

Retail Equity Research (South India Focus)

# Strides Pharma Science Ltd

Pharmaceuticals

BSE CODE : 532531

NSE CODE: STAR

BLOOMBERG CODE: STR:IN

SENSEX : 51,823

**Accumulate**

12 Months Investment Period

Rating as per Small Cap

**CMP Rs. 297 TARGET Rs.355 RETURN 20%**

Closing: (22-06-22)

**KEY CHANGES:**
**TARGET** ↓

**RATING** ↔

**EARNINGS** ↓

## Healthy sequential growth across geographies

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

- Strides reported its Q4FY22 revenue at Rs.866cr (9% QoQ, -4.7% YoY), with the US business (38% of total revenue) clocking 17% QoQ growth.
- Unusual price erosion and volume drops in the US led to contraction in EBITDA (-73.4% YoY) to Rs.42cr with EDITDA margin contracting 430 bps QoQ.
- Stelis Biopharma revenues were reported at \$17.7mn (from a zero base) in FY22, securing commercial sales value of \$85mn starting FY24.
- We expect a revenue CAGR of 20% over FY22-FY24E on the portfolio expansion, healthy order book, better cash flows and focus on debt & cost reduction.
- Hence, we reiterate our "Accumulate" rating based on 14x FY24E EPS at target price of Rs.355.

## Growth across segments

Strides reported its Q4FY22 revenues at Rs. 866cr (9% QoQ, -4.7% YoY) as growth was recorded across all segments. EBITDA contracted to Rs.42cr (-73.4% YoY) as unusual price erosion and volume drops weighed on margins. There was a 16% increase in employee cost, operating cost and other expenses. Air and sea freight cost witnessed a significant increase to Rs.75 cr from Rs.60 cr in Q3FY22. Owing to the inventory build-up due to weaker off-take, there was a significant increase in working capital cycle. Resultantly, Adj PAT was recorded at Rs.107cr. Revenues from the US (38% of total revenue FY22) market improved sequentially led by incremental contribution from the Chestnut Ridge portfolio whereas the Africa business reported a 24% YoY growth as the severity of covid was low in the country. In Q4FY22, the other regulated markets clocked its highest quarterly run rate with revenues at Rs.313.3cr despite covid challenges.

## US business to drive future growth

Strides expects the recovery in the US business led by new product launches and maintain the growth in other regulated markets through new product approvals and client acquisitions. Strides plans to reduce its debt by Rs.1000 cr by the end of FY23 through realization of deferred consideration. Normalization of inventory levels in the US will lead to superior free cash flow generation. The company also plans to exit small businesses that do not move the needle in terms of revenues and EBITDA which in turn will help in reducing debt. Consequent to the Chestnut Ridge acquisition, Strides adds new capabilities in hormones, controlled substances and nasal sprays.

## Stelis growth in FY23

Stelis Biopharma reported revenues of Rs.1.7 (from a zero base) through manufacturing services agreement, The company has onboarded 6 clients in its first year with another 6 clients in the first three months of this quarter. Stelis' vaccine AmbiVax, which is in-licensed from Akston Biosciences, has completed the full dosing of its phase three patients in India.

## Outlook and valuation

Strides continues to witness healthy sequential growth momentum despite various headwinds. Going forward, the company plans to focus on growth and profits and improve cashflows but also significantly reduce costs and debt. New launches in the US market and exiting non-profitable business will support earnings. Outlook for the other regulated markets continues to remain robust given strong order book visibility and new customer acquisition. Going forward, lower debt, higher cashflow and new portfolio contribution will be key catalysts. Hence, given our positive outlook, we reiterate our "Accumulate" rating based on 14x FY24E EPS and target price of Rs.355.

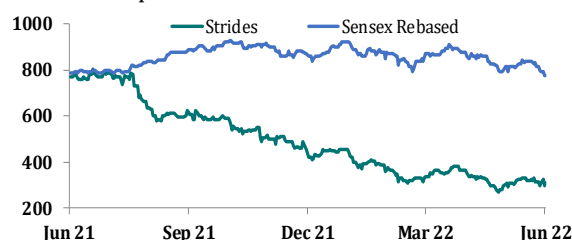
## Company Data

Market Cap (cr)	Rs.2,680
Enterprise Value (cr)	Rs.3,950
Outstanding Shares (cr)	9.0
Free Float	70.4%
Dividend Yield	0.8%
52 week high (Rs)	817
52 week low (Rs)	263
6m average volume (cr)	0.10
Beta	0.9
Face value (Rs)	10

Shareholding (%)	Q2FY22	Q3FY22	Q4FY22
Promoters	29.6	29.6	30.6
FPI's	24.9	19.8	19.6
MFs/Institutions	20.5	21.1	18.9
Public	25.0	29.5	30.9
Total	100.0	100.0	100.0

Price Performance	3 month	6 month	1 year
Absolute Return	-7.50%	-26.90%	-60.83%
Absolute Sensex	-11.24%	-9.91%	-1.84%
Relative Return*	3.74%	-16.98%	-58.98%

\*over or under performance to benchmark index



Consolidated (cr)	FY22	FY23E	FY24E
Sales	3,070	3,998	4,438
Growth (%)	-7.4	30.2	11.0
EBITDA	-10	428	597
EBITDA Margin(%)	-0.3	10.7	13.5
PAT Adj.	-211	67	227
Growth (%)	-	-	241.6
Adj.EPS	-23	7	25
Growth (%)	-	-	2.4
P/E	-12.6	40.0	11.7
P/B	1.1	1.1	1.0
EV/EBITDA	-516.3	9.7	7.2
ROE (%)	-8.2	2.8	9.1
D/E	1.1	0.6	0.6

## Quarterly Financials (Consolidated)

(Rs cr)	Q4FY22	Q4FY21	YoY Growth (%)	Q3FY22	QoQ Growth (%)	FY22	FY21	YoY Growth (%)
<b>Sales</b>	<b>866</b>	<b>909</b>	<b>-4.7</b>	<b>794</b>	<b>9.0</b>	<b>3070</b>	<b>3316</b>	<b>-7.4</b>
<b>EBITDA</b>	<b>42</b>	<b>159</b>	<b>-73.4</b>	<b>5</b>	<b>767</b>	<b>-10</b>	<b>627</b>	<b>-</b>
EBITDA margins %	4.9	17.5	-1260bps	0.6	430bps	-0.3	18.9	-
Depreciation	61	52	17	61	0	233	206	13.0
<b>EBIT</b>	<b>-18</b>	<b>108</b>	<b>-</b>	<b>-56</b>	<b>-</b>	<b>-243</b>	<b>421</b>	<b>-</b>
Interest	49	42	19	42	17.2	177	150	17.8
Other Income	86	13	560	10	751.5	132	51	157.8
Exceptional Items	-77	-1	-	-15	-	-244	43	
<b>PBT</b>	<b>-58</b>	<b>77</b>	<b>-</b>	<b>-106</b>	<b>-45.5</b>	<b>-522</b>	<b>357</b>	<b>-</b>
Tax	-132	11	-	-4	-	-178	32	-
Share of profit from Associate	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>30</b>	<b>46</b>	<b>-34.7</b>	<b>-126</b>	<b>-123.7</b>	<b>-455</b>	<b>228</b>	<b>-</b>
Adjustments	77	1	-	15	-	244	-43	-
<b>Adj PAT</b>	<b>107</b>	<b>47</b>	<b>126.8</b>	<b>107</b>	<b>-</b>	<b>-211</b>	<b>184</b>	<b>-</b>
No. of Shares	9.0	9.0	-	9.0	0.0	9.0	9.0	-
<b>Adj EPS (Rs)</b>	<b>11.9</b>	<b>5.2</b>	<b>126.8</b>	<b>-12.3</b>	<b>-</b>	<b>-50.6</b>	<b>25.5</b>	<b>-</b>

## Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	3,953	-	3,998	4,438	1.1	-
EBITDA	759	-	428	604	-43.6	-
Margins (%)	19.2	-	10.7	13.5	-	-
Adj. PAT	394	-	66.5	233	-83.1	-
EPS	44.2	-	7.4	26.0	-83.1	-

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
<b>Sales</b>	<b>2,752</b>	<b>3,316</b>	<b>3,070</b>	<b>3,998</b>	<b>4,438</b>
% change	-8.6	20.5	-7.4	30.2	11.0
<b>EBITDA</b>	<b>535</b>	<b>627</b>	<b>-10</b>	<b>428</b>	<b>597</b>
% change	17.1	17.2	-	-	39.5
Depreciation	174	206	233	237	258
EBIT	361	421	-243	190	339
Interest	156	150	177	171	140
Other Income	53	51	132	59	68
<b>PBT</b>	<b>162</b>	<b>357</b>	<b>-522</b>	<b>78</b>	<b>267</b>
% change	118.5	120.3	-	-	241.6
Tax	11	32	-178	12	40
Tax Rate (%)	7.0	8.9	34.1	15.0	15.0
<b>Reported PAT</b>	<b>44</b>	<b>228</b>	<b>-455</b>	<b>67</b>	<b>227</b>
Adj.*	78	-43	244	0	0
<b>Adj. PAT</b>	<b>121</b>	<b>184</b>	<b>-211</b>	<b>67</b>	<b>227</b>
% change	121.2	52.2	-	-	241.6
No. of shares (cr)	9	9	9	9	9
<b>Adj EPS (Rs)</b>	<b>13.5</b>	<b>20.6</b>	<b>-23.5</b>	<b>7.4</b>	<b>25.4</b>
% change	908	52	-	-	242
DPS (Rs)	3	3	3	3	3

### BALANCE SHEET

Y.E March (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Cash	237	180	187	262	302
Account Receivable	932	1,107	1,207	1,067	1,094
Inventories	783	1,201	1,174	1,183	1,375
Other Cur. Assets	478	604	644	767	851
Investments	622	766	553	653	753
Gross Fixed Assets	1,490	1,696	2,142	2,246	2,646
Net Fixed Assets	1,069	1,069	1,282	1,148	1,290
CWIP	148	228	56	100	100
Intangible Assets	975	1,099	1,111	1,061	1,011
Def. Tax (Net)	178	152	179	179	179
Other Assets	710	565	545	578	613
<b>Total Assets</b>	<b>6,131</b>	<b>6,968</b>	<b>6,939</b>	<b>6,999</b>	<b>7,570</b>
Current Liabilities	1,171	1,556	1,171	1,972	2,063
Provisions	189	192	187	241	267
Debt Funds	1,833	1,906	2,792	1,766	1,956
Other Liabilities	343	501	407	600	666
Equity Capital	90	90	90	90	90
Reserves & Surplus	2,438	2,687	2,269	2,306	2,503
Shareholder's Fund	2,527	2,776	2,359	2,395	2,592
<b>Total Liabilities</b>	<b>6,131</b>	<b>6,968</b>	<b>6,939</b>	<b>6,999</b>	<b>7,570</b>
BVPS	<b>282</b>	<b>310</b>	<b>263</b>	<b>268</b>	<b>290</b>

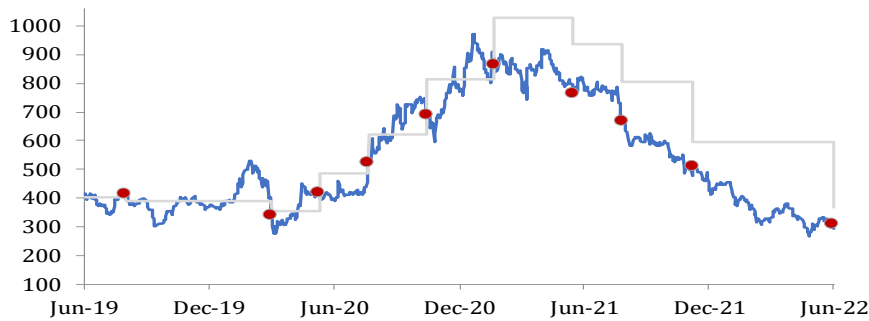
### CASH FLOW

Y.E March	FY20	FY21	FY22	FY23E	FY24E
Net inc. + Depn.	343	496	-420	316	525
Non-cash adj.	-46	95	41	140	-27
Changes in W.C	-326	-328	-190	809	-212
<b>C.F. Operation</b>	<b>205</b>	<b>481</b>	<b>-257</b>	<b>1168</b>	<b>299</b>
Capital exp.	-150	-297	-150	-400	-400
Change in inv.	1430	-200	19	-50	-50
Other invest.CF	55	16	12	-33	-35
<b>C.F - Investment</b>	<b>1306</b>	<b>-521</b>	<b>-119</b>	<b>-231</b>	<b>-485</b>
Issue of equity	69	3	4	0	0
Issue/repay debt	-1459	339	160	-1056	160
Dividends paid	-35	-18	-22	-30	-30
Other finance.CF	-79	-249	411	0	0
<b>C.F - Finance</b>	<b>-1709</b>	<b>-16</b>	<b>421</b>	<b>-863</b>	<b>226</b>
Chg. in cash	-198	-55	46	74	40
Closing cash	237	180	188	262	302

### RATIOS

Y.E March	FY20	FY21	FY22	FY23E	FY24E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	19.4	18.9	-0.3	10.7	13.5
EBIT margin (%)	13.1	12.7	-7.9	4.8	7.6
Net profit mgn.(%)	4.4	5.6	-6.9	1.7	5.1
ROE (%)	4.5	7.0	-8.2	2.8	9.1
ROCE (%)	14.3	15.1	-10.3	7.9	13.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	127	112	138	104	89
Inventory (days)	110	109	141	108	105
Payables (days)	91	78	106	88	95
Current ratio (x)	2	2	2	1	2
Quick ratio (x)	1.0	0.8	1.2	0.7	0.7
<b>Turnover &amp;Leverage</b>					
Gross asset T.O (x)	2.0	2.1	1.6	1.8	1.8
Total asset T.O (x)	0.4	0.5	0.4	0.6	0.6
Int. covge. ratio (x)	2.3	2.8	-1.4	1.1	2.4
Adj. debt/equity (x)	0.7	0.6	1.1	0.6	0.6
<b>Valuation</b>					
EV/Sales (x)	1.5	1.3	1.7	1.0	1.0
EV/EBITDA (x)	8.0	7.0	-516.3	9.7	7.2
P/E (x)	21.9	14.4	-12.6	40.0	11.7
P/BV (x)	1.1	1.0	1.1	1.1	1.0

## Recommendation Summary (last 3 years)



Dates	Rating	Target
31 <sup>st</sup> January 2019	Buy	530
15 <sup>th</sup> May 2019	Reduce	401
16 <sup>th</sup> August 2019	Reduce	391
17 <sup>th</sup> March 2020	Hold	357
26 <sup>th</sup> May 2020	Accumulate	485
7 <sup>th</sup> August 2020	Accumulate	621
2 <sup>nd</sup> November 2020	Accumulate	813
6 <sup>th</sup> February 2021	Accumulate	1,029
3 <sup>rd</sup> June 2021	Buy	936
13 <sup>th</sup> August 2021	Buy	804
25 <sup>th</sup> November 2021	Accumulate	594
23 <sup>rd</sup> June 2022	Accumulate	355

Source: Bloomberg, Geojit Research.

## 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/Neutral	-	-	-

### 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/ Neutral :** 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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Geojit Financial Services Ltd., Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

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