

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR1,171
<b>Target Price</b>	: INR1,633
<b>Potential Return</b>	: 39%

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4QFY15 RESULT REVIEW

# Strides Arcolab Limited

## In line results; Excellent acquisition down under

Strides's 4QFY15 consolidated numbers were in line with expectations excluding INR27mn of EBITDA loss of Stelis Biopharma.

- Consolidated Sales at INR3405m, was flat YoY. Adjusted for one time sales in 4QFY14 the YoY growth would have been 18%.
- Consolidated EBITDA margin at 21% was around 103bps lower than expected due to lower sales from Arthemether Lumefantrine (A+L) in Africa and INR27mn of EBITDA loss of Stelis Biopharma. Management indicated that the A+L supplies are lumpy and differ QoQ.
- Consolidated PAT was INR345mn was affected by no recognition of INR87mn in other income due to investment in growth funds as per change in accounting policies last year.

### Regulated markets business growth driven by US

Regulated market business posted a sequential increase of 20.1% due to market share gain in US. Also Strides has received higher sales from oral vancomycin during the quarter from its partner compared to 3QFY15 which was impacted by lower sales from the same. Company is selling all its major products in US except oral Vancomycin via its own front end. We expect its US sales to further scale up with market share gains in Tacrolimus, Calcitriol, Buspirone, Imiquimod, Nulytely, Methoxsalen and Combivir. We are expecting more limited competition approvals like Lovaza and Avodart which will provide further fillip to its US sales. Integration of Shasun will also increase the overall basket of its ANDAs.

### Institutional business performance subdued

Institutional business sales witnessed a slowdown declining by 23.4% QoQ due to higher sales of Arthemether Lumefantrine (A+L) in 3QFY15. Management indicated that these sales are lumpy and differ QoQ. Institutional business contributed only 29% to its overall sales in 4QFY15. We expect a good growth in its institutional business in FY16 led by A+L as WHO issues at Ipca's Antimalarial facility will prove beneficial for other qualified suppliers. The Institutional business will also receive further fillip post integration with Shasun which will offer them backward integration to win more ARV tenders.

### Emerging markets business gains traction

Emerging markets business posted growth of 24.8% QoQ. The domestic business crossed sales of INR1bn in FY15. Domestic sales include 6 months sales of acquired Bafna Pharma business. Company has launched Sovaldi in India (currently sourced from Natco). However they expect major traction once they receive final approval for their filing from DCGI. Strides has also increase its sales force by 60% in Africa to 230. The sales will improve further with improvement in sales productivity.

### Acquires Australian assets of Aspen

Strides has acquired Australian assets for AUD380mn. The assets have sales and EBITDA margin of AUD120mn and 31% respectively. The acquisition has come in at a reasonable discount to the historical acquisitions in Pharma space at only 10.3xEV/EBITDA. We believe that company will have to borrow USD200mn additional debt. We believe that it's a good acquisition in a market wherein wholesaler-Pharma company relationships play a crucial role, as the acquired asset has the third highest market share in the Australian generic market.

### SoTP based target price

Particular	INR per share
Pharma business 17x FY17e EPS	1,523
PV of USD100m kept in escrow account by Mylan for tax purpose	68
USD40m to be received post resolution of Warning letter from Mylan	42
<b>Target price</b>	<b>1,633</b>

Market data	
Sensex	: 27,644
Sector	: Pharma
Market Cap (INRbn)	: 69.8
Market Cap (USDbn)	: 1.1
O/S Shares (m)	: 59.6
52-wk HI/LO (INR)	: 1249/429
Avg Daily Vol ('000)	: 1,298
Bloomberg	: STR IN

Source: Bloomberg

Valuation			
	FY15	FY16e	FY17e
EPS (INR)	20.3	41.2	89.6
P/E (x)	52.4	25.8	11.8
P/BV (x)	5.5	3.5	2.6
EV/EBITDA (x)	26.5	12.5	7.5
DPS (INR)	105.0	33.1	11.7

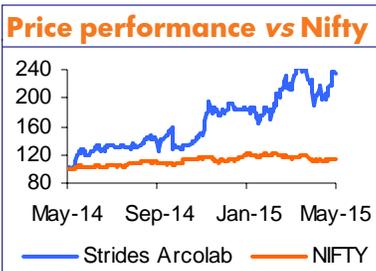
Source: Bloomberg

Returns (%)				
	1m	3m	6m	12m
Absolute	11	32	59	151
Relative	10	38	63	124

Source: Bloomberg

Shareholding pattern	
Promoters	: 28%
FII	: 35%
DII	: 11%
Others	: 26%

Source: Bloomberg



Source: Bloomberg

Source: Company, Antique

**Consolidated quarterly financials**

<b>INRm</b>	<b>4QFY15</b>	<b>4QFY14</b>	<b>YoY (%)</b>	<b>3QFY15</b>	<b>QoQ (%)</b>	<b>Variance (%)</b>
Sales	3405	3400	0.1	3261	4.4	(1.4)
EBIDTA	714	561	27.3	654	9.2	(6.0)
EBIDTA margin	21.0	16.5	447	20.1	91	(103)
APAT	345			415	(16.9)	(37.9)

Source: Company, Antique

**Quarterly sales break-up**

	<b>4QFY15</b>	<b>3QFY15</b>	<b>QoQ (%)</b>	<b>2QFY15</b>	<b>1QFY15</b>
Regulated	1160	966	20.1	1093	1032
% sales	34.1	29.6	444	37.3	39.8
Institutional	983	1284	(23.4)	813	787
% sales	28.9	39.4	(1051)	27.8	30.3
Emerging	1262	1011	24.8	1022	777
% sales	37.1	31.0	606	34.9	29.9
<b>Total</b>	<b>3405</b>	<b>3261</b>	<b>4.4</b>	<b>2928</b>	<b>2596</b>

Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
Net Sales	23,073	13,410	12,211	36,967	50,195
Material costs	9,980	7,147	5,605	18,413	25,080
Employee cost	2,809	1,572	1,721	5,386	6,357
Other Expenses	4,931	2,457	2,345	6,561	7,636
<b>Operating expenses</b>	<b>17,720</b>	<b>11,175</b>	<b>9,670</b>	<b>30,360</b>	<b>39,073</b>
<b>EBITDA</b>	<b>5,353</b>	<b>2,234</b>	<b>2,542</b>	<b>6,607</b>	<b>11,122</b>
Depreciation	1,095	565	640	1,717	1,862
<b>EBIT</b>	<b>4,258</b>	<b>1,669</b>	<b>1,901</b>	<b>4,890</b>	<b>9,259</b>
Other income	583	602	133	701	771
Interest	1,934	1,089	474	1,507	1,298
<b>PBT</b>	<b>2,907</b>	<b>1,183</b>	<b>1,560</b>	<b>4,084</b>	<b>8,732</b>
Tax	1,021	3,245	352	790	1,564
<b>Net profit</b>	<b>1,886</b>	<b>(2,062)</b>	<b>1,207</b>	<b>3,293</b>	<b>7,168</b>
PAT from discontinued operations		19,995	7,491	0	0
<b>APAT</b>	<b>3,072</b>	<b>1,183</b>	<b>1,207</b>	<b>3,293</b>	<b>7,168</b>
Minority interest & prior period items	1.1	(0)	0	0	0
<b>Net profits</b>	<b>3,061</b>	<b>1,183</b>	<b>1,207</b>	<b>3,293</b>	<b>7,168</b>
<b>AEPS</b>	<b>53.0</b>	<b>20.5</b>	<b>20.3</b>	<b>41.2</b>	<b>89.6</b>

### Balance sheet (INRm)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
Share capital	588	596	596	800	800
Reserves & surplus	19,674	9,472	10,599	16,655	22,888
<b>Net Worth</b>	<b>20,263</b>	<b>10,068</b>	<b>11,194</b>	<b>17,455</b>	<b>23,688</b>
Minority interest	719	757	757	758	758
Total borrowings	14,161	2,770	2,500	25,943	22,143
Other liabilities	287	44	44	215	215
Total liabilities	35,429	13,638	14,495	44,372	46,805
Gross block	18,239	8,039	8,539	25,284	26,484
less: Acc. depreciation	-4,976	-3,528	-4,168	-10,593	-12,456
<b>Net block</b>	<b>13,264</b>	<b>4,511</b>	<b>4,371</b>	<b>14,690</b>	<b>14,028</b>
CWIP	2,414	995	769	1,708	2,384
Others	16,919	1,061	1,061	14,882	14,882
Investments	1	4430	4430	4588	4588
<b>Current assets</b>	<b>15,378</b>	<b>9,992</b>	<b>12,203</b>	<b>33,393</b>	<b>33,486</b>
Inventories	4,423	1,760	2,077	6,419	7,092
Debtors	4,832	3,640	3,900	9,844	13,897
Cash and bank balances	1,657	2,311	4,963	12,940	8,306
Other current assets	1,872	136	111	474	474
Loans & Advances	2,592	2,145	1,154	3,717	3,717
<b>Current liabilities</b>	<b>11,147</b>	<b>6,254</b>	<b>7,366</b>	<b>23,736</b>	<b>21,410</b>
Provisions	1,399	1,098	974	1,152	1,152
<b>Net current assets</b>	<b>2,831</b>	<b>2,640</b>	<b>3,864</b>	<b>8,505</b>	<b>10,924</b>
<b>Total Assets</b>	<b>35,429</b>	<b>13,638</b>	<b>14,495</b>	<b>44,372</b>	<b>46,805</b>

### Per share data

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
No. of Shares (Mn)	58.8	59.6	59.6	80.0	80.0
BVPS (INR)	344.6	169.0	187.9	218.2	296.1
CEPS (INR)	70.7	29.3	31.0	62.6	112.9
DPS (INR)	2.0	505.2	105.0	33.1	11.7

Source: Company, Antique

### Revenue Mix (INRm)

Year ended 31 Mar	FY13	FY14	FY15e	FY16e	FY17e
Regulated	3,560	4,218	4,719	7,399	8,786
Emerging markets	2,180	2,736	3,132	3,821	4,585
Institutional	3,520	4,446	4,580	5,458	6,129
<b>Total</b>	<b>9,260</b>	<b>11,400</b>	<b>12,430</b>	<b>16,678</b>	<b>19,500</b>

### Cash flow statement (INRm)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
<b>Net profit</b>	<b>3,061</b>	<b>1,183</b>	<b>1,207</b>	<b>3,293</b>	<b>7,168</b>
Depn and w/o	1,095	565	640	1,717	1,862
Change in working cap	(445)	(845)	(1,428)	(3,335)	7,052
Others	8,670	-	-	-	-
<b>CF from operations (a)</b>	<b>1,344</b>	<b>2,593</b>	<b>3,022</b>	<b>8,346</b>	<b>1,978</b>
Capital expenditure	508	(11,620)	274	17,683	1,876
Chg in investments and others	1	4,430	-	157	-
Others	7,557	(36,000)	(7,320)	4,361	-
<b>CF from investing (b)</b>	<b>(8,065)</b>	<b>43,190</b>	<b>7,046</b>	<b>(22,201)</b>	<b>(1,876)</b>
Free cash flow (a+b)	(6,722)	45,783	10,068	(13,856)	102
Equity raised/(repaid)	2	2	-	-	-
Debt	(11,504)	(11,391)	(270)	23,443	(3,800)
Dividend (incl. tax)	137	32,903	7,318	2,648	936
Others	21,541	305	-	1,208	-
<b>CF from financing (c)</b>	<b>9,900</b>	<b>(43,989)</b>	<b>(7,587)</b>	<b>22,003</b>	<b>(4,736)</b>
<b>Net chg in cash (a+b+c)</b>	<b>3,179</b>	<b>1,794</b>	<b>2,481</b>	<b>8,148</b>	<b>(4,634)</b>

### Growth indicators (%)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
Revenue	(8.6)	(41.9)	(8.9)	202.7	35.8
EBITDA	9.7	(58.3)	13.8	160.0	68.3
PAT	54.9	(61.3)	2.0	172.8	117.7
AEPS	54.9	(61.3)	(1.1)	103.1	117.7

### Valuation (x)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
PE (X)	20.0	51.8	52.4	25.8	11.8
P/BV (X)	3.0	6.1	5.5	3.5	2.6
EV/EBITDA (X)	15.2	31.4	26.5	12.5	7.5
EV/Sales (X)	3.5	5.2	5.5	2.2	1.7
Dividend Yield (%)	0.2	49.1	10.2	3.7	1.3

### Financial ratios

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
RoE	22.3	5.8	12.0	29.4	41.1
RoCE	9.5	(12.0)	10.2	27.2	17.1
Debt/Equity (x)	0.7	0.3	0.2	1.5	0.9
EBIT/Interest (x)	2.2	1.5	4.0	3.2	-

### Margins (%)

Year ended 31 Mar	CY12	FY14	FY15e	FY16e	FY17e
EBITDA	23.2	16.7	20.8	17.9	22.2
EBIT	18.5	12.4	15.6	13.2	18.4
APAT	13.3	8.8	9.9	8.9	14.3

Source: Company Antique

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