

Strides Shasun

BSE SENSEX 31,214 S&P CNX 9,711

CMP: INR876

TP: INR1,300(+48%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	STR IN
Equity Shares (m)	89.4
M.Cap.(INRb)/(USDb)	78.3 / 1.2
52-Week Range (INR)	1259 / 849
1, 6, 12 Rel. Per (%)	-9/-36/-37
Avg Val, INRm	431
Free float (%)	68.9

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	34.8	43.9	54.5
EBITDA	6.4	8.3	11.0
PAT	2.9	4.2	6.7
EPS (INR)	32.3	47.4	74.8
Gr. (%)	108.2	46.9	57.9
BV/Sh (INR)	303.3	341.1	401.5
RoE (%)	10.7	14.7	20.2
RoCE (%)	7.8	9.2	12.2
P/E (x)	27.2	18.5	11.7
P/BV (x)	2.9	2.6	2.2

Estimate change ↔

TP change ↔

Rating change ↔

Maintain positive stance despite muted 1QFY18

- **Sales increased 10% YoY to INR8.4b in 1QFY18**, led by higher regulated market formulation and API sales. EBITDA margin shrunk sharply from 16.8% in 1QFY17 to 10.4% in 1QFY18 due to pricing pressure in some products in the US and an inferior product mix in anti-malaria. PAT thus declined to INR58m from INR334m in the year-ago period.
- **Moderate revenue growth for the quarter...**Regulated market sales (50% of total) rose 12% YoY, led by a niche portfolio in the US, increased product offering and enhanced reach in Australia. However, growth was partly offset by pricing pressure in legacy products in the US market. Emerging market sales (32% of total) rose 7% YoY, led by Africa branded and institutional ARVs. API sales (18% of total) were steady, with an increase of 11% YoY.
- **...but segment-specific levers on track:** STR has filed five ANDAs YTD and 29 are pending for approval. It maintained the guidance of 15-20 filings in FY18. In Australia, STR is on track to increase distribution and also outsourcing from India. Partners of STR are expected to receive approval for Sevelamer in the near term, driving API sales. Based on this, STR remains confident of at least 20% YoY revenue growth in FY18, subject to product approvals.
- **Inspection update:** STR had four USFDA inspections in Q1FY18, of which, three had zero 483. The Bangalore facility was issued 483 with three observations. However, there has been product approval post inspection, indicating minimal regulatory risk over the medium term.
- **Valuation view:** We remain positive on STR, given its R&D capabilities, vertical integration, strong compliance culture and diversified presence. We continue valuing STR on SOTP basis, and maintain **Buy** with TP of INR1,300.

Quarterly Performance (Consolidated)

Y/E March	FY17				FY18				FY17	FY18E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	7,895	9,535	9,335	8,884	8,418	10,543	12,197	12,739	34,834	43,898
YoY Change (%)	28.8	33.3	7.6	-3.9	6.6	10.6	30.7	43.4	11.6	26.0
Total Expenditure	6,573	8,101	7,338	7,315	7,545	8,466	9,648	9,898	28,406	35,557
EBITDA	1,323	1,434	1,997	1,569	873	2,077	2,549	2,841	6,428	8,340
Margins (%)	16.8	15.0	21.4	17.7	10.4	19.7	20.9	22.3	18.5	19.0
Depreciation	424	468	475	529	511	525	518	514	1,872	2,068
Interest	559	617	538	592	640	500	440	413	2,269	1,993
Other Income	208	658	202	731	361	250	300	406	1,686	1,317
PBT before EO expense	547	1,008	1,185	1,179	82	1,302	1,891	2,320	3,973	5,596
Extra-Ord expense	60	0	805	17	58	0	0	0	1,002	58
PBT	487	1,008	380	1,162	24	1,302	1,891	2,320	2,971	5,538
Tax	88	152	78	175	-33	208	321	380	470	876
Rate (%)	18.1	15.1	20.6	15.0	-136.9	16.0	17.0	16.4	15.8	15.8
Minority Interest & Profit/Loss of Asso.	65	114	1	-7	0	0	0	0	462	0
Reported PAT from Continuing Ops.	334	741	300	994	58	1,094	1,570	1,940	2,039	4,662
Adj. PAT from Continuing Ops.	383	741	940	1,009	194	1,094	1,570	1,940	2,883	4,711
YoY Change (%)	260.9	106.9	59.6	471.5	-25.4	923.1	2,534.9	311.5	136.7	63.4
Margins (%)	4.9	7.8	10.1	11.4	2.3	10.4	12.9	15.2	8.3	10.7

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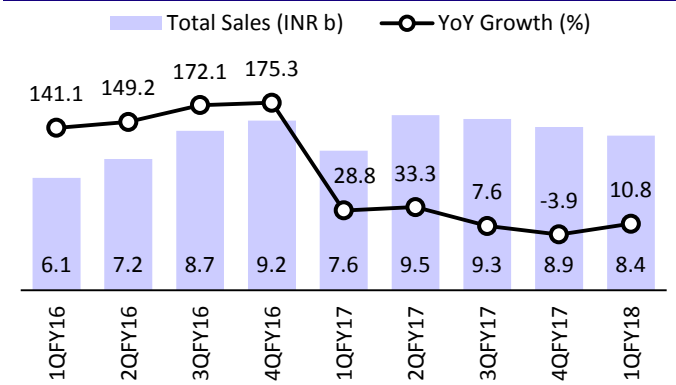
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Higher competition in some products in US and GST-led hiccups affected overall performance

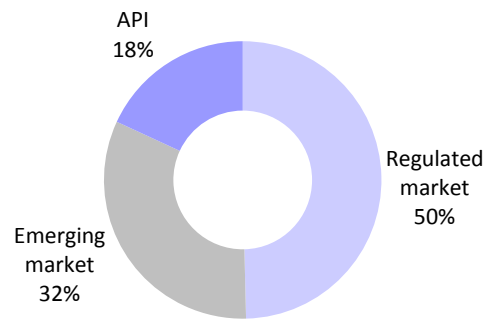
Sales grew at subdued rate of 10.8% YoY to INR8.4b for the quarter. Regulated market, comprising US and Australia, continued to form majority of total sales for the quarter. Within regulated market, the partnered products which constituted bulk of North America sales faced intense competition due to increased pace of approvals and increased pricing pressure, adversely affecting overall growth for the quarter. Even India business growth was affected on account of GST.

Exhibit 1: YoY growth to revive in coming quarters



Source: MOSL, Company

Exhibit 2: Sales breakdown (1QFY18)

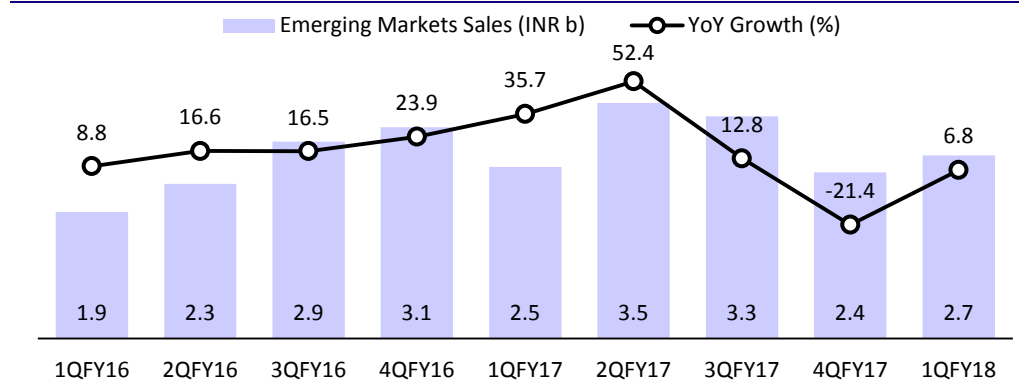


Source: MOSL, Company

Wait continues for big approvals

Regulated market sales at INR4.1b grew 11.9% YoY for the quarter. STR’s own niche portfolio saw good traction and increase in market share driving growth in US sales. Even in Australia, STR continued to expand portfolio and increase reach, driving overall regulated market sales. The sales growth was offset to some extent by price cuts in partnered products. STR intends to continue to increase exposure to its own product to minimize the adverse effects of partnered products.

Exhibit 3: Product approval to reverse downtrend of YoY growth in regulated market sales



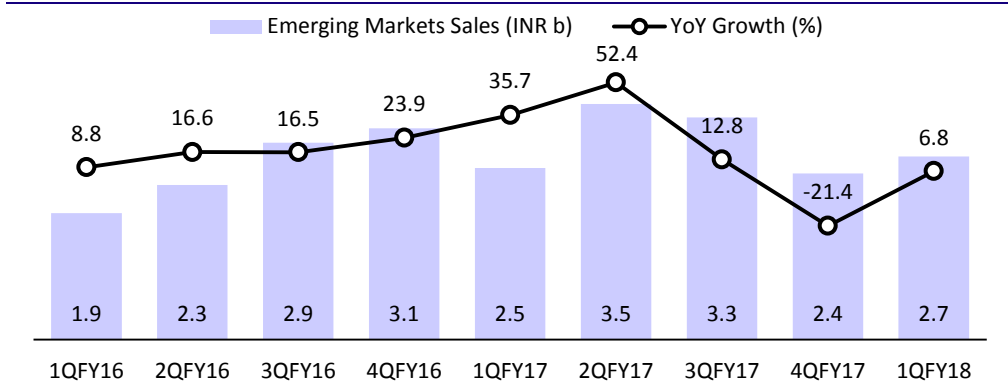
Source: MOSL, Company

STR’s recent approval would drive revenue growth to some extent in coming quarters. STR is anticipating key approvals in course of Q2FY18, which would drive considerable growth in regulated market business.

Africa branded generics and ARVs drive emerging market sales

Emerging market sales, comprising India and Africa branded generics and Institutional sales, grew 6.8% YoY to INR2.7b. The growth was largely driven by strong growth in Africa branded business. The key brands in Africa continued to show good strength and primary sales was on track with secondary sales. Recovery in ARV business led Institutional business and thereby driving emerging market business. However, Implementation of GST and inferior product mix in anti-malaria affected emerging market growth for the quarter.

Exhibit 4: Growth to remain on uptrend



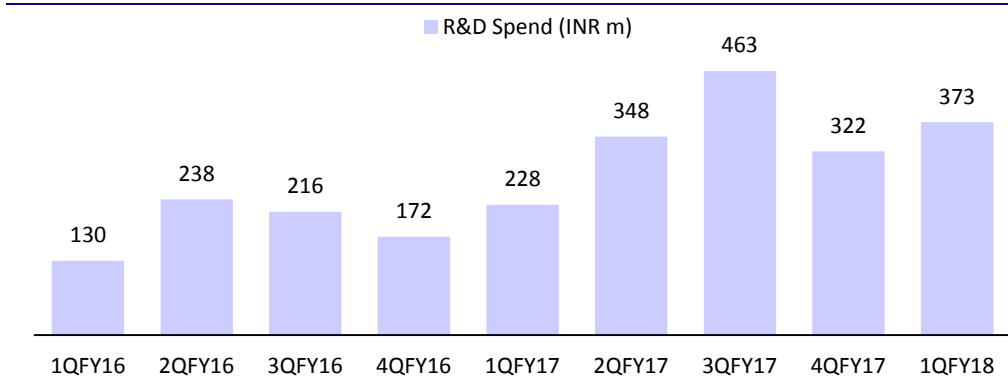
Source: MOSL, Company

With successful completion of WHO regulatory inspection at Kenya facility (UCL), STR remains in good stead of procuring business with regulatory approved local manufacturing facility. STR continues to expand product portfolio in ARV as well as anti-malaria and transfer existing institutional business to UCL. The supplies from UCL are expected to commence from 2HFY18.

STR to file 15-20 ANDAs in FY18

STR spent INR373m towards product development during the quarter. STR maintained its momentum of filing ANDAs with 5 filings in YTD. It maintained its guidance of filing 15-20 ANDAs in FY18. STR has about 67 cumulative ANDA filings till date. It received 6 new products, taking ANDAs pending for approval to 29. The pending ANDAs comprises of 7 topicals, 3 modified release, 2 soft gelatin, 5 hard gelatin and 11 tablets.

Exhibit 5: Quarterly R&D spend to remain stable



Source: MOSL, Company

Other key highlights:

- STR had four USFDA inspections in Q1FY18, out of which, three had Zero 483. The Bangalore facility was issued 483 with 3 observations. However, there has been product approval post inspection indicating minimal regulatory risk over medium term
- STR received key approvals from Competition Commission of India, stock exchanges and SEBI for demerger of API business. STR is in process of seeking clearance from National Company Law Tribunal, shareholder approval and creditor approval.
- JV with Vivimed has achieved closure.

Valuation and view

Though 1QFY18 performance was muted, we remain positive on STR on the back of niche product pipeline pending for approval, ongoing aggressive ANDA filings, sound compliance track record, vertical manufacturing integration and presence in diversified markets to drive better performance going forward.

We believe STR is poised for strong improvement in return ratios. Including API business, we expect 21.5% sales CAGR, 26% EBITDA CAGR, and 42% PAT CAGR over FY17-20.

We value STR on sum-of-the-parts (SOTP), valuing the pharma business at 18x FY19E earnings (industry average P/E multiple for midcap pharma) and Solara at an EV of 13x FY19E EBITDA to arrive at a price target of INR1,300. Maintain Buy on the stock.

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Net Sales	9,618	13,410	11,959	28,622	34,834	43,898	54,479	62,414
Change (%)	-62.3	39.4	-10.8	139.3	21.7	26.0	24.1	14.6
EBITDA	1,006	2,235	2,288	4,139	6,428	8,341	11,032	12,857
EBITDA Margin (%)	10.5	16.7	19.1	14.5	18.5	19.0	20.3	20.6
Depreciation	309	565	640	1,313	1,872	2,068	2,171	2,247
EBIT	697	1,670	1,648	2,827	4,557	6,273	8,861	10,610
Interest	795	1,089	474	1,682	2,269	1,993	1,686	1,527
Other Income	342	602	386	921	1,686	1,317	1,362	1,311
Extraordinary items	7,001	-266	-74	-461	-1,002	-58	0	0
PBT	7,246	918	1,486	1,606	2,971	5,539	8,537	10,393
Tax	112	409	532	425	470	876	1,350	1,644
Tax Rate (%)	1.5	44.5	35.8	26.4	15.8	15.8	15.8	15.8
Min. Int. & Assoc. Share	11	6	-6	135	462	476	500	525
Reported PAT	7,123	503	959	1,046	2,039	4,187	6,687	8,225
Adjusted PAT	230	3,487	1,950	1,385	2,883	4,236	6,687	8,225
Change (%)	-87.4	1,416.5	-44.1	-29.0	108.2	46.9	57.9	23.0

Balance Sheet						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	588	596	596	894	894	894	894	894
Reserves	19,675	9,473	10,853	25,685	26,210	29,587	34,980	41,613
Net Worth	20,263	10,068	11,449	26,579	27,104	30,481	35,874	42,507
Debt	15,945	5,466	8,917	38,025	42,232	39,107	35,832	32,057
Deferred Tax	0	0	0	0	0	0	0	0
Total Capital Employed	0	0	0	0	0	0	0	0
Gross Fixed Assets	18,240	8,039	9,437	28,578	32,901	35,017	36,304	37,515
Less: Acc Depreciation	4,976	3,528	3,792	5,104	6,976	9,043	11,214	13,462
Net Fixed Assets	13,264	4,511	5,645	23,474	25,925	25,973	25,089	24,053
Capital WIP	2,415	995	1,712	2,942	2,045	889	754	759
Investments	1	4,430	6,300	13,085	15,897	15,897	14,997	14,997
Current Assets	15,378	9,993	9,668	25,462	27,335	31,062	37,742	43,664
Inventory	4,423	1,760	2,077	6,131	7,380	9,238	11,287	12,875
Debtors	4,832	3,640	3,900	10,330	9,971	12,565	15,593	17,865
Cash & Bank	1,658	2,312	1,469	3,116	3,295	829	399	939
Loans & Adv, Others	4,465	2,281	2,223	5,885	6,690	8,430	10,462	11,986
Curr Liabs & Provns	10,762	4,655	4,194	8,998	9,340	11,707	14,350	16,383
Curr. Liabilities	9,363	3,557	3,334	8,704	8,910	11,165	13,677	15,612
Provisions	1,399	1,098	861	294	430	542	673	771
Net Current Assets	4,616	5,338	5,474	16,464	17,995	19,355	23,392	27,281
Total Assets	37,198	16,308	20,500	65,232	71,531	71,784	73,902	76,760

Financials and Valuations

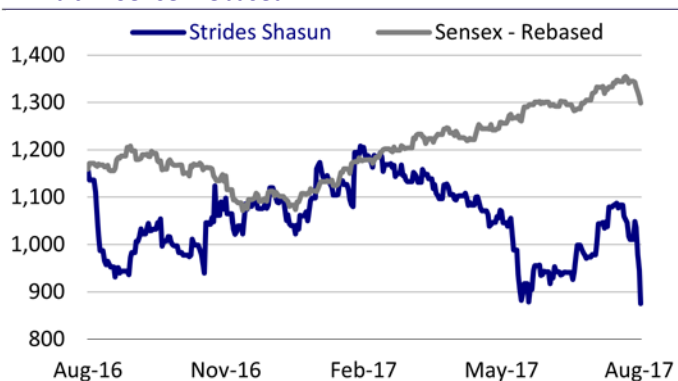
Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)								
EPS	2.6	7.3	11.3	15.5	32.3	47.4	74.8	92.1
Cash EPS	6.0	13.6	18.4	30.2	53.2	70.5	99.1	117.2
Book Value	226.8	112.7	128.1	297.5	303.3	341.1	401.5	475.7
DPS	1.3	336.8	72.0	4.8	3.7	7.5	12.0	14.7
Payout (incl. Div. Tax.)	1.9	-1,410.0	43,880.3	49.1	19.3	19.3	19.3	19.3
Valuation(x)								
P/E	0.0	0.0	77.7	56.5	27.2	18.5	11.7	9.5
Price / Book Value	0.0	0.0	6.8	2.9	2.9	2.6	2.2	1.8
EV/Sales	0.0	0.0	7.2	4.0	3.4	2.7	2.1	1.8
EV/EBITDA	0.0	0.0	37.5	27.3	18.2	14.0	10.3	8.5
Dividend Yield (%)	0.2	38.4	8.2	0.5	0.4	0.9	1.4	1.7
Profitability Ratios (%)								
RoE	1.4	4.3	9.4	7.3	10.7	14.7	20.2	21.0
RoCE	2.7	4.9	7.3	6.5	7.8	9.2	12.2	13.7
RoIC	2.0	4.4	10.8	7.3	8.0	10.1	13.3	15.2
Turnover Ratios (%)								
Asset Turnover (x)	0.3	0.8	0.6	0.4	0.5	0.6	0.7	0.8
Debtors (No. of Days)	183	99	119	132	104	104	104	104
Inventory (No. of Days)	168	48	63	78	77	77	76	75
Creditors (No. of Days)	176	73	63	99	78	78	76	76
Leverage Ratios (%)								
Net Debt/Equity (x)	0.7	-0.1	0.1	0.8	0.9	0.7	0.6	0.4
Cash Flow Statement						(INR Million)		
Y/E Mar	2013	2014	2015	2016	2017	2018E	2019E	2020E
Adjusted EBITDA	1,006	2,235	2,288	4,139	6,428	8,341	11,032	12,857
Non cash opr. exp (inc)	11,106	30,038	8,435	1,113	0	-58	0	0
(Inc)/Dec in Wkg. Cap.	-3,105	-2,607	-959	-3,424	-1,352	-3,826	-4,467	-3,350
Tax Paid	-888	-1,259	-560	-770	-470	-876	-1,350	-1,644
Other operating activities	-6,732	-31,124	-8,371	-341	-1,002	0	0	0
CF from Op. Activity	1,389	-2,717	834	717	3,604	3,581	5,214	7,864
(Inc)/Dec in FA & CWIP	-3,331	-4,639	-2,406	34	-3,828	-960	-1,152	-1,216
Free cash flows	-1,942	-7,356	-1,572	750	-224	2,621	4,062	6,648
(Pur)/Sale of Invt	11,054	47,935	4,515	312	-2,812	0	900	0
Others	-151	-6,739	427	-28,911	1,686	1,317	1,362	1,311
CF from Inv. Activity	7,572	36,556	2,536	-28,565	-4,954	357	1,110	95
Inc/(Dec) in Net Worth	89	259	31	12,264	0	0	0	0
Inc / (Dec) in Debt	-7,877	1,430	3,208	18,822	4,206	-3,125	-3,275	-3,775
Interest Paid	-1,976	-2,192	-381	-1,347	-2,269	-1,993	-1,686	-1,527
Divd Paid (incl Tax) & Others	-137	-32,683	-7,070	-243	-408	-1,286	-1,794	-2,116
CF from Fin. Activity	-9,900	-33,185	-4,213	29,495	1,529	-6,404	-6,755	-7,419
Inc/(Dec) in Cash	-940	654	-843	1,647	179	-2,466	-430	540
Add: Opening Balance	2,597	1,657	2,312	1,469	3,116	3,295	829	399
Closing Balance	1,657	2,312	1,469	3,116	3,295	829	399	939

Corporate profile

Company description

Strides Shasun (STR) is a first generation, vertically integrated global pharmaceuticals company, with business interests in differentiated pharma and branded generics. It sells formulations in regulated markets (51% of FY17 sales), emerging markets (18% of FY17 sales), and to global institutions (16% of FY17 sales). The API business, which would soon largely be a part of Solara, constituted 15% of FY17 sales.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	31.1	31.1	31.1
DII	15.5	15.0	11.1
FII	33.9	33.9	36.9
Others	19.5	20.0	20.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
SBI BLUE CHIP FUND	6.8
MORGAN STANLEY MAURITIUS COMPANY LIMITED	3.1
GOLDMAN SACHS (SINGAPORE) PTE.	3.0
DB INTERNATIONAL (ASIA) LTD	2.9
SHIVANAND SHANKAR MANKEKAR	2.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Arun Kumar	Chairman
Shashank Sinha	Managing Director
Badree Komandur	Executive Director
Manjula Ramamurthy	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Badree Komandur	S Sridhar
Bharat D Shah	Sangita Reddy
Homi Rustam Khusrokhani	Deepak Vaidya

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	48.1	-	-
FY19	74.8	-	-
FY20	92.1	-	-

Source: Bloomberg

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Strides Shasun

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