales		47.8%	49.5%	49.5%	48.3%		
Ex-Top 10 brands		1531.7	1528.9	1739.4	1783.6	5.2%	2.5%

Source: MAT TSA values, IQVIA; Company

Exhibit 2: Therapeutic break-up (₹ crore)

Therapy	Sep-19	Sep-20	Sep-21	Sep-22	GAGR 19-22	YoY
ANTI-INFECTIVES	429.4	364.6	430.7	460.5	2.4%	6.9%
VITAMINS/MINERALS/NUTRIENTS	386.2	442.7	517.5	439.5	4.4%	-15.1%
CARDIAC	233.6	276.0	372.0	366.5	16.2%	-1.5%
GASTRO INTESTINAL	271.1	303.2	350.3	335.3	7.3%	-4.3%
VACCINES	367.0	370.6	367.8	309.3	-5.5%	-15.9%
RESPIRATORY	220.0	237.0	288.1	286.1	9.2%	-0.7%
HORMONES	207.0	226.3	277.5	250.6	6.6%	-9.7%
GYNAEC.	215.4	219.5	237.2	247.0	4.7%	4.1%
PAIN / ANALGESICS	222.9	220.9	216.3	234.8	1.7%	8.5%
BLOOD RELATED	70.0	75.5	78.9	85.8	7.0%	8.8%
Top Therapies	2622.7	2736.3	3136.4	3015.3	4.8%	-3.9%
Total IQVIA Sales	2934.9	3026.1	3445.0	3450.5	5.5%	0.2%

Source: MAT TSA values, IQVIA; Company

Exhibit 3: Financial Summary

	Revenues	Growth	EPS	Growth	P/E	EV/EBITDA	RoE	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(X)	(%)	(%)
FY21	2239	4.0	108.8	-2.3	40.9	27.0	20.8	27.6
FY22	2611	16.6	133.9	23.1	33.2	22.4	21.4	26.1
FY23E	2572	-1.5	139.9	13.0	29.4	20.2	18.8	25.0
FY24E	2778	8.0	150.2	-0.8	29.6	18.0	18.1	23.7

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)			RoE (%)				
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4479	5,230	Buy	64501	7.9	59.1	79.0	101.0	569.9	75.7	56.7	44.3	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	750	855	Buy	15291	-0.7	16.7	20.6	22.7	NA	44.8	36.4	33.0	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	142	150	Buy	1537	3.9	5.4	7.5	9.9	36.3	26.3	19.0	14.4	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	228	250	Buy	11420	3.0	10.5	10.8	16.7	77.2	21.7	21.2	13.7	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	300	380	Buy	4173	-13.9	3.9	4.5	8.8	-13.9	77.7	66.0	34.0	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
MNC Pharma																					
Abbott India	ABBIND	19478	21,725	Hold	40903	325.0	375.9	427.7	528.6	59.9	51.8	45.5	36.9	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4270	4,500	Hold	7259	106.5	116.0	124.8	140.6	40.1	36.8	34.2	30.4	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	5564	6,385	Hold	12797	207.4	410.1	270.5	264.8	26.8	13.6	20.6	21.0	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4432	4,480	Hold	20389	108.8	133.9	140.4	149.3	40.7	33.1	31.6	29.7	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
Pharma																					
Ajanta Pharma	AJAPHA	1291	1,505	Buy	16525	51.0	55.6	60.1	71.1	25.3	23.2	21.5	18.1	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	636	625	Reduce	12523	62.8	27.8	15.3	26.9	10.1	22.9	41.6	23.6	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	478	540	Hold	28005	55.0	47.4	41.1	51.3	8.7	10.1	11.6	9.3	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	284	290	Hold	34108	6.3	5.7	5.5	11.3	45.4	49.9	52.1	25.0	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	416	480	Hold	41941	23.3	21.0	21.0	23.8	17.8	19.8	19.8	17.5	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1121	1,350	Buy	90481	29.9	32.9	38.6	45.8	37.5	34.1	29.1	24.5	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4470	4,750	Buy	74202	117.3	126.9	203.4	191.0	38.1	35.2	22.0	23.4	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	430	440	Hold	12112	32.9	42.7	39.5	44.9	13.1	10.1	10.9	9.6	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipca Laboratories	IPCLAB	874	925	Hold	22189	44.9	34.8	27.5	35.1	19.4	25.1	31.8	24.9	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	393	340	Hold	6246	37.4	26.0	15.9	26.1	10.5	15.1	24.7	15.0	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	740	680	Reduce	33654	26.9	11.9	11.8	27.7	27.5	62.3	62.9	26.7	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	581	680	Hold	10637	24.2	9.3	41.6	42.3	24.1	62.4	14.0	13.7	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	1019	1,225	Buy	244374	30.0	32.0	34.8	40.1	33.9	31.9	29.3	25.4	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1619	1,730	Hold	54722	37.0	32.0	40.0	46.7	43.8	50.5	40.5	34.7	17.6	19.7	19.1	21.4	21.4	18.2	19.8	19.7
Indoco Remedies	INDREM	352	465	Buy	3236	10.1	16.8	21.6	29.2	34.8	20.9	16.3	12.1	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	751	955	Buy	5708	81.7	85.3	70.4	73.0	9.2	8.8	10.7	10.3	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	274	265	Reduce	3067	13.1	10.7	8.5	12.1	20.9	25.6	32.3	22.7	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2000	2,070	HOLD	1753	44.4	45.7	35.9	51.8	43.9	42.6	54.3	37.6	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
API/CRAMS																					
Divi's Lab	DIVLAB	3290	3,685	HOLD	87180	74.7	111.5	93.0	113.5	44.0	29.5	35.4	29.0	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	331	330	Reduce	4070	10.8	13.0	3.8	14.4	30.6	25.4	86.4	22.9	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	608	710	Buy	24399	10.1	9.9	11.5	14.6	60.1	61.7	52.8	41.8	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	364	375	Buy	9035	22.2	16.6	21.9	26.8	16.4	21.9	16.6	13.6	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	462	675	Buy	24793	18.3	15.4	20.7	27.0	25.2	30.0	22.3	17.1	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceutical	SUVPH	461	530	BUY	11763	14.2	17.8	17.0	17.6	32.4	25.9	27.2	26.1	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	2,238.6	2,611.0	2,572.2	2,777.9
Growth (%)	4.0	16.6	-1.5	8.0
Raw Material Expenses	797.7	948.0	927.1	992.8
Gross Profit	1,440.8	1,663.0	1,645.1	1,785.1
Gross Profit Margins (%)	64.4	63.7	64.0	64.3
Employee Expenses	361.1	403.7	348.3	366.7
Other Expenditure	367.6	423.6	399.5	433.4
Total Operating Expenditure	1,526.4	1,775.3	1,674.8	1,792.9
EBITDA	712.1	835.7	897.4	985.1
Growth (%)	24.4	17.4	7.4	9.8
Interest	15.1	10.5	13.8	13.8
Depreciation	109.4	115.0	105.3	123.9
Other Income	81.1	62.7	93.3	69.4
PBT before Exceptional Ite	668.7	772.9	871.6	916.9
Less: Exceptional Items	0.0	0.0	-52.6	0.0
PBT after Exceptional Items	668.7	772.9	924.2	916.9
Total Tax	171.1	160.3	231.8	229.9
PAT before MI	497.6	612.6	692.4	686.9
PAT	497.6	612.6	692.4	686.9
Growth (%)	-2.3	23.1	13.0	-0.8
EPS (Adjusted)	108.8	133.9	139.9	150.2

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	464.6	547.0	692.4	686.9
Add: Depreciation & Amortization	109.4	115.0	105.3	123.9
Net Increase in Current Assets	5.4	40.4	-7.2	-61.8
Net Increase in Current Liabilities	-97.2	3.0	52.8	82.8
Others	-54.9	-38.3	13.8	13.8
CF from Operating activitie	427.3	667.1	857.0	845.6
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Assets	-17.6	-13.3	-50.0	-50.0
Others	56.6	44.9	-56.0	-61.8
CF from Investing activitie	39.0	31.7	-106.0	-111.8
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-1,519.4	-159.7	-160.1	-297.4
Other	-51.7	-20.8	-13.8	-13.8
CF from Financing activities	-1,571.1	-180.5	-173.9	-311.1
Net Cash Flow	-1,104.8	518.2	577.2	422.7
Cash and Cash Equivalent	2,219.9	1,115.1	1,633.3	2,210.5
Cash	1,115.1	1,633.3	2,210.5	2,633.2
Free Cash Flow	409.7	653.8	807.0	795.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	45.8	45.8	45.8	45.8
Reserve and Surplus	2,347.3	2,818.7	3,351.0	3,740.5
Total Shareholders funds	2,393.0	2,864.4	3,396.7	3,786.3
Total Debt	2.5	2.5	2.5	2.5
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	55.8	55.5	56.6	57.7
Other Non Current Liabilities	42.7	127.7	130.3	132.9
Source of Funds	2,494.1	3,050.1	3,586.1	3,979.4
Gross Block - Fixed Assets	751.0	817.8	867.3	917.5
Accumulated Depreciation	413.8	504.3	609.6	733.4
Net Block	337.3	313.5	257.7	184.1
Capital WIP	2.8	1.2	1.7	1.4
Goodwill on Consolidation	527.5	527.5	527.5	527.5
Fixed Assets	867.5	842.1	786.9	713.0
Investments	29.6	28.2	28.2	28.2
Deferred Tax Assets	13.5	47.0	47.9	48.9
Long Term Loans and Advances	262.1	400.7	440.7	484.8
Other non-Current Assets	168.5	186.1	204.7	225.2
Inventory	435.1	448.9	439.0	470.1
Debtors	129.7	124.3	122.4	132.2
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	244.9	190.0	209.0	229.9
Cash	1,115.1	1,633.3	2,210.5	2,633.2
Total Current Assets	1,924.7	2,396.5	2,980.9	3,465.4
Creditors	283.7	263.9	258.1	276.4
Provisions	126.6	78.6	86.4	95.0
Other Current Liabilities	361.5	507.9	558.7	614.6
Total Current Liabilities	771.8	850.4	903.2	986.0
Net Current Assets	1,152.9	1,546.1	2,077.7	2,479.4
Application of Funds	2,494.1	3,050.1	3,586.1	3,979.4

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	108.8	133.9	151.4	150.2
Cash EPS	97.7	124.0	97.9	142.2
BV per share	523.1	626.1	742.5	827.6
Cash per Share	243.7	357.0	483.2	575.6
Dividend per share	35.0	35.0	65.0	35.0
Operating Ratios (%)				
Gross Profit Margins	64.4	63.7	64.0	64.3
EBITDA margins	31.8	32.0	34.9	35.5
PAT Margins	22.2	23.5	24.9	24.7
Cash Conversion Cycle	90.4	88.6	88.6	88.6
Asset Turnover	3.0	3.2	3.0	3.0
EBITDA conversion Rate	60.0	79.8	95.5	85.8
Return Ratios (%)				
RoE	20.8	21.4	18.8	18.1
RoCE	27.6	26.1	25.0	23.7
RoIC	44.2	52.7	59.7	66.5
Core ROE	34.2	45.7	52.5	55.1
Valuation Ratios (x)				
P/E	40.9	33.2	29.4	29.6
EV / EBITDA	27.0	22.4	20.2	18.0
EV / Net Sales	8.6	7.2	7.1	6.4
Market Cap / Sales	9.1	7.8	7.9	7.3
Price to Book Value	8.5	7.1	6.0	5.4
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	0.9	0.9	0.8
Quick Ratio	0.5	0.4	0.4	0.4
Inventory days	199.1	172.8	172.8	172.8
Debtor days	21.1	17.4	17.4	17.4
Creditor days	129.8	101.6	101.6	101.6

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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