

RETAIL EQUITY RESEARCH

Strides Pharma Science Ltd

Pharmaceuticals

BSE CODE: 532531

NSE CODE: STAR

Bloomberg CODE: STR:IN

SENSEX: 36,257

31st January, 2019**BUY**

Rating as per mid cap

12months investment period

CMP Rs. 461 TARGET Rs. 530 RETURN 15% **A quarter marked with strategic decisions...**

Strides Pharma science (SS) is a R&D focussed, vertically integrated pharmaceutical company with an experienced management team and presence across multiple speciality therapeutic segments.

- SS to exit Australian business for ~394m AUD and a new supply deal will be struck in its place with Arrotex (Arrow- Apotex merged entity).
- More focus to the US markets as they are witnessing strong business momentum driven by new product launches.
- Regulated market saw high growth rate (55% YoY) driven by better business environment in key markets & portfolio expansion.
- We adjust our Revenue / PAT estimate for FY20E by 14%/21% resp. to factor sale of Australian business (~700crs).
- However we forecast Rev/PAT to grow by 13/57% in FY21 on better performance from the US and value SS at a multiple of 18x on FY21E EPS and upgrade the rating to Buy from Accumulate.

SS to exit Australian business...

Strides has opted out of the merger plan with Apotex citing leverage concerns whereby they will sell their entire stake at Arrow for AUD394m (~2000crs). They will receive an upfront payment of AUD 300m at the closure of transaction while the balance AUD 94m will be deferred through a secured instrument to be used for growth capital. The deal is expected to get completed by end of FY20 which allows SS to enter into a 10-year preferred supplier contract with the merged entity which enables SS to retain ongoing earnings of 40%-50% of current EBITDA at Arrow.

Focus shifting to the US market...

US witnessed strong business momentum (30% QoQ) driven by new product launches and healthy volume trajectory for base portfolio. With healthy order book visibility and steady pricing environment, the management is optimistic on this market as several partnered products is returning in Q4FY19. There is also strong approval (11 in YTD FY19) momentum which looks encouraging. Other corporate actions include Acquisition of Vensun Pharmaceuticals, Inc (US) and 100% ownership in JV with Vivimed Labs which is expected to add ~\$40M additional sales.

Other regulated markets had a stellar performance...

Other Regulated markets grew the largest by 55% on a YoY basis driven by improved market share for key molecules and healthy pricing environment. African business growth was modest with better expectations for future. However, institutional business de-grew by 15% YoY on account of muted procurement by donor funding agencies. Q3FY19 revenue grew by ~6% YoY primarily driven by the growth in the US and other regulated markets (accounting for ~15%). We therefore expect EBITDA margins to stabilise around 14% during FY19-21E.

Valuations...

We are adjusting our FY20 Rev/PAT estimates by 14% and 21% resp. downward to factor sale of Australian business. However we believe that ceasing of partnership model in US coupled with more product filings and good numbers from other regulated markets will make up the difference and drive the earnings growth going forward. We therefore factor a revenue/PAT growth of 13/57% for FY21. Hence, we value Strides at 18x on FY21E EPS and upgrade the rating to Buy from 'Accumulate' with a target price of Rs530.

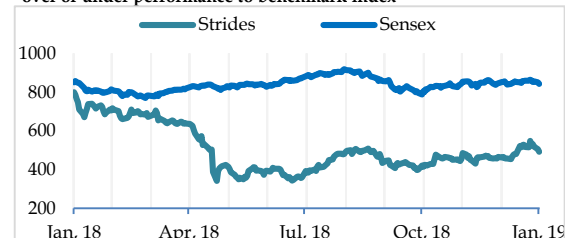
Company Data

Market Cap (cr)	Rs. 4,126
Enterprise Value (cr)	Rs. 6,366
Outstanding Shares (cr)	8.9
Free Float	69%
Dividend Yield	0.4%
52 week high	Rs 819
52 week low	Rs 334
6m average volume (cr)	0.22
Beta	1.1
Face value	Rs. 10

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	31.3	31.0	30.8
FII's	23.1	22.1	22.0
MFs/Insti	23.2	25.0	25.1
Public	22.4	22.0	22.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	16.3%	24.6%	-38.5%
Absolute Sensex	2.1%	-5.4%	-3.1%
Relative Return	14.2%	30.0%	-35.4%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19E	FY20E	FY21E
Sales	2,994	2,971	3,376
Growth (%)	5.4	(0.8)	13.6
EBITDA	418	415	478
Margin (%)	14.0	14.0	14.2
PAT Adj	41	163	256
Growth (%)	(39.7)	297.2	56.7
Adj.EPS	4.6	18.2	28.6
Growth (%)	(39.7)	297.2	56
P/E	100.4	25.3	16.1
P/B	1.7	1.6	1.5
EV/EBITDA	16.3	12.3	10.3
ROE (%)	1.7	6.5	9.5
D/E	1.0	0.3	0.2

Dilish K Daniel,
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	9MFY19	9MFY18	YoY growth %
Sales	794.5	748.8	6%	2190.6	2360.1	-7%
EBITDA	127	131	-3%	307.5	318	-3%
EBITDA margins (%)	16.0	17.5	-150bps	14.0	13.5	+56bps
Depreciation	40.7	38.0	7%	128.0	127.5	0.5%
EBIT	86.4	93.0	-7%	179	190.5	-6%
Interest	50.1	49.8	1%	142.7	162.4	-12%
Other Income	0.8	15.7	-95%	19.2	73.9	-74%
Exceptional Items	0.7	-0.2	-	-11.6	-21.3	-46%
PBT	37.9	52.6	-28%	44.4	80.8	-45%
Tax	6.3	2.0	215%	3.7	1.9	90%
Share of profit from Associate	-7.0	0	-	-27.2	-11.6	134%
Reported PAT	24.6	47.3	-48%	13.5	67.3	-80%
Adjustments	0.0	44.9	-	0.0	41.5	-
Adj PAT	24.6	92.3	-73%	-13.5	108.7	-88%
No. of shares (cr)	9.0	9.0	-	9.0	9.0	-
EPS (Rs)	2.7	10.3	-73%	1.5	12.1	-88%

Change in estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E
Revenue	2,968	3,462	2,994	2,971	3,376	0.9%	-14.17%
EBITDA	370	484	418	415	478	13.0%	-14.26%
Margins (%)	12%	14%	14%	14%	14.2%	2%	0%
Adj. PAT	44	206	41	163	256	-6.5%	-20.71%
EPS	4.9	23.0	4.6	18.2	28.6	-6.2%	-20.66%

Region wise Revenue projections..

(Rs cr)	FY18A	FY19E	FY20E	FY21E
US	775	838	1,047	1,204
%		8%	25%	15%
Australia	919	1,019	612	703
%		11%	-40%	15%
Regulated	339	517	672	806
%		53%	30%	20%
Africa	264	217	234	258
%		-18%	8%	10%
Institutional	561	402	382	386
%		-28%	-5%	1%

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Sales	2,755	2,839	2,994	2,971	3,376
% change	(3.7)	3.1	5.4	(0.8)	13.6
EBITDA	526	397	418	415	478
% change	27.1	(24.6)	5.5	(0.8)	15.3
Depreciation	126	154	170	175	185
EBIT	400	243	248	240	293
Interest	183	196	188	139	73
Other Income	161	94	40	90	90
PBT	342	97	85	182	285
% change	107.3	(71.7)	(12.4)	114.5	56.7
Tax	63	10	9	19	29
Tax Rate (%)	18.6%	10.1%	10.2%	10.2%	10.2%
Reported PAT	445	680	41	163	256
Adj*	129.8	(610.1)	-	-	-
Adj PAT	279	68	41	163	256
% change	136.8	(75.5)	(39.7)	297.0	56.7
No. of shares (crs)	8.9	9.0	9.0	9.0	9.0
Adj EPS (Rs)	31.2	7.6	4.6	18.2	28.6
% change	136.6	52.8	(39.7)	297.0	56.7
DPS (Rs)	4.00	4.50	4.00	4.00	4.00

Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	322	256	237	257	271
Accounts Receivable	997	882	927	920	1,036
Inventories	738	552	799	782	799
Other Cur. Assets	154	84	172	171	194
Investments	1,595	662	680	530	530
Gross Fixed Assets	1,140	807	1,007	1,257	1,507
Net Fixed Assets	978	665	694	770	834
CWIP	205	322	397	417	437
Intangible Assets	2,510	2,368	2,568	1,168	1,118
Def. Tax (Net)	(9)	62	46	46	46
Other Assets	503	497	527	559	593
Total Assets	8,037	6,478	7,049	5,620	5,859
Current Liabilities	1,628	895	1,039	1,172	1,332
Provisions	43	74	98	98	111
Debt Funds	1,638	1,551	1,851	351	301
Other Liabilities	461	402	480	495	495
Equity Capital	89	90	90	90	90
Reserves & Surplus	2,621	2,365	2,366	2,489	2,705
Shareholder's Fund	2,710	2,455	2,455	2,579	2,795
Total Liabilities	8,037	6,478	7,049	5,620	5,858
BVPS(Rs)	303	274	274	288	312

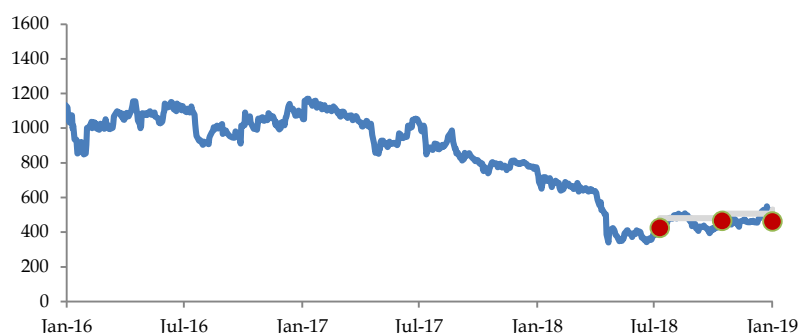
Cash flow

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	54	29	26	36	47
Non-cash adj.	-177.6	-991.4	-44.8	7.0	-116.0
Changes in W.C	(34)	(19)	(11)	16	0
C.F.O	33	19	13	50	46
Capital exp.	(68)	(40)	(28)	(27)	(27)
Change in inv.	(31)	48	(22)	155	5
Other invest.CF	31	47	(3)	(3)	(3)
C.F - investing	(71)	58	(52)	125	(25)
Issue of equity	(81)	(474)	300	-	-
Issue/repay debt	646	(278)	260	(1,740)	(190)
Dividends paid	(4)	(4)	(4)	(4)	(4)
Other finance.CF	539	(264)	26	-	-
C.F - Financing	34	(102)	38	(173)	(19)
Chg. in cash	(34)	(246)	(19)	20	14
Closing cash	320	256	237	257	271

Ratios

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.1	14.0	14.0	14.0	14.2
EBIT margin (%)	14.5	8.5	8.3	8.1	8.7
Net profit mgn.(%)	10.1	2.4	1.4	5.5	7.6
ROE (%)	10.4	2.6	1.7	6.5	9.5
ROCE (%)	14.8	9.9	10.1	9.3	10.5
W.C & Liquidity					
Receivables (days)	134.5	120.8	110.3	113.4	105.7
Inventory (days)	89.5	82.9	82.3	97.1	85.4
Payables (days)	89.7	107.7	104.8	115.2	102.9
Current ratio (x)	1.1	1.9	1.9	1.7	1.6
Quick ratio (x)	0.7	1.3	1.1	1.0	1.0
Turnover & Levq.					
Gross asset T.O (x)	2.5	2.9	3.3	2.6	2.4
Total asset T.O (x)	0.4	0.4	0.4	0.5	0.6
Int. covge. ratio (x)	2.2	1.2	1.3	1.7	4.0
Adj. debt/equity (x)	1.1	1.0	1.0	0.3	0.2
Valuation ratios					
EV/Sales (x)	2.5	2.3	2.3	1.7	1.5
EV/EBITDA (x)	13.2	16.4	16.3	12.3	10.3
P/E (x)	14.8	60.5	100.4	25.3	16.1
P/BV (x)	1.5	1.7	1.7	1.6	1.5

Recommendation Summary(last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
9 th August 2018	Buy	480
15 th November 2018	Accumulate	507
31 st January 2019	Buy	530

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

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