

**Pfizer Ltd.****₹ 1773****Wyeth's In!****Accumulate**

Nov 28, 2014

**Company Background**

Pfizer is a subsidiary of Pfizer Inc. US the worlds largest pharma giant. It's business segments include pharma, animal health & services. The pharma business comprises of manufacturing and trading of bulk drugs and formulations and also includes rendering of marketing services. The animal health business has a presence primarily in the large animal health and poultry market segments, and also includes rendering of marketing services. The services - clinical development operations primarily include conducting clinical trials, new product development and undertaking comprehensive data management for new drug development. Pfizer`s product portfolio includes therapeutic classes from vitamins supplements and nutritional to antibiotics and cardiovascular.

**Key Highlights**

- ➔ Pfizer has a huge portfolio of products with some very strong brands within its product portfolio that are market leaders in their respective therapeutic segments with significant market share. Besides this The company has 6 brands that feature in the top 100 pharmaceutical drug brands in the country, of which 2 brands viz. 'Corex' (Cough Formulation) & 'Becosules' (Multivitamin) continue to be ranked among the top 10 pharmaceutical drug brands in the Indian market.
- ➔ Post the merger of Wyeth into Pfizer the merged entity will be the second largest MNC pharmaceutical company operating in India in terms of revenues, with more than 4% market share. The Pfizer-Wyeth combine would have a field force of more than 3,000 representatives & upwards of 12 brands featuring in the top 300 products in the Indian pharmaceutical market. We expect the merger to bring in a lot of synergies for the resulting company, thereby improving the margins.
- ➔ The Net Sales and Operating Profit of Pfizer are expected to grow at CAGR of 9% and 13% respectively over next 2-3 years.
- ➔ Pfizer stands debt free with no long and short term borrowings as on 31st March 2014. The finance costs of the company is just Rs. 0.5 mn in Q2 FY15. This is the biggest plus point of the company.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	11,832.8	15,686.2	12,184.8
Rev. growth (%)	(12.1)	32.6	(22.3)
EBITDA (INR mn)	2,826.5	7,102.6	3,507.3
Net profit (INR mn)	1,846.1	5,032.0	2,208.6
Shares outstanding (mn)	29.8	29.8	29.8
EPS (INR)	61.9	168.6	74.0
EPS growth (%)	(18.4)	172.6	(56.1)
P/E (x)	19.4	6.3	17.1
RONW (%)	13.6	7.6	18.4
ROCE (%)	13.6	7.6	18.4

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**Info Codes**

Reuters	: PFIZ.BO
Bloomberg	: PFIZ@IN
NSE	: PFIZER
BSE	: 500680

**Market Data**

52 Wk Range (₹)	: 1020 / 1828
Shares in Issue (mn)	: 29.8
Mkt. Cap (₹ bn)	: 52.90
BSE 2 Wk Avg Vol	: 4477

**Share Holding Pattern (%)**

Promoters	: 70.75
FII's	: 3.81
DII's	: 4.87
Others	: 20.57

**Investment Theme**

Though Pfizer remains under auspices of its parent Pfizer Inc which is supposed to be one of the strongest Pharma Companies in the world, as a company even Pfizer is a very strong entity. The company has no long or short term borrowings and the finance costs are also insignificant at Rs. 0.5 mn in Q2 FY15. The growth it showed in the past few years is also very good. Though Indian Pharmaceutical industry is highly competitive and fragmented, Pfizer with its merger with Wyeth will become an important player with 3% market share of the domestic market. Further Wyeth which is a market leader in vaccines and Womens health would add up to its portfolio. Operational synergies brought in by the merger will yield benefits, consolidating Pfizer's position in the Indian Pharma market in the coming quarters.

**Merging for Good!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	10000.4	10959.5	9.59	11649.7	6.30
Other Income	1079.0	5226.5	384.38	1093.7	(79.07)
Change in Stocks	184.8	26.7	(85.55)	(28.4)	(206.37)
Raw Material Con.	1633.1	1748.8	7.08	1961.5	12.16
Employee Exp.	1932.0	2147.1	11.13	1920.7	(10.54)
Indirect Taxes	454.4	583.4	28.39	677.6	16.15
Other Exp.	5586.1	4806.3	(13.96)	4795.5	(0.22)
Operating Exp.	9420.8	9258.9	(1.72)	9383.7	1.35
Operating Profit	579.6	1700.6	193.41	2266.0	33.25
Total Interest	20.8	17.3	(16.83)	19.3	11.56
Gross Profit	1637.8	6909.8	321.90	3340.4	(51.66)
Net Dep.	(1061.1)	(27.9)	(97.37)	(55.4)	98.57
Total Taxation	852.8	1905.7	123.46	1187.2	(37.70)
Net Profit/Loss	1846.1	5032.0	172.57	2208.6	(56.11)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13	Mar 14
<b>SOURCES OF FUNDS</b>	<b>11,634.5</b>	<b>13,047.1</b>	<b>16,944.3</b>	<b>6,584.1</b>
Equity Share capital	298.4	298.4	298.4	298.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	11,336.1	12,748.7	16,645.9	6,285.7
Long Term Loans	0.0	0.0	0.0	0.0
Short Term Loans	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>11,634.5</b>	<b>13,047.1</b>	<b>16,944.3</b>	<b>6,584.1</b>
Gross Block	1,154.2	1,157.2	1,149.9	1,148.3
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	804.0	851.1	901.5	948.1
Net Block	350.2	306.1	248.4	200.2
Capital Work in Progress	16.4	3.8	3.7	31.6
Investments	489.5	475.5	459.9	444.9
Current Assets	23,056.3	15,239.6	20,085.7	8,657.0
Less : Current Liabilities	12,277.9	2,977.9	3,853.4	2,749.6
Total Net Current Assets	10,778.4	12,261.7	16,232.3	5,907.4
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	489.5	475.5	459.9	444.9
Mkt Val. Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	3,472.6	3,499.0	4,118.1	3,570.0
Dividend (%)	40	125	325	3600

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 13	Mar 14	Jun 14	Sep 14
Net Sales	2721.9	2744.8	2661.6	2964.8
Cost Of Sales	2257.9	2016.5	2039.1	2463.6
Operating Profit	464.0	728.3	622.5	501.2
Recurring Income	281.3	163.1	100.8	99.8
Adjusted PBDIT	745.3	891.4	723.3	601.0
Financial Expenses	0.8	1.9	1.2	0.5
Depreciation	17.4	20.3	22.6	19.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	727.1	869.2	699.5	581.5
Tax Charges	251.1	309.7	238.0	0.0
Adjusted PAT	476.0	559.5	461.5	581.5
Non Recurring Items	0.0	0.8	0.0	(699.8)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	476.0	560.3	461.5	(118.3)

## 52 Week Index Relative Percentage Appreciation



## Pfizer vs SENSEX

## Risks Associated

## ➔ Pharma Policies

The regulatory framework in India operates through a three tier-system of regulations – on Bulk Drugs, on Formulations & on Overall Profitability, thereby regulating the pricing of essential drugs. The Government of India has proposed to bring all 354 medicines on the 'National List of Essential Medicines' under the Drug Price Control Order (DPCO). Such a policy would hinder the prospects of new product launches in the domestic market & have a significant impact on the fortunes of the industry players. Pfizer's exposure to DPCO is currently around 20% of its revenues. It is believed that if the New Pharmaceutical Policy comes into effect, it can negatively impact the company's topline & margins.

## ➔ Presence of Siblings

Besides the listed Indian entity, the US parent has two other wholly-owned 100% subsidiaries operating in India. These are Pfizer Pharmaceuticals India Pvt. Ltd. & Pfizer Products India Pvt. Ltd. The parent company, in the past, has launched a couple of products in India through its 100% subsidiaries. This we believe is negative for the growth of the listed entity, since it curbs the growth prospects of Pfizer India, impacting its topline & profitability.

**In a Nutshell**

Pfizer is one of the aggressive pharma companies in India with a demonstrated rate of steady and consistent growth over the years. It has a good market share and holds a huge product portfolio across therapeutic segments. The company has some very strong brands that have been consistently performing well, most of which are growing at double digit rates year after year & are market leaders within their respective therapeutic segments. With just a 20% product exposure currently to the DPCO its margins do not seem too much under pressure. It is expected that the expansion in its product offerings with the inclusion of Branded Generics & a move into the interiors of the country would prove to be beneficial for the company's growth. The parent company has already shown its affection by offering it to market brands including 'Vfend', 'Viagra', 'Lyrica', 'Cadeut' & 'Macugen' since 2005. Further the ready stream of patented drugs with its parent would help it serve as the right serving for the Indian market. The company is completely debt-free & has huge amounts of Cash & Cash Equivalents (C&CE) at its disposal, significant part of which is parked with fellow subsidiaries as Inter Corporate Deposits (ICDs). This has helped the company to acquire Wyeth which is also profitable and will big in large business. We feel the current Pfizer & Wyeth merger would not only benefit the company in terms of synergies of operation and established portfolio of Wyeth with a combined market share of 3% but also would be beneficial to the investors who would hold Pfizer for a time frame of around a year.

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**Rating Interpretation**

<b>Buy</b> : Expected to appreciate 20% or more over 12-months	<b>Reduce</b> : Expected to depreciate up to 10% over 12-months
<b>Accumulate</b> : Expected to appreciate 10% to 20% over 12-months	<b>Sell</b> : Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b> : Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b> : Expected to depreciate more than 10% over 45-days

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