



TM

Pfizer Limited

01 September 2023

Expect a fresh wave of new launches

We initiate coverage on Pfizer Limited (PFIZ IN) with a BUY rating and a target price of Rs 4,954, based on 30x FY25E EPS. This is an opportune time to invest in Pfizer, considering the a) fresh wave of NCE launches expected in India from the parent pipeline, b) strength of its core brands, and c) correction in valuations, post recent growth challenges. Our estimate of 12.3% CAGR in earnings over FY23 to FY25E would be led by a mix of revenue growth (mid-single digit) and cost rationalization (recently implemented VRS scheme). Revenue growth is likely to be subdued (mid-single digit) in the near term, but once the parent entity rolls out its late-stage NCE pipeline in India, growth trajectory could surprise on the upside. Key NCE launches we expect are Prevenar 20 – a pneumococcal vaccine that offers broader protection than the ones in the market currently, Aztreonam-avibactam (PF-06947387) – a novel antibiotic that works against drug-resistant bacteria, and Etrasimod, meant to cure moderate to severe ulcerative colitis. Given the company's strong cash position, we expect a potential special dividend payout in the near future.

NCE pipeline of parent entity has multiple opportunities for the Indian markets - PFIZ parent entity's NCE pipeline houses several late-stage assets that are ripe for launch and relevant for the Indian markets. Key NCE opportunities include drugs like Zavzpret – a nasal spray for the treatment of migraine, *Prevenar 20* – a pneumococcal vaccine that provides best-in-class protection, Aztreonam-avibactam (PF-06947387) – a novel antibiotic that works against drug-resistant bacteria, hexavalent capsular polysaccharide (CPS) conjugate Group B Streptococcus (GBS) vaccine, Abrysvo, – a bivalent respiratory syncytial virus (RSV) prefusion F (RSVpreF) vaccine to prevent lower respiratory tract disease caused by RSV in individuals 60 years and above, and for maternal immunization to help protect infants, Etrasimod – meant to treat ulcerative colitis, Danuglipron – a GLP-1 for type 2 diabetes and Pentavalent Meningococcal vaccine (for Meningitis). Of the above potential pipeline opportunities, we expect PFIZ to launch *Prevenar 20*, Etrasimod and Aztreonam-avibactam over the next two years in the Indian markets.

Base business should see a rebound in growth - Over the last 3 years, PFIZ recorded lackluster (4%) growth, owing to extraordinary situations like brand divestments, patent expiry, NLEM-led ceiling price revision and inclusion of pneumococcal vaccination as part of the universal immunization program (UIP). The full impact of these fleeting issues will likely get reflected in its base business by the end of 1HFY24. Additionally, the company has also been facing supply problems recently from one of its CMO partners, which has caused a disruption in the sales of its major brands in the hospital anti-infectives space. We expect growth to rebound (high single digit) on the corrected base business, as the company's core brands are not only strong, but leaders in their respective categories. Majority of PFIZ's Top 20 brands that make up 85% of its revenue are market leaders.

Valuation and Risks - We expect PFIZ's base business to deliver mid-to-high single digit secular growth. The recent performance of PFIZ's base business is not a true reflection of its growth potential, considering several headwinds, the impact of which should fully play out by the end of 1HFY24, in our view. Post this, we expect growth in the base business to normalize (7%-8%), aided by the potential NCE launches sourced from the parent pipeline. We value PFIZ at 30x FY25E EPS to arrive at a target price of Rs 4,954.

INITIATING COVERAGE

Sector: Pharmaceuticals Rating: BUY

CMP: Rs 3,818 Target Price: Rs 4,954

Stock Info

Sensex/Nifty	64,831/19,254
Bloomberg	PFIZ IN EQUITY
Equity shares	45.75 mn
52-wk High/Low	4,662/3,407
Face value	Rs 10
M-Cap	Rs 174.6bn/USD 2.1bn
3-m Avg value	USD 1.11bn

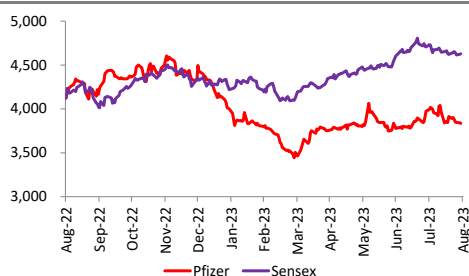
Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
Revenue	24,248	23,445	26,244
Gross profit	15,511	14,531	16,796
Gross Margin (%)	64	62	64
EBITDA	8,089	7,331	9,373
Margin (%)	33	31	36
PAT	6,239	5,586	7,555
EPS	136.4	122.1	165.1
DPS (Rs)	65.0	58.2	78.7
ROCE (%)	23.1	18.6	23.3
P/E (x)	28.0	31.3	23.1
EV/EBITDA (x)	19.3	20.8	15.8

Shareholding pattern (%) – Pre-offer

	Dec-22	Mar-23	Jun-23
Promoter	63.92	63.92	63.92
–Pledged	-	-	-
FII	2.77	2.80	2.81
DII	14.93	14.89	14.89
Others	18.38	18.39	18.38

Stock Performance (1-year)



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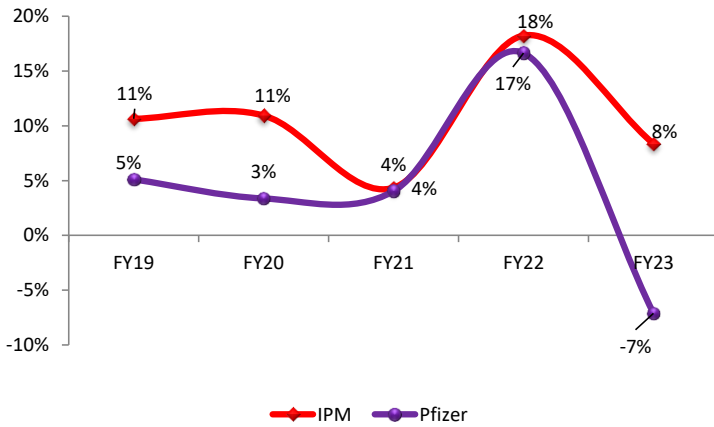
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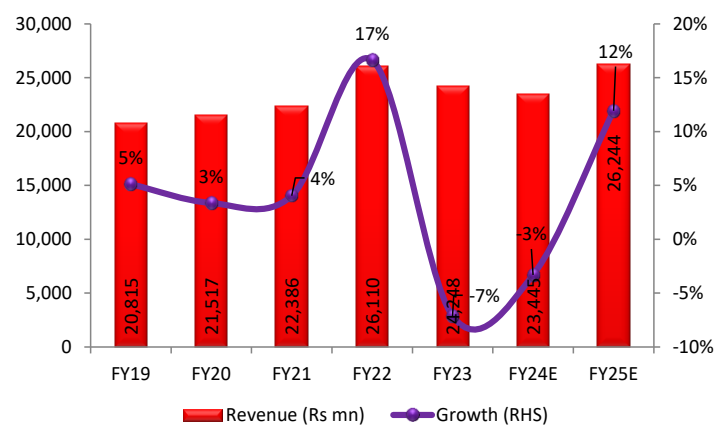
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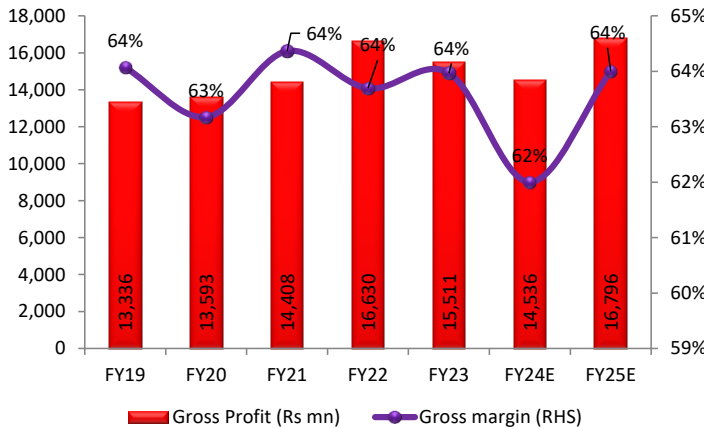
Story in charts

Exhibit 1: IPM vs Pfizer- growth got derailed slightly in FY23...


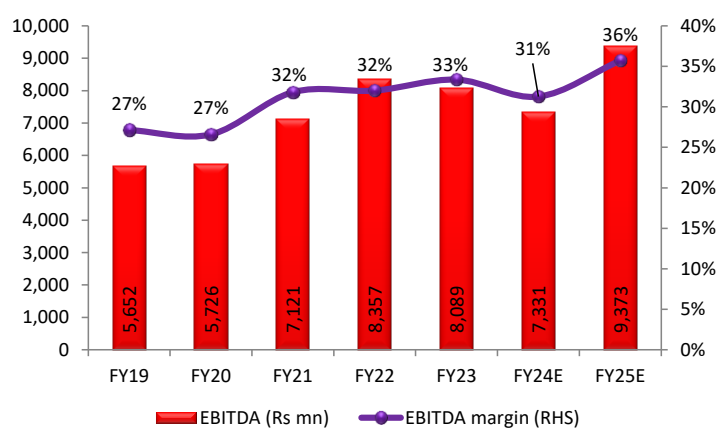
Source: Company, Systematix Institutional Research

Exhibit 2: ...but is expected to bounce back by FY25E


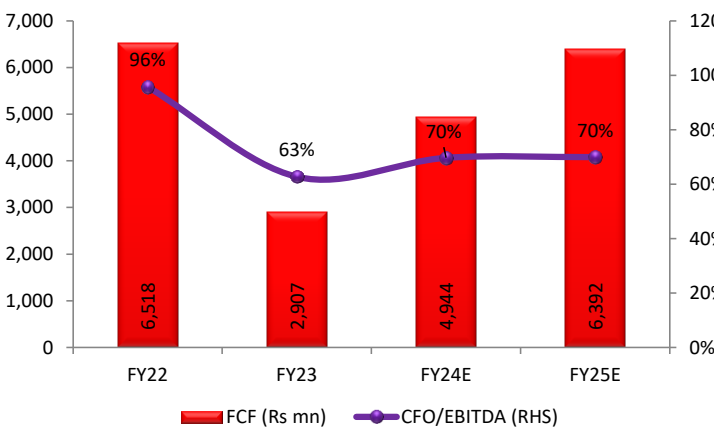
Source: Company, Systematix Institutional Research

Exhibit 3: Gross margin to remain stable over FY19-FY25E...


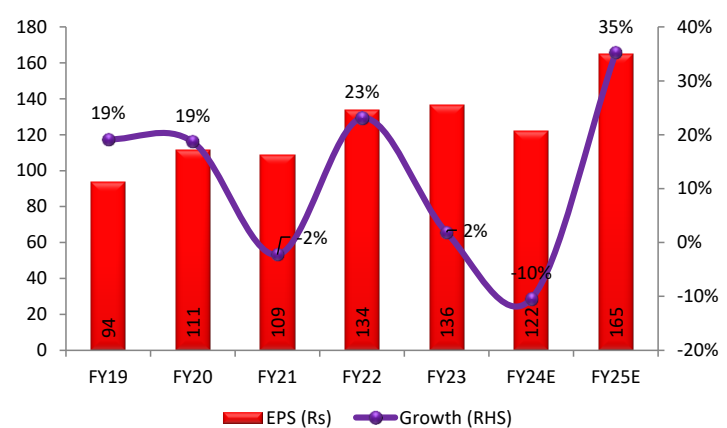
Source: Company, Systematix Institutional Research

Exhibit 4: ...with EBITDA margin expanding by 850bps over FY19-25E


Source: Company, Systematix Institutional Research

Exhibit 5: Robust cash flow generation


Source: Company, Systematix Institutional Research

Exhibit 6: EPS CAGR of 10% over FY17-25E


Source: Company, Systematix Institutional Research

Key products

Becosules – This is PFIZ's flagship brand and a market leader in the vitamin and minerals category. India's vitamin and minerals market has been facing growth pressures lately due to the high base effect. An extraordinary surge in the use of nutritional supplements during COVID to enhance immunity resulted in the high base. Becosules is the largest selling brand in the vitamin B-complex segment, which is generally prescribed to treat nutritional deficiency, immunity enhancement, mouth ulcers and recovery post illness / chronic infection / surgery, etc.

Prevnar13 – This is a pneumococcal conjugate vaccine for children aged 6 weeks to 17 years and for adults. It is the largest-selling product in PFIZ's portfolio. The company continues to enjoy leadership position in the pneumococcal vaccine market with more than 60% share. The sales of this brand are under pressure, owing to reduced uptake in private sector as the vaccine is being provided free (for infants) under the government's universal immunization program (UIP). The company has lately strengthened its advertisement campaign to expand market share, as a large proportion of the birth cohort still not vaccinated against pneumococcal disease. It is also trying to drive penetration in the adult population, which presently is devoid of competition, as the government-sponsored UIP is restricted to infant vaccination currently. The adult cohort is currently underpenetrated.

Corex – The brand is synonymous with cough syrup and is PFIZ's flagship brand. The company has discontinued its basic Corex brand (due to the ban imposed on irrational fixed-dose combinations) and currently has two market-leading products in the cough syrup segment.

Anti-infective portfolio: PFIZ continues to be a leading player in the anti-infective category in the world. Over the decades, it has discovered and brought to the market some of the world's most important anti-microbials and iconic anti-infective brands. Its anti-infective portfolio focuses on catering to the critical care requirements of hospitals. Magnex is the number 1 brand in this segment, with ~6.7% market share in value terms in the broad market. In 2017, PFIZ launched Meronem, which is prescribed for the treatment of high-risk patients in an ICU setting. Meronem has ~5.5% value market share in the Meropenem market. Other anti-infective brands in its portfolio include Zosyn, Magnamycin, Zavicefta, Zinforo, Tygacil, Eraxis and Trulimax. Zavicefta is potentially the single-largest brand in the anti-infective portfolio, and it recently lost patent protection causing generic copies to enter the market. The full impact of patent expiry may take a few quarters to flow through in the numbers.

Enbrel (Etanercept): This is the only biological treatment in PFIZ's India portfolio. The drug is prescribed for patients with rheumatoid arthritis, ankylosing spondylitis, psoriatic arthritis, juvenile idiopathic arthritis and psoriasis patients intolerant to DMARD (disease modifying anti-rheumatic drugs like methotrexate). The drug is yet to scale up to its full potential, given the constraint on its affordability. PFIZ is partially addressing the issue through a patient assistance program that helps customers procure the drug at affordable prices. Enbrel has USD 7bn peak sales globally.

Eliquis (Apixaban): This is one of the fastest-growing brand in the PFIZ portfolio. Globally, Eliquis is best-in-class Factor Xa inhibitor anticoagulant owing to a well balanced efficacy and safety profile that ensures minimal safety risk (low risk of bleeding) and delivers relatively better outcomes (lower risk of stroke and venous thromboembolism). Eliquis is globally a USD 12bn brand. The drug is predominantly prescribed by cardiologists and neurologists to treat VTE (venous thromboembolism) or prevent strokes during atrial fibrillation. PFIZ has recently cut the price of Eliquis to counter generic competition, translating into a spurt in volumes.

Gastrointestinal portfolio: PFIZ has a strong presence in the gastrointestinal space in which it enjoys leading brands like **Gelusil** and **Mucaine**. **Mucaine** gel continues to be the market leader with an 18.4% market share and is also the most prescribed brand in the liquid antacid category.

Women's healthcare – PFIZ's women's healthcare portfolio comprises of brands like **Ovral**, **Folvite**, **Autrin** and **Premarin**, and are leaders in their representative markets, where they possess 12.4% market share, 13.2% growth and 103 Evolution Index in FY23. These brands may be broadly classified under the nutrition, contraceptive and post-menopausal care categories. As per MAT March 2023, PFIZ's nutritional portfolio expanded at 12.2% with 9.8% market share, the contraception range grew at 15% to command 37% market share, while growth in the menopause portfolio surged at 22% to garner 14.7% market share. **Folvite** and **Ovral** are PFIZ's largest brands in the segment. **Folvite** is a market leader with robust 82.6% market share, with the contraceptive brand **Ovral L** too ruling the market in the leadership position.

The company's neuroscience portfolio ranks 5th in the Indian neuroscience drugs market, with **Ativan** and **Pacitane** being leaders in their respective therapeutic categories. **Ativan (Lorazepam)** continues to be the No. 1 anxiolytic brand in the benzodiazepine tranquilizer market holding 23% market share. **Pacitane** (Trihexyphenidyl) leads in its therapeutic category with 67% market share and 32% growth in prescriptions (Rx) over the last year.

Investment Arguments

Recent subdued growth due to special factors, not weakness in the base business

A variety of factors have negatively impacted PFIZ's annual revenue by 8%-10% over the last few years

- 1) **Divestment of brands –On account of brand sale / divestments we estimate PFIZ lost ~5% of its base sales in the last five years**
 1. **Sale of Upjohn Business to Mylan** – Upjohn Business comprised 3.2% of PFIZ's revenue, which the company spun off to Mylan in FY23. The deal was consummated in August 2022 and had ~1.6% net impact on PFIZ's FY23 sales. The transfer included six brands - Lyrica, Viagra, Celebrex, Amlogard, Daxid and Dilantin
 2. **Divestment of consumer healthcare brands** – Anacin and Anne Frenche
 3. **Divestment of tail brands** Amisant and Nebasulf to Abbott
- 2) **Prevenar: Competition and implementation of UIP** – Prevenar, one of the largest brands within PFIZ's portfolio, took a beating on its growth, as the government provided the same vaccine free of cost for newborns under UIP.
- 3) **Patent expiry** - The company witnessed three important patent expiries in last five years, with a majority of the impact in FY23
 1. Eliquis patent expired in Q3FY23
 2. Zavicefta patent Expired in Q4FY23
 3. Xeljanz faced generic competition in 2020
- 4) **Ceiling price revision on account of NLEM 2022, which partially reflected in Q4FY23** – A number of Pfizer brands were impacted with the implementation of NLEM 2022, which became effective in Q4FY23. Key brands in which the ceiling price revision was steep were – Meronem, Ovril L and Folvite, which saw approximately 60%, 11% and 21%, price correction, respectively. We estimate the ceiling price revision to have an annual impact of Rs 500mn to Rs 600mn; while the Q4FY23 earnings performance reflected a part of this impact, the full year impact would be felt in FY24.

Pfizer Inc. consistently supports the Indian subsidiary with new launches

Over last several years, PFIZ has managed to source multiple NCE products from its parent portfolio to be launched in the Indian markets. Some of the important products include:

- 1) **Prevenar** – Pneumococcal vaccine that offered the broadest protection was introduced in India in 2010.
- 2) **Enbrel** – A biologic drug intended to treat multiple autoimmune conditions was introduced by PFIZ in India. Although the drug has touched peak sales of USD 7.2bn globally, it is yet to scale up in India, given the affordability issues with it. The company has been running a patient access program through which it provides access to the drug at affordable price points.
- 3) **Eliquis** – This best-in-class drug is intended to treat / prevent VTE and stroke prevention in atrial fibrillation patients. Although the company has managed to

meaningfully scale the asset up, lately, the drug's patent expiry has led to a slowdown in its growth.

- 4) **Zavicefta** – Zavicefta has been the most successful novel antibiotic introduction globally and is intended for drug resistant bacterial strains. PFIZ has also meaningfully scaled up this opportunity in India.
- 5) **Xeljanz** – On the same lines as Enbrel, Xeljanz too is indicated for multiple autoimmune conditions and was sourced from the parent pipeline. The patent protected tenure for the launch in India was limited and hence, it couldn't be scaled up to its full potential. Generic copies of the drug have been launched in India.

NCE launches that PFIZ may source from parent pipeline for India launch

1. **Prevenar 20 – Pneumococcal vaccine offers broadest protection including strains that are antibiotic resistant.**

Prevenar 20 was only recently approved by The US Food and Drug Administration (USFDA), and is an advanced version of Prevenar 13, which is currently being marketed in India. Prevenar 20 builds on Prevenar 13 and includes seven additional serotypes shown to be associated with antibiotic resistance, heightened disease severity, invasive potential, and prevalence in pediatric pneumococcal cases. Prevenar 20 is expected to help recoup PFIZ's lost sales in Prevenar 13 because of competition and UIP. We believe Prevenar 20 is unlikely to be introduced in UIP in the near future, and hence, PFIZ could enjoy few years of exclusivity in the market as a pneumococcal vaccine that offers the broadest protection. Assuming peak penetration of 2% to 5% in the Indian birth cohort of over 25mn, we can expect peak Rs 5,000mn to Rs 12,500mn annual sales in India.

2. **Aztreonam-avibactam – A novel antibiotic that works against gram negative bacteria found to be multi drug resistant, including Zavicefta**

Pfizer is globally a dominant player in the anti-infective category, with a strong foothold in India, as they have a large portfolio of hospital anti-infectives. To augment this portfolio, the company expects to introduce a novel antibiotic – Aztreonam plus avibactam. Aztreonam-Avibactam has shown activity against strains of bacteria during trials that were found to be resistant to Zavicefta. USFDA has granted Qualified Infectious Disease Product (QIDP) designation and Fast Track designation to ATM-AVI (aztreonam and avibactam) for the treatment of complicated intra-abdominal infections (cIAI), complicated urinary tract infections (cUTI), and hospital-acquired bacterial pneumonia (HABP)/ventilator-associated bacterial pneumonia (VABP).

3. **Etrasimod for ulcerative colitis**

We estimate the ulcerative colitis market in India at ~Rs 5bn, with the space dominated by traditional treatment options like mesalazine and sulfasalazine. Those who are non responders to these traditional treatment options may be put on biologics, but given their high price tags, adoption could be limited. PFIZ recently filed this drug for approval with advanced market regulators – Europe and the US – to treat moderate to severe active ulcerative colitis. We expect PFIZ to launch this treatment in India. Etrasimod is also under development for multiple other indications - Crohn's disease, atopic dermatitis, alopecia areata and eosinophilic esophagitis (EOE)

Other NCE opportunities relevant to the Indian market that could be introduced with a lag include:

- 1) **Pentavalent meningococcal vaccine** – Currently, GSK and Sanofi dominate this market in India. The Pfizer vaccine comes with an advantage of broader protection; usually patients need to take two different vaccines for full protection, but in the case of Pfizer vaccine, only a single one would be required to ensure the same outcome. **Zavzpret: Nasal spray to treat migraine** – The key advantage of this nasal spray is that it offers quick onset of action (15 minutes) and superior tolerability (no gastrointestinal issues) to other anti-migraine medications being used currently.
- 2) **Danuglipron (PF-06882961)** – A potent GLP-1 for type 2 diabetes
- 3) **Hexavalent capsular polysaccharide (CPS) conjugate Group B Streptococcus (GBS) vaccine**
- 4) **Biosimilar portfolio**
 1. Bevacizumab
 2. Pegfilgrastim
 3. Filgrastim
 4. Rituximab
 5. Adalimumab
 6. Trastuzumab
- 5) **Litfulo (ritlecitinib for alopecia areata)**

Base business may continue to compound at high single digit

We believe PFIZ's base business may continue to compound at high single digit, led by improved access and expansion in its target markets through brand extension launches. Pfizer has a broad-based portfolio spread across multiple therapy areas and a large portfolio of brands (20 brands) that generate sales above Rs 500mn annually. Women's health, neurology, gastrointestinal and hospital anti-infectives are the company's areas of strengths, with the established legacy brands either keeping pace / outpacing category growth in volume terms.

Given the strength of its core brands, PFIZ could leverage its strong connections with physicians across specialties to build growth by launching brand extensions. The top 10 and top 20 brands contribute 65% and 85% of PFIZ's domestic revenue, respectively. With a strong focus around these core brands, Pfizer is expanding access and targeting market opportunities for its India business.

Exhibit 7: Core brands are leaders in their category

Core Brand	Therapy Area	Category Leader (Yes / No)
Becosules	Vitamins, minerals and supplements – Vitamin B complex	Yes
Prevenar-13	Vaccines (Adult and Pediatric)- Pneumococcal	Yes
Corex-Dx	Cough syrup - Respiratory	Yes
Dolonex	Pain and inflammation - Osteoarthritis and rheumatoid arthritis	Yes
Minipress-Xl	Hypertension and benign prostrate hyperplasia	Yes
Magnex	Hospital anti-infective (critical care)	No
Mucaine	Anti acidity – gastrointestinal	Yes
Wysolone	Pain and inflammation – Steroid	Yes
Eliquis	Anticoagulant (VTE treatment and prevention and atrial fibrillation)	Yes
Gelusil - MPS	Anti acidity (gastrointestinal)	No
Folvite	Vitamins, minerals and supplements (folic acid)	Yes
Ovral-L	Contraceptives	Yes
Meronem	Hospital anti-infective (critical care)	No
Zavicefta	Hospital anti-infective (critical care)	Yes
Corex T	Cough and cold syrup(respiratory)	Yes
Becosules-Z	Vitamins, minerals and supplements (Vitamin B Complex with Zinc)	Yes
Autrin	Vitamins, minerals and supplements (iron deficiency anemia)	Yes
Ativan	Neuroscience (anxiety)	Yes
Medrol	Pain and inflammation (steroid)	Yes
Citralka	Gout	No
Solu-Medrol	Pain and inflammation (steroid)	Yes
Ovral-G	Women's health (contraceptive)	Yes

Source: Company, Systematix Institutional Research

Prevenar – Immense scope for growth despite UIP coverage

Prevenar 13, which is the sole vaccine in the Pfizer India portfolio, provides coverage against the most prevalent 13 serotypes of streptococcus pneumoniae. It is the most prescribed pneumococcal conjugate vaccine in India with 46.2% unit share and 62.5% value share. Prevenar 13 is the first and only conjugated vaccine approved for all age groups in India, and is indicated for administration to:

- 1) Infants who are 6 weeks and older as part of primary vaccination
- 2) Toddlers, adolescents, adults, and the elderly population

About 0.35mn infants were immunized with Prevenar 13 in FY22, which represents a 1.5% penetration in the eligible population. We believe the penetration could at least double from the current levels in infants. Likewise, about 0.17mn adults were vaccinated with Prevenar 13 in India. We believe 65-year plus and immunocompromised adults (any age) are candidates for vaccination with Prevenar. The 65-year plus cohort in India is about 70mn, while current coverage is just 0.25% and hence, there is immense scope for penetration to increase in the 65-year plus cohort. In the US, 67% of the 65-year plus cohort is vaccinated for pneumococcal disease.

Inflammation and Immunology - An underpenetrated segment owing to affordability issues – patient assistance program to address affordability

Pfizer's current portfolio includes two advanced therapies, which cater to patients suffering from diseases related to the chronic immune system such as rheumatoid arthritis (RA), psoriatic arthritis (PsA), ankylosing spondylitis (AS), juvenile idiopathic arthritis (JIA), psoriasis (PsO) and ulcerative colitis.

1. **Enbrel** is a biologic drug and the first tumor necrosis factor (TNF) inhibitor launched across the globe for chronic indications like RA, AS, PsA, PsO and JIA. This product is available with pre-filled pen and syringe options and is applied subcutaneously among pediatric and adult patients. Enbrel is currently prescribed by rheumatologists, dermatologists and selected orthopedic-treating physicians in India. Considering the high cost of treatment from this drug, Pfizer runs a patient assistance program to provide affordable access to this treatment.
2. **Xeljanz (Tofacitinib)** - Xeljanz is the first oral Janus Kinase (JAK) inhibitor approved for RA and PsA. Xeljanz has also been approved for additional indication of ulcerative colitis and AS. With these new indications, Pfizer has expanded coverage to gastroenterologists and is advocating oral advanced therapies for chronic rheumatic conditions.

Pfizer transitions to a new GTM model – Focuses on wider reach and efficiency

3. By combining Artificial Intelligence with behavioural science, Pfizer has launched a brand-new tech solution – the Smart Sales Buddy – to assist the field force in enhancing their productivity and providing managers with a better ability to track outcomes. Enhanced Health care Professional connect, meaningful customer engagements and better distribution capabilities are at the core of the new go-to market (GTM) strategy. The three main goals of the GTM strategy are (a) To enhance productivity through tailored engagements, improved segmentation, targeting and expansion, (b) Enhance customer reach to identified government & private medical college HCPs through an independent and qualified tele-calling team, (c) Improve distribution and reach to ensure ease of access through various channel expansion initiatives.

Vitamins portfolio - Expanding the target market for flagship brand Becosules

Pfizer has established a strong presence in the vitamins market with its flagship brand Becosules, which has a legacy of more than 60 years. The company is targeting to expand the prescriber base and consumer demand through new extensions. Becosules is driven by a loyal prescriber base of ~50,000 HCPs that generate about 12.5 million prescriptions. Becosules' over the counter (OTC) brand status, coupled with the new GTM model are helping the company in expanding its retail reach. Pfizer is leveraging the brand by launching brand extensions that help in covering a wider population and in addressing diverse needs. Various brand extensions of Becosules include:

- 1) Becosules Woman
- 2) Becosules Junior
- 3) Becosules Z
- 4) Becosules Performance
- 5) Becosules Plus: this contains multi vitamins and ginseng, has been launched in competition to Sun Pharmaceutical Industries' leading brand, Revital H

Pfizer's base business – Incremental DPCO risk is not high

Currently, about 18% of Pfizer's base business is already under the drug price control order (DPCO), as outlined in the table below. With NLEM 2022 being recently implemented, we do not see any incremental risk that could impact the sales of Pfizer's core brands in the near future.

Exhibit 8: Drugs under DPCO

Pfizer's drugs Under DPCO	
Brand	Estimated sales (Rs mn)
Wysolone	1,350
Meronem	700
Folvite	800
Ovral L	750
Amlogard	15
Zosyn	80
Hetrazan	150
Pitocin	50
Depo Provera	100
Ativan	500
Total	4,495
% of Revenue	18%

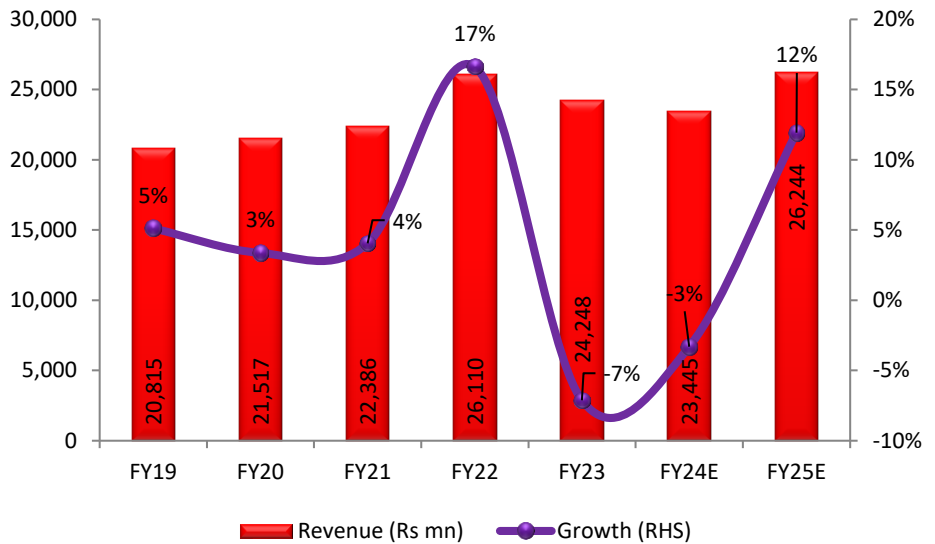
Source: Company, Systematix Institutional Research

Financial Analysis

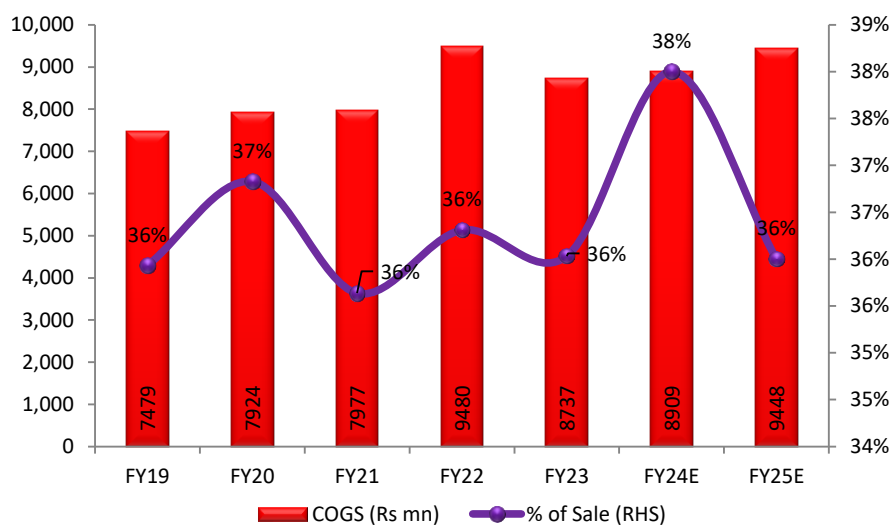
Revenue growth to recover in FY25E, while FY24 may remain weak

We believe revenue growth will likely continue to be adversely impacted on account of multiple headwinds in FY24, these primarily being patent expiry and supply disruptions in its antibiotic portfolio (Magnex, Zosyn and Magnamycin) owing to quality issues at its contract manufacturing partner facility. Astral Steritech which does contract manufacturing for PFIZ flagged certain quality issues at its manufacturing plant which lead PFIZ to recall of batches of these products from the market. Growth should recover in FY25E, as we expect supply disruptions to get sorted by then, with the impact of patent expiry likely in the base numbers. Since the timing of novel launches to be sourced from its parent portfolio remains unpredictable, we have currently built growth opportunity only from its base business. PFIZ derives ~85% of its revenue from the Top 20 brands and majority of these are category leaders. The company meaningfully leverages on the strength of these core brands to launch extensions.

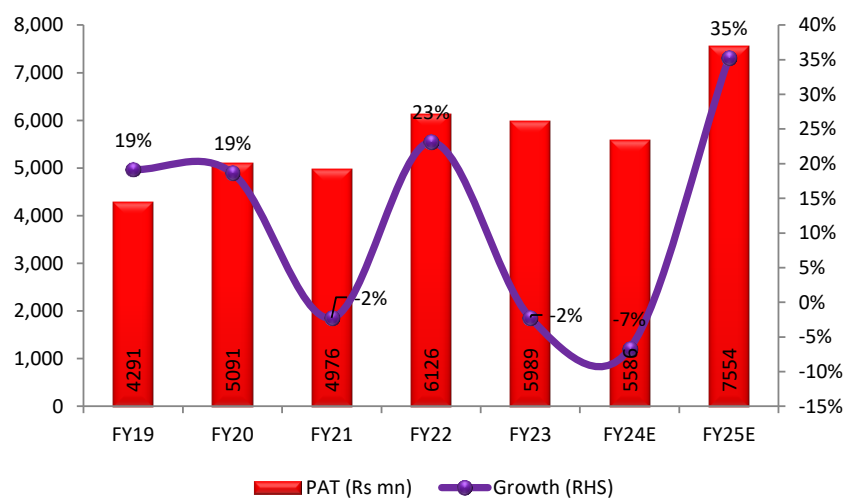
Exhibit 9: Revenue & growth rate



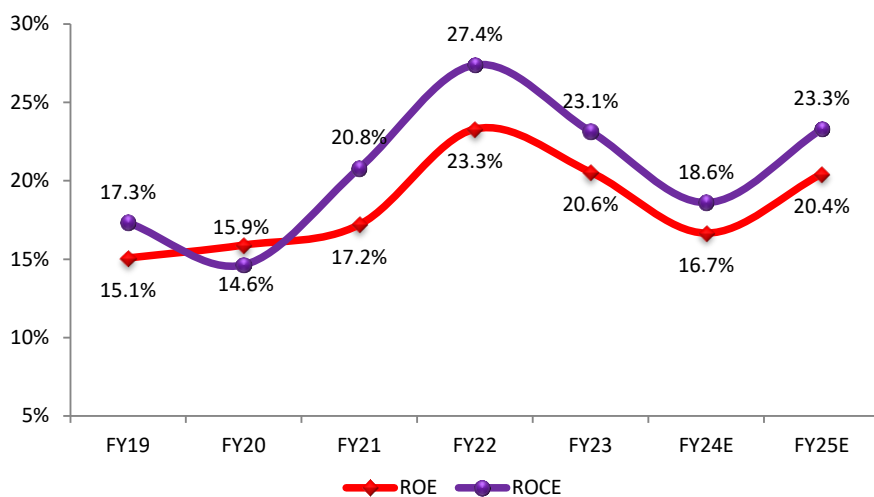
Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 10: Cost of goods sold & COGS as % of sale

Source: Company, Bloomberg, Systematix Institutional Research

Exhibit 11: PAT and growth rate

Source: Company, Bloomberg, Systematix Institutional Research

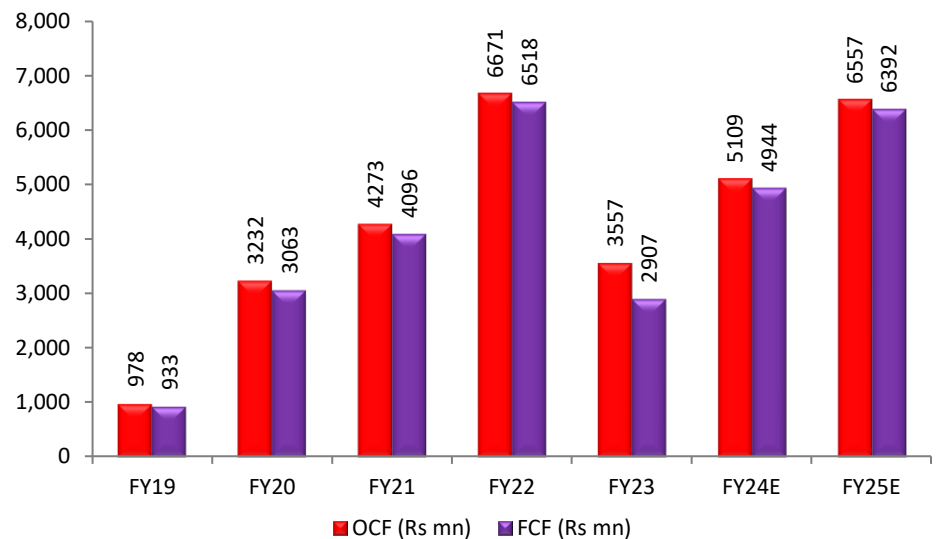
Exhibit 12: Return ratios

Source: Company, Bloomberg, Systematix Institutional Research

Earnings growth could outpace revenue growth over FY23–FY25E

Gross margins should hold stable at FY23 levels with a dip expected in FY24, owing to the NLEM ceiling price revision and with disruption in manufacturing impacting sales of its high-value antibiotic portfolio and inventory write offs taken during the year. The impact of soft gross margin on EBITDA margin could get blunted by virtue of cost savings realised in employee costs through the implementation of the Voluntary Retirement Scheme. Due to the VRS scheme, Pfizer's head count has reduced from 2,285 to 1,702 employees. Despite the cost savings, we expect FY24 EPS to decline YoY, but growth should rebound in FY25E. The EPS decline is primarily driven by the steep impact of the product recall and lost product sales on earnings. The cost savings led by head count reduction will only be able to partially offset the same.

Exhibit 13: OCF & FCF



Source: Company, Bloomberg, Systematix Institutional Research

Balance Sheet stays strong – A special dividend payout can be expected

PFIZ has a strong balance sheet with net cash of about Rs 19000mn as at March 31, 2023. As the company does not require any major capex for growth, its EPS to FCF conversion is expected to remain strong. The company's capex spend has been in low single digit as a percentage of sales over the last decade. We expect the company to pay out a special dividend, in line with its track record.

Company background

Pfizer Ltd. is an Indian subsidiary of the US-based company, Pfizer Inc., one of the leading pharmaceutical companies in the world, founded more than 170 years ago. The company has specialized expert therapies in 4 business categories - Vaccines, Hospitals, Internal Medicine and Inflammation and Immunology. The company marketed its manufactured medicines, vaccines, and consumer healthcare products to over 181 countries, garnering total revenue of ~USD 100.3bn in FY22.

Pfizer Ltd. (India) began operations in 1950 and is the fourth largest multinational pharmaceutical company in India with annual revenue of about Rs 24bn. The company generates most of its revenue from the domestic market through its formulations business. PFIZ's portfolio spans across 150 products and 15 therapeutic areas like vaccines, inflammation and immunology, internal medicines, women care (contraception, pregnancy, menopause), respiratory, gastric, pain and inflammation and vitamins, in addition to its hospitals business unit. Some of its top brands are Prevenar 13, Corex – DX, Dolonex, Enbrel, Becosules, Minipress and Folvite, among others.

Exhibit 14: Company history

Calendar year	Events and milestones
1950	Incorporated as private ltd company under the name of Dumex Ltd
1958	The company was taken over by a US pharmaceutical giant, Pfizer, and its name was subsequently changed to Pfizer Ltd
1965	Received support from Pfizer Corporation to develop new and improved products Entered into a license agreement with Pfizer Corporation and continued the royalty-free license granted to it for the use of Pfizer processes, technical knowhow, etc
1966	Listed on BSE
1992	Former subsidiary Dumex Ltd. was amalgamated with the company
1999	Listed on NSE
2000	Launched a unique hospital antibiotic, Magnex
2003	The Bombay High Court granted an ad-interim stay on the merger of Pfizer and Park Davis on the basis of an appeal made by minority shareholders Becosules (a multivitamin) hits annual turnover Rs 1bn to become the largest multivitamin brand in the Indian market Supreme Court permits the merger of Park Davis with Pfizer
2010	The company launched Prevenar 13, a vaccine to prevent pneumococcal disease
2013	Pfizer Ltd and Wyeth Ltd merge to create a single Pfizer brand
2016	Corex cough syrup banned and discontinued
2023	Ms. Meenakshi Nevatia appointed as the new Managing Director

Source: Company, Systematix Institutional Research

Exhibit 15: Key Management Details

Sr. No.	Employee name	Designation	Qualification	Year appointed	Remuneration (2022, Rs mn)
1	Mr. S. Sridhar	Managing Director*	Chartered Accountant	2016	80.2
2	Ms. Meenakshi Nevatia	Managing Director*	MBA, IIM Ahmedabad	2023	NA
3	Mr. Milind Patil	Executive Director- Finance & CFO	Finance Excellence Program and Finance Leadership program, Harvard Business School Chartered Accountant	2018	35.9
4	Mr. Samir Kazi	Executive Director- Legal	International Law and Legal studies, BPP Law school Bachelor of Law, Government Law College	2020	30.3
5	Mr. Pradip Shah	Independent Director & Chairman	MBA, Harvard Business School Chartered Accountant	1999	2.5
6	Mr. Uday Khanna	Independent Director	Chartered Accountant	2012	2.4
7	Mr. Sunil Lalbhai	Independent Director	MS in Chemistry University of Massachusetts. MS in Economic Policy and Planning, Northeastern University	2015	2.37
8	Ms. Meena Ganesh	Independent Director	PGDM, IIM Calcutta	2019	2.23
9	Mr. Prajeet Nair	Director – Corporate Services & Company Secretary	Bachelor of Law	2007	7.2

Source: Company, Systematix Institutional Research

*Note: Mr. S Sridhar ceased to be MD & CEO of the company with effect from March 31, 2023. And Mrs. Meenakshi Nevatia was appointed on his behalf as a new MD & CEO of the company effective April 3, 2023.

Exhibit 16: Manufacturing Sites

Sr. No.	Manufacturing Site	Dosage Form	Year of establishment	Capacity (Annually)
1	Goa, India	Small molecule drugs and local solids	2001	4bn tablets

Source: Company, Systematix Institutional Research

Exhibit 17: Industry comparison

% of revenue	Pfizer				Zydus Lifescience				Abbott				Sanofi*				GSK			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY20	FY21	FY22	FY23
COGS	37	36	36	36	36	35	37	37	57	55	54	56	44	43	44	43	41	43	41	40
Employee Cost	17	16	15	14	17	17	16	16	12	11	12	11	15	16	15	15	19	21	19	18
Others	20	16	16	17	30	27	27	28	13	12	12	11	20	16	15	17	20	16	17	17
EBITDA	27	32	32	33	20	22	22	22	21	23	24	25	25	28	28	28	20	18	26	28

Source: Company, Systematix Institutional Research; *Note: Sanofi's Reporting pattern is Jan-Dec.

Exhibit 18: Relative valuation

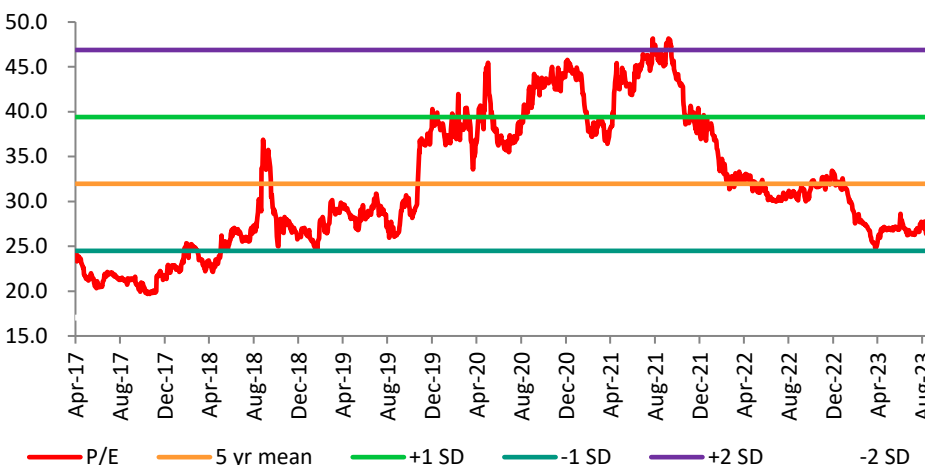
Company	CMP	M-Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoE (%)		RoIC (%)	
	(Rs)	(Rs bn)	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY22	FY23	FY22	FY23
Pfizer	3,818	176	136	135	153	28	28	25	17	15	14	23	21	41	36
Sanofi	7,107	164	270	258	282	26	28	25	18	16	15	43	36	187	NA
Abbott	23,363	495	447	518	600	52	45	39	37	32	27	29	32	366	71
GSK	1,413	243	36	36	41	39	39	35	25	26	23	18	28	190	102
ZYDUSLIF	6,28	639	25	30	32	25	21	20	17	11	11	15	17	12	14
Mankind	1,778	706	32	45	56	56	40	32	NA	NA	NA	26	18	26	22
AJP	1,729	217	46	61	71	38	28	24	31	14	12	23	18	22	25
JBCP	2,744	214	52	68	81	53	40	34	16	20	22	20	18	18	16
IPCA	891	223	18	29	37	50	31	24	22	15	12	17	8	19	8
INDR	319	296	12	18	23	27	18	14	12	10	8	17	14	14	12
LPC	1,100	505	9	31	42	122	35	26	29	10	9	-13	4	4	4
SUNP	1,114	2664	35	38	45	32	29	25	23	18	16	7	15	20	19
CIPLA	1,236	991	35	45	52	35	27	24	16	12	11	12	12	16	16
DRRD	5,645	943	271	276	294	21	20	19	12	10	9	12	19	14	25
Average	-	-	91	104	118	44	30	25	20	15	14	-	-	-	-

Source: Company, Systematix Institutional Research

Valuation

Valuation and Risks –We expect PFIZ’s base business to deliver mid-to-high single digit secular growth. The recent performance of PFIZ’s base business is not a true reflection of its growth potential, considering several headwinds, the impact of which should fully play out by the end of 1HFY24, in our view. Post this, we expect growth in the base business to normalize (7%-8%), aided by the potential NCE launches sourced from the parent pipeline. We value PFIZ at 30x FY25E EPS to arrive at a target price of Rs 4,954. The company has historically been trading at a one-year forward P/E of 31.5x. Key catalysts that would lead to the stock price appreciation are 1) new launches from its parent portfolio, and 2) a revival in its base business. As the company does not require capex to achieve growth, earnings to FCF conversion would remain high. PFIZ has been reporting average dividend payout of ~100% since the last 10 years, and has a strong balance sheet with net cash surplus of Rs. 19,000mn as of end of FY23. We estimate return ratios in the mid-20s range.

Exhibit 19: P/E trajectory



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	22,386	26,110	24,248	23,445	26,244
YoY gr. (%)	4%	17%	-7%	-3%	12%
Cost of Goods Sold	7,977	9,480	8,737	8,909	9,448
Gross Profit	14,408	16,630	15,511	14,536	16,796
Margin (%)	64.4%	63.7%	64.0%	62.0%	64.0%
Employee Cost	3,611	4,037	3,317	2,985	3,224
Other Expenses	3,676	4,236	4,106	4,220	4,199
EBITDA	7,121	8,357	8,089	7,331	9,373
YoY gr. (%)	24.4%	17.4%	-3.2%	-9.4%	27.9%
Margin (%)	32%	32%	33%	31%	36%
Depre. & Amortization	1,094	1,150	1,055	1,085	754
EBIT	6,027	7,207	7,034	6,245	8,619
Margin (%)	27%	28%	29%	27%	33%
Net Interest	151	105	134	134	134
Other Income	811	627	1,011	1,337	1,587
Exceptional Items	-	-	-330	-	-
Profit Before Tax	6,687	7,729	8,240	7,448	10,073
Margin (%)	30%	30%	34%	32%	38%
Total Tax	1,711	1,603	2,001	1,862	2,518
Effective tax rate (%)	26%	21%	24%	25%	25%
Minority Interest & Share of					
Loss from Associates	-	-	-	-	-
Profit after tax	4,976	6,126	6,239	5,586	7,555
EPS	109	134	136	122	165
YoY gr. (%)	-2%	23%	2%	-10%	35%

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	6,687	7,729	8,240	7,448	10,073
Depreciation	1,094	1,150	1,055	1,085	754
Interest	151	105	134	134	134
Others	-700	-488	-2,502	-1,337	-1,587
Working capital	-918	434	-345	-359	-298
Direct tax	-2,041	-2,259	-3,026	-1,862	-2,518
Net CFO activities	4,273	6,671	3,557	5,109	6,557
Net Capital expenditures	-177	-153	-650	-166	-165
Others	-4,511	-5,597	289	1,337	1,587
Net CFI activities	-4,688	-5,750	-361	1,171	1,422
Issue of share cap. / premium	-	-	-	-	-
Debt changes	-491	-200	-480	-	1
Dividend paid	-15,194	-1,597	-2,972	-2,661	-3,599
Others	-26	-8	-6	-134	-134
Net CFF activities	-15,711	-1,805	-3,458	-2,795	-3,731
Net change in cash	-16,126	-884	-262	3,485	4,247

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	458	458	458	458	458
Reser. & Surplus (Ex OCI)	23,473	28,187	31,616	34,541	38,497
Net Worth	23,930	28,644	32,073	34,998	38,954
Short term debt	25	25	25	25	26
Long term debt	-	-	-	-	1
Trade payables	2,837	2,639	2,171	2,213	2,347
Other Provisions	1,365	1,340	1,433	1,063	1,064
Other liabilities	4,502	6,356	4,306	4,306	4,306
Total Liabilities	32,659	39,005	40,007	42,605	46,698
Net block	8,647	8,410	7,493	6,573	5,985
CWIP	28	12	79	79	79
Other Non-current asset	5,089	6,970	7,502	7,502	7,502
Investments	-	-	-	-	-
Cash & Cash Equivalents	11,151	16,333	18,595	22,081	26,328
Debtors	1,297	1,243	1,517	1,467	1,642
Inventories	4,351	4,489	4,177	4,259	4,517
Other current asset	2,097	1,549	644	644	644
Total Assets	32,659	39,005	40,007	42,605	46,697

Source: Company, Systematix Institutional Research

Key Financial Metrics

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Per Share(Rs)					
EPS	108.8	133.9	136.4	122.1	165.1
CEPS	132.7	159.0	154.0	145.8	181.6
BVPS	523.1	626.1	701.1	765.0	851.5
DPS	332.1	34.9	65.0	58.2	78.7
Return Ratio(%)					
RoCE	20.8	27.4	23.1	18.6	23.3
RoE	17.2	23.3	20.6	16.7	20.4
Balance Sheet					
Net Debt : Equity (x)	-0.5	-0.6	-0.6	-0.6	-0.7
Net Working Capital (Days)	60.1	82.5	101.3	106.2	103.1
Valuation(x)					
PER	35.1	28.5	28.0	31.3	23.1
EV/EBITDA	23.0	18.9	19.3	20.8	15.8
EV/Sales	7.3	6.1	6.4	6.5	5.7

Source: Company, Systematix Institutional Research

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