

Strides Shasun

BSE SENSEX	S&P CNX
34,006	10,455
Bloomberg	STR IN
Equity Shares (m)	89
M.Cap.(INRb)/(USD\$b)	66.1 / 1.0
52-Week Range (INR)	1,220 / 641
1, 6, 12 Rel. Per (%)	-9/-25/-59
Avg Val, INRm	392.0
Free float (%)	68.9

Financials & Valuations (INR b)

Y/E Mar	FY18E	FY19E	FY20E
Net Sales	29.5	34.4	39.9
EBITDA	4.1	6.8	8.1
PAT	1.3	3.6	5.0
EPS (INR)	14.1	40.8	55.7
Gr. (%)	-56.2	188.8	36.7
BV/Sh (INR)	315.4	356.2	411.9
RoE (%)	4.6	12.1	14.5
RoCE (%)	5.1	8.8	10.2
P/E (x)	52.3	18.1	13.3
P/BV (x)	2.3	2.1	1.8

Estimate change

TP change

Rating change



CMP: INR739 TP: INR989(+34%)

Buy

Weak results; new launches to drive operating performance

Strides Shasun's (STR) 3QFY18 sales (including commodity API business) grew 8% YoY to INR9.5b, lower than our estimate of INR10.8b. EBITDA (including commodity API business) declined 30% YoY and margin was 15%, lower than our estimate of 18%.

Adjusted PAT of INR466m too was much lower than our estimate of INR979m.

- Strong growth in regulated market sales offset by weakness in emerging market business:** Regulated market sales at INR5.8b were up 30% YoY on the back of new launches in US and Australia. The addition of portfolio acquired from Amneal, which was absent in 3QFY17, also aided growth. However, strong growth in regulated market was offset by sharp 38% YoY decline in emerging market business to INR1.7b. Commodity API business was INR2b. Including commodity APIs, which would be demerged soon, overall sales were up 8% YoY.
- Higher other expenses drag EBITDA margin:** For like-to-like comparison (excluding commodity API business and domestic branded formulations) gross margin was stable at 53%. However, EBITDA margin was down 300bp YoY to 16.4%. This is on account of higher other expenses. This coupled with higher interest and depreciation led PAT to fall by 24% YoY to INR466m. Very low tax outgo led to lower YoY fall in adjusted PAT for the quarter.
- Valuation and view:** We reduce our sales estimates by 25%/29%/28% and PAT estimates by 61%/35%/28% for FY18/19/20 to factor (1) demerger of commodity API business, (2) lower than expected operating margin in 3QFY18, and (3) delay in procurement with respect to institutional business. There is a risk of increased price erosion in recently-launched molecules; however pipeline remains robust for better growth, subject to approval. We value STR on sum-of-the-parts (SOTP), valuing the pharma business at 18x 12M forward earnings (industry average P/E multiple for midcap pharma) and Solara at an EV of 8x (from 12x earlier to factor commodity nature of API business) FY19E EBITDA to arrive at a price target of INR989. Reiterate **Buy**.

Quarterly performance

Y/E March	INR million											
	FY17				FY18				FY17	FY18E	FY18	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE	%	
Net Sales	7,895	9,535	7,298	8,884	6,579	7,695	7,490	7,700	34,834	29,470	10,817	-30.8
YoY Change (%)	28.8	33.3	-15.9	-3.9	-16.7	-19.3	-19.8	-13.3	11.6	-15.4		
Total Expenditure	6,573	8,101	5,882	7,315	5,950	6,698	6,262	6,430	28,406	25,342	8,870	-29.4
EBITDA	1,323	1,434	1,416	1,569	629	997	1,228	1,271	6,428	4,127	1,947	-36.9
Margins (%)	16.8	15.0	19.4	17.7	9.6	13.0	16.4	16.5	18.5	14.0	18.0	-8.9
Depreciation	424	468	309	529	356	384	391	400	1,872	1,536	528	-26.0
Interest	559	617	441	592	524	486	498	450	2,269	1,952	590	-15.6
Other Income	208	658	222	731	345	222	157	160	1,686	884	350	-55.2
PBT before EO expense	547	1,008	888	1,179	93	350	497	581	3,973	1,524	1,179	-57.9
Extra-Ord expense	60	0	115	17	34	123	63	0	1,006	219		
PBT	487	1,008	773	1,162	60	227	433	581	2,967	1,305	1,179	-63.3
Tax	88	152	235	175	10	33	-2	88	470	123	200	-100.8
Rate (%)	18.1	15.1	30.4	15.0	15.9	14.4	-0.4	15.1	15.8	9.4	17.0	-102.2
Minority Interest & Profit/Loss of Asso. Cos.	65	114	1	-7	31	53	32	0	458	117		
Reported PAT from Continuing Ops.	334	741	537	994	20	142	403	493	2,039	1,099	979	-58.9
Adj. PAT from Continuing Ops.	383	741	617	1,009	48	246	466	493	2,886	1,263	979	-52.4
YoY Change (%)	260.9	106.9	4.7	471.5	-81.6	130.5	9,845.6	4.5	136.9	-56.2		
Margins (%)	4.9	7.8	8.4	11.4	0.7	3.2	6.2	6.4	8.3	4.3		

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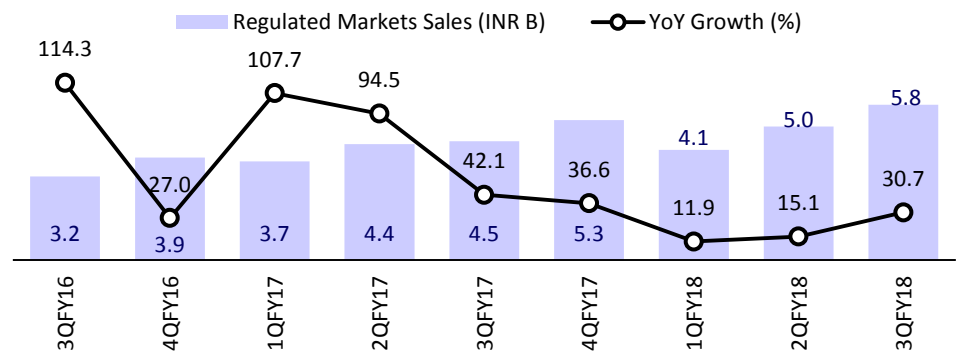
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New Launches drives regulated market sales

The sales for the regulated Markets which now contributes 78% to the total sales, stood at INR5.8b for the quarter as against INR4.5b in the Q3FY17 thus witnessing a growth of 29% YoY and 16% QoQ. This growth was largely on account of increased US business where the company launched 2 new products in Q2FY17 (Potassium Citrate ER tablets and Omega-3 Ethyl Ester soft gel capsules). The company has targeted market share of 20% (volume-wise) for both these products despite pricing pressure. STR continues to hold strong market share in existing products like Ranitidine (33%), Dutasteride (31%), Ergocalciferol (42%), Buspirone (31%), Methoxsalen (31%), Benzonatate (20%) & PEG Rx (28%).

Exhibit 1: YoY growth rates of regulated market improves sequentially

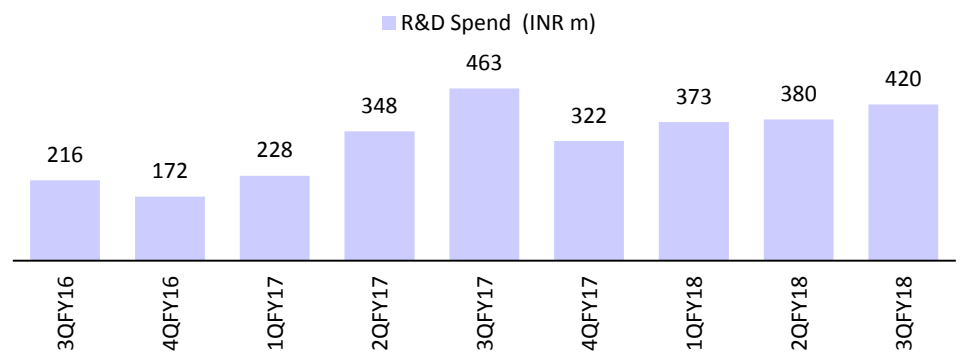


Source: MOSL, Company

STR maintains guidance of filing 15-20 ANDAs in FY18

STR spent INR420m towards product development during the quarter. STR maintained its momentum of filing ANDAs with 12 filings in YTD. It maintained its guidance of filing 15-20 ANDAs in FY18. STR has about 74 cumulative ANDA filings till date. It received 12 new product approvals till date in FY18 (4 in 3QFY18), taking ANDAs pending for approval to 30. All approvals in the pipeline are under the time bound GDUFA regime.

Exhibit 2: Steady R&D towards product development and build future pipeline



Source: MOSL, Company

The Australia business also continued to perform well with 23 new launches in YTD FY18 in addition to the portfolio acquired from Amneal. The company has also increased the coverage of pharmacy stores to ~1,200 from 1,000 in Q2FY18.

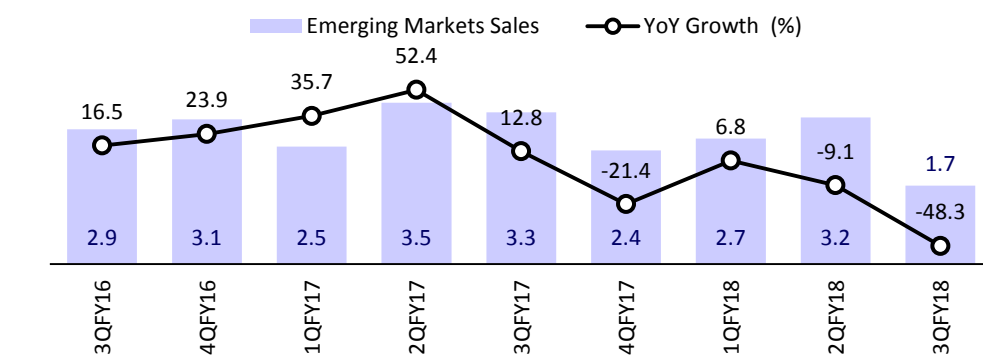
The backward integration for Australian products portfolio has also ramped up with the TGA approving 13 products for site transfer. This in-house manufacturing would enable improving operating margin of this business. The company is aiming to shift 50% of its product portfolio to India which will give it huge cost advantages.

Weak Institutional sales offset growth of Africa's branded generics again in emerging market business

The total sales from the Emerging & Institutional Segment stood at INR1.6b v/s INR2.7b in 3QFY17 (39% decline YoY) and contributed 22% to the total revenues as against 38% in Q2FY17. The decline was mainly on account of delay in Anti-Malaria drugs procurement orders from the global donor agencies and supply chain issues with the ARV segment.

The Africa branded generics business witnessed a steady performance with the key products continuing to gain market share – Renerve (30.4%), Combiart (7.4%), Solcer (8.5%) & Vitafer (6.3%).

Exhibit 3: Sharp drop in Emerging market sales due to divestment of India business and delayed off-take of Institutional medicines



Source: MOSL, Company

Other Key Highlights

- STR received first site transfer product approval from its Kenyan facility. The company expects to get more and more such approvals which would allow transfer of Institutional related products to the Kenyan facility. This would enable improvement in operating margins to some extent.
- During the quarter, STR divested its India generics business which comprising portfolio of 130+ brands in the therapeutic areas of Neurology, Psychiatry, Nutraceuticals, Gastro etc. for a cash consideration of INR5b.
- The shareholders of the company approved the demerger of the commodity API business at the NCLT meeting held on December 27, 2017.
- During the quarter the company also acquired a controlling stake in Trinity Pharma, South Africa for a cash consideration of ZAR55m. This will provide STR with access to 110 product dossiers already filed in the high entry barrier market where product dossier approvals take more than 5 years.

Valuation and view

We reduce our sales estimates for FY18/19/20 by 25%/29%/28% and PAT estimate by 61%/35%/28% to factor 1) demerger of commodity API business 2) lower than expected operating margin in Q3FY18 and 3) delay in procurement with respect to institutional business. We value STR on sum-of-the-parts (SOTP), valuing the pharma business at 18x 12M forward earnings (industry average P/E multiple for midcap pharma) and Solara at an EV of 8x (from 12x earlier to factor commodity nature of API business) FY19E EBITDA to arrive at a price target of INR989.

We continue to like STR on robust pipeline for US market, consistent compliance track record, value accretion in Australia business and outperformance in branded generics business in emerging market. Maintain Buy on the stock.

Exhibit 4: Valuation of Strides Pharma

Particulars	12M Fwd
Strides Pharma PAT (INR m)	4,538
PE multiple (x)	18
Target Mkt Cap (INR m)	81,688
Valuation of Solara	
API business EBITDA (INR m)	1,891
EV/EBITDA multiple	8
EV of API business	15,128
Net Debt of API business (INR m)	4500
Stake of Strides Pharma (%)	60
Target Mkt Cap (INR m)	6,377
Total target Mkt Cap (INR m)	88,065
No. of shares	89.4
Target Price (INR)	989
% Upside	33.8

Source: MOSL

Financials and Valuations

Income Statement

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	9,618	13,410	11,959	28,622	34,834	29,470	34,391	39,875
Change (%)	-62.3	39.4	-10.8	139.3	21.7	-15.4	16.7	15.9
EBITDA	1,006	2,235	2,288	4,140	6,428	4,127	6,775	8,055
EBITDA Margin (%)	10.5	16.7	19.1	14.5	18.5	14.0	19.7	20.2
Depreciation	309	565	640	1,313	1,872	1,536	1,653	1,752
EBIT	697	1,670	1,648	2,827	4,557	2,591	5,122	6,302
Interest	795	1,089	474	1,682	2,269	1,952	1,789	1,503
Other Income	342	602	386	921	1,686	855	860	997
Extraordinary items	7,001	-266	-74	-414	-1,006	-219	0	0
PBT	7,246	918	1,486	1,653	2,967	1,275	4,192	5,796
Tax	112	409	532	425	470	123	545	811
Tax Rate (%)	1.5	44.5	35.8	25.7	15.8	9.7	13.0	14.0
Min. Int. & Assoc. Share	11	6	-6	-88	458	0	0	0
Reported PAT	7,123	503	959	1,317	2,039	1,152	3,647	4,985
Adjusted PAT	230	3,487	1,950	1,624	2,886	1,263	3,647	4,985
Change (%)	-87.4	1,416.5	-44.1	-16.7	77.6	-56.2	188.8	36.7

Balance Sheet

(INR Million)

Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	588	596	596	894	894	894	894	894
Reserves	19,675	9,473	10,853	25,685	26,210	27,309	30,957	35,941
Net Worth	20,263	10,068	11,449	26,579	27,104	28,204	31,851	36,835
Debt	15,945	5,466	8,917	35,418	36,997	29,519	28,244	26,469
Deferred Tax	272	17	-54	-502	89	89	89	89
Total Capital Employed	37,198	16,308	20,500	61,997	65,829	59,451	61,823	65,032
Gross Fixed Assets	18,240	8,039	9,437	18,987	22,233	28,954	31,163	32,558
Less: Acc Depreciation	4,976	3,528	3,792	1,468	2,771	4,307	5,960	7,712
Net Fixed Assets	13,264	4,511	5,645	17,520	19,462	24,648	25,203	24,846
Capital WIP	2,415	995	1,712	8,149	7,802	2,040	984	805
Investments	1	4,430	6,300	13,409	15,952	13,952	13,052	13,052
Current Assets	15,378	9,993	9,668	25,256	27,582	21,872	27,252	33,232
Inventory	4,423	1,760	2,077	6,131	7,380	6,584	7,175	8,267
Debtors	4,832	3,640	3,900	10,330	9,971	8,435	9,844	11,413
Cash & Bank	1,658	2,312	1,469	3,116	3,295	984	3,386	5,611
Loans & Adv, Others	4,465	2,281	2,223	5,679	6,936	5,868	6,848	7,940
Curr Liabs & Provns	10,762	4,655	4,194	11,605	14,638	12,731	14,338	16,572
Curr. Liabilities	9,363	3,557	3,334	10,778	13,507	11,774	13,221	15,277
Provisions	1,399	1,098	861	826	1,131	957	1,117	1,295
Net Current Assets	4,616	5,338	5,474	13,652	12,944	9,141	12,914	16,660
Total Assets	37,198	16,308	20,500	61,997	65,829	59,451	61,823	65,032

Financials and Valuations

Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	2.6	7.3	11.3	18.2	32.3	14.1	40.8	55.7
Cash EPS	6.0	13.6	18.4	32.8	53.2	31.3	59.3	75.3
Book Value	226.6	112.6	128.0	297.2	303.1	315.4	356.2	411.9
DPS	1.3	336.5	71.9	0.8	0.0	0.0	0.0	0.0
Payout (incl. Div. Tax.)	1.9	-1,410.0	43,880.3	6.2	0.0	0.0	0.0	0.0
Valuation(x)								
P/E	0.0	0.0	65.6	40.7	22.9	52.3	18.1	13.3
Price / Book Value	0.0	0.0	5.8	2.5	2.4	2.3	2.1	1.8
EV/Sales	0.0	0.0	6.1	3.4	2.9	3.2	2.6	2.2
EV/EBITDA	0.0	0.0	32.1	23.8	15.5	22.9	13.4	10.8
Dividend Yield (%)	0.2	45.5	9.7	0.1	0.0	0.0	0.0	0.0
Profitability Ratios (%)								
RoE	1.4	4.3	9.4	8.5	10.8	4.6	12.1	14.5
RoCE	2.7	4.9	7.3	6.8	8.3	5.1	8.8	10.2
RoIC	2.0	4.4	10.8	8.7	10.1	5.8	10.3	12.0
Turnover Ratios (%)								
Asset Turnover (x)	0.3	0.8	0.6	0.5	0.5	0.5	0.6	0.6
Debtors (No. of Days)	183	99	119	132	104	104	104	104
Inventory (No. of Days)	168	48	63	78	77	82	76	76
Creditors (No. of Days)	176	73	63	100	79	83	78	77
Leverage Ratios (%)								
Net Debt/Equity (x)	0.7	-0.1	0.1	0.7	0.7	0.5	0.4	0.2
Cash Flow Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	1,006	2,235	2,288	4,140	6,428	4,127	6,775	8,055
Non cash opr. exp (inc)	11,106	30,038	8,435	-158	2,051	-250	0	0
(Inc)/Dec in Wkg. Cap.	-3,105	-2,607	-959	-3,417	-3,413	1,492	-1,372	-1,520
Tax Paid	-888	-1,259	-560	-770	-586	-123	-545	-811
Other operating activities	-6,732	-31,124	-8,371	938	-1,599	0	0	0
CF from Op. Activity	1,389	-2,717	834	732	2,881	5,246	4,858	5,723
(Inc)/Dec in FA & CWIP	-3,331	-4,639	-2,406	-3,658	-6,746	-960	-1,152	-1,216
Free cash flows	-1,942	-7,356	-1,572	-2,925	-3,865	4,286	3,706	4,507
(Pur)/Sale of Invt	11,054	47,935	4,515	286	1,269	2,000	900	0
Others	-151	-6,739	427	-25,153	-607	855	860	997
CF from Inv. Activity	7,572	36,556	2,536	-28,525	-6,084	1,895	608	-219
Inc/(Dec) in Net Worth	89	259	31	12,264	165	0	0	0
Inc / (Dec) in Debt	-7,877	1,430	3,208	18,789	5,962	-7,500	-1,275	-1,775
Interest Paid	-1,976	-2,192	-381	-1,347	-2,370	-1,952	-1,789	-1,503
Divd Paid (incl Tax) & Others	-137	-32,683	-7,070	-267	-376	0	0	0
CF from Fin. Activity	-9,900	-33,185	-4,213	29,439	3,382	-9,452	-3,064	-3,278
Inc/(Dec) in Cash	-940	654	-843	1,647	179	-2,311	2,402	2,225
Add: Opening Balance	2,597	1,657	2,312	1,469	3,116	3,295	984	3,386
Closing Balance	1,657	2,312	1,469	3,116	3,295	984	3,386	5,611

NOTES

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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Analyst ownership of the stock

Strides Shashun

No

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