

Strides Pharma

Estimate change

TP change

Rating change



Bloomberg	STR IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	27.5 / 0.4
52-Week Range (INR)	847 / 263
1, 6, 12 Rel. Per (%)	-1/-31/-68
12M Avg Val (INR M)	494
Free float (%)	69.4

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	30.7	38.9	45.0
EBITDA	-0.1	5.2	6.5
Adj. PAT	-3.7	1.3	2.6
EBIT Margin (%)	-7.9	7.4	9.1
Cons. Adj. EPS (INR)	-41.6	14.8	29.2
EPS Gr. (%)	NA	NA	97.2
BV/Sh. (INR)	263.8	336.6	358.7

Ratios

Net D:E	1.0	0.6	0.5
RoE (%)	-14.5	4.9	8.4
RoCE (%)	-1.4	6.0	8.0
Payout (%)	24.2	24.2	24.2

Valuations

P/E (x)	NA	20.7	10.5
EV/EBITDA (x)	NA	9.5	7.4
Div. Yield (%)	-3.5	1.0	1.9
FCF Yield (%)	-11.9	5.1	11.7
EV/Sales (x)	1.8	1.3	1.1

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	30.6	29.6	29.7
DII	18.8	21.1	16.1
FII	19.7	19.9	24.8
Others	30.9	29.5	29.4

FII Includes depository receipts

CMP: INR306

TP: INR360 (+18%)

Buy

Performance on a gradual recovery mode

New launches/controlled costs are key factors for better margins ahead

- Strides Pharma (STR) delivered lower-than-expected 4QFY22 operational performance. However, there was an improvement from loss in 1HFY22 to breakeven in 3QFY22 along with a 4.8% EBITDA margin in 4QFY22.
- We reduce our EPS estimates by 6.7%/3.0% for FY23/FY24 factoring in: a) a gradual uptick in other regulated market (OTR) and emerging market (EM) businesses, and b) increased raw material (RM) and operational costs.
- We value STR on an SoTP basis, with an EV/EBITDA of 8x for its regulated/ emerging markets, 5x for the Institutional segment, and adding investment value for its 33% stake in Stelis (recent conclusion of Series B/C funding pegged at a post-money valuation of USD350m) to arrive at our TP of INR360. **We maintain our BUY rating on the stock.**

Product mix/lower employee costs improve margins on a QoQ basis

- STR's 4QFY22 revenue declined 5% YoY to INR8.7b (our est: INR8.5b) due to the continued headwinds in the US.
- The US sales were down 23% YoY to INR3.3b (USD44m; 38% of sales). However, the US sales improved 17% QoQ in 4QFY22.
- OTR sales were up 15% YoY to INR3.1b (36% of sales); EM sales rose 7% YoY to INR2.3b (26% of sales).
- Gross margin (GM) contracted ~850bp YoY to 50.6%; but expanded 110bp QoQ.
- EBITDA margin contracted 1,270bp YoY to 4.8% (our estimate: 5.7%) due to low operating leverage. From a negligible EBITDA margin of 0.6% in 3QFY22, STR has delivered 420bp expansion in 4QFY22.
- EBITDA declined 74% YoY and was at INR415m (our estimate: INR488m).
- STR recorded an exceptional loss of INR763m led by forex loss, sales returns, impairment on disposal of facility and employee severance and restructuring expenses.
- Adjusting for the same, STR posted a loss of ~INR280m for 4QFY22 (our est: loss of INR481m).

Highlights from the management commentary

- STR maintains US sales guidance of USD250m in FY23E. STR reported USD44m sales in 4QFY22. The growth in FY23E would be led by robust pace of launches, addition of Endo portfolio and better volume off-take in the base portfolio. The quarterly sales run-rate would improve from 1QFY23E onwards.
- Taking into account the early realization of deferred consideration (INR5.7b) and better core performance, STR intends to reduce its net debt by INR10b in FY23.
- With inventory levels in the US generics reducing to normalcy at industry level, the price erosion intensity is ebbing that provides respite to gross margin.
- STR expects hormonal product launch in 2QFY23 and controlled substance product launch in 3QFY23. Overall, the launch momentum of certain niche products is expected to strengthen from 2HFY23 onwards.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated - Quarterly Earnings Model

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	v/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Net Sales	7,818	7,936	8,320	9,085	6,884	7,215	7,944	8,660	33,159	30,703	8,529	1.5
YoY Change (%)	14.0	11.0	13.6	46.9	-12.0	-9.1	-4.5	-4.7	20.5	-7.4	-6.1	
Total Expenditure	6,308	6,363	6,726	7,493	7,437	7,226	7,898	8,245	26,891	30,806	8,041	
EBITDA	1,510	1,572	1,594	1,592	-554	-11	46	415	6,268	-103	488	-14.9
YoY Change (%)	22.1	7.2	-11.8	90.2	-136.7	-100.7	-97.1	-73.9	17.2	-101.6	-69.4	
Margins (%)	19.3	19.8	19.2	17.5	-8.0	-0.1	0.6	4.8	18.9	-0.3	5.7	
Depreciation	491	528	525	519	549	566	609	607	2,063	2,330	621	
EBIT	1,019	1,044	1,069	1,073	-1,102	-576	-563	-192	4,205	-2,433	-133	NA
YoY Change (%)	26.1	-0.2	-22.2	179.9	-208.2	-155.2	-152.7	-117.9	16.6	-157.8	-112.4	
Margins (%)	13.0	13.2	12.8	11.8	-16.0	-8.0	-7.1	-2.2	12.7	-7.9	-1.6	NA
Interest	369	369	347	416	415	436	423	495	1,501	1,767	463	
Other Income	123	129	132	130	135	222	102	861	514	1,320	60	
PBT before EO expense	773	804	854	788	-1,382	-790	-884	174	3,219	-2,881	-535	NA
Extra-Ord expense	-488	-180	126	29	864	724	185	763	-514	2,661	0	
PBT	1,261	984	729	759	-2,246	-1,514	-1,069	-589	3,733	-5,542	-535	NA
Tax	33	61	108	115	-355	-68	-45	-1,315	317	-1,783	-82	
Rate (%)	2.6	6.2	14.8	15.1	15.8	4.5	4.2	223.3	8.5	32.2	15.4	
MI & (P)/L of Asso. Cos.	192	262	270	198	195	234	243	436	922	1,108	28	
Reported PAT from Continuing Ops.	1,036	662	351	446	-2,086	-1,680	-1,266	290	2,494	-4,868	-482	NA
Adj. PAT from Continuing Ops.	560	493	458	470	-1,358	-988	-1,089	-280	1,981	-3,715	-481	NA
YoY Change (%)	64.1	-5.9	-40.3	-271.5	-342.4	-300.6	-337.9	-159.5	45.8	-287.7	-202.4	
Margins (%)	7.2	6.2	5.5	5.2	-19.7	-13.7	-13.7	-3.2	6.0	-12.1	-5.6	

Key Performance Indicators (Consolidated)

Y/E March	FY21				FY22				FY21	FY22	FY22E
INR m	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Regulated Market	6,344	6,433	6,857	6,995	5,248	5,327	5,821	6,434	26,636	22,830	6,169
US	3,738	4,047	3,876	4,273	3,016	2,502	2,831	3,301	15,936	11,650	2,981
Other Reg Markets	2,606	2,386	2,981	2,722	2,232	2,825	2,990	3,133	10,700	11,180	3,188
Emerging Markets	1,503	1,538	1,518	2,119	1,671	2,033	2,148	2,265	6,672	8,116	2,154
Africa	693	836	640	671	701	920	760	829	2,778	3,210	953
Institutional	810	702	878	1,448	970	1,113	1,388	1,436	3,894	4,906	1,202
Cost Break-up											
RM Cost (% of Sales)	38.7	38.9	42.1	40.9	50.7	45.0	50.5	49.4	40.2	48.9	50.0
Staff Cost (% of Sales)	16.6	17.4	15.4	16.9	23.4	20.6	22.7	18.2	16.6	21.1	20.4
Other Cost (% of Sales)	25.4	23.9	23.3	24.7	33.9	34.6	26.3	27.7	24.3	30.3	23.9
Gross Margin (%)	61.3	61.1	57.9	59.1	49.3	55.0	49.5	50.6	59.8	51.1	50.0
EBITDA Margin (%)	19.3	19.8	19.2	17.5	(8.0)	(0.1)	0.6	4.8	18.9	(0.3)	5.7
EBIT Margin (%)	13.0	13.2	12.8	11.8	(16.0)	(8.0)	(7.1)	(2.2)	12.7	(7.9)	(1.6)



Highlights from the management commentary

- Management targets to launch ~20 new products every year from Strides and Chestnut Ridge portfolios over the next three years.
- Endo business would start contributing from June'22 to the overall business.
- Given that it has enough products approved and yet to launch, management would reduce the R&D spends over the near term.
- Management expects the efficient logistics management to save 300bp as a % of sales.
- The capital commitment by the investors to the tune of USD60-70m remains intact for Stelis.
- Stelis reported USD17.2m revenue with an Adj. EBITDA of USD5.9m and added 12 customers to date.
- For AmbiVax Phase 3 data will be submitted to the GOI by Jun'22.
- AmbiVax has been exclusively licensed to Stelis/Biolexis for 140+ global countries including India, South East Asia, LATAM, GCC, and Africa.

Business improving sequentially

Launches and portfolio additions to drive the US revenue

- The US sales dipped 27% YoY to INR11.7b (USD157m) in FY22 due to steep competitive intensity. However, the sales have improved sequentially in 4QFY22.
- The acquired portfolio of Endo Pharma has given a better balance for Strides' portfolio with a mix of acute and chronic products. In fact, it has added products comprising controlled substances, hormones, nasal sprays, gels modified release products to STR portfolio.
- Given that STR has ~249 ANDAs approved and only 60 commercialized, there is enough scope to generate business from existing products; thus management is likely to lower R&D spends for FY23. This would enhance margins prospect for STR over the near term.
- Accordingly, on FY22 low base, we expect 32% sales CAGR over FY22-24.

Portfolio maximization/new launches to drive growth in other regulated markets

- OTR revenue grew slightly by 4% YoY at INR11.2b in FY22.
- STR continues to witness healthy traction across its key front-end markets and its partnership business in Europe.
- By entering newer markets, expanding presence in existing markets through new launches and market share gain, we expect 17% sales CAGR over FY22-24.

Stelis business on growth trajectory

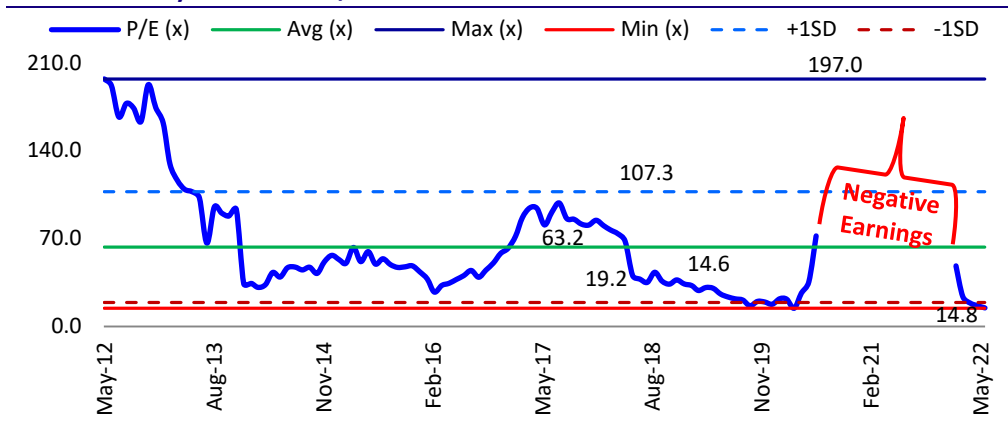
- Stelis has garnered revenue of USD17.7m in FY22 (v/s nil in FY21). The company has secured commercial services agreement (CSA) of USD85m starting FY24.
- In addition to its current pipeline of Biologics/Biosimilar products Stelis has in-licensed AmbiVax-C vaccine with it being exclusively licensed to Stelis/Biolexis for 140+ Global countries, including India, South-East Asia, LATAM, GCC, and Africa. The global market launch of the vaccine may commence from 2H FY22.
- Given Stelis' supply agreements, new client additions and strong pipeline the business outlook remains encouraging over the next 2-3 years.

Balance sheet health expected to improve

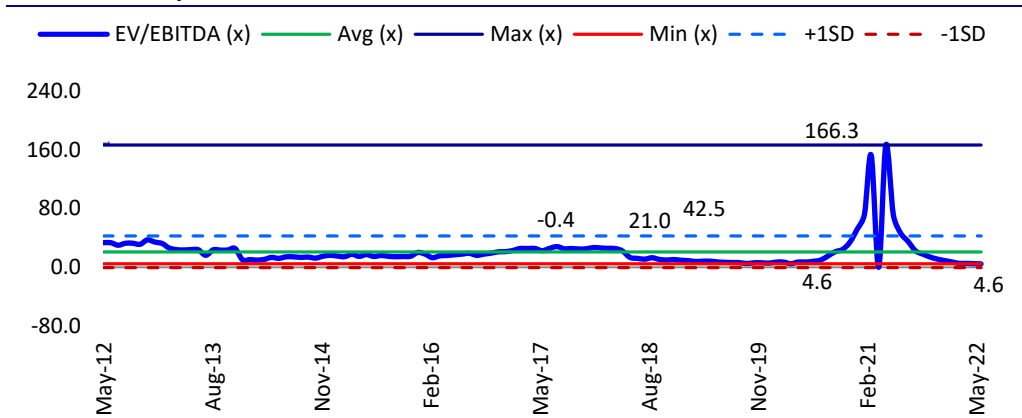
- STR had gross debt of INR28b as of Mar'22 and is targeting to reduce this by INR10b in FY23 backed by: a) realization of deferred consideration of INR5.8b in H1FY2, and b) superior cash flow generation from core operations.
- Consequently, STR has targeted Net Debt to EBITDA at <3x by the end of FY23.

Valuation and view

- We have cut our FY23E/FY24E EPS by 7%/3%, factoring in: a) inflated RM/logistics cost, b) gradual improvement in performance of OTR/EM segments, and c) the ongoing adverse impact of price erosion in the base business.
- We value STR on an SoTP basis, with an EV/EBITDA of 8x for its regulated and emerging markets, 5x for the Institutional segment, and adding investment value for its 32% stake in Stelis (recent conclusion of the Series B/C funding pegged at a post-money valuation of USD355m) to arrive at our TP of INR360.
- STR continues to see improvement in its business sequentially and the business is likely to be back on growth track led by revival in the US business and continued growth in other markets. **Given the current valuation, we maintain our BUY rating on the stock.**

Exhibit 1: One-year forward P/E

Source: MOFSL, Company, Bloomberg

Exhibit 2: One-year forward EV/EBITDA

Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	28,622	34,834	28,394	21,784	27,520	33,159	30,703	38,878	45,034
Change (%)	139.3	21.7	-18.5	-23.3	26.3	20.5	-7.4	26.6	15.8
EBITDA	4,140	6,428	3,965	2,557	5,347	6,268	-103	5,248	6,530
Margin (%)	14.5	18.5	14.0	11.7	19.4	18.9	-0.3	13.5	14.5
Depreciation	1,313	1,872	1,540	1,174	1,737	2,063	2,330	2,373	2,429
EBIT	2,827	4,557	2,425	1,383	3,610	4,205	-2,433	2,876	4,101
Int. and Finance Charges	1,682	2,269	1,962	793	1,557	1,501	1,767	1,327	1,147
Other Income	921	1,686	941	408	531	514	1,320	700	766
PBT bef. EO Exp.	2,067	3,973	1,403	998	2,584	3,219	-2,881	2,249	3,720
EO Items	-414	-1,006	-436	83	-965	514	-2,536	0	0
PBT after EO Exp.	1,653	2,967	967	1,081	1,619	3,733	-5,417	2,249	3,720
Total Tax	425	470	97	-269	113	317	-1,783	225	409
Tax Rate (%)	25.7	15.8	10.1	-24.8	7.0	8.5	32.9	10.0	11.0
Minority Interest	-88	458	168	457	1,014	922	1,108	700	700
Reported PAT from Continuing Ops.	1,317	2,039	702	893	492	2,494	-4,743	1,324	2,611
Adj. PAT from Continuing Ops.	1,624	2,886	1,007	789	1,358	1,981	-3,715	1,324	2,611
Change (%)	61.3	77.6	-65.1	-21.6	72.1	45.8	NA	NA	97.2
Margin (%)	5.7	8.3	3.5	3.6	4.9	6.0	-12.1	3.4	5.8

Consolidated Balance Sheet

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	894	894	895	895	896	896	898	898	898
Total Reserves	25,685	26,210	23,651	25,592	24,379	26,870	22,694	29,198	31,177
Net Worth	26,579	27,104	24,546	26,487	25,274	27,766	23,592	30,096	32,075
Minority Interest	502	1,640	1,547	1,530	672	373	241	241	241
Total Loans	35,418	36,997	29,494	37,609	21,865	22,962	29,806	23,306	22,606
Deferred Tax Liabilities	-502	89	-615	327	-1,778	-1,519	-1,794	-1,794	-1,794
Capital Employed	61,997	65,829	54,971	65,952	46,033	49,582	51,845	51,849	53,128
Gross Block	18,987	22,233	26,233	28,184	23,923	26,673	30,222	33,051	34,417
Less: Accum. Deprn.	1,468	2,771	4,311	5,485	7,222	9,285	11,615	13,988	16,417
Net Fixed Assets	17,520	19,462	21,922	22,699	16,701	17,388	18,607	19,063	18,000
Goodwill on Consolidation	9,267	9,670	9,147	13,776	4,286	4,805	4,859	4,859	4,859
Capital WIP	8,149	7,802	3,220	4,530	4,130	4,474	2,911	1,082	716
Total Investments	13,409	15,952	8,159	8,740	11,495	13,934	5,403	5,403	5,403
Curr. Assets, Loans, and Adv.	25,256	27,582	21,721	28,322	22,921	27,567	35,827	38,894	44,221
Inventory	6,131	7,380	5,520	8,742	7,825	12,007	11,738	11,056	12,131
Account Receivables	10,330	9,971	8,822	9,872	9,317	11,069	12,073	14,379	15,793
Cash and Bank Balance	3,116	3,295	3,033	5,167	2,371	1,798	1,874	615	1,420
Loans and Advances	5,679	6,936	4,346	4,543	3,408	2,694	10,142	12,843	14,876
Curr. Liability and Prov.	11,605	14,638	9,220	12,137	13,520	18,608	15,784	17,475	20,094
Account Payables	7,836	7,521	7,121	8,890	7,978	11,786	10,715	11,056	12,659
Other Current Liabilities	2,943	5,986	1,364	1,447	3,647	4,906	3,200	4,052	4,693
Provisions	826	1,131	736	1,801	1,895	1,916	1,869	2,367	2,741
Net Current Assets	13,652	12,944	12,501	16,185	9,402	8,959	20,043	21,419	24,127
Appl. of Funds	61,997	65,829	54,971	65,952	46,033	49,582	51,845	51,849	53,128

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	18.2	32.3	11.3	8.8	15.2	22.2	-41.6	14.8	29.2
Cash EPS	32.8	53.2	28.5	22.0	34.6	45.2	-15.5	41.3	56.4
BV/Share	297.2	303.1	274.5	296.2	282.6	310.5	263.8	336.6	358.7
DPS	2.8	4.0	5.3	2.0	3.7	5.6	-10.6	3.0	5.8
Payout (%)	19.8	21.2	68.1	20.1	82.4	24.2	24.2	24.2	24.2
Valuation (x)									
P/E	16.9	9.5	27.2	34.7	20.2	13.8	NA	20.7	10.5
Cash P/E	9.3	5.8	10.8	14.0	8.8	6.8	Na	7.4	5.4
EV/EBITDA	14.4	9.5	13.6	23.4	8.8	7.8	NA	9.5	7.4
Dividend Yield (%)	0.9	1.3	1.7	0.7	1.2	1.8	-3.5	1.0	1.9
FCF per share	-32.7	-43.2	-23.7	-28.7	6.5	21.0	-36.4	15.5	36.0
Return Ratios (%)									
RoE	8.5	10.8	3.9	3.1	5.2	7.5	-14.5	4.9	8.4
RoCE	6.8	8.3	5.1	3.8	6.9	8.8	-1.4	6.0	8.0
RoIC	8.7	10.1	5.5	3.9	8.9	13.4	-4.6	6.0	8.1
Working Capital Ratios									
Fixed Asset Turnover (x)	1.5	1.6	1.1	0.8	1.2	1.2	1.0	1.2	1.3
Inventory (Days)	78	77	71	146	104	132	140	104	98
Debtor (Days)	132	104	113	165	124	122	144	135	128
Creditor (Days)	100	79	92	149	106	130	127	104	103
Leverage Ratio (x)									
Current Ratio	2.2	1.9	2.4	2.3	1.7	1.5	2.3	2.2	2.2
Interest Coverage Ratio	1.7	2.0	1.2	1.7	2.3	2.8	-1.4	2.2	3.6
Net Debt/Equity ratio	0.7	0.7	0.7	0.9	0.3	0.3	1.0	0.6	0.5

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,464	4,971	7,058	3,444	485	2,894	-6,525	2,249	3,720
Depreciation	1,520	1,987	1,939	1,719	1,878	2,063	2,330	2,373	2,429
Interest and Finance Charges	998	1,521	1,827	1,746	1,449	1,136	691	627	381
Direct Taxes Paid	-770	-586	-536	-558	-450	1,568	23	-225	-409
(Inc.)/Dec. in WC	-3,417	-3,413	-1,907	-3,232	-3,262	-3,281	-1,899	-2,635	-1,903
CF from Operations	-206	4,480	8,382	3,119	100	4,380	-5,379	2,389	4,218
CF from Operations incl. EO	732	2,881	1,871	601	2,048	4,814	-2,578	2,389	4,218
(Inc.)/Dec. in FA	-3,658	-6,746	-3,994	-3,164	-1,463	-2,935	-680	-1,000	-1,000
Free Cash Flow	-2,925	-3,865	-2,123	-2,564	585	1,879	-3,258	1,389	3,218
(Pur.)/Sale of Investments	286	1,269	12,413	2,560	13,090	-2,263	-592	0	0
Others	-18,876	-1,390	-2,593	-881	1,435	-32	84	700	766
CF from Investments	-22,248	-6,867	5,826	-1,485	13,062	-5,230	-1,187	-300	-234
Issue of Shares	12,264	165	39	14	5	37	36	0	0
Inc./(Dec.) in Debt	18,789	5,962	-7,112	4,076	-13,843	1,378	6,390	-6,500	-700
Interest Paid	-1,347	-2,370	-2,631	-1,995	-1,708	-1,394	-1,538	-1,327	-1,147
Dividend Paid	-251	-376	-453	-180	-1,539	-179	-224	-320	-631
CF from Fin. Activity	29,439	3,382	-10,157	1,943	-17,094	-158	3,841	-3,347	-3,178
Inc./Dec. in Cash	7,924	-603	-2,460	1,058	-1,985	-573	76	-1,258	805
Opening Balance	2,984	11,107	5,151	2,562	3,659	1,823	1,249	1,325	67
Forex/sales of subsidiary	200	-5,353	-129	39	148				
Closing Balance	11,107	5,151	2,562	3,659	1,823	1,249	1,325	67	872
Other balances with banks	-7,992	-1,856	472	1,507	548	548	549	548	548
Total cash and Cash equivalents	3,116	3,295	3,033	5,167	2,371	1,798	1,874	615	1,420

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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