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Q4FY20 result review
and earnings revision

Pharmaceuticals

Target price: Rs488

Earnings revision

(%)	FY21E	FY22E
Sales	(1.3)	0.0
EPS	(1.0)	(0.6)

Target price revision

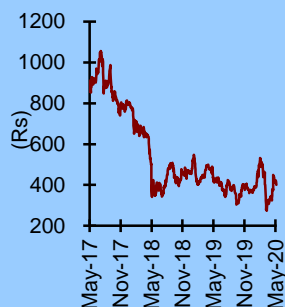
Rs488 from Rs420

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	31.3	31.3	31.3
Institutional investors	46.5	47.2	47.7
MFs and other	17.3	16.2	15.1
Banks, FI's, Insurance co	3.9	3.8	3.8
FII's	25.3	27.2	28.8
Others	22.2	21.5	21.0

Source: BSE India

Price chart



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Strides Pharma Science

BUY

Maintained

Ranitidine withdrawal impacted Q4, outlook intact **Rs421**

Strides Pharma Science's (Strides) Q4FY20 performance was impacted by withdrawal of *Ranitidine* from US market as instructed by USFDA. However, adjusted performance was higher than estimated which clearly demonstrates strong execution. Reported revenue grew 0.4% YoY to Rs6.2bn and EBITDA margin dropped 150bps YoY to 13.5% after removing gross profit contribution from *Ranitidine*. However, adjusted EBITDA margin was 24.9% vs estimated 22.5%. Other markets (EU, EM and institutional) reported strong performance. We believe US market (ex-*Ranitidine*) is would grow 17.2% CAGR over FY20-22 and company's consolidated EBITDA margin would sustain above 20%. Minimal capex requirement and healthy operational performance would help in generating FCFF of ~RS6bn over FY20-22. Retain BUY.

- **Revenue scale-up continues:** US revenues including *Ranitidine* remained stable QoQ at US\$62mn, although *Ranitidine* was a significant contributor. Reported US sales stood at US\$41m and we expect quarterly revenue run-rate to increase to US\$55-60mn in FY21E backed by new launches. Strides has 39 ANDAs pending approvals and we expect 12 launches per year. Strides has started revenue recognition of products sold to Arrowtex in Australia post its exit from the market. It is being captured in other regulated markets, which recorded 49.0% YoY growth. Institutional business recovered well and grew 40.4%. Africa reported a decline of 18.9%, however it improved 35.6% QoQ. The regulated markets (US and EU) would be the key growth engines and their revenue contribution would increase from ~86% in FY20 to ~88.0% by FY22E without any incremental contribution from *Ranitidine*.
- **Profitability impacted by *Ranitidine* withdrawal:** EBITDA margin missed our estimates by a 900bps after removing gross profit contribution from *Ranitidine*. Adjusted EBITDA margin beat our estimates by 240bps. The company withdrew US\$21mn worth of *Ranitidine* from the market and accounted an inventory write-off of ~US\$24mn. This impacted the reported profitability. We expect the company to report EBITDA margin of ~21% in FY21-FY22E without any incremental contribution from *Ranitidine*.
- **Outlook:** We expect a 17.2% CAGR in US sales (ex-*Ranitidine*) over FY20-FY22E led by ~25 new launches and re-entry into injectables. We estimate margin expansion of 180bps on operating leverage and improving revenue mix for the company. We expect return ratios to remain muted with continuous investments in Stelis Biopharma which that would turn profitable over medium term.
- **Valuations and risks:** We largely maintain our estimates but raise target P/E(x) to 14x from 12x due to reduced product concentration risk and de-leveraging by the company. We maintain **BUY** rating with a revised target price of Rs488/share based on 14x FY22E EPS (earlier: Rs420/share). Key downside risks: Regulatory hurdles and pricing pressures in the US.

Market Cap	Rs37.8bn/US\$499mn
Reuters/Bloomberg	STSA.BO/STR IN
Shares Outstanding (mn)	89.6
52-week Range (Rs)	532/274
Free Float (%)	68.7
FII (%)	28.8
Daily Volume (USD/'000)	4,533
Absolute Return 3m (%)	(17.8)
Absolute Return 12m (%)	6.6
Sensex Return 3m (%)	(24.7)
Sensex Return 12m (%)	(19.6)

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	21,784	27,637	31,304	34,269
Net Income (Rs mn)	927	1,425	2,500	3,120
EPS (Rs)	5.9	12.4	27.9	34.8
% Chg YoY	(59.3)	108.7	125.7	24.8
P/E (x)	71.1	34.1	15.1	12.1
CEPS (Rs)	19.0	31.8	48.8	56.8
EV/E (x)	24.2	10.3	8.4	7.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoCE (%)	2.0	5.8	7.3	8.4
RoE (%)	2.1	4.3	9.5	10.8

Q4FY20 result and concall highlights

Overall sales remained flat YoY at Rs6.2bn impacted by withdrawal of *Ranitidine*.

- **Regulated market** revenue remained flat YoY at Rs5.2bn with 21.5% decline in the US sales offset by other regulated markets which grew 49.0%. Sequentially, US sales declined 35.9% to US\$41mn.
 - Sequentially, the company was impacted by *Ranitidine* withdrawal as instructed by USFDA. Normalised US sales stood at US\$62mn largely stable QoQ. USFDA has requested a lot of data regarding the product before permitting sale, which according to the company would take upto 24months. Hence, the company has ruled out re-launch anytime soon.
 - Base business for the company continues its steady growth in a stable pricing environment and the six products commercialised in FY20 have contributed an additional US\$20mn to the sales. These products have a potential revenue size of US\$45mn annually.
 - Company has 39 ANDAs that are pending approval and 32 products that are approved but still not commercialised. Strides expects to file 10-15 ANDAs and launch 10-12 products in FY21. Company is also participating in the VA program where it could see 4-5 launches which could provide additional sales of US\$20-30mn.
 - EU and others grew 49.0% YoY to Rs2.3bn. The high growth is due to addition of sales to Arrowtex in Australia. Post the exit, this inter-company sale would now be accounted in this region. The company had filed for 20 products and has received approval for 15 of them due to fungibility.
- **Emerging markets and institutional business** grew 9.3% YoY with driven by 40.4% growth in the institutional business while Africa region posted a decline of 18.9% YoY.
 - Branded business in the Africa region is completely operational but it was impacted by COVID-19 related logistical issues. However, company believes that this business has reached a bottom and would provide growth in FY21.
- **R&D** expenses stood at 3.3% of sales in Q4FY20. Strides invests nearly 65-70% of the cost towards the US largely because of higher fee structure for product approvals. In this quarter the company has initiated development of sterile injectable products via Stelis Biopharma and expects additional investment.
- **Reported net debt** stood at Rs17.5bn at the end of the year after reducing from Rs24.2bn last year. The current debt levels are comfortable and company expects this level to continue for FY21. The company has paid off the Watson guarantee worth Rs13bn and removed it off its contingent liabilities.

Table 1: Q4FY20 performance*(Rs mn, year ending March 31)*

(Rs mn)	Q4FY20	Q4FY19	YoY % Chg.	Q3FY20	QoQ % Chg.
Net Sales	6,186	6,162	0.4	7,324	(15.5)
EBITDA	837	924	(9.4)	1,808	(53.7)
Other income	(271)	(37)	625.4	(112)	142.9
PBIDT	566	886	(36.2)	1,697	(66.7)
Depreciation	453	297	52.9	435	4.3
Interest	403	234	72.6	396	1.8
PBT	(2,179)	520	(519.4)	1,036	(310.2)
Tax	(105)	(75)	38.9	113	(192.7)
Minority Interest & Discontd. Op.	(35)	120	(128.9)	(16)	121.8
Adjusted PAT	(251)	436	(157.5)	787	(131.9)
Extra ordinary income/ (exp.)	(1,888)	164		171	(1,206.4)
Reported PAT	(2,039)	475	(529.3)	939	(317.2)
EBITDA margins (%)	13.5	15.0	(150)bps	24.7	(1120)bps

Source: Company data, I-Sec research

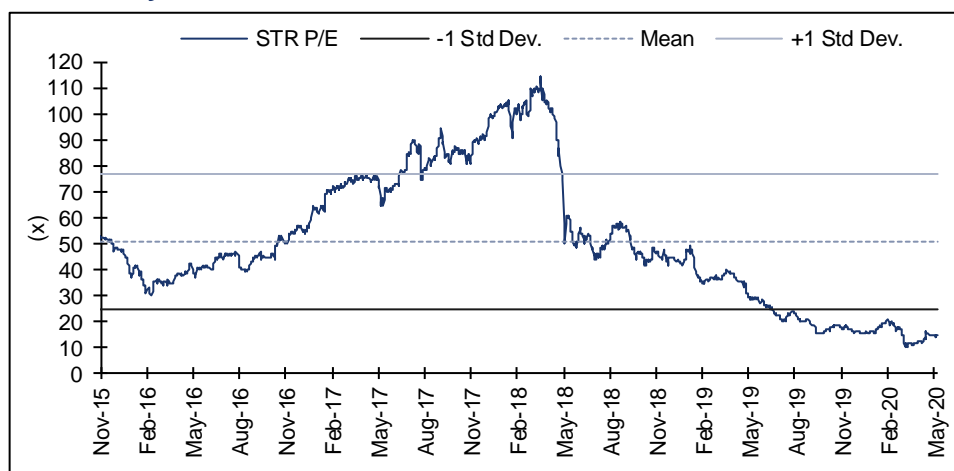
Table 2: Sales breakup*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY % Chg.	Q3FY20	QoQ % Chg.
Regulated Market	5,191	5,249	(1.1)	6,786	(23.5)
Emerging Market (incl. Institution)	1,025	938	9.3	566	81.1

Source: Company data, I-Sec research

Valuations

We expect earnings to grow at a CAGR of 67.9% for Strides over FY20-FY22E with revenue CAGR of 11.6% and EBITDA margin expansion of 180bps. We believe improvement in the US and EU revenue growth would be crucial for margin improvement and free cashflow generation. We maintain our **BUY** rating on the stock with a revised target price of Rs488/share based on 14x FY22E earnings (earlier: Rs420/share based on 12x FY22E).

Chart 1: 1-year forward P/E

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Regulated markets	24,530	23,783	27,177	30,064
Emer Mkt & Insti. Biz	5,735	3,854	4,127	4,205
Total Net Revenue	21,784	27,637	31,304	34,269
YoY Growth%	(23.4)	26.9	13.3	9.5
Total Op. Exp.	19,227	22,172	24,824	27,010
EBITDA	2,557	5,465	6,480	7,260
Margins %	11.7	19.8	20.7	21.2
YoY Growth%	(36.4)	113.7	18.6	12.0
Dep. & Amort.	1,174	1,737	1,874	1,964
EBIT	1,383	3,728	4,606	5,295
Other Income	(182)	(730)	(461)	(461)
Interest	793	1,557	1,304	1,206
EO Items	(216)	777	-	-
PBT	192	2,218	2,841	3,628
Tax	(269)	113	341	508
Tax Rate (%)	(140.3)	5.1	12.0	14.0
P/L from discount. Op.	2,406	(128)	-	-
Minority Interest	53	(58)	-	-
Reported PAT	2,814	2,035	2,500	3,120
Adj PAT	927	1,425	2,500	3,120
Net Margins (%)	4.3	5.2	8.0	9.1

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Paid-up Capital	896	896	896	896
Reserves & Surplus	25,592	24,379	26,556	29,354
Total Equity	26,487	25,274	27,452	30,250
Minority Interest	1,530	672	672	672
Total Debt	32,215	21,056	19,056	18,056
Deferred Liabilities	327	(1,778)	(1,778)	(1,778)
Capital Employed	60,559	45,225	45,403	47,201
Current Liabilities	17,509	14,307	15,950	17,359
Total Liabilities	78,068	59,532	61,353	64,559
Net Fixed Assets	41,005	25,116	24,742	24,277
Investments	4,170	4,304	4,304	4,304
Inventory	8,742	7,825	8,761	9,533
Debtors	9,872	9,317	10,598	11,602
Other Current Assets	7,773	9,957	11,035	11,880
Cash and Equivalents	6,506	3,012	1,912	2,963
Total Cur. Assets	32,893	30,111	32,307	35,978
Total Assets	78,068	59,532	61,353	64,559

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
PBT	3,030	419	2,841	3,628
Depreciation	1,174	1,737	1,874	1,964
Net Chg in WC	(3,231)	(3,262)	(1,295)	(932)
Taxes	(558)	(450)	(341)	(508)
Others	(607)	2,047	(356)	(279)
CFO	(193)	491	2,722	3,873
Capex	(3,865)	(1,736)	(1,500)	(1,500)
Net Investments made	3,261	13,362	-	-
Others	(881)	1,435	-	-
CFI	(1,485)	13,062	(1,500)	(1,500)
Change in Share capital	47	5	-	-
Change in Debts	4,076	(13,843)	(2,000)	(1,000)
Div. & Div Tax	(185)	(1,548)	(322)	(322)
Others	(127)	(962)	-	-
CFF	3,811	(16,348)	(2,322)	(1,322)
Total Cash Generated	2,133	(2,796)	(1,100)	1,051
Cash Opening Balance	3,033	5,167	2,371	1,271
Cash Closing Balance	5,167	2,371	1,271	2,322

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Adj. EPS	5.9	12.4	27.9	34.8
YoY Growth%	(59.3)	108.7	125.7	24.8
Cash EPS	19.0	31.8	48.8	56.8
EBITDA - Core (%)	11.7	19.8	20.7	21.2
NPM (%)	4.3	5.2	8.0	9.1
Net Debt to Equity (x)	0.9	0.7	0.6	0.5
P/E (x)	71.1	34.1	15.1	12.1
EV/EBITDA Core (x)	24.2	10.3	8.4	7.2
P/BV (x)	1.4	1.5	1.4	1.2
EV/Sales (x)	2.8	2.0	1.7	1.5
RoCE (%)	2.0	5.8	7.3	8.4
RoE (%)	2.1	4.3	9.5	10.8
RoIC (%)	1.9	5.5	6.8	7.9
Book Value (Rs)	296	282	306	338
DPS (Rs)	3.6	3.6	3.6	3.6
Dividend Payout (%)	0.9	0.9	0.9	0.9
Div Yield (%)	0.0	0.0	0.0	0.0
Asset Turnover Ratio	0.3	0.4	0.5	0.5
Avg Collection days	157	127	116	118
Avg Inventory days	135	136	122	124

Source: Company data, I-Sec research

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