

Strides Pharma

Estimate change

TP change

Rating change

CMP: INR807
TP: INR930 (+15%)
Buy

US/Institutional business drives earnings

Work-in-progress to build a basket of COVID-19 products

- STR's 4QFY21 operational performance was marginally below our estimate. The robust performance in the US/Institutional segment within emerging markets was offset by subdued sales in other regulated markets on account of COVID-19. In addition to commercial manufacturing of the Sputnik vaccine by Oct'21, STR is building a basket of COVID-related medicines. The ANDA filing momentum is expected to pick-up in FY22, providing growth visibility in the US market.
- We cut our FY22E/FY23E earnings estimate by 6% each to account for increased opex associated with logistics and increased price erosion in select products. We value STR on a 12-month forward SoTP basis – EV/EBITDA of 12x/7x/6x for the Regulated/Emerging Markets/Institutional segment – to arrive at our TP of INR930/share. Maintain Buy.

Inferior product mix was more than offset by lower opex in 4QFY21

- Revenue grew 47% YoY to INR9.1b (est: INR8.5b) in 4QFY21.
- Emerging market sales more than doubled (107% growth) YoY to INR2.1b (23% of sales). US sales grew 46% YoY to INR4.3b (47% of sales). Other regulated market sales were up 20% YoY at INR2.7b (30% of sales).
- Gross margin contracted 100bp YoY to 59.1% due to inferior product mix. However, EBITDA margin expanded 400bp YoY to 17.5% (est: 19.7%) due to lower employee cost and other expenses (-310bp/-190bp as a percentage of sales). EBITDA grew 90% YoY to INR1.6b (est: INR1.7b).
- Adjusting for the forex loss and exceptional item, PAT stood at INR470m (est: INR706m).
- STR recorded a loss of INR198m in the Biotech and CHC segment in 4QFY21.
- Sales/EBITDA/adjusted PAT rose 21%/17%/43% YoY in FY21 at INR33.2b/INR6.3b/INR2b.

Highlights from the management commentary

- With US sales of USD215m in FY21, STR remains confident of achieving annual sales of USD400m over the next three years. There could be near-term hiccups on account of the ongoing pandemic.
- Stelis Biopharma (Stelis) has started validation of batches, which should conclude by Jun'21. It expects to launch the Sputnik V vaccine by Oct'21. Typically the validation-to-commercial batch scale is 1:10x.
- The funds raised at the Stelis level (USD125m) would be utilized for last mile capex related to the CDMO business, including setting up a 6KL mammalian block, and ramping up of process development and other technical capabilities. The usage of funds would be completed in FY22.
- STR holds 33% stake in Stelis post completion of the Series C funding.
- It witnessed a considerable QoQ increase in opex (INR1.3b) in 4QFY21 due to rise in freight cost and supply disruption on account of COVID-19.

Bloomberg	STR IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	72.4 / 1
52-Week Range (INR)	1000 / 388
1, 6, 12 Rel. Per (%)	-15/-10/40
12M Avg Val (INR M)	769
Free float (%)	70.3

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	33.2	39.5	43.6
EBITDA	6.3	7.9	9.0
Adj. PAT	2.0	3.7	4.5
EBIT Margin (%)	12.7	14.6	15.4
Cons. Adj. EPS (INR)	22.2	40.9	50.2
EPS Gr. (%)	45.8	84.5	22.7
BV/Sh. (INR)	310.5	341.5	379.5

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	7.5	12.5	13.9
RoCE (%)	8.8	11.0	12.0
Payout (%)	24.2	24.2	24.2

Valuations

P/E (x)	36.3	19.7	16.0
EV/EBITDA (x)	14.9	11.8	10.1
Div. Yield (%)	0.7	1.0	1.2
FCF Yield (%)	2.6	3.0	6.9
EV/Sales (x)	2.8	2.4	2.1

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	29.7	29.7	31.3
DII	16.1	16.7	18.9
FII	24.8	25.2	28.8
Others	29.4	28.5	21.1

FII Includes depository receipts

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 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- We cut our FY22E/FY23E earnings estimate by 6% each to reflect increased competition in select products, leading to lower realizations, near term impact of COVID-19 on the performance of other regulated markets, and increased operational cost related to freight and supply chain management.
- We expect 51% earnings CAGR over FY20-23E, led by 9%/22%/37% sales CAGR in the US/OTR/EM, supported by 230bp margin expansion.
- We roll our TP to INR910/share on a 12-month forward SoTP basis (EV/EBITDA of 12x/7x/6x for the Regulated/EM/Institutional segment). We remain positive on STR on the back of its healthy ANDA pipeline, better traction in other regulated markets, and new launches led improved order book for the Institutional business. Maintain Buy.

Consolidated quarterly earning model

(INR m)

Y/E March	FY20				FY21				FY20	FY21	FY21E 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	6,858	7,151	7,324	6,186	7,818	7,936	8,320	9,085	27,520	33,159	8,480	7.1
YoY Change (%)	3.4	37.6	28.5	0.4	14.0	11.0	13.6	46.9	26.3	20.5	37.1	
Total Expenditure	5,621	5,685	5,516	5,350	6,308	6,363	6,726	7,493	22,172	26,891	6,809	
EBITDA	1,237	1,466	1,808	837	1,510	1,572	1,594	1,592	5,347	6,268	1,672	-4.8
YoY Change (%)	188.9	20/3.2	150.6	-9.4	22.1	7.2	-11.8	90.2	109.3	17.2	99.7	
Margin (%)	18.0	20.5	24.7	13.5	19.3	19.8	19.2	17.5	19.4	18.9	19.7	
Depreciation	429	420	435	453	491	528	525	519	1,737	2,063	537	
EBIT	808	1,046	1,374	384	1,019	1,044	1,069	1,073	3,610	4,205	1,135	-5.4
YoY Change (%)	485.8	498.0	210.2	-38.8	26.1	-0.2	-22.2	179.9	161.2	16.6	195.8	
Margin (%)	11.8	14.6	18.8	6.2	13.0	13.2	12.8	11.8	13.1	12.7	13.4	-11.7
Interest	353	404	396	403	369	369	347	416	1,557	1,501	360	
Other Income	103	130	122	177	123	129	132	130	531	514	137	
PBT before EO expense	557	772	1,100	157	773	804	854	788	2,584	3,219	911	-13.6
Extra-Ord. expense	93	-845	-171	1,888	-488	-180	126	29	965	-514	0	
PBT	464	1,617	1,270	-1,731	1,261	984	729	759	1,619	3,733	911	-16.7
Tax	31	74	113	-105	33	61	108	115	113	317	129	
Rate (%)	6.7	4.6	8.9	6.0	2.6	6.2	14.8	15.1	7.0	8.5	14.1	
MI and (P)/L of Asso. Cos.	178	213	235	421	192	262	270	198	1,046	922	77	
Reported PAT from												
Continuing Ops.	254	1,331	922	-2,048	1,036	662	351	446	460	2,494	705	-36.8
Adj. PAT from												
Continuing Ops.	341	524	767	-274	560	493	458	470	1,358	1,981	706	-33.4
YoY Change (%)	-995.6	NA	203.3	NA	64.1	-5.9	-40.3	NA	72.1	45.8	NA	
Margin (%)	5.0	7.3	10.5	-4.4	7.2	6.2	5.5	5.2	4.9	6.0	8.3	

Key performance indicators (consolidated)

Y/E March	FY20				FY21				FY20	FY21	FY21E 4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Regulated Market	5,164	6,200	6,786	5,191	6,344	6,433	6,857	6,995	23,783	26,636	6,754
US	3,459	3,980	4,609	2,931	3,738	4,047	3,876	4,273	15,422	15,936	3,523
Other Regulated Markets	1,705	2,220	2,177	2,260	2,606	2,386	2,981	2,722	8,361	10,700	3,231
Emerging Markets	1,281	980	566	1,025	1,503	1,538	1,518	2,119	3,854	6,672	1,607
Africa	401	385	295	400	693	836	640	671	1,482	2,778	795
Institutional	880	595	271	625	810	702	878	1,448	2,372	3,894	812
Cost Break-up											
RM Cost (% of Sales)	46.0	41.8	35.6	39.9	38.7	38.9	42.1	40.9	40.8	40.2	42.1
Staff Cost (% of Sales)	14.2	15.3	15.2	20.1	16.6	17.4	15.4	16.9	16.1	16.6	14.7
Other Cost (% of Sales)	21.8	22.4	24.4	26.5	25.4	23.9	23.3	24.7	23.7	24.3	23.5
Gross Margin (%)	54.0	58.2	64.4	60.1	61.3	61.1	57.9	59.1	59.2	59.8	57.9
EBITDA Margin (%)	18.0	20.5	24.7	13.5	19.3	19.8	19.2	17.5	19.4	18.9	19.7
EBIT Margin (%)	11.8	14.6	18.8	6.2	13.0	13.2	12.8	11.8	13.1	12.7	13.4



Highlights from the management interaction

- Weak Flu season impacted winter portfolio in the US business.
- Despite low demand for Flu-related products, STR was able to deliver 10% QoQ growth in US sales, led by new launches, increased revenue from base products, and increased VA business.
- It filed 11 ANDAs, received 16 approvals, and launched six products in FY21.
- STR filed 18 new products in other regulated markets and received approvals for 16 products in FY21. Healthy order book and portfolio expansion are expected to sustain momentum in other regulated markets in FY22.
- The QoQ decline in other regulated markets was impacted by weak demand on account of the second COVID wave in the UK and Europe. STR is ready to launch Liposomal Amphotericin B in India in the face of the recent surge in COVID-19 associated mucormycosis cases. The product will be in the market in the next few days.
- Viral Vector facilities that are used for Sputnik V can be used for Gene therapy products, which can be exploited when the COVID-19 vaccine opportunity wanes.
- Stelis has a gross debt of INR4b at the end of FY21.
- STR has a net debt of INR1.2b at the end of FY21.

Valuation and view

Market share gains/new launches to drive growth in the US

US sales grew 17% YoY in FY21 after excluding FY20 Ranitidine sales. YoY growth in the US was driven by new launches, increased revenue contribution from base molecules, and addition of the Veteran Affairs (VA) business. STR has a healthy pipeline of 31 ANDAs pending approval. It received 16 ANDA approvals in FY21, providing visibility for new launches in coming quarters. We expect the business to post 12% sales CAGR to INR20b over FY21-23E.

OTR – COVID-19 to result in near-term moderation; outlook intact

STR reported superior performance, with 28% YoY growth in sales for FY21. Decline in prescriptions and weak hospital demand led to a lower (20% YoY) growth in 4QFY21. The ramp up of supplies to Arrotex continued during 4QFY21, driven by increased volume and expansion of product offerings. STR filed 18 new products and received 16 approvals in FY21. On the back of a healthy order book and portfolio expansion, we expect STR to report 20% sales CAGR to INR15.4b over FY21-23E.

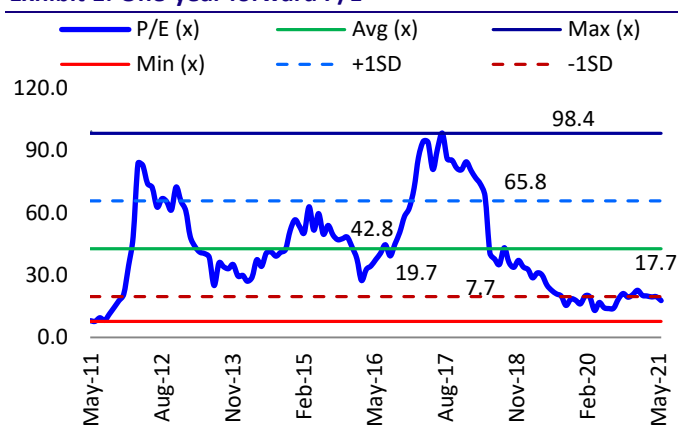
Emerging markets outperform

STR reported 73% YoY growth in its EM business in FY21, with sales growth being amplified in 4Q. The successful commercialization of TLD led to a sharp spike in the Institutional business. Newer tenders for the Institutional business, selective expansion, along with new introductions for the Africa business would enable 13% sales CAGR to INR3.5b over FY21-23E.

Outlook positive; Maintain Buy

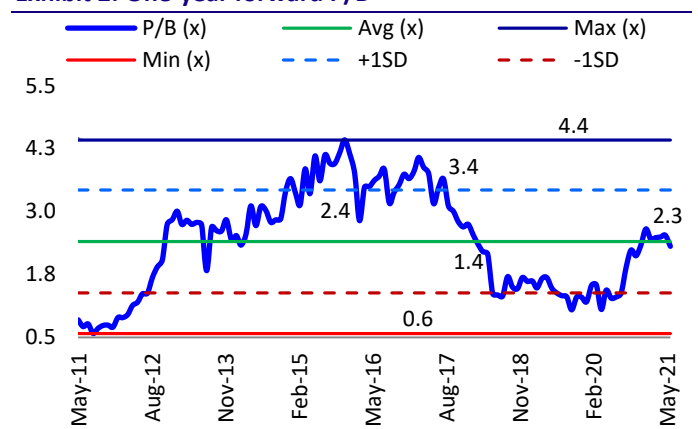
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- We roll our TP to INR910/share on a 12-month forward SoTP basis (EV/EBITDA of 12x/7x/6x for the Regulated/EM/Institutional segment). We remain positive on STR on the back of its healthy ANDA pipeline, better traction in other regulated markets, and new launches led improved order book for the Institutional business. Maintain Buy.

Exhibit 1: One-year forward P/E



Source: MOFSL, Company, Bloomberg

Exhibit 2: One-year forward P/B



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated Income Statement								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	11,959	28,622	34,834	28,394	21,784	27,520	33,159	39,491	43,627
Change (%)	-10.8	139.3	21.7	-18.5	-23.3	26.3	20.5	19.1	10.5
EBITDA	2,288	4,140	6,428	3,965	2,557	5,347	6,268	7,898	8,987
Margin (%)	19.1	14.5	18.5	14.0	11.7	19.4	18.9	20.0	20.6
Depreciation	640	1,313	1,872	1,540	1,174	1,737	2,063	2,127	2,281
EBIT	1,648	2,827	4,557	2,425	1,383	3,610	4,205	5,771	6,706
Int. and Finance Charges	474	1,682	2,269	1,962	793	1,557	1,501	1,498	1,502
Other Income	386	921	1,686	941	408	531	514	592	654
PBT bef. EO Exp.	1,560	2,067	3,973	1,403	998	2,584	3,219	4,866	5,859
EO Items	-74	-414	-1,006	-436	83	-965	514	0	0
PBT after EO Exp.	1,486	1,653	2,967	967	1,081	1,619	3,733	4,866	5,859
Total Tax	532	425	470	97	-269	113	317	511	674
Tax Rate (%)	35.8	25.7	15.8	10.1	-24.8	7.0	8.5	10.5	11.5
Minority Interest	-6	-88	458	168	457	1,014	922	700	700
Reported PAT from Continuing Ops.	16	1,317	2,039	702	893	492	2,494	3,655	4,485
Adj. PAT from Continuing Ops.	1,007	1,624	2,886	1,007	789	1,358	1,981	3,655	4,485
Change (%)	54.7	61.3	77.6	-65.1	-21.6	72.1	45.8	84.5	22.7
Margin (%)	8.4	5.7	8.3	3.5	3.6	4.9	6.0	9.3	10.3

Consolidated Balance Sheet								(INR m)	
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	596	894	894	895	895	896	896	896	896
Total Reserves	10,853	25,685	26,210	23,651	25,592	24,379	26,870	29,641	33,041
Net Worth	11,449	26,579	27,104	24,546	26,487	25,274	27,766	30,537	33,937
Minority Interest	187	502	1,640	1,547	1,530	672	373	373	373
Total Loans	8,917	35,418	36,997	29,494	37,609	21,865	22,962	22,462	21,762
Deferred Tax Liabilities	-54	-502	89	-615	327	-1,778	-1,519	-1,519	-1,519
Capital Employed	20,500	61,997	65,829	54,971	65,952	46,033	49,582	51,853	54,553
Gross Block	9,437	18,987	22,233	26,233	28,184	23,923	26,673	30,815	32,543
Less: Accum. Deprn.	3,792	1,468	2,771	4,311	5,485	7,222	9,285	11,412	13,693
Net Fixed Assets	5,645	17,520	19,462	21,922	22,699	16,701	17,388	19,403	18,850
Goodwill on Consolidation	1,368	9,267	9,670	9,147	13,776	4,286	4,805	4,805	4,805
Capital WIP	1,712	8,149	7,802	3,220	4,530	4,130	4,474	1,457	854
Total Investments	6,300	13,409	15,952	8,159	8,740	11,495	13,934	13,934	13,934
Curr. Assets, Loans and Adv.	9,668	25,256	27,582	21,721	28,322	22,921	27,567	31,609	36,452
Inventory	2,077	6,131	7,380	5,520	8,742	7,825	12,007	14,107	15,467
Account Receivables	3,900	10,330	9,971	8,822	9,872	9,317	11,069	13,308	14,821
Cash and Bank Balance	1,469	3,116	3,295	3,033	5,167	2,371	1,798	986	2,619
Loans and Advances	2,223	5,679	6,936	4,346	4,543	3,408	2,694	3,208	3,544
Curr. Liability and Prov.	4,194	11,605	14,638	9,220	12,137	13,520	18,608	19,377	20,364
Account Payables	2,065	7,836	7,521	7,121	8,890	7,978	11,786	11,252	11,389
Other Current Liabilities	1,268	2,943	5,986	1,364	1,447	3,647	4,906	5,843	6,455
Provisions	861	826	1,131	736	1,801	1,895	1,916	2,282	2,521
Net Current Assets	5,474	13,652	12,944	12,501	16,185	9,402	8,959	12,232	16,088
Appl. of Funds	20,500	61,997	65,829	54,971	65,952	46,033	49,582	51,853	54,553

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)									
EPS	11.3	18.2	32.3	11.3	8.8	15.2	22.2	40.9	50.2
Cash EPS	18.4	32.8	53.2	28.5	22.0	34.6	45.2	64.7	75.7
BV/Share	128.0	297.2	303.1	274.5	296.2	282.6	310.5	341.5	379.5
DPS	71.9	2.8	4.0	5.3	2.0	3.7	5.6	8.2	10.0
Payout (%)	43,880.3	19.8	21.2	68.1	20.1	82.4	24.2	24.2	24.2
Valuation (x)									
P/E	71.5	44.3	24.9	71.5	91.2	53.0	36.3	19.7	16.0
Cash P/E	43.7	24.5	15.1	28.3	36.7	23.3	17.8	12.4	10.6
P/BV	6.3	2.7	2.7	2.9	2.7	2.8	2.6	2.4	2.1
EV/Sales	6.6	3.6	3.0	3.5	4.8	3.3	2.8	2.4	2.1
EV/EBITDA	34.7	25.2	16.4	24.8	40.8	17.1	14.9	11.8	10.1
Dividend Yield (%)	8.9	0.3	0.5	0.7	0.2	0.5	0.7	1.0	1.2
FCF per share	-17.6	-32.7	-43.2	-23.7	-28.7	6.5	21.0	24.4	55.5
Return Ratios (%)									
RoE	9.4	8.5	10.8	3.9	3.1	5.2	7.5	12.5	13.9
RoCE	7.3	6.8	8.3	5.1	3.8	6.9	8.8	11.0	12.0
RoIC	10.8	8.7	10.1	5.5	3.9	8.9	13.4	15.9	16.3
Working Capital Ratios									
Fixed Asset Turnover (x)	1.3	1.5	1.6	1.1	0.8	1.2	1.2	1.3	1.3
Inventory (Days)	63	78	77	71	146	104	132	130	129
Debtor (Days)	119	132	104	113	165	124	122	123	124
Creditor (Days)	63	100	79	92	149	106	130	104	95
Leverage Ratio (x)									
Current Ratio	2.3	2.2	1.9	2.4	2.3	1.7	1.5	1.6	1.8
Interest Coverage Ratio	3.5	1.7	2.0	1.2	1.7	2.3	2.8	3.9	4.5
Net Debt/Equity	0.1	0.7	0.7	0.7	0.9	0.3	0.3	0.2	0.2

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	9,920	1,464	4,971	7,058	3,444	485	2,894	4,866	5,859
Depreciation	640	1,520	1,987	1,939	1,719	1,878	2,063	2,127	2,281
Interest and Finance Charges	163	998	1,521	1,827	1,746	1,449	1,136	905	848
Direct Taxes Paid	-560	-770	-586	-536	-558	-450	1,568	-511	-674
(Inc.)/Dec. in WC	-959	-3,417	-3,413	-1,907	-3,232	-3,262	-3,281	-4,085	-2,223
CF from Operations	9,205	-206	4,480	8,382	3,119	100	4,380	3,303	6,091
CF from Operating incl. EO	834	732	2,881	1,871	601	2,048	4,814	3,303	6,091
(Inc.)/Dec. in FA	-2,406	-3,658	-6,746	-3,994	-3,164	-1,463	-2,935	-1,125	-1,125
Free Cash Flow	-1,572	-2,925	-3,865	-2,123	-2,564	585	1,879	2,178	4,966
(Pur.)/Sale of Investments	4,515	286	1,269	12,413	2,560	13,090	-2,263	0	0
Others	-1,590	-18,876	-1,390	-2,593	-881	1,435	-32	592	654
CF from Investments	519	-22,248	-6,867	5,826	-1,485	13,062	-5,230	-533	-471
Issue of Shares	31	12,264	165	39	14	5	37	0	0
Inc./(Dec.) in Debt	3,208	18,789	5,962	-7,112	4,076	-13,843	1,378	-500	-700
Interest Paid	-381	-1,347	-2,370	-2,631	-1,995	-1,708	-1,394	-1,498	-1,502
Dividend Paid	-7,070	-251	-376	-453	-180	-1,539	-179	-884	-1,085
CF from Fin. Activity	-4,213	29,439	3,382	-10,157	1,943	-17,094	-158	-3,582	-3,987
Inc./Dec. in Cash	-2,860	7,924	-603	-2,460	1,058	-1,985	-573	-812	1,633
Opening Balance	5,860	2,984	11,107	5,151	2,562	3,659	1,823	1,249	438
Closing Balance	2,984	11,107	5,151	2,562	3,659	1,823	1,249	438	2,071
Other balances with banks	-1,515	-7,992	-1,856	472	1,507	548	548	548	548
Total cash and Cash equivalents	1,469	3,116	3,295	3,033	5,167	2,371	1,798	986	2,619

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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