



INDIA

STR IN Outperform

Price (at 13:05, 30 Oct 2017 GMT) Rs843.95

Valuation Rs 1,100.00
- Sum of Parts

12-month target Rs 1,100.00

Upside/Downside % +30.3

12-month TSR % +30.8

Volatility Index Medium

GICS sector
Pharmaceuticals, Biotechnology & Life Sciences

Market cap Rsm 75,340

Market cap US\$m 1,162

Free float % 66

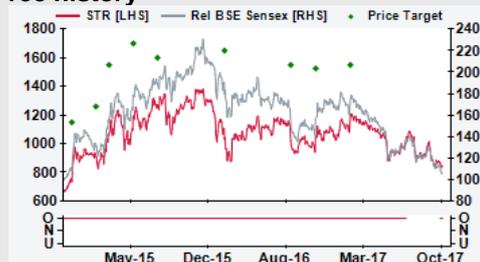
30-day avg turnover US\$m 10.6

Number shares on issue m 89.27

Investment fundamentals

Year end 31 Mar		2017A	2018E	2019E	2020E
Revenue	m	35,105	34,113	35,939	40,301
EBIT	m	5,359	4,186	6,307	7,529
EBIT growth	%	26.4	-21.9	50.7	19.4
Recurring profit	m	3,953	3,386	5,207	6,629
Reported profit	m	3,486	2,562	4,078	5,301
Adjusted profit	m	3,486	2,562	4,078	5,301
EPS rep	Rs	39.05	28.69	45.68	59.38
EPS rep growth	%	38.7	-26.5	59.2	30.0
EPS adj	Rs	39.05	28.69	45.68	59.38
EPS adj growth	%	19.3	-26.5	59.2	30.0
PER rep	x	21.6	29.4	18.5	14.2
PER adj	x	21.6	29.4	18.5	14.2
Total DPS	Rs	4.00	4.00	4.00	4.00
Total div yield	%	0.5	0.5	0.5	0.5
ROA	%	6.9	4.8	6.5	7.2
ROE	%	12.5	9.1	13.1	15.0
EV/EBITDA	x	12.3	15.0	11.3	9.7
Net debt/equity	%	49.7	40.8	29.6	19.3
P/BV	x	2.8	2.6	2.3	2.0

STR IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2017

(all figures in INR unless noted)

Analyst(s)

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31 October 2017

Macquarie Capital Securities (India) Pvt. Ltd.

Strides Shasun

Sequential recovery playing out

Conclusion

- Strides' 2QFY18 revenues at Rs10bn were up ~18% YoY and ~20% QoQ, in line with our estimates. 2Q EBITDA at Rs1.36bn increased by ~35% QoQ – a sharp rebound from 1Q lows. Sequential improvement was driven by new product launches in the US, steady growth in Australia and rebound in the branded business across EMs. With a pick-up in recent key approvals like Lovaza and Potassium Citrate ER, we expect a further EBITDA pick-up in 2H. Strides is guiding for a US sales quarterly run rate of US\$45-50m by 4QFY18, which could pose an upside risk to our estimate of ~US\$200m US sales in FY20. We expect earnings momentum to pick up in FY19 as the rate of product approvals picks up further. With higher focus on the B2C business, market share gains in the regulated markets and a robust compliance track record, Strides is one of our top picks in the mid-cap space. Maintain OP with a TP of Rs1,100. Refer our recent Pharma IC report → [here](#).

Impact

- Improving US traction visible:** Both Lovaza and Potassium Citrate have already been launched (1 quarter impact in 2Q) and the early response has been encouraging. In addition, market share of its first fully integrated product, Ranitidine, continues to grow (currently at ~30% vs 18% in 4QFY17). We expect the US business to be driven by upcoming launches. We note that unlike large-cap peers which are focussing on blockbuster molecules to drive growth, Strides is more focussed on building a portfolio of limited competition opportunities in the range of US\$10-50m.
- Amneal deal fortifies Arrow's presence in Australia:** Strides reported low double digit growth in value and volume terms in Australia in 2Q. Amneal acquisition will add A\$25m in revenues, 13 molecules and will increase Arrow's coverage by ~200 first-line stores to 1,200. Strides has gained a strong foothold in Australia, which along with the US, we expect will be a key margin driver. STR now has a 22% share in the Australian generics market and aims to be the no. 2 player in the next 2 years from no.3 currently.
- Key 2QFY18 concall highlights:** (i) Strides is targeting 25% market share in Lovaza in Q3. Partnership with Par for Lovaza has enabled Strides to market the product faster (ii) On track for 15-20 ANDA filings in FY18 (8 approvals so far). 28 ANDAs pending approval – half of which are limited competition opportunities (iii) Getting faster site-switch approvals from Australian regulator (iv) Await anti-malarial tender awards in 3Q – company expects to at least maintain current market share of 20-22% (v) FY18 tax rate: 12-14%.

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs1,100.00 based on a PER methodology.
- Catalyst: 1) New approvals in the US 2) Margin ramp-up driven by synergies

Action and recommendation

- We believe recent correction is an attractive entry point. Maintain OP.

Analysis

Overall 2QFY18 revenues at Rs10bn were up ~18% YoY and ~20% QoQ. EBITDA margins at 13.6% were up ~150bps QoQ. Sequential growth was strong across all segments – Regulated (21%), emerging (17%) and API (21%, albeit on lower margins due to adverse product mix). Within emerging, institutional business had another soft quarter due to weakness in procurement by global donor agencies and postponement of anti-malarial tender into Q3.

Fig 1 Consolidated financial highlights

(Rs m)	2QFY18	2QFY17	% YoY	1QFY18	% QoQ
Revenues	10,006	8,455	18.3%	8,358	19.7%
EBITDA	1,363	1,633	-16.5%	1,010	35.0%
EBITDA margin (%)	13.6%	19.3%	(570) bps	12.1%	150 bps

Source: Company data, Macquarie Research, October 2017

Fig 2 Revenue composition by segment

(Rs m)	2QFY18	2QFY17	% YoY	1QFY18	% QoQ
Regulated markets	5,025	4,453	12.8%	4,147	21.2%
Emerging markets	3,152	3,167	-0.5%	2,697	16.9%
Total formulations	8,177	7,620	7.3%	6,844	19.5%
API	1,830	835	119.2%	1,514	20.9%
Total revenues	10,007	8,455	18.4%	8,358	19.7%

Source: Company data, Macquarie Research, October 2017

We value Strides Shasun at Rs1,100/share

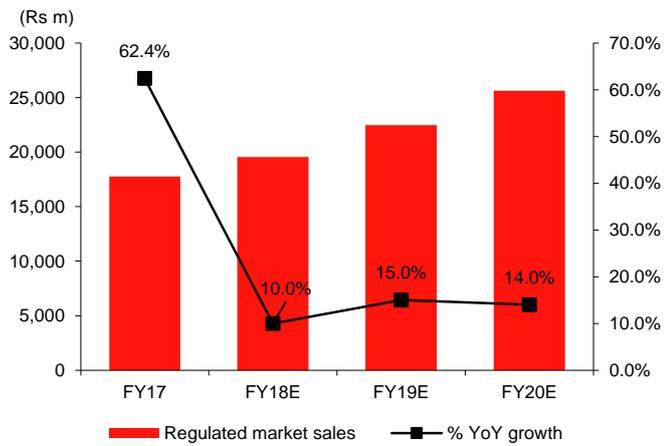
We have demerged Strides API numbers starting 2HFY18 and value it separately. On SOTP basis, we derive a value of Rs1,100 for Strides Shasun. This includes a value of Rs946 (18x Sept-19E EPS) for the pharma business, Rs136 (15x TTM EBITDA) for the demerged API business and Rs18 for its investments in Stellis and Oncobiologics (valued at book value and market value respectively).

Fig 3 Strides SOTP calculation

Strides Pharma (core business)	
Sept-19 earnings	52.5
Target PER multiple	18.0 x
Strides Pharma value (a)	946
Strides API (Demerged business)	
Trailing 12 months EBITDA	1,112
Target EV (@15x TTM EBITDA)	16,680
Debt	4,500
Strides API value (b)	136
Investments in Stellis and Oncobiologics	
At BV and market value respectively (c)	18
SOTP Target Price (a + b + c)	1,100

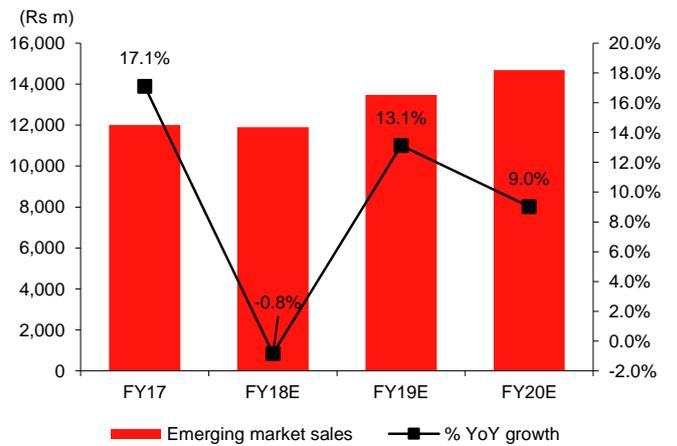
Source: Macquarie Research, October 2017

Fig 4 Regulated market sales



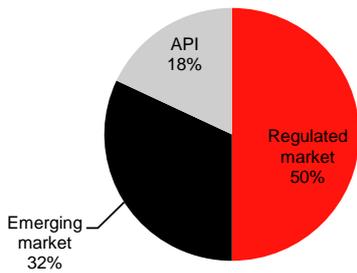
Source: Company data, Macquarie Research, October 2017

Fig 5 Emerging market sales (incl institutional)



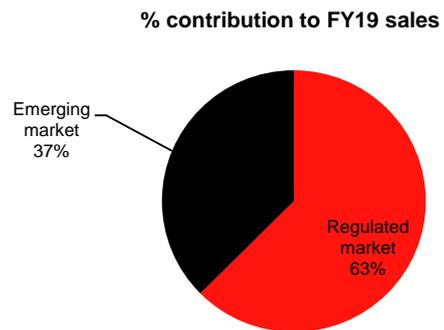
Source: Company data, Macquarie Research, October 2017

Fig 6 Revenue split as of 2QFY18



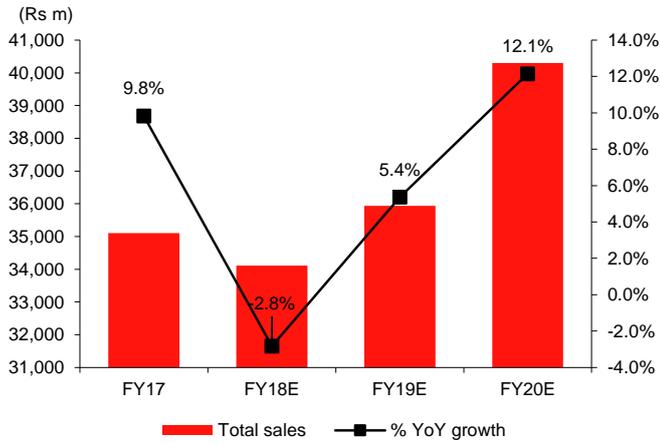
Source: Company data, Macquarie Research, October 2017

Fig 7 Expected revenue split in FY19



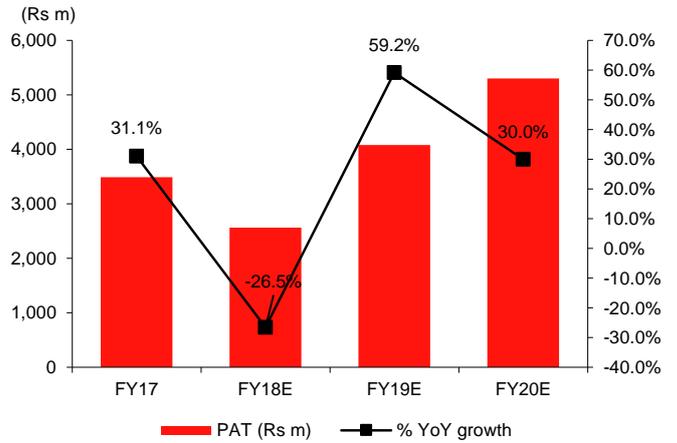
Source: Company data, Macquarie Research, October 2017

Fig 8 Annual total sales



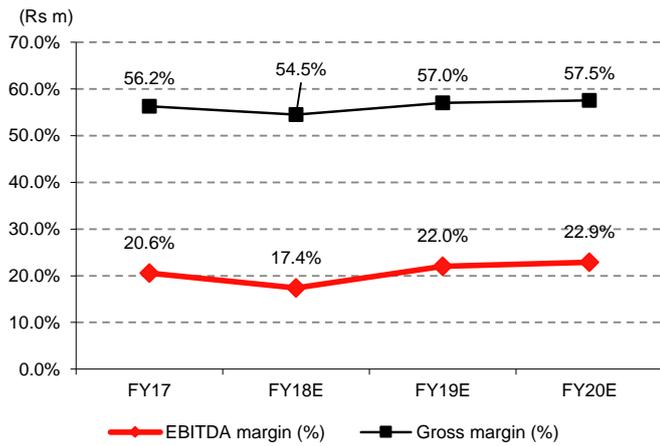
Source: Company data, Macquarie Research, October 2017

Fig 9 Annual PAT trend



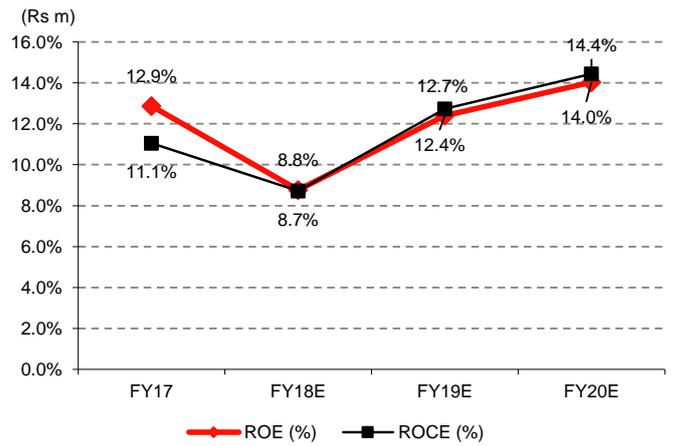
Source: Company data, Macquarie Research, October 2017

Fig 10 Gross margin and EBITDA margins



Source: Company data, Macquarie Research, October 2017

Fig 11 Return ratios to improve in FY19 and FY20



Source: Company data, Macquarie Research, October 2017

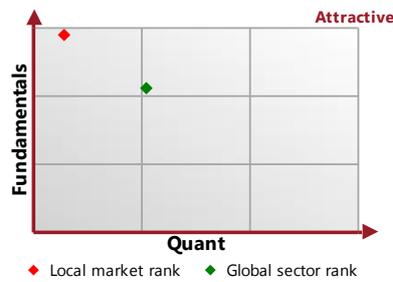
Macquarie Quant View

The quant model currently holds a strong negative view on Strides Shasun. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

568/868

Global rank in
Pharma, Biotech & Life Sciences

% of BUY recommendations 100% (9/9)
Number of Price Target downgrades 0
Number of Price Target upgrades 0

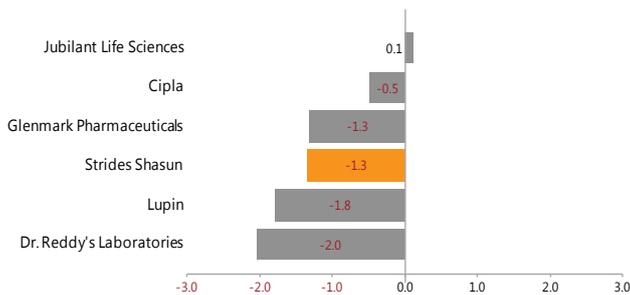


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (India) and Global sector (Pharma, Biotech & Life Sciences)

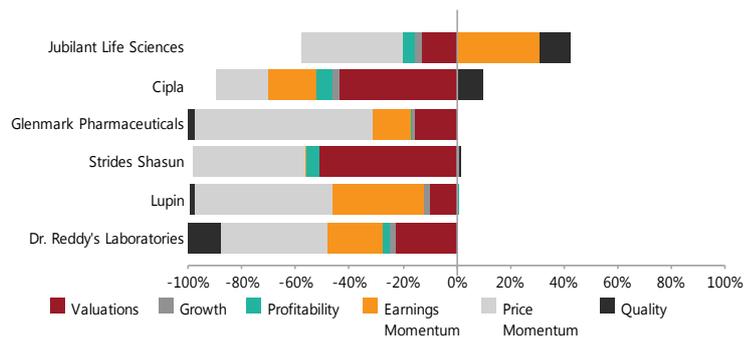
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



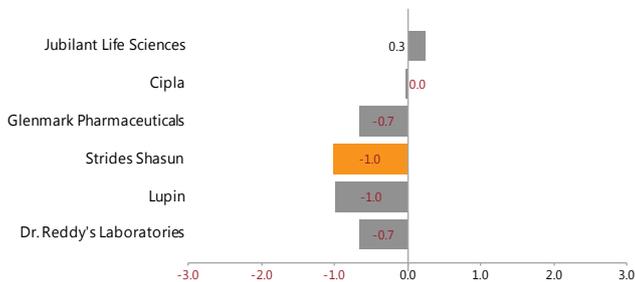
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



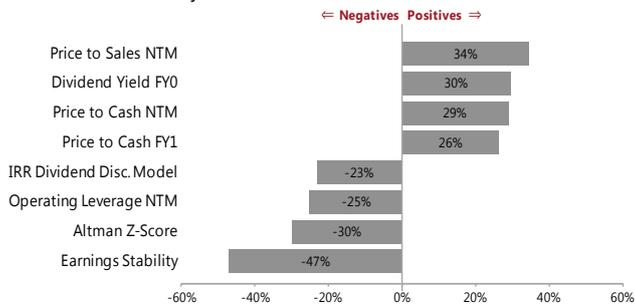
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



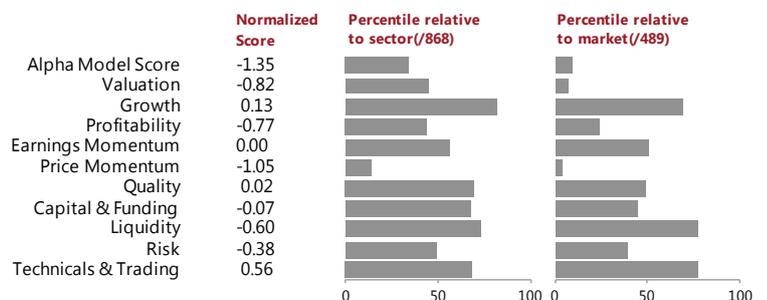
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Strides Shasun (STR IN, Outperform, Target Price: Rs1,100.00)

Quarterly Results					Profit & Loss						
	1Q/18A	2Q/18E	3Q/18E	4Q/18E		2017A	2018E	2019E	2020E		
Revenue	m	8,528	8,528	8,528	8,528	Revenue	m	35,105	34,113	35,939	40,301
Gross Profit	m	4,648	4,648	4,648	4,648	Gross Profit	m	19,743	18,591	20,485	23,173
Cost of Goods Sold	m	3,880	3,880	3,880	3,880	Cost of Goods Sold	m	15,362	15,521	15,454	17,128
EBITDA	m	1,484	1,484	1,484	1,484	EBITDA	m	7,230	5,936	7,907	9,229
Depreciation	m	438	438	438	438	Depreciation	m	1,872	1,750	1,600	1,700
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	1,046	1,046	1,046	1,046	EBIT	m	5,359	4,186	6,307	7,529
Net Interest Income	m	-450	-450	-450	-450	Net Interest Income	m	-2,269	-1,800	-1,500	-1,400
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	250	250	250	250	Other Pre-Tax Income	m	863	1,000	400	500
Pre-Tax Profit	m	846	846	846	846	Pre-Tax Profit	m	3,953	3,386	5,207	6,629
Tax Expense	m	-118	-118	-118	-118	Tax Expense	m	-470	-474	-729	-928
Net Profit	m	728	728	728	728	Net Profit	m	3,483	2,912	4,478	5,701
Minority Interests	m	-88	-88	-88	-88	Minority Interests	m	4	-350	-400	-400
Reported Earnings	m	640	640	640	640	Reported Earnings	m	3,486	2,562	4,078	5,301
Adjusted Earnings	m	640	640	640	640	Adjusted Earnings	m	3,486	2,562	4,078	5,301
EPS (rep)		7.17	7.17	7.17	7.17	EPS (rep)		39.05	28.69	45.68	59.38
EPS (adj)		7.17	7.17	7.17	7.17	EPS (adj)		39.05	28.69	45.68	59.38
EPS Growth yoy (adj)	%	-26.5	-26.5	-26.5	-26.5	EPS Growth (adj)	%	19.3	-26.5	59.2	30.0
						PE (rep)	x	21.6	29.4	18.5	14.2
						PE (adj)	x	21.6	29.4	18.5	14.2
EBITDA Margin	%	17.4	17.4	17.4	17.4	Total DPS		4.00	4.00	4.00	4.00
EBIT Margin	%	12.3	12.3	12.3	12.3	Total Div Yield	%	0.5	0.5	0.5	0.5
Earnings Split	%	25.0	25.0	25.0	25.0	Basic Shares Outstanding	m	89	89	89	89
Revenue Growth	%	-2.8	-2.8	-2.8	-2.8	Diluted Shares Outstanding	m	89	89	89	89
EBIT Growth	%	-21.9	-21.9	-21.9	-21.9						
Profit and Loss Ratios					Cashflow Analysis						
	2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E		
Revenue Growth	%	9.8	-2.8	5.4	12.1	EBITDA	m	7,230	5,936	7,907	9,229
EBITDA Growth	%	24.4	-17.9	33.2	16.7	Tax Paid	m	-586	-474	-729	-928
EBIT Growth	%	26.4	-21.9	50.7	19.4	Chgs in Working Cap	m	-3,413	38	-475	-1,134
Gross Profit Margin	%	56.2	54.5	57.0	57.5	Net Interest Paid	m	-1,521	-1,800	-1,500	-1,400
EBITDA Margin	%	20.6	17.4	22.0	22.9	Other	m	1,172	0	0	0
EBIT Margin	%	15.3	12.3	17.5	18.7	Operating Cashflow	m	2,881	3,700	5,203	5,767
Net Profit Margin	%	9.9	7.5	11.3	13.2	Acquisitions	m	-1,742	0	0	0
Payout Ratio	%	10.2	13.9	8.8	6.7	Capex	m	-6,731	-2,729	-2,875	-3,224
EV/EBITDA	x	12.3	15.0	11.3	9.7	Asset Sales	m	0	0	0	0
EV/EBIT	x	16.7	21.3	14.2	11.9	Other	m	1,422	1,000	400	500
Balance Sheet Ratios					Investing Cashflow	m	-7,051	-1,729	-2,475	-2,724	
ROE	%	12.5	9.1	13.1	15.0	Dividend (Ordinary)	m	-432	-429	-429	-429
ROA	%	6.9	4.8	6.5	7.2	Equity Raised	m	34	0	0	0
ROIC	%	9.8	8.4	12.3	14.2	Debt Movements	m	6,037	0	0	0
Net Debt/Equity	%	49.7	40.8	29.6	19.3	Other	m	-2,257	0	0	0
Interest Cover	x	2.4	2.3	4.2	5.4	Financing Cashflow	m	3,382	-429	-429	-429
Price/Book	x	2.8	2.6	2.3	2.0	Net Chg in Cash/Debt	m	-788	1,542	2,299	2,614
Book Value per Share		303.6	327.5	368.4	423.0	Free Cashflow	m	-3,849	971	2,328	2,543
					Balance Sheet						
	2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E		
Cash	m	16,019	17,561	19,860	22,474	Receivables	m	9,971	14,769	15,560	17,448
Inventories	m	7,380	13,519	14,243	15,971	Investments	m	2,451	2,451	2,451	2,451
Fixed Assets	m	12,534	13,513	14,788	16,312	Intangibles	m	19,348	19,348	19,348	19,348
Other Assets	m	10,932	13,115	13,661	14,965	Total Assets	m	78,634	94,275	99,911	108,970
Total Assets	m	78,634	94,275	99,911	108,970	Payables	m	7,457	14,153	14,911	16,720
Payables	m	7,457	14,153	14,911	16,720	Short Term Debt	m	13,940	13,940	13,940	13,940
Short Term Debt	m	13,940	13,940	13,940	13,940	Long Term Debt	m	16,377	16,377	16,377	16,377
Long Term Debt	m	16,377	16,377	16,377	16,377	Provisions	m	0	0	0	0
Provisions	m	0	0	0	0	Other Liabilities	m	12,117	18,578	19,406	21,384
Other Liabilities	m	12,117	18,578	19,406	21,384	Total Liabilities	m	49,890	63,048	64,634	68,421
Total Liabilities	m	49,890	63,048	64,634	68,421	Shareholders' Funds	m	27,104	29,238	32,887	37,759
Shareholders' Funds	m	27,104	29,238	32,887	37,759	Minority Interests	m	1,640	1,990	2,390	2,790
Minority Interests	m	1,640	1,990	2,390	2,790	Other	m	0	0	0	0
Other	m	0	0	0	0	Total S/H Equity	m	28,744	31,227	35,277	40,549
Total S/H Equity	m	28,744	31,227	35,277	40,549	Total Liab & S/H Funds	m	78,634	94,275	99,911	108,970
Total Liab & S/H Funds	m	78,634	94,275	99,911	108,970						

All figures in INR unless noted.

Source: Company data, Macquarie Research, October 2017

Important disclosures:

Recommendation definitions**Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense

Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 September 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.38%	56.22%	40.70%	46.21%	63.85%	41.61%	(for global coverage by Macquarie, 4.18% of stocks followed are investment banking clients)
Neutral	37.50%	28.16%	43.02%	47.52%	30.00%	39.51%	(for global coverage by Macquarie, 2.68% of stocks followed are investment banking clients)
Underperform	12.12%	15.62%	16.28%	6.27%	6.15%	18.88%	(for global coverage by Macquarie, 1.08% of stocks followed are investment banking clients)

STR IN vs BSE Sensex, & rec history

(all figures in INR currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, October 2017

12-month target price methodology

STR IN: Rs1,100.00 based on a PER methodology

Company-specific disclosures:

STR IN: Macquarie Group Limited together with its affiliates may have a beneficial interest in the debt securities of the companies mentioned in this report.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
06-Feb-2017	STR IN	Outperform	Rs1550.00
29-Oct-2016	STR IN	Outperform	Rs1525.00
18-Aug-2016	STR IN	Outperform	Rs1550.00
09-Feb-2016	STR IN	Outperform	Rs1650.00
31-Jul-2015	STR IN	Outperform	Rs1600.00
22-May-2015	STR IN	Outperform	Rs1700.00
13-Mar-2015	STR IN	Outperform	Rs1550.00
03-Feb-2015	STR IN	Outperform	Rs1260.00
26-Nov-2014	STR IN	Outperform	Rs1150.00

Target price risk disclosures:

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