

Retail Equity Research (South India Focus)
Strides Pharma Science Ltd
Pharmaceuticals

Accumulate

12M Investment Period Rating as per Small Cap
CMP Rs 525 TARGET Rs 621 RETURN 18% ↑
(Closing: 06-08-20)

BSE CODE : 532531 NSE CODE: STAR
BLOOMBERG CODE: STR:IN SENSEX : 38,025

KEY CHANGES: TARGET ↑ **RATING** ↔ **EARNINGS** ↑

Favourable outlook across segments

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

- Strides saw its Q1FY21 revenues grow by 14% on a YoY basis and 26% sequentially to Rs.782cr on the back of revenue growth in the regulated markets
- The U.S business grew by 8% YoY (Excluding ranitidine sales) led by successful new launches and growth in market share of existing products
- Strides plans to launch 10+ new products in the regulated markets during FY21.
- The company stated that the US\$40 million investment in Stelis Biopharma made last year is expected to break-even by FY22.
- We reiterate a "Accumulate" rating on the Strides based on 13x FY22E EPS with a target price of Rs.621

Turnaround in the U.S aids revenue growth

Strides saw its Q1FY21 revenues grow by 14% on a YoY basis and 26% sequentially to Rs.782cr on the back of a turnaround in the U.S business as well as continued growth in the other regulated markets. The U.S business grew by 8% YoY (Excluding ranitidine sales) on the back of successful new launches as well as the stable market share of its existing products in the U.S amid a favourable pricing scenario in the region. In Europe, new product launches and increasing market share and increase in supplies to its Australian partner, Arrotex, saw the other regulated markets grow by 53% YoY. In the emerging markets, the African market saw a 75% YoY increase in revenues on the back of strong growth in the branded business.

New launches expected in different regions

In the regulated markets, the company has 36 ANDAs pending approval as well as 33 products that have been approved but are yet to be commercialized. Strides plan to launch 10+ new products in the regulated markets during FY21. In the institutional business, strides received the WHO approval for TLD and the company expects TLD to be commercialized by H2FY21 subject to country-specific registrations. The company completed and submitted all Corrective and Preventive Action (CAPA) plans for its Puducherry facility, which received an Official Action Indicated (OAI) classification and a warning letter last year. The subsequent inspection has been delayed owing to the pandemic. The company stated that only 4-5 clinical approvals are pending from the facility

Stelis Biopharma Business update

The company stated that the US\$40 million investment in Stelis Biopharma made last year is expected to break-even by FY22. Through Stelis, the company will enter into the Biosimilars, Contract development and manufacturing (CDMO) and the sterile injectables segments. The company will file its first biosimilar product in the E.U during Q2FY21. In the CDMO segment, the company has 3 drug product line suites on stream for the manufacturing of Drug substance and Drug products for commercial supply. A part of the CDMO facility would be used to develop vaccines and this facility would be completed by December 2020. The re-entry into the sterile injectables business has been put on hold owing to the current pandemic situation and the ban on ranitidine.

Valuations

We expect the turnaround in the U.S and emerging markets segments as well the momentum in the other regulated markets to continue on the back of new launches, favorable pricing environment as well as the company's strong supply chain infrastructure. The benefits from the Stelis Biopharma acquisition are expected to come through in the next 1-2 years. The CDMO segment in the Stelis business could be a game changer for the company in the long run. On the back of these assumptions, we reiterate an "Accumulate" rating on the Strides based on 13x FY22E EPS with a target price of Rs.621.

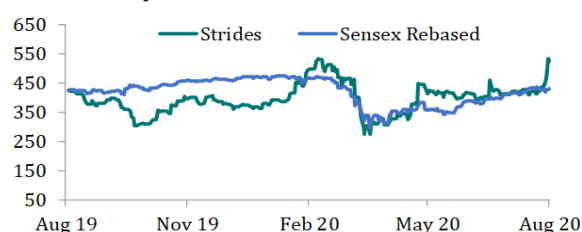
Company Data

Market Cap (cr)	Rs.4,701
Enterprise Value (cr)	Rs.6,938
Outstanding Shares (cr)	9.0
Free Float	70.3%
Dividend Yield	1.5%
52 week high	Rs.553
52 week low	Rs.271
6m average volume (cr)	0.1
Beta	1.3
Face value	Rs.10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	31.3	31.3	29.7
FII's	27.2	28.8	26.8
MFs/Insti	20.1	18.9	19.4
Public	21.5	21.0	24.1
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	24.6%	5.4%	26.2%
Absolute Sensex	20.2%	-7.6%	3.6%
Relative Return*	4.4%	13.0%	22.6%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	2,752	3,175	3,594
Growth (%)	(8.6)	15.4	13.2
EBITDA	535	667	755
EBITDA Margin(%)	19.4	21.0	21.0
PAT Adj.	121	335	428
Growth (%)	93.6	176.9	27.7
Adj.EPS	13.5	37.4	47.8
Growth (%)	93.6	176.9	27.7
P/E	38.9	14.0	11.0
P/B	1.9	1.7	1.5
EV/EBITDA	11.8	8.8	7.5
ROE (%)	4.5	12.5	14.1
D/E	0.7	0.4	0.3

Joe V Samuel
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

(Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	782	686	14.0	619	26.4
EBITDA	151	124	22.0	84	80.2
EBITDA margins %	19.3	18.0	130bps	13.5	580bps
Depreciation	49	43	14.5	45	8.4
EBIT	102	81	25.9	38	164.9
Interest	37	35	4.4	40	(8.4)
Other Income	12	8	62.7	18	(30.3)
Exceptional Items	45	(22)	-	(170)	-
PBT	126	31	312.3	(173)	-
Tax	3	3	5.8	-11	-
Share of profit from Associate	(21)	(18)	-	(45)	-
Minority Interest	-	-	-	-	-
Reported PAT	102	3	3388	(207)	-
Adjustments	-45	22	-	170	-
Adj PAT	57	25	123.2	(37)	-
No. of Shares	9	9	-	9	-
EPS (Rs)	6.3	2.8	123.2	(4.6)	-

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3104	3504	3175	3594	2.3	2.6
EBITDA	670	750	667	755	-0.4	-0.7
Margins (%)	20.6	20.4	21.0	21.0	40bps	60bps
Adj. PAT	351	434	335	428	-4.5	-1.4
EPS	39	49	37	48	-4.5	-1.4

Geographical Revenue Division

(Rs cr)	FY18A	FY19A	FY20A
US	775	1051	1542
%	27%	35%	47%
Australia	919	933	-
%	32%	31%	-
Regulated Markets	339	468	837
%	12%	38%	79%
Africa	264	208	148
%	9%	(21%)	(29%)
Institutional	561	365	237
%	20%	(35%)	(35%)
Total	2858	3025	2763

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	2,839	3,012	2,752	3,175	3,594
% change	3.1	6.1	(8.6)	15.4	13.2
EBITDA	398	457	535	667	755
% change	(24.6)	14.9	17.1	24.7	13.2
Depreciation	154	170	174	191	196
EBIT	244	287	361	476	559
Interest	196	205	156	135	111
Other Income	94	45	53	51	49
PBT	98	125	162	436	497
% change	(71.5)	27.5	29.9	169.5	13.9
Tax	10	13	11	57	70
Tax Rate (%)	10%	11%	7%	13%	14%
Reported PAT	681	333	43	380	428
Adj.*	-610	-271	78	45	0
Adj. PAT	69	62	121	335	428
% change	(75)	(12)	94	177	28
No. of shares (cr)	9	9	9	9	9
Adj EPS (Rs)	8	7	14	37	48
% change	(75)	(12)	94	177	28
DPS (Rs)	5	2	3	3	3

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	292	294	343	583	693
Non-cash adj.	-991	-105	-46	-112	-138
Changes in W.C	-190	-119	-326	134	-194
C.F. Operation	188	223	205	575	444
Capital exp.	-40	-26	-150	-174	-170
Change in inv.	48	-68	1430	-50	-50
Other invest.CF	47	-7	55	-43	-45
C.F - Investment	58	-101	1306	-266	-265
Issue of equity	-474	255	0	0	0
Issue/repay debt	-756	235	-1340	-330	-330
Dividends paid	-4	-2	-35	-30	-30
Other finance.CF	-264	767	-79	0	0
C.F - Finance	-102	112	-1709	-196	-267
Chg. in cash	-245	328	-198	112	-89
Closing cash	256	517	237	349	260

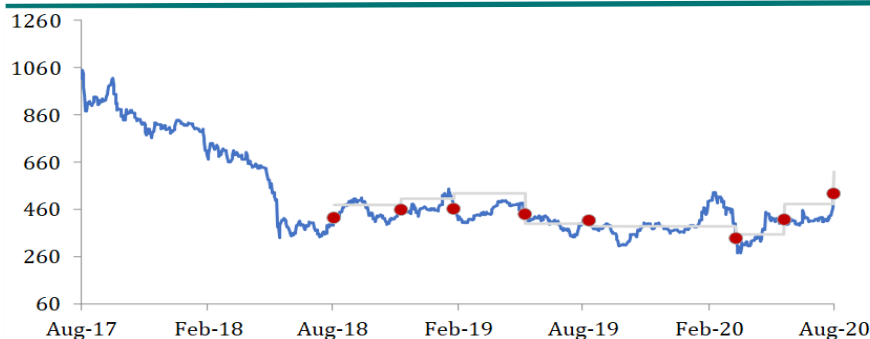
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	256	517	237	349	260
Account Receivable	882	987	932	1044	1181
Inventories	552	871	783	746	845
Other Cur. Assets	175	205	478	183	207
Investments	662	779	622	722	822
Gross Fixed Assets	807	1285	1490	1635	1785
Net Fixed Assets	665	1037	1069	1023	977
CWIP	322	102	148	177	197
Intangible Assets	2368	2934	975	925	875
Def. Tax (Net)	62	12	178	178	178
Other Assets	497	570	710	752	797
Total Assets	6478	8016	6131	6098	6339
Current Liabilities	895	1195	1171	1086	1152
Provisions	74	184	189	104	118
Debt Funds	1551	1806	604	504	404
Other Liabilities	402	467	343	476	539
Equity Capital	90	90	90	90	90
Reserves & Surplus	2365	2782	2438	2743	3140
Shareholder's Fund	2455	2872	2527	2832	3230
Total Liabilities	6478	8016	6131	6098	6339
BVPS	274	321	282	316	361

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	14	15.2	19.4	21.0	21.0
EBIT margin (%)	8.6	9.5	13.1	15.0	15.5
Net profit mgn.(%)	2.4	2.1	4.4	10.5	11.9
ROE (%)	2.7	2.3	4.5	12.5	14.1
ROCE (%)	9.9	10	14.3	16.8	17.3
W.C & Liquidity					
Receivables (days)	121	113	127	114	113
Inventory (days)	83	86	110	88	81
Payables (days)	108	103	91	77	85
Current ratio (x)	1.9	1.9	1.8	2.0	2.0
Quick ratio (x)	1.3	1.3	1	1.3	1.3
Turnover & Leverage					
Gross asset T.O (x)	2.9	2.9	2.0	2.0	2.1
Total asset T.O (x)	0.4	0.4	0.4	0.5	0.6
Int. covge. ratio (x)	1.2	1.4	2.3	3.5	5.0
Adj. debt/equity (x)	1	1.1	0.7	0.4	0.3
Valuation					
EV/Sales (x)	2.4	2.4	2.3	1.9	1.6
EV/EBITDA (x)	17.5	16	11.8	8.8	7.5
P/E (x)	67.9	75.3	38.9	14.0	11.0
P/BV (x)	1.9	1.6	1.9	1.7	1.5

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
9 th August 2018	Buy	480
15 th Nov 2018	Accumulate	507
31 st January 2019	Buy	530
15 th May 2019	Reduce	401
16 th August 2019	Reduce	391
17 th March 2020	Hold	357
26 th May 2020	Accumulate	485
7 th August 2020	Accumulate	621

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

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

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