



**Pfizer Limited**

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August 9, 2016

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Dear Sirs,

**Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')**

Pursuant to the Regulation 30 of the Listing Regulations, we enclose herewith the transcript of the tele conference call with the analysts held on August 8, 2016, to discuss the Company's financial performance for the quarter ended June 30, 2016.

The aforesaid information will be displayed on the website of the Company in compliance with Regulation 46 of the Listing Regulations.

Please take the above on record.

Thanking you,

Yours truly,  
For Pfizer Limited

**Prajeet Nair**  
Company Secretary

Encl: A/a



## **PFIZER LIMITED**

### **EDITED TRANSCRIPT OF FIRST QUARTER RESULTS ENDED JUNE 30, 2016, ANALYSTS' TELECONFERENCE CALL**

Event Date: August 8, 2016

Start Time: 4.00 pm IST

End Time: 4.50 pm IST

#### **Pfizer Management Participants:**

Mr. S. Sridhar – Managing Director

Mr. Ravi Prakash – Chief Financial Officer





**Moderator:**

Ladies and gentlemen good afternoon and welcome to the Pfizer First Quarter Ended June 30, 2016 Financial Results Analyst Teleconference. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's conference. Should you need assistance during the conference call you may signal an operator by pressing \* then 0 on your touchtone phone. We have with us today from the management Mr. S Sridhar – Managing Director and Mr. Ravi Prakash – Chief Financial Officer. I now hand the conference over to Mr. S Sridhar. Thank you and over to you sir.

**S Sridhar**

Good afternoon everyone. Thank you for joining us in the first quarter call. I have with me Ravi, our as Chief Financial Officer, so both of us will address the call and take any questions. We announced the results on Friday and I am sure you would have seen the results by now. This is the first time we have published the results under the new accounting standards, i.e., Ind-AS (Indian Accounting Standards) both for the current quarter and also the same period last year. So both quarters are comparable under the new accounting standards. Ravi will talk to you in detail about the changes under the new accounting standards when he covers his section .

As you would have seen that the revenue for the current quarter has been pretty soft at 3% odd percent, predominantly because of two reasons. One is the impact of the fixed dose combinations ('FDC') under the regulatory issues surrounding Corex and the new prices which came into play from 1<sup>st</sup> April. The three aspects of pricing policy – one is the new NLEM came into place. Second, the wholesale price index of 2.7% reduction on the old NLEM products and the NPPA on their own, on the Para 18 also revised some of the formulations. So the three kinds of pricing impacts with company took effective April. So a combination of Corex and pricing has had an impact on the quarter results.



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In relation to Corex, as you all know we had moved the Court in Delhi. We have a stay order in place. We do continue selling Corex across the country, however the uncertainty around the fixed-dose combinations and some regulatory challenges in some of the states pulled back the sales in the last couple of months in the quarter. In terms of pricing or the impact on the quarter has been about Rs. 15 odd crores and on a full year basis, we expect it to grow 80-90 crores. So combination of Rs. 15 crores and Corex is what has impacted us for the quarter financially. If you look at the industry also for the quarter that also has shown a significant decrease primarily because of pricing policy. The growth which had been 13% to 14% has come down to about 9% and this sluggish growth is seen across both MNCs and Indian companies. In terms of the pricing, we have had a few products in the Anti-Infectives and CNS product category, which came under price control this year. Another product Erythromycin came under price control with a price impact till about January of this year post which the products transitioned to Abbott and hence effective February 2017, we will not have an impact of Erythromycin but Zosyn and CNS products are the two big areas that will have an impact for current year.

There are also a lot of stock returns on the market despite NPPA coming out with the policy which permitted us to sell the old priced stock with a new lower invoice. The stockists have not accepted it. They continued sending back the goods back to the companies including us, so we are forced to take it back, re-sticker it and send it back. So that process also has seen some kind of stock returns coming back in the first quarter.



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In relation to our Corporate Social Responsibility, I am happy to share that we gave out our awards for the first set of incubators as a partnership with IIT Delhi two weeks back. We awarded two ideas which have a potential to create local patent, these are startups creating ideas and they will work in the IIT Campus over the next two years and taken the proof of concept into a patent stage. The program offers Rs. 50 lakhs per incubatee which have already been deployed. In addition, we also awarded three people who already have a proof of concept and will support them to take it to a filing stage. We are going to help them file. So it is funding those people with the Rs. 3 lakhs for each of those cases there.

I want to hand over to Ravi to talk to you more about the financial performance because that is where more interest is for this quarter. So I am going to have Ravi to take you through the financial results. Ravi, over to you.

**Ravi Prakash**

Thank you Sridhar. Good afternoon everybody. Once again thank you for joining the Pfizer call for the first quarter results. I would like to split the discussion into two parts today. First I want to start with talking to you a little bit in detail about what the new accounting standards imply for our reported financials because there are one or two significant changes and I would like to address them upfront. Then I will walk you through some of the key line items in the financials. With respect to Ind-AS, this quarter, like Sridhar has already mentioned is the first quarter where we are reporting as per the new Indian Accounting Standards and the comparative quarter is also being adjusted or reinstated to make them comparable.



Our numbers are impacted, there are four comments I would like to make. First, in the case of revenue, there is a minor decrease in terms of reported numbers, because certain kinds of sales promotion expenses which were earlier being reported as part of advertising and promotion and other expenses are now classified as a deduction from revenue. So this mainly relate to stockiest related and retail related promotions. So the impact is not a big number in this quarter, it is about Rs. 49 lakhs. So to that extent the reported revenue is reducing. But then it is a comparable one in both quarters, so the growth rate *per se* does not get impacted this quarter because of any accounting changes. Second, Ind-AS requires revenue to be grossed up for excise, but as SEBI is yet to notify the revised financial formats, this quarter's published financial statements still show revenue net of excise. I just wanted to make that point. In terms of expenses, you would have noticed a major decrease of Rs. 16.4 crores to be precise, this is primarily on account of reduction in depreciation and that is because as per Ind-AS we do not need to amortize goodwill any longer. So as many of you would recall when erstwhile Wyeth Limited merged with the Pfizer Limited, almost Rs. 1080 crores worth of goodwill and intangible assets were created. Of this goodwill was Rs. 660 crores and intangible assets are the balance. Goodwill which was being amortized on a straight line basis over 10 years is no longer required to be amortized. So the benefit that we have got in this quarter because of this change in accounting policy is Rs. 16.4 crores. So that is one big change which has happened in the expense line. And that will continue going forward.



So as you look at our numbers from now onwards you need to reset our expenses and our profit before tax to this extent. So that is the number that I want to just call out. The second thing you would have noticed is that in the case of the tax rate, you would have noticed that the effective tax rate this quarter is 35% versus 44% in the past and here I want to just take a little more time because there has been a little bit of a complicated accounting adjustment here. Ind-AS requires that whenever you have a business combination, any adjustment in the balance sheet, either because of fair value, revaluation of the assets or any goodwill or any intangibles which are created, they need to be stated in the balance sheet, net of taxes, even if you may not obtain tax reduction in future, the accounting standard requires that you need to restate them net of taxes. So the intangible assets which are about Rs. 427 crores in our balance sheet we have had to create a deferred tax liability to state them correctly as per Indian standards and on a quarterly basis what happens is a part of that liability reverses and comes in as a credit into the P&L, so the effective tax rate is a regular statutory tax rate. It is a purely book adjustment. This has to be done to comply with Ind-AS and that is the reason you see the change in effective tax rate. I just wanted to clarify that upfront. So these are the few big changes which have happened. Once again I want to emphasize that we have restated for current quarter as well as comparative quarter, so all numbers are comparable.



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After this is done let me just walk you through what the numbers themselves speak about. Revenue, Sridhar talked about the fact that this was a bit of a soft quarter, 3% growth. What has really happened is some of the key brands like Prevenar, Magnex, and Oral Contraceptives they have grown the double-digit which normally they have done in the past quarters as well, but we have been impacted significantly by the decline in Corex and pricing, which between them they have taken almost 4 percentage points of growth. The mid-tier brands for the ones which have been impacted the maximum by price changes which have happened this quarter and they have declined about 7%. Those are the key drivers of the revenue growth rate. I want to just address two issues with respect to expenses. You would probably notice that expenses have grown up, both people expenses as well as other expenses. In the case of people what has really happened is two things: one is the impact of annual increments that has taken costs up. The second thing which has happened is sales incentives have been higher. You have to understand that despite the pressures that you are creating with Corex and NLEM in general the rest of the business is on a healthy growth trajectory and therefore sales incentives are actually tracking that trajectory. So these are the two reasons why our employee expenses are attracting higher than last year. When it comes to other expenses there is a mixture of things happening. For one big change is the timing of our sales conferences which normally used to happen in July, we just got pulled it forward by a month, this month, which have impacted us. Then we have had cost, Sridhar referred to that in his remarks of pulling back some stocks, so that has impacted us. We also have litigation expenses with respect to Corex. So these are some of the 2-3 big drivers which have resulted in an increase in other expenses. So overall when you look at the P&L it





has been a 3% revenue growth rate. Expenses have continued with a normal growth trajectory. As a result, we have had a 7% decline in profit before tax and exceptional items. We have had one exceptional item this time which is the income from the sale of our Bharuch guest house which is adding about Rs. 7.93 crores and that kind of brings us to the reported numbers that you see. There is a lot going on in the P&L in terms of the accounting standards but I hope the four points that I explained to you would make it clear. I will pause here and Sridhar and I will be happy to take any questions.

**Moderator** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Ranjeet Kapadia from Centrum Broking. Please go ahead.

**Ranjeet Kapadia** Good Afternoon, I have two questions. One is the depreciation which is Rs. 15 crores, will it have the same running rate in the remaining three quarters and the second question is regarding the tax rate. What will be the annual tax rate approximately or you can guide for annual tax rate?

**Ravi Prakash** With respect to tax rate Ranjeet, what you see in this quarter should be a good guidance. So whatever tax rate that you see will continue for the remaining quarters as well.

**Ranjeet Kapadia** And sir regarding amortization and depreciation which is Rs. 15 crores, the running rate will be the same or it will increase?

**Ravi Prakash** It should stay the same.



- Ranjeet Kapadia** Because it will be about Rs. 60 crores per annum approximately.
- Ravi Prakash** The number would be around Rs. 43 crores. annually for the amortization of intangibles and the balance would be the regular depreciation.
- Ranjeet Kapadia** And in sir other expenses we have seen a jump from Rs. 112 crores to Rs. 128 crores. So how much are the expenses related to litigation and how much is for sales conference if you can guide something?
- Ravi Prakash** Without getting into exact numbers, the three numbers that I talked about i.e., movement of the sales conference, litigation as well as the withdrawal of stock from the market, all these have contributed without getting into exact details of these numbers.
- Ranjeet Kapadia** And do you feel that the litigation for Corex you will have to spend more going further in the current year?
- Ravi Prakash** At the moment, the arguments have not completed in the Delhi High Court. It all depends on what the judgment is and then only we can decide on next steps and legal strategies. So I think it will be difficult at this stage to comment on whether we will incur more expenses or not.
- Moderator** The next question is from the line of Girish Bakhru from HSBC. Please go ahead.



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**Girish Bakhru** Can you update on the Fixed Dosage Combination impact and where that particular litigation aspect is right now?

**S. Sridhar** The arguments from Pfizer's side and the department sides are over. The Court has stayed the notification and they are yet to announce the order finally. The stay is in place, which means we can continue selling Corex. So that is the status. We are waiting for the Delhi High Court to pronounce the judgment finally.

**Girish Bakhru** When is that expected?

**S. Sridhar** Well I was hoping that will come somewhere in the month of July or August, so hasn't come as of now. So I am not able to really comment on the exact timelines on that.

**Girish Bakhru** Any thoughts on overall how the GST will impact particularly in terms of the warehousing and sales incentive strategy, how your company is thinking to address that?

**S. Sridhar** Fundamentally in relation to our warehouses, given that we deal with close to about 6000 stockists etc, we do not see any major change at our CFA operation in various states. We would probably drop a few numbers. Currently we are about 28 to 30 of them; maybe 4 or 6 will get rationalized. We are yet to work on it but I do not see way many changes there. We are still working on the strategy there whether should it be a combination of CFA, main warehouse etc, it is something we were working on it. There will be some change obviously yes but we will get to know about it. Now that they announce the decision to go with GST, now we will start preparing ourselves and work on the plan.



- Girish Bakhru** And will there be a significant change in how the sales force is incentivized?
- S. Sridhar** I do not think so, not because of GST.
- Girish Bakhru** Because, we have been hearing that because of course the interstate boundaries get blurred and maybe rethinking requirement from most pharma companies how they incentivize the sales force for particular zonal sales they do. I do not know if that is still an issue in the sector.
- S. Sridhar** See the geographical territory may undergo some change, but it doesn't change the incentive per se. Assuming that we shift some warehouses from one to the other location, I do not think that the operating territories are going to change because today the incentive is based on the territory sales achievement. Territories are not going to undergo a change. Territories are going to remain as it is. It is only the way of shipping from one to the other location undergoes a change. In map of India the line still remains, the cities are not going to change.
- Girish Bakhru** And lastly the issues around Wysolone and other products, I mean particularly wanted some color on Prevenar, how they have done in the quarter.
- S. Sridhar** Prevenar is okay. We are doing pretty well there. Wysolone is back on track. No major issues. We have the supplies back on track, so we are doing well on both the products.
- Moderator** The next question is from the line of Dhaval Shah from Birla Sunlife Mutual Fund. Please go ahead.



**Dhaval Shah**

Thanks for the detailed explanation for transitioning to Ind-AS. Wanted to know couple of things. One is the growth rates which have come down for the industry per se in the first quarter and largely it is because of the FDC issue which banned out in April, how do you see the next nine months? Do you think next nine months you will be able to compensate in terms of the growth rate as an industry per se going back to that 12-14% kind of a number?

**S. Sridhar**

Well the pricing is more or less permanent. So once the pricing policy has started effecting from April onwards, from April to June the department actually announced it in various phases. Actually effective July, we actually want to see a full impact of it coming in there. So according to me a pricing impact is going to be permanent. In case of FDC, products which are also little bit on a regulatory challenges like with Corex we have a challenge, I do not know much about the other FDCs, but if the ban comes obviously there will be some slowdown there also going forward. So I am not too very sure whether we want to go immediately to 13-14% because both pricing and FDC at least pricing will impact it for sure.

**Dhaval Shah**

And in terms of the NLEM products, new products which have got introduced under the NLEM for the Company, Is the complete impact reflected in the queue in P&L or is there some drag which will also continue in Q2 in terms of some kind of a margin erosion that we should be further looking at?

**S. Sridhar**

So April, May, June they started announcing in batches. So we started implementing the price in batches. So all our products have come under price effective April, May, June but April, May, June has not seen the full impact of it. So actually from July onwards we will see a full impact of it.



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**Dhaval Shah** So Q2 should be a true reflection in terms of what is the overall hit that you would have received because of NLEM new introduction?

**S. Sridhar** In a quarter.

**Dhaval Shah** Okay. The third point is in terms of Corex, while we appreciate that we are waiting for the court verdict, could you actually throw some light that is there some plan B that you could implement in case the verdict is not in our favor to see to it that you can use some other ingredients so that the brand itself might not have that kind of a dent in the overall market?

**S. Sridhar** Sure, so we already have a product called Corex DX and we are seeing a positive traction on Corex DX since the last FDC rule came into play. So we are seeing that happen. Corex DX is already another alternative a non-codeine formulation which we are aggressively promoting. And also we are looking at other options and we are also talking to the government and we will find the right win-win situation there. But Corex DX is definitely doing well for us.

**Dhaval Shah** And you can take that PAN India in terms of replacing Corex wherever, because I understand Corex DX was there introduced in 3 or 4 states.

**S. Sridhar** Corex Dx is already there in PAN India. We have been marketing it for last many years now. We would be seeing a little more increase sales in that since the time the Corex ban has come into play on the codeine formulation.

**Moderator** The next question is from the line of Mayank Hyanki from Axis Mutual Fund. Please go ahead.



**Mayank Hyanki** With the overall view of the new launches that we will have over the next few years, you know the regulatory environment and the costs, so where do you see the margins going in the medium to long term and what could be the drivers behind it?

**Ravi Prakash** So you wanted to talk about the new launches and the margins. This year, we will have some headwinds in terms of margins this year both because of the stuff happening around Corex as well as pricing and pricing is a straight hit to margin. So I would expect to see margins slightly lower than what we reported this quarter going forward.

**Mayank Hyanki** Actually I wanted to know the overall margin trend in light of the new product launches that we have lined up for future for coming years, not in the immediate quarters or so. And I think all of us understand that this year is going to be tough for a lot of players especially who have got more sales coming from the branded India Portfolio. I think everybody is building in some kind of margin contraction for sure along with the sales slowdown but what I wanted to understand that there is slightly medium-to-longer term, say 3 years to 5 years' plan, how do you see these margins coming through? Do we have scope for cost efficiencies on various line items including supply chain or cutting down expenses or controlling expenses? If you could throw some color on how the margin will be trending?

**Ravi Prakash** Now that we have gotten over the discussion on near term, in the medium-term we would like to start building them back margins. But I think key for us is first and foremost to build back the revenue that we expect to kind of have a decline over the next 2 to 3 quarters. The first imperative for the company is we would like to build back the revenue, once the revenue gets built back chances are that we should



be able to bring it at a competitive margin. So in the medium term, we should probably try and get back to where we are right now but I want to emphasize the word medium-term.

**Mayank Hyanki** Which is more like the 22% kind of range which you hit last year?

**Ravi Prakash** Yes, which is if you take the last quarter of last year if you recall, we have always been saying that we are comfortable with the current structure of the P&L. That was what we were saying till last quarter. That is where we would like to get back to but it is going to take some time.

**Mayank Hyanki** Okay, and this would be driven by cost efficiencies or do we have more aggressive launch pipeline than what has been till now? Incrementally we have also been hearing about slightly stronger or more aggressive launch pipeline from your fellow MNC companies in their own fields. So what is our launch pipeline like for the next 2-3 years' timeframe.

**Ravi Prakash** Revenue is certainly a priority, in fact if you were to push us I would say that if you look at the P&L building back revenue is our #1 priority. I think I will leave it at that and we will look to see how we can quickly grow either through volume or through new launches. The revenue that we have been forced to give up because of either pricing or Corex.

**Mayank Hyanki** Secondly just a small book-keeping question, in supply chain has there been any change or something like that because what I notice is that the value of the imported raw material has significantly gone down in FY16 over FY15. So is it a function of the product mix or are we trying to source more locally or something like that?





- Ravi Prakash** It could be that at the end of FY15 we did have a lot more inventory as we were transitioning for the Wythe-Pfizer merger, we did probably have some inventory. Other than that there has been no change in strategy per se.
- Moderator** The next question is from the line of Nitin Agrawal from IDFC. Please go ahead.
- Nitin Agrawal** Following up from your comment regarding the focus being on revenue growth, could you just highlight some of the measures beyond that we will probably be looking to take for that, I mean are there any thoughts beyond the umbrella branding sort of strategy that we had in the past? Are there any more drivers that we have in the business to really take up the revenue growth for the next 3 to 5 years?
- S. Sridhar** Yes, we do have. There are 3 or 4 measures we are taking to work on that area. You have got to bear with me for some time for me to give the answer in a clearer manner.
- Nitin Agrawal** Sure, so just on that, without getting in details, I mean some of these measures that you are talking about, are they consequence of the way Pfizer is looking differently at the market or it is something, changing an environment which is enabling you to probably implement some of these measures that you may going forward that you are probably evaluating right now?
- S. Sridhar** Quite a few of them. Definitely Pfizer's interest here. Second our recent experiences in pricing and then in Corex and thirdly we have taken some measures in 2016. I mean currently we made lot of changes from the current structure which is paying a lot of dividends to us, though you are not seeing the total number because the pricing



and Corex is overtaking it but some of the key brands are all going at a good number that is because some of the changes we have made internally with a lot of our structure. And we believe that is a good thing to do and therefore we are working on certain more areas. So it is a combination of some strategies that we placed currently which is working well, Pfizer's interest in India and also some of the learnings we have had in the last few months on Corex and on pricing.

**Nitin Agrawal**

And secondly when you get a chance to look at the Pfizer portfolio, do you see scope for introducing a lot more products than you have in the portfolio? Pfizer as it is sort of the portfolio through acquisitions, so the way it has evolved over the last few years, does it throw up opportunities for us in a material way in terms of new product launches beyond the way we have been doing it in the past?

**S. Sridhar**

See if you really look at all the global big products, we take the top 20 products which Pfizer has, other than Lipitor and another 2 or 3 very small products, Pfizer has all the portfolio in India, either in the name as such or in the local name. So for example, I have got Lyrica which is a global product out here. I have Prevenar which is a global product out here. I have got Magnex, I have got Dolonex, these are Indian names of Pfizer's products. So except for a couple of CNS products and one pain product, we are not really missing a major portfolio. We are looking at couple of global products, though they have gone all off LOE to reintroduce them into India, we are also looking at that aspect of this juncture.



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**Nitin Agrawal** But opportunities like the Hospira transaction which was done globally, do this kind of transaction....

**S. Sridhar** So Hospira transaction is the opportunity for us to launch some sterile injectable in India. So that is also probably we are working on. So it would not be a branded product, it would be a branded generic because Hospira is a generic company with branded generic but in the area of injectables. So we are looking at those options also.

**Moderator** As there are no further questions we would now like to hand the call over to Mr. S. Sridhar for closing comments.

**S. Sridhar** Thank you everyone for joining this call out here. Like we said it is important that we understand the impact of new accounting standards on the results and I think Ravi has very clearly explained the impact and the reconciliation is also attached to our results which is loaded on to the website and you may have a look at it. Corex and pricing will continue to have an impact on it for the balance of the year, so therefore rest of the year will be somewhat challenging compared to the previous. But I am hoping that just as we had an issue with pricing few years back, we will be able to overcome that kind of pricing challenge with some volume increase and other measures. I think we will put some strategies in place for Corex, which will enable us to recoup some part of it over a period of time. So therefore like we said the margins in that short-term will get impacted but we are hopeful of about 21-22% EBITDA margin in the mid-term there. So that is all I had to say out here. Thanks for dialing in and talking. See you all in the next call. Thank you very much.



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**Moderator**

Thank you. We now conclude the Pfizer first quarter ended June 30, 2016 financial results analysts' teleconference. Thank you for using the Chorus Call Conferencing Service. You may now disconnect your lines.

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