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Company update and
earnings revision

Pharmaceuticals

Target price: Rs710

Earnings revision

(%)	FY21E	FY22E
Sales	-	0.3
EPS	0.6	12.6

Target price revision

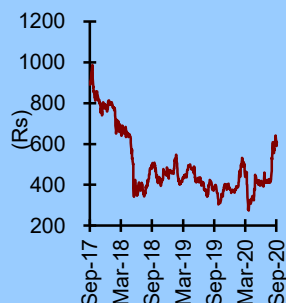
Rs710 from Rs631

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	31.3	31.3	29.7
Institutional investors	47.2	47.7	46.2
MFs and other Banks, FI's, Insurance co	16.2	15.1	15.6
FII's	3.8	3.8	3.8
FII's	27.2	28.8	26.8
Others	21.5	21.0	24.1

Source: BSE India

Price chart



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INDIA

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Strides Pharma Science

BUY

Maintained

Stelis turnaround to provide valuation upside

Rs608

Strides Pharma Science (Strides) holds 48.7% equity stake in Stelis Pharma on fully diluted basis and would invest additional US\$25mn to make it a subsidiary in next 9-12 months. Currently Stelis is loss making entity and negatively affects Strides' profitability. In FY20, the losses from JV & Associates stood at Rs1.1bn, of which Stelis accounted for ~70% of these losses while remaining pertained to consumer health business (CHC). Management expects Stelis to witness operational turnaround in FY22E which may provide 15-20% upside to Strides' earnings. We believe US market (ex-Ranitidine) would grow 10.0% CAGR over FY20-FY23E while company's consolidated EBITDA margin would sustain at 20-21%. Minimal capex requirement and healthy operational performance would help in generating FCFF of ~Rs12bn over FY21E-FY23E. Retain BUY.

► **Stelis turnaround expected in FY22E:** Stelis is primarily into BioPharma (biosimilars) and BioSource (CDMO of biosimilars). Within biosimilars, the company is working on several products in the categories of osteoporosis and insulins. In CDMO, it has developed fully integrated, multi-capable facilities for providing end-to-end biopharmaceutical development and manufacturing. Commercial supplies are expected to begin from Apr'21. Stelis is also commissioning a state of the art plant for vaccines which would be ready by Dec'20 with annual capacity of 60mn vaccines and 25mn lyophilized vaccines. The company is in discussions with global companies who are developing COVID-19 vaccines for contract manufacturing. The management expects Stelis to operationally break-even in FY22E.

► **Base business progressing well:** Strides performance recovered well in Q1FY21 and we expect gradual pick-up in US sales and EBITDA margin to continue. We estimate US sales quarterly run-rate to improve from US\$50mn in Q1FY21 to US\$65mn by Q4FY21 led by new launches and market share gain in existing products. EU business is growing strong and management remains confident of maintain this growth momentum. We estimate EU sales to grow at 13.7% CAGR over FY20-FY23E.

► **Outlook:** We expect a 12.7% revenue and 58.5% EPS CAGR over FY20-FY23E with margin improvement of 190bps driven by operating leverage and improving revenue mix. We have introduced FY23 estimates and expect revenue/EPS growth of 8.8/17.8%. 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 raise EPS estimates by 12.6% for FY22 as we remove losses of Stelis from our estimates assuming that it will become subsidiary in near future and will operationally break-even in FY22. Hence, we don't ascribe a separate value for its stake in Stelis. Maintain **BUY** rating with a revised target of Rs710 based on 17x FY22E EPS (earlier: Rs631/share). Key downside risks: Regulatory hurdles and pricing pressures in the US

Market Cap	Rs54.5bn/US\$748mn
Reuters/Bloomberg	STSA.BO/STR IN
Shares Outstanding (mn)	89.6
52-week Range (Rs)	653/271
Free Float (%)	70.3
FII (%)	26.8
Daily Volume (USD/'000)	8,958
Absolute Return 3m (%)	48.3
Absolute Return 12m (%)	60.4
Sensex Return 3m (%)	15.0
Sensex Return 12m (%)	7.8

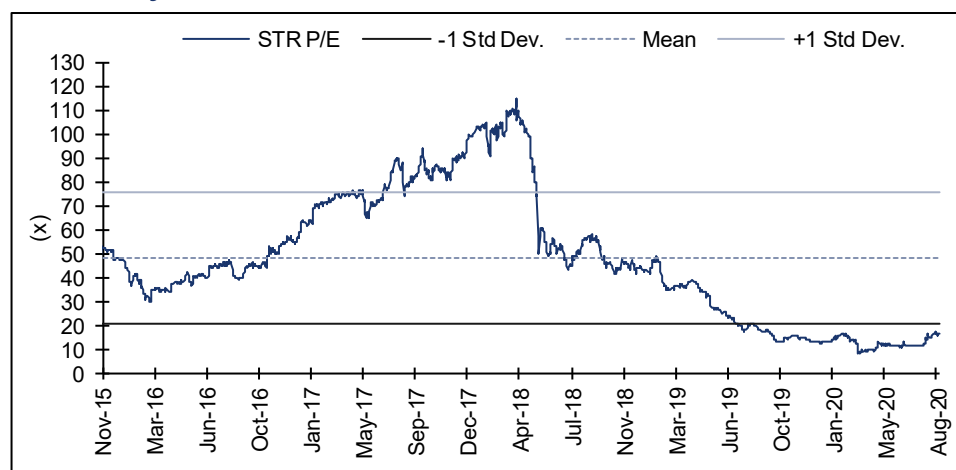
Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs mn)	27,637	32,877	36,180	39,378
Net Income (Rs mn)	1,425	2,504	3,742	4,409
EPS (Rs)	12.4	29.4	41.8	49.2
% Chg YoY	108.7	137.7	42.1	17.8
P/E (x)	49.2	20.7	14.6	12.4
CEPS (Rs)	31.8	51.3	64.5	73.5
EV/E (x)	12.9	9.8	8.5	7.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoCE (%)	5.8	7.5	9.4	10.1
RoE (%)	4.3	9.9	12.6	13.2

Please refer to important disclosures at the end of this report

Valuations

We expect earnings to grow at a CAGR of 58.5% for Strides over FY20-FY23E with revenue CAGR of 12.7% and EBITDA margin expansion of 190bps. We believe improvement in the US and EU revenue growth would be crucial for margin improvement and free cashflow generation. We remove losses of Stelis from our estimates assuming that it will become subsidiary in near future and will operationally break-even in FY22E and don't ascribe a separate value for its stake in Stelis. Maintain **BUY** on the stock with a revised target price of Rs710/share based on 17x FY22E earnings (earlier: Rs631/share).

Chart 1: 1-year forward P/E



Source: Company data, I-Sec research

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Regulated markets	23,783	27,900	30,870	33,812
Emer Mkt & Insti. Biz	3,854	4,977	5,310	5,566
Total Net Revenue	27,637	32,877	36,180	39,378
YoY Growth%	26.9	19.0	10.0	8.8
Total Op. Exp.	22,172	26,101	28,543	30,980
EBITDA	5,465	6,775	7,638	8,398
Margins %	19.8	20.6	21.1	21.3
YoY Growth%	113.7	24.0	12.7	10.0
Dep. & Amort.	1,737	1,963	2,039	2,172
EBIT	3,728	4,813	5,598	6,225
Other Income	(730)	(444)	56	75
Interest	1,557	1,411	1,304	1,174
EO Items	777	(488)	-	-
PBT	2,218	2,470	4,351	5,127
Tax	113	379	609	718
Tax Rate (%)	5.1	15.3	14.0	14.0
P/L from discount. Op.	(128)	-	-	-
Minority Interest	(58)	-	-	-
Reported PAT	2,035	2,091	3,742	4,409
Adj PAT	1,425	2,504	3,742	4,409
Net Margins (%)	5.2	7.6	10.3	11.2

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Paid-up Capital	896	896	896	896
Reserves & Surplus	24,379	27,123	30,543	34,630
Total Equity	25,274	28,019	31,438	35,525
Minority Interest	672	672	672	672
Total Debt	22,347	21,056	19,056	17,056
Deferred Liabilities	(1,778)	(1,778)	(1,778)	(1,778)
Capital Employed	46,516	47,970	49,389	51,476
Current Liabilities	13,016	16,639	18,202	19,715
Total Liabilities	59,532	64,608	67,591	71,191
Net Fixed Assets	25,116	24,653	24,114	24,941
Investments	4,304	4,304	6,179	6,179
Inventory	7,825	9,212	10,074	10,934
Debtors	9,317	11,131	12,249	13,332
Other Current Assets	9,957	10,671	11,111	11,536
Cash and Equivalents	3,012	4,638	3,865	4,269
Total Cur. Assets	30,111	35,651	37,298	40,071
Total Assets	59,532	64,608	67,591	71,191

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
PBT	419	3,446	4,351	5,127
Depreciation	1,737	1,963	2,039	2,172
Net Chg in WC	(3,262)	(1,890)	(1,047)	(1,039)
Taxes	(450)	(379)	(609)	(718)
Others	2,047	1,599	190	184
CFO	491	4,738	4,924	5,726
Capex	(1,736)	(1,500)	(1,500)	(3,000)
Net Investments made	13,362	-	(1,875)	-
Others	1,435	-	-	-
CFI	13,062	(1,500)	(3,375)	(3,000)
Change in Share capital	5	-	-	-
Change in Debts	(13,843)	(1,291)	(2,000)	(2,000)
Div. & Div Tax	(1,548)	(322)	(322)	(322)
Others	(962)	-	-	-
CFF	(16,348)	(1,613)	(2,322)	(2,322)
Total Cash Generated	(2,796)	1,626	(773)	404
Cash Opening Balance	5,167	2,371	3,997	3,224
Cash Closing Balance	2,371	3,997	3,224	3,628

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Adj. EPS	12.4	29.4	41.8	49.2
YoY Growth%	108.7	137.7	42.1	17.8
Cash EPS	31.8	51.3	64.5	73.5
EBITDA - Core (%)	19.8	20.6	21.1	21.3
NPM (%)	5.2	7.6	10.3	11.2
Net Debt to Equity (x)	0.6	0.4	0.3	0.2
P/E (x)	49.2	20.7	14.6	12.4
EV/EBITDA Core (x)	12.9	9.8	8.5	7.4
P/BV (x)	2.2	1.9	1.7	1.5
EV/Sales (x)	2.5	2.0	1.8	1.6
RoCE (%)	5.8	7.5	9.4	10.1
RoE (%)	4.3	9.9	12.6	13.2
RoIC (%)	5.3	7.3	9.3	10.0
Book Value (Rs)	282	313	351	397
DPS (Rs)	3.6	3.6	3.6	3.6
Dividend Payout (%)	0.6	0.6	0.6	0.6
Div Yield (%)	0.0	0.0	0.0	0.0
Asset Turnover Ratio	0.4	0.5	0.5	0.6
Avg Collection days	127	114	118	119
Avg Inventory days	136	119	123	124

Source: Company data, I-Sec research

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