

Retail Equity Research

# Strides Pharma Science Ltd.

Pharmaceuticals

BSE CODE : 532531

NSE CODE: STAR

BLOOMBERG CODE: STR:IN

SENSEX : 71,337

**Accumulate**

12 Months Investment Period

Rating as per Small Cap

**CMP Rs. 652 TARGET Rs. 731 RETURN ↑ 12%**

Closing: (26-12-2023)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↓

**EARNINGS** ↓

## Healthy growth across geographies...

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

- Strides reported its H1FY24 consolidated revenue at Rs.1,929cr (5% YoY) with continued momentum in both the U.S and regulated markets. The US markets witnessed a 17.1% YoY growth in H1FY24.
- Cost control measures and softening freight costs have resulted in an EBITDA expansion by 846bps in H1FY24 to Rs.320cr
- Strides plans to divest its Singapore facility to a Rxlinet Biohub and the Stellis plant to Syngene, thereby reduce debt.
- Driven by effective debt reduction, cost optimisation, growth in the US business owing to a strong pipeline and redefining CDMO business, we expect healthy traction in the coming quarters.
- However, in light of the recent rise in the prices and growing concerns on higher valuation, we downgrade our rating to "Accumulate" based on 36x FY26E EPS and a target price of Rs. 731.

## Revenue crossed Rs.1,000 cr in Q2FY24

Strides reported its H1FY24 consolidated revenue at Rs.1,929cr (5% YoY), with continued momentum in both the U.S. and regulated markets. New product launches and improvements in market share for existing products in new geographies supported the topline. US markets witnessed 17.1% YoY growth to Rs.969cr in H1FY24. Other regulated markets and emerging markets reported 12.5%/13.9% YoY growth to Rs.614cr/190cr owing to the strategic exit of certain low-margin products. Strides' gross margin saw an improvement driven by enhanced business mix and procurement synergies. But witnessed a degrowth in institutional business. Cost control measures and softening freight costs have resulted in an EBITDA expansion of 846bps in H1FY24 to Rs.320cr. However, during the first half, Strides reported a net loss of Rs.32cr, on account of loss incurred by Stelis Biopharma.

## Optimising manufacturing network & new launches to aid growth

As part of optimizing manufacturing facilities, Strides plans to divest the Singapore facility to a Rxlinet Biohub and the Stellis plant to Syngene. These will be expected to be completed in Q3 FY24 and will reduce the debt further. Moreover, the company currently has more than 260 active ANDAs and plans to launch 10-15 products annually in the U.S., improving future revenue visibility (~\$250 million in FY24). In the emerging markets, a robust product pipeline and new registrations in newer geographies are poised to propel growth in the short term.

## Redefining CDMO business as 'Onesource.'

Stelis Biopharma is strategically transitioning into the high-growth CDMO business "Onesource," aiming to achieve EBITDA and PAT positive in the H2FY24/FY25, respectively. In this transformation, Strides Pharma plans to demerge its Oral Soft Gelatin and SteriScience CDMO divisions, integrating them into Stelis Biopharma (OneSource). The company is currently awaiting regulatory approval for these changes and plans to subsequently list on stock exchanges.

## Outlook and valuation

New product launches in the US and cost optimisation measures will drive earnings ahead. The outlook for the other regulated markets continues to remain robust, given strong order book visibility. Stelis is likely to benefit from both an improving balance sheet and a promising uptick in revenue. However, in light of the recent rise in the prices and growing concerns on higher valuation, we downgrade our rating to "Accumulate" based on 36x FY26E EPS and a target price of Rs. 731.

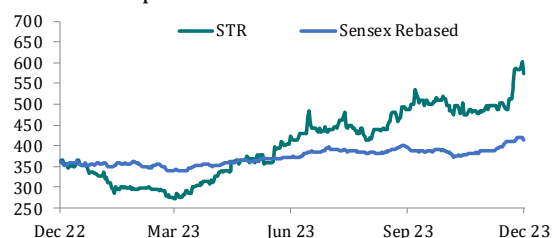
## Company Data

Market Cap (Rs cr)	6,046
Enterprise Value (Rs cr)	8,454
Outstanding Shares (cr)	9.2
Free Float (%)	0.73
Dividend Yield(%)	0.2%
52 week high (Rs)	763
52 week low (Rs)	509
6m average volume (cr)	0.08
Beta	1.1
Face value (Rs)	10.0

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	28.3	28.1	27.8
FPI's	18.9	16.7	17.3
MFs/Institutions	17.9	19.6	19.5
Public	34.6	35.2	35.1
Total	100.0	100.0	100.0
Promoter pledge	67.4	67.4	67.4

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27.4%	53.2%	90.1%
Absolute Sensex	7.9%	11.7%	17.8%
Relative Return*	19.5%	41.5%	72.2%

\*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	4,110.3	4,482.1	4,907.1
Growth (%)	11.4	9.0	9.5
EBITDA	489.1	555.8	608.5
EBITDA Margin(%)	11.9	12.4	12.4
PAT Adj.	90.1	147.9	183.3
Growth (%)	67.4	64.2	24.0
Adj.EPS	10.0	16.4	20.3
Growth (%)	67.4	64.2	24.0
P/E	65.7	40.0	32.3
P/B	2.6	2.4	2.3
EV/EBITDA	16.6	13.7	12.3
ROE (%)	4.0	6.3	7.3
D/E	1.0	0.7	0.6

Vinod T P  
Research Analyst

## Quarterly Financials (Consolidated)

(Rs cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
<b>Sales</b>	<b>999</b>	<b>897</b>	<i>11.4</i>	<b>930</b>	<i>7.5</i>	<b>1,929</b>	<b>1,837</b>	<i>5.0</i>
<b>EBITDA</b>	<b>153</b>	<b>98</b>	<i>56.5</i>	<b>167</b>	<i>-7.9</i>	<b>320</b>	<b>149</b>	<i>114.4</i>
EBITDA margins	15.3	10.9	<i>442 bps</i>	17.9	<i>-256 bps</i>	16.6	8.1	<i>846 bps</i>
Depreciation	60	62	<i>-2.6</i>	60	<i>0.9</i>	120	122	<i>-2.0</i>
<b>EBIT</b>	<b>93</b>	<b>36</b>	<i>156.7</i>	<b>107</b>	<i>-12.8</i>	<b>200</b>	<b>27</b>	<i>637.8</i>
Interest	79	68	<i>16.2</i>	76	<i>2.8</i>	155	122	<i>26.9</i>
Other Income	36	23	<i>52.9</i>	9	<i>314.7</i>	44	37	<i>0.2</i>
Exceptional Items	-165	15	<i>0.0</i>	-6	<i>0.0</i>	-171	-51	<i>-</i>
<b>PBT</b>	<b>-114</b>	<b>25</b>	<i>-554.2</i>	<b>33</b>	<i>-444.6</i>	<b>45</b>	<b>-95</b>	<i>-147.6</i>
Tax	-7	-38	<i>-80.6</i>	10	<i>-176.9</i>	2	-66	<i>-103.4</i>
Share of profit from Associate								<i>-</i>
<b>Reported PAT</b>	<b>-149</b>	<b>19</b>	<i>-896.5</i>	<b>-9</b>	<i>1,484.7</i>	<b>-32</b>	<b>-130</b>	<i>-75.2</i>
Adjustments	0	-15		0		0	51	<i>0.0</i>
<b>Adj PAT</b>	<b>-149</b>	<b>4</b>	<i>-3,643.5</i>	<b>-9</b>	<i>1,484.7</i>	<b>-32</b>	<b>-79</b>	<i>-59.0</i>
No. of Shares	9	9		9	<i>0.0</i>	9	10	<i>-0.1</i>
<b>Adj EPS (Rs)</b>	<b>-16</b>	<b>0</b>	<i>-3,570.3</i>	<b>-1</b>	<i>1,484.7</i>	<b>0</b>	<b>0</b>	<i>0</i>

## Change in Estimates

Year / Rs Cr	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY2E	FY25E	FY26E	FY24E	FY25E
Revenue	4,028	4,416	4,110	4,482	4,907	2.0	1.5
EBITDA	532	627	489	556	608	-8.1	-11.4
Margins (%)	13.21	14.20	11.90	12.40	12.40	-131 bps	-180 bps
Adj. PAT	166.5	262.2	90.1	147.9	183.3	-45.9	-43.6
EPS	18.5	29.1	6.0	16.4	20.3	-67.8	-43.7

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales</b>	<b>3,070</b>	<b>3,688</b>	<b>4,110</b>	<b>4,482</b>	<b>4,907</b>
% change	-7.4	20.1	11.4	9.0	9.5
<b>EBITDA</b>	<b>-21</b>	<b>430</b>	<b>489</b>	<b>556</b>	<b>608</b>
% change	-103.3	-2183.9	13.9	13.6	9.5
Depreciation	233	243	242	252	266
EBIT	-254	186	247	304	342
Interest	177	261	195	180	176
Other Income	132	90	54	50	50
<b>PBT</b>	<b>-542</b>	<b>-1</b>	<b>106</b>	<b>174</b>	<b>216</b>
% change	-251.9	-99.7	-7281.0	64.2	24.0
Tax	-178	-55	16	26	32
Tax Rate	32.87	3746.89	15.00	15.00	15.00
<b>Reported PAT</b>	<b>-475</b>	<b>-231</b>	<b>90</b>	<b>148</b>	<b>183</b>
Adj.*	244	285	0	0	0
<b>Adj. PAT</b>	<b>-231</b>	<b>54</b>	<b>90</b>	<b>148</b>	<b>183</b>
% change	-225.4	-123.3	67.4	64.2	24.0
No. of shares (cr)	9	9	9	9	9
<b>Adj EPS (Rs)</b>	<b>-25.7</b>	<b>6.0</b>	<b>10.0</b>	<b>16.4</b>	<b>20.3</b>
% change	-225.0	-123.2	67.4	64.2	24.0
DPS (Rs)	3	0	0	3	3

### BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	187	316	157	598	697
Account Receivable	1,207	1,299	1,498	1,535	1,681
Inventories	1,174	1,146	1,409	1,312	1,348
Other Cur. Assets	644	140	207	258	296
Investments	553	502	452	502	552
Gross Fixed Assets	2,103	2,046	2,155	2,257	2,457
Net Fixed Assets	1,457	1,324	1,173	1,006	922
CWIP	56	48	45	45	45
Intangible Assets	1,111	1,077	984	975	967
Def. Tax (Net)	179	220	260	290	330
Other Assets	370	598	616	635	654
<b>Total Assets</b>	<b>6,940</b>	<b>6,673</b>	<b>6,803</b>	<b>7,156</b>	<b>7,491</b>
Current Liabilities	1,171	1,086	1,236	1,446	1,641
Provisions	187	196	225	246	269
Debt Funds	2,792	2,774	2,424	2,374	2,324
Other Liabilities	407	365	575	627	638
Equity Capital	90	90	90	90	90
Reserves & Surplus	2,270	2,122	2,212	2,333	2,489
Shareholder's Fund	2,359	2,212	2,302	2,423	2,579
<b>Total Liabilities</b>	<b>6,939</b>	<b>6,673</b>	<b>6,803</b>	<b>7,156</b>	<b>7,491</b>
<b>BVPS</b>	<b>263</b>	<b>245</b>	<b>255</b>	<b>268</b>	<b>286</b>

### CASH FLOW

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	-420	-24	348	426	482
Non-cash adj.	350	439	208	174	167
Changes in W.C	-190	-458	-378	219	-24
<b>C.F. Operation</b>	<b>-258</b>	<b>44</b>	<b>179</b>	<b>819</b>	<b>625</b>
Capital exp.	-68	-88	-88	-84	-182
Change in inv.	-63	-138	142	-41	-41
Other invest.CF	12	528	-18	-18	-19
<b>C.F - Investment</b>	<b>-119</b>	<b>302</b>	<b>36</b>	<b>-143</b>	<b>-243</b>
Issue of equity	4	1	0	0	0
Issue/repay debt	183	75	-350	-50	-50
Dividends paid	-22	0	0	-27	-27
Other finance.CF	258	-328	-25	-158	-206
<b>C.F - Finance</b>	<b>421</b>	<b>-214</b>	<b>-375</b>	<b>-235</b>	<b>-283</b>
Chg. in cash	45	133	-159	441	99
Closing cash	171	381	157	598	697

### RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	-0.7	11.6	11.9	12.4	12.4
EBIT margin (%)	-8.3	5.1	6.0	6.8	7.0
Net profit mgn.(%)	-7.5	1.5	2.2	3.3	3.7
ROE (%)	-9.0	2.4	4.0	6.3	7.3
ROCE (%)	-10.7	8.4	10.7	12.5	13.3
<b>W.C &amp; Liquidity</b>					
Receivables (days)	138	124	124	123	120
Inventory (days)	141	115	113	111	99
Payables (days)	106	68	74	87	83
Current ratio (x)	2	2	2	2	2
Quick ratio (x)	1.2	1.5	1.3	1.5	1.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	1.8	2.0	2.2	2.3	2.3
Total asset T.O (x)	0.4	0.5	0.6	0.6	0.7
Int. covge. ratio (x)	-1.4	0.7	1.3	1.7	1.9
Adj. debt/equity (x)	1.1	1.1	1.0	0.7	0.6
<b>Valuation</b>					
EV/Sales (x)	2.8	2.3	2.0	1.7	1.5
EV/EBITDA (x)	-410.6	19.4	16.6	13.7	12.3
P/E (x)	-25.5	109.9	65.7	40.0	32.3
P/BV (x)	2.5	2.7	2.6	2.4	2.3

## Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
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
11 <sup>th</sup> August 2022	Accumulate	402
28 <sup>th</sup> February 2023	Buy	363
26 <sup>th</sup> December 2023	Accumulate	731

## Investment Criteria

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

### 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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