MOTILAL OSWAL

Initiating Coverage | 7 August 2017
Sector: Healthcare

Strides Shasun

Making great strides

Tushar Manudhane - Research analyst (Tushar.Manudhane@MotilalOswal.com); +91 022 6129 1536
Rajat Srivastava - Research analyst (Rajat.Srivastava@motilaloswal.com); +91 22 3010 2511

Contents

Strides Shasun

BSE Sensex	S&P CNX
32,325	10,066

CMP: INR1000 **TP: INR1,300 (+30%)** **Buy**

Strides Shasun

Stock Info

Bloomberg	STR IN
Equity Shares (m)	89.4
52-Week Range (INR)	1259/849
1, 6, 12 Rel. Per (%)	-1/-30/-27
M.Cap. (INR b)	94.7
M.Cap. (USD b)	1.5
Avg Val, INRm	433
Free float (%)	68.9

Financial Snapshot (INR b)

Y/E Mar	FY17	FY18E	FY19E
Sales	34.8	43.9	54.5
EBITDA	6.4	8.3	11.0
NP	2.9	4.2	6.7
EPS (Rs)	32.3	47.4	74.8
EPS Gr (%)	108.2	46.9	57.9
BV/Sh (INR)	303.3	341.6	401.9
P/E (x)	31.0	21.1	13.4
P/BV (x)	3.3	2.9	2.5
RoE (%)	10.7	14.7	20.1
RoCE (%)	7.8	9.2	12.2

Shareholding pattern (%)

As On	Jun'17	Mar'17	Dec'16
Promoter	31.1	31.1	31.1
DII	14.3	12.9	11.4
FII	34.5	34.5	36.2
Others	20.1	21.6	21.3

FII Includes depository receipts

Strides Shasun

Making great strides

Tushar Manudhane

+91 22 3010 2498

tushar.manudhane@motilaloswal.com

Please click here for Video Link

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.

Making great strides

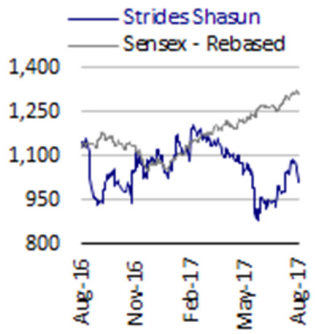
Robust outlook led by higher sales growth and improved asset utilization

- **STR has rebuilt its R&D infrastructure, instituted a strong compliance culture across the organization, backed by suitable IT investments, and integrated its manufacturing operations to reduce external dependence. We believe it is now in a position to begin reaping the benefits of the ~USD550m investments it has made in focus geographies in the last three years.**
- **Given the consistent compliance history of its API facilities and low cost manufacturing, we expect the API business (through Solara) to deliver 23% revenue CAGR over FY17-20 and 18-20% EBITDA margin.**
- **Excluding the API business, we expect revenue to grow at a CAGR of 20% over FY17-20 to INR52b, driven by 43% CAGR in the US business, 16% CAGR in the Australia business, 15% CAGR in emerging markets and 15% CAGR in the institutional business. Adjusted earnings of Strides Pharma are likely to grow at a CAGR of 44%.**
- **In the US, STR has 26 pending ANDAs and has guided 15-20 ANDA filings per year – largely niche products – in the next 2-3 years. In Australia, dominated by a few manufacturers and distributors, it is among the top-3 generic players. Its exclusive agreement with the largest distributor and ongoing tie-ups with standalone pharmacies stand it in good stead. In the institutional business, its backward integration, local manufacturing for ARV/anti-malaria, and awareness drives on Hep-C in conjunction with governments of developing nations give it an edge.**
- **We value the STR's 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. In addition to robust performance expected in the pharma business, we believe there is significant value accretion potential in the API business. We initiate coverage with a Buy rating.**

Regulated market business – key growth driver

- STR has 26 ANDAs pending for approval. The target approval dates are within the next 6-10 months, providing visibility of higher approvals.
- STR has guided 15-20 ANDA filings per year over next 2-3 years. With reduced timeline for approval, we expect the strong pace of approvals to continue over the next 2-3 years. STR made USD100m (annualized) from 18 products (commercialized). Based on product development capability, we expect STR to have additional run rate of USD55m-60m per year over the next 2-3 years.
- STR has re-entered the Australia generic pharma market through the acquisition of Aspen's portfolio under Arrow Pharma. It has been working on

Stock Performance (1-year)



three fronts to aid increase in sales growth and profitability. It is expanding its generic product basket, securing supplies via tie-up with largest distributor, and expanding reach by catering to standalone pharmacies also.

- Overall, we expect STR to deliver 26% CAGR in regulated markets over FY17-20.

Backward integration, newer products to drive institutional business

- Over the last couple of years, STR added anti-malaria products to its existing ARV segment. Also, it is developing niche ARVs for medium-term growth. It also added Sofosbuvir-based Hep-C products to its institutional portfolio.
- In addition, STR has integrated manufacturing operations, which have not only increased capacity but also helped secure supply of APIs for its formulations, providing increased scope of business.

Branded generics the name of the game in emerging markets

- Largely inorganically, STR has expanded its reach from South India to Pan India; in the Africa market, STR got access to East Africa, adding to its existing presence in West and French Africa. We expect 14.8% CAGR in emerging market sales to INR8b over FY17-20.

Extensive efforts towards consistent compliance to reduce regulatory risk

- STR has proactively raised the bar of compliance at its facilities to reduce regulatory risk. It has fully-integrated, compliant laboratories, with paperless operations. It also has fully-integrated manufacturing equipment, with complete control on operations and data management.
- STR has improved compliance culture through open communication and employee empowerment, thus reducing regulatory risk, considerably. Notably, it has had four USFDA inspections in the recent past, with zero 483s.

Valuation and view

- With significant investments in R&D, reduced outsourcing of APIs, strong compliance culture, increased automation, and presence in diversified markets, we believe STR is poised to deliver strong return ratios through improved asset turnover and higher share of better margin regulated market business.
- We expect 20% CAGR in sales, 25% CAGR in EBITDA, and 44% CAGR in PAT of Strides Pharma over FY17-20. Solara's API business has niche portfolio and superior margin compared to commodity business, hence, we ascribe 40% premium multiple to 13x EV/EBITDA. We value STR on sum-of-the-parts (SOTP), valuing the pharma business at 18x FY19E earnings (average midcap pharma P/E multiple) and Solara at an EV of 13x FY19E EBITDA to arrive at price target of INR1,300.

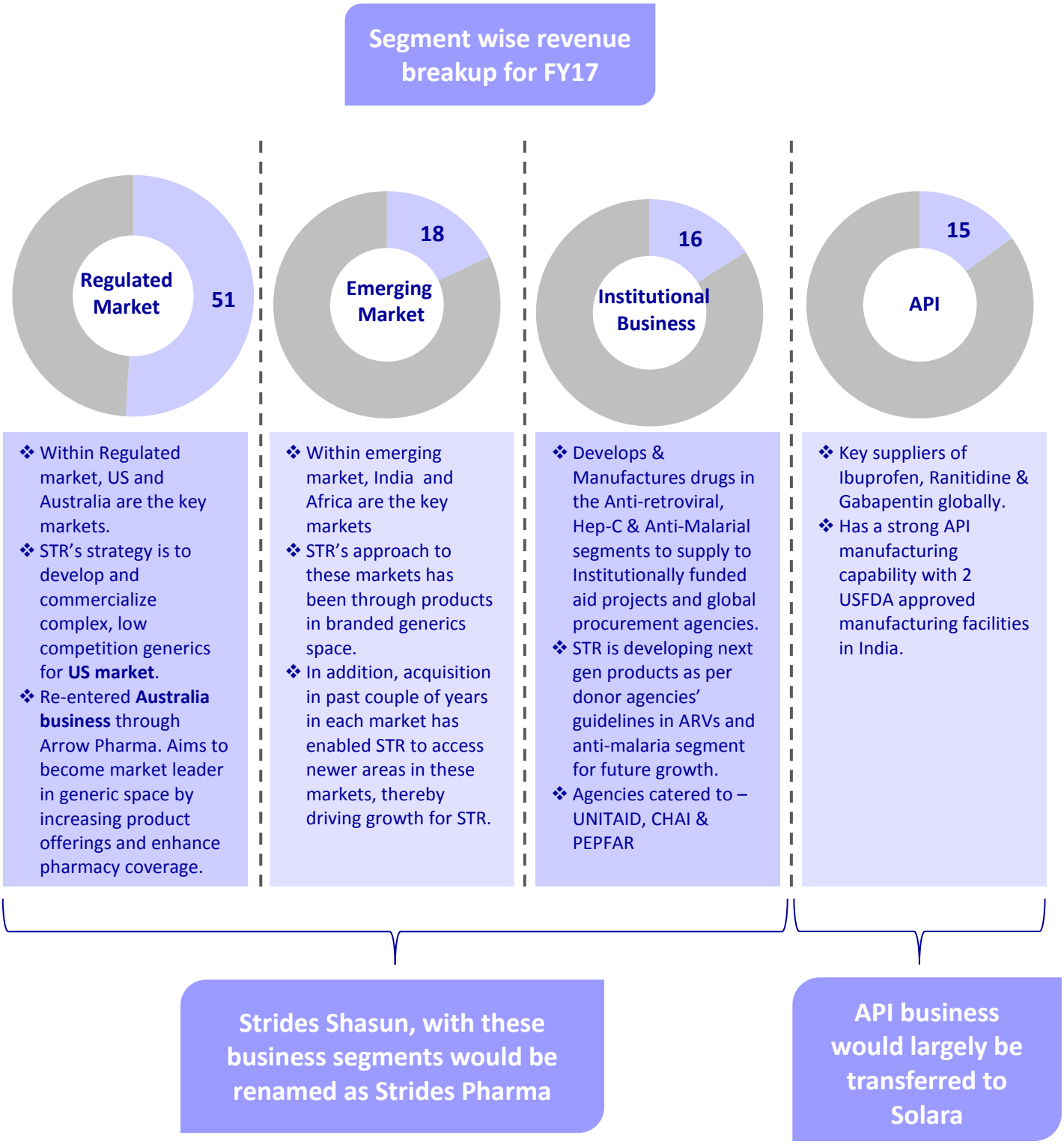
Exhibit 1: Comparative valuations (INR b)

	MCap	Sales			EBITDA margin (%)			PAT			P/E (x)			RoE (%)		
	INR b	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ajanta	117.8	20.0	22.6	27.4	34.9	34.7	34.2	5.2	5.8	7.0	24.1	21.3	17.7	37.7	32.2	29.9
Natco	165.5	20.7	26.0	23.8	33.1	37.5	28.1	4.9	6.0	4.2	35.3	34.8	27.5	32.9	25.0	24.3
Alembic	99.9	31.0	32.5	37.2	19.7	18	19.5	4.1	3.9	4.8	25.1	26.5	21.3	23.0	19.0	20.4
Jubilant	112.0	60.1	65.9	72.9	22.4	23.9	24.3	5.8	7.3	8.8	19.8	15.6	12.9	18.1	19.5	19.6
Torrent	212.3	58.6	65.4	76.1	23.5	23.3	24.5	9.3	9.6	12.1	23.0	22.4	17.8	25.3	22.4	24.2
Strides	**89.9**	**34.8**	**43.9**	**54.5**	**18.5**	**19.0**	**20.3**	**2.9**	**4.2**	**6.7**	**31.0**	**21.1**	**13.4**	**10.7**	**14.7**	**20.1**

Source: Company, MOS

Current business description

Exhibit 2: Share of regulated markets maximum in FY17 revenue



Source: Company, MOSL

Strides Pharma to deliver 25% EBITDA CAGR in FY17-20

- Post demerger of API business into separate entity, Solara Active Pharma Sciences (SAPS), ***Strides Shasun would be renamed Strides Pharma***. Strides Pharma would retain the formulations business (regulated markets, emerging markets and institutional segment), and specialty API business.
- Adjusting for API business, we expect 20% CAGR in sales, 25% CAGR in EBITDA and 44% CAGR in PAT for **Strides Pharma** over FY17-20.

Exhibit 3: P&L snapshot for Strides Pharma (INR m)

	FY17	FY18E	FY19E	FY20E
Total sales	**35,105**	**39,585**	**44,819**	**51,981**
EBITDA margin (%)	18.3	19.1	20.5	20.8
Total EBITDA	**6,440**	**7,579**	**9,200**	**10,801**
EBITDA from API business	854	733	-	-
EBITDA excl API business	5,586	6,846	9,200	10,801
Forex gain and OOI	400	350	300	300
EBITDA incl forex gain and OOI	**6,840**	**7,929**	**9,500**	**11,101**
Other Income	1,286	967	1,062	1,011
Interest	2,269	1,853	1,410	1,240
Depreciation	1,872	1,898	1,831	1,907
PBT	**3,985**	**5,146**	**7,021**	**8,664**
Tax	630	813	1,109	1,369
Tax rate (%)	15.8	15.8	15.8	15.8
PAT	**3,355**	**4,333**	**5,912**	**7,296**
Minority Interest	462	476	500	525
PAT post MI (INR m)	**2,893**	**3,857**	**5,412**	**6,771**
EPS (INR)	32.4	43.2	60.6	75.8

Source: MOSL, Company

Strides Pharma would have formulation business from regulated market, institutional segment and emerging market. It would also have specialty API business

The strong growth trajectory would be led by 26% CAGR in regulated market sales and 15% CAGR in institutional business sales.

Profit growth is likely to be higher due to:

- Increase in share of high margin business from regulated markets.
- Lower financial leverage and transfer of some debt to SAPS, resulting in lower interest burden on Strides Pharma. Tax benefits to keep effective tax rate low.

SAPS would also have human API business from Sequent Scientific.

Highlights of the transaction are:

- STR shareholders to get one share of SAPS for every six shares of STR.
- Sequent Scientific shareholders to get one share of SAPS for every 25 shares of Sequent Scientific.
- Based on the swap ratio, STR shareholders would have 60% of SAPS and Sequent Scientific shareholders would have 40% of SAPS.
- The appointed date for the scheme of merger is October 01, 2017.

With this demerger, STR's API sales would be shifted to SAPS. At the end of FY17, API constituted 15% of STR's sales.

STR has two manufacturing facilities for this business – one in Puducherry, India and one in Cuddalore, India. These would also be shifted to SAPS in addition to three facilities from Sequent Scientific.

API business is a game changer

Compliance has become a critical parameter to select API supplier

Increasing regulatory hurdles have been adversely impacting business for many pharmaceutical companies over the last 2-3 years. These hurdles could be in formulation plants or API manufacturing plants.

Compliance-related issues with API suppliers not only impact the business of the supplier, but also of the formulator. Delays in resolving regulatory hurdles could adversely impact economic viability of the product for the formulator. Refiling ANDA with alternate API supplier is a time-consuming exercise. Also, the formulator needs to build confidence in new API supplier in terms of compliance.

Given this scenario, sound compliance history, in addition to low cost manufacturing capability, has become an important parameter to select an API supplier. This would not only lead to higher customer stickiness, but also enhance the ability of a compliant API supplier to sell its products at premium. We believe STR, through Solara, is in a sweet spot to grab the growing opportunity from API business.

Sound compliance history

We understand that both of STR's API facilities (Puducherry and Cuddalore), which would be transferred to Solara, have been inspected 4-5 times. Every inspection has been successful, without any major observations. This helps assure formulators of minimal regulatory risk at the API site and assured supply (as per contract).

Also, STR produces limited-competition API molecules, primarily Ibuprofen, Ranitidine and Gabapentin.

Couple of attractive medium-term business opportunities

1. Consistent compliance, limited competition makes Ibuprofen an attractive opportunity for US market

Only six companies manufacture 90-95% of the global Ibuprofen API requirement. Of these, only five cater to the US market. In terms of volume, the global market is 30,000-32,000MT per annum, with stable demand; the US market is 10,000-12,000MT per annum. Value-wise, the API market would be about USD150m in the US. This product has multiple manufacturing issues, which have been resolved by existing manufacturers. However, there is limited scope for new entrants, given low economic viability and difficulty in resolving manufacturing issues.

The Ibuprofen API prices in US market have increased by at least 20% in the last one year due to supply constraints with one or the other manufacturer. With limited scope for capacity increase over 2-3 years and delayed entry of a sixth company in the US market, we expect prices to rise by a further 8-10% over the next one year.

2. Sevelamer API – another interesting opportunity

Sevelamer being a phosphate binding drug, there are multiple studies involved at laboratory level for analysis. These studies require specialized analytical skills and instruments, making Sevelamer a niche and complex API.

Very few formulators have captive API manufacturing for the US market. Some have used STR's API for ANDA filing and subsequent formulation sales post approval. We expect gradual price erosion and phased entry of formulators for this product in the US market, providing good business opportunity for API manufacturers such as STR. The current market size for Renvela (Sevelamer Carbonate) is about USD1.9b, with only one generic approval.

With more such molecules in its portfolio, we believe STR's API business, which would be transferred to Solara, is as attractive as its formulation piece.

Even the API molecules from Sequent's portfolio are fairly stable ones in terms of volume growth and enjoy higher EBITDA margins than commodity API business.

Solara would have API business from strides Shasun and Sequent

Exhibit 4: Proforma Solara Financials

Solara Financials	FY17	FY18E	FY19E	FY20E
Sales from Strides	5,336	4,313	9,660	10,433
Sales from sequent	3,000	3,600	4,248	5,013
Total sales	8,336	7,913	13,908	15,445
EBITDA margin (%)	17.4	18.6	19.5	18.8
EBITDA (m)	1,454	1,471	2,719	2,910

Source: MOSL, Company

FY18 Solara financials includes only six months sales of API business from Strides. API business from strides would be transferred to Solara post demerger on 1 October 2017.

Time to reap benefits from regulated markets

STR has built strong geography-specific foundations in the last 1,000 days, which should drive financial performance in regulated market business. The key geographies STR is focusing on in regulated markets are US, Australia and EU.

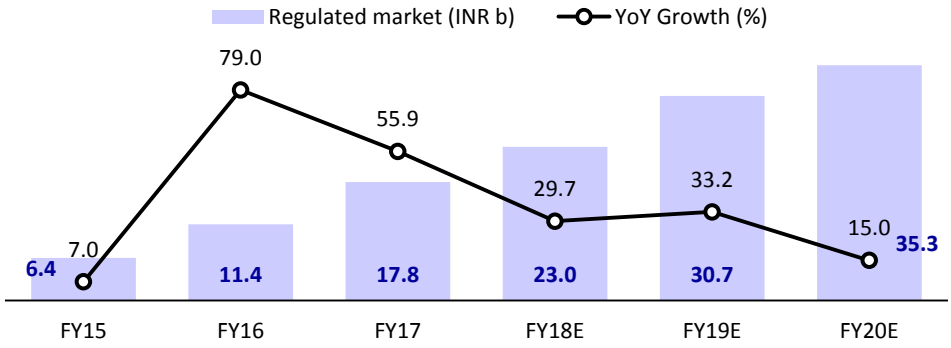
US and Australia are the focus market in regulated space for STR

STR has been making progress on the following to create future value:

- It has transformed from a partnership-driven B2B model including licensing income to a fully-integrated manufacturing strategy.
- In addition to creation of manufacturing base, STR has focused on R&D assets, portfolio maximization, and backward integration.
- M&A focus has added the EPS accretion parameter to future value creation.
- Financial focus has shifted from just revenue maximization to improvement in operating margins, earnings and cash flows.

STR has a portfolio of products across oral solids and topicals, including soft gel capsules, hard gel capsules, tablets, liquids, creams, ointments, and modified and extended release products.

Exhibit 5: We expect 26% CAGR in revenue from regulated market



Source: MOSL, Company

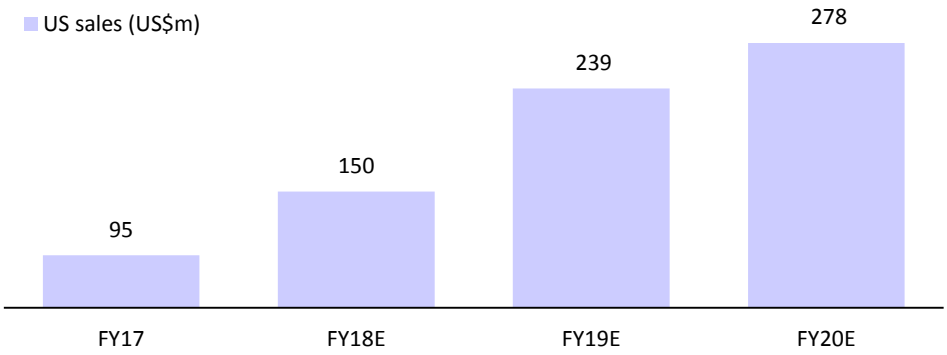
In FY17, regulated markets contributed revenue of INR17.7b, 51% of STR's total sales. We expect 26% CAGR in regulated market sales to INR35b. Revenue CAGR over past three years was 52%. Growth has been largely driven by inorganic measures, with the intent to build a base for future business opportunities.

We discuss in detail the businesses in each of the focus regulated markets.

1. US business – aggressive product pipeline, strong compliance culture, and favorable regulatory guidelines to drive growth

Many pharmaceutical companies having considerable business exposure to the US market are faced with pricing pressure on account of consolidation and regulatory hurdles at their manufacturing facilities. We believe STR is well placed to tide over these issues and deliver strong growth over the next 2-3 years.

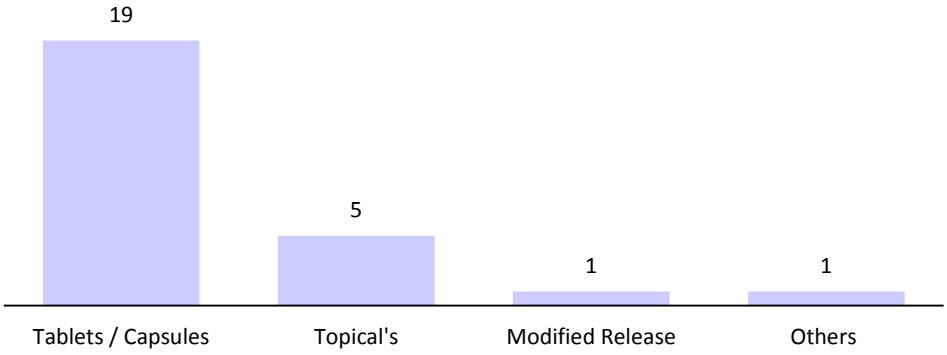
Exhibit 6: We expect 43% CAGR in US sales over FY17-20



Source: MOSL, Company

Post the sale of Agila Specialties in December 2013, STR has rebuilt its R&D base from scratch by investing USD70m in the past three years. It now has two dedicated R&D facilities, with 500+ headcount and capabilities in oral, topical, liquid, cream, ointment, soft gel, tablet and modified release formats.

Exhibit 7: Current dosage profile of ANDAs for approval



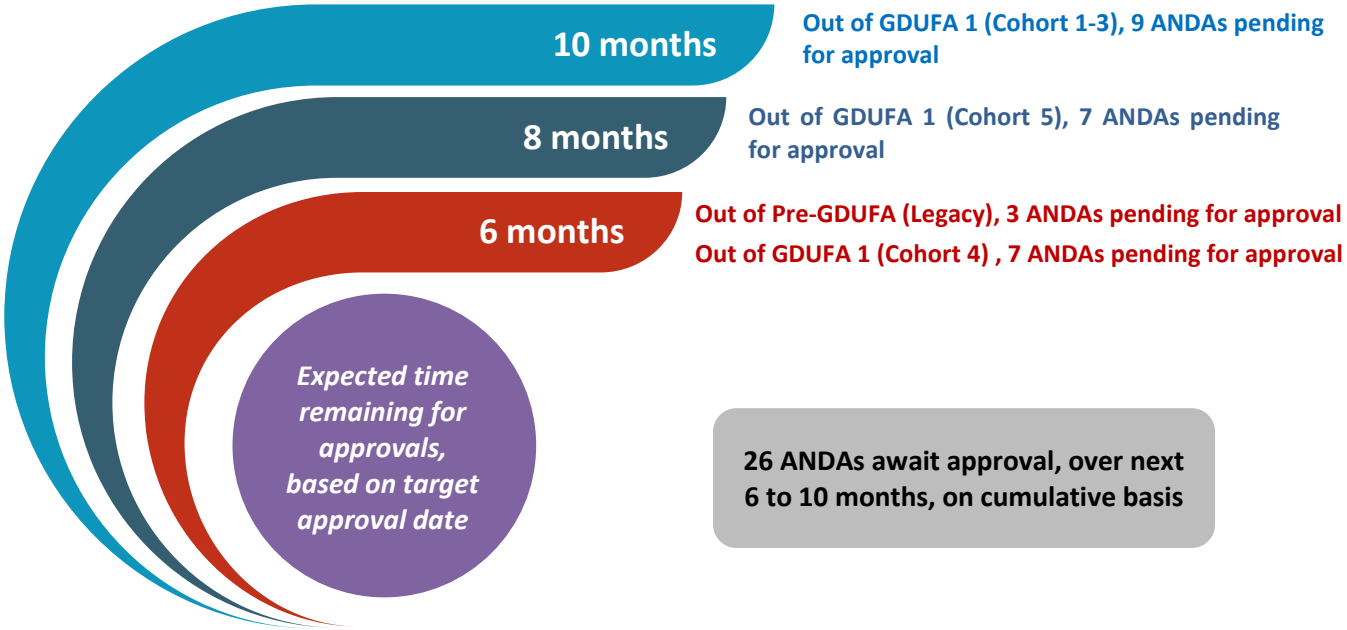
Source: MOSL, Company

STR has filed 62 ANDAs till date, with 36 approvals. Of these, it has commercialized 18 products and has achieved annualized sales of USD100m against USD70m in FY16.

Strong US ANDA pipeline over next 2-3 years

STR has 26 ANDAs pending for approval. Based on target approval date, STR expects 90% of products to have approval timeframe of 6-10 months.

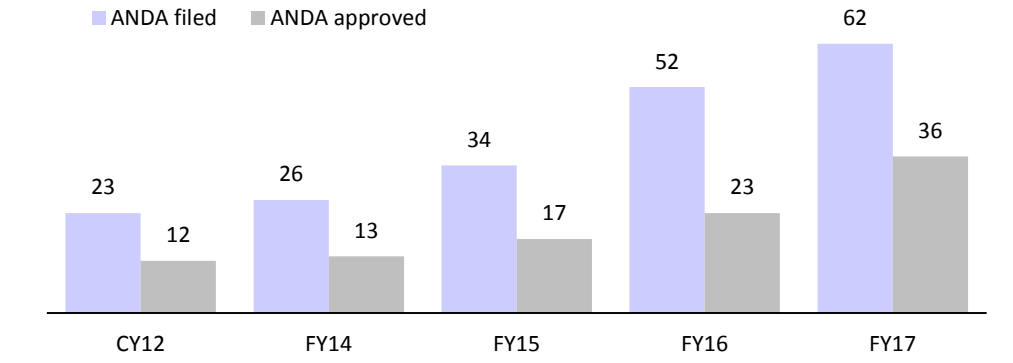
Exhibit 8: Good number of approvals can be expected based on target approval date



Note: GDUFA – Generic Drug User Fee Act; Source: MOSL, Company

As STR was in the process of rebuilding R&D capabilities, the pace of ANDA filings was gradual, with average filing of 6-7 ANDAs per annum over FY14-17.

Exhibit 9: ANDA filing run-rate to pick up aggressively



Source: MOSL, Company

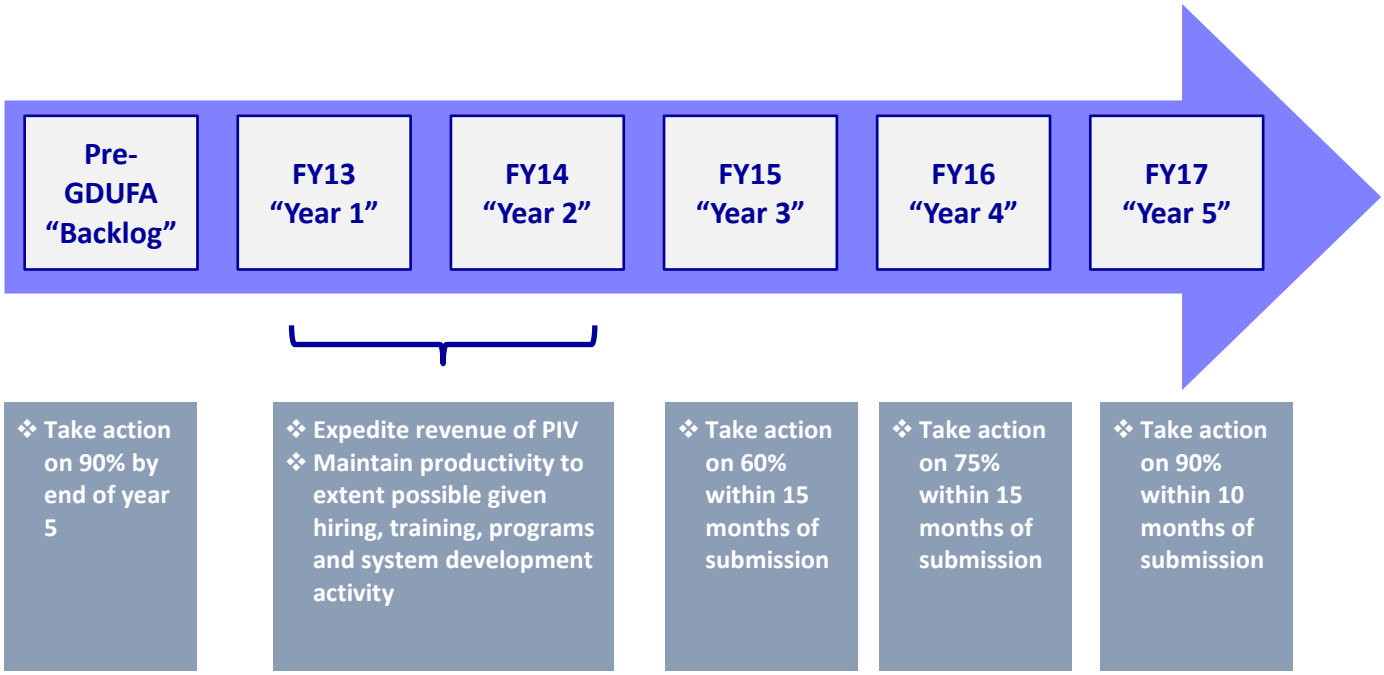
Aggressive filing over the next 2-3 years

STR has guided 15-20 filings per year over the next 2-3 years, with focus on niche and difficult-to-develop products. It has 21 products with an addressable market size of USD2.6b as part of its current and/or future filings. Moreover, despite being off-patent, these products have limited competition due to smaller market size and/or complexity in terms of developing and manufacturing.

Favorable guidelines by USFDA to accelerate pace of approvals

USFDA has been putting considerable effort on reducing the time taken for approval post submission of ANDAs by generic companies. It has already reduced the average approval cycle from over 60 months pre-GDUFA to 10-40 months in GDUFA-I cohort. This has been possible on the back of increased hiring by USFDA followed by training and system development.

Exhibit 10: Faster action expected on ANDAs as per GDUFA cohorts



Source: USFDA, MOSL

USFDA would be starting GDUFA-II from October 2017, wherein the timeline for approvals is expected to reduce to 8-10 months. USFDA would be taking action on 90% of the applications within 10 months of submission.

Advantage STR

With reduced timeline for approval and aggressive filings by STR, we expect significant ramp up of revenue from the US market over the next 2-3 years.

It's not just about g-Lovaza, approved product pipeline highlights STR's differentiated strategy

One interesting product over the medium term is **g-Lovaza**. Though it is genericized, competition is limited and the market size is USD300m. We expect STR to garner annual revenue of USD30m post approval, assuming 20% market share and 25% price erosion.

Based on its other recent approvals, we believe STR has a good product selection strategy, with more of limited-competition and complex generics.

Exhibit 11: ANDA approvals over past two years

Brand	Active Ingredient	Approval Date	No. of competitors	Market Size (US$m)
Symmetrel	Amantadine Hydrochloride (Tab)	9-Jun-17	3	22
Symmetrel	Amantadine Hydrochloride (Cap)	7-Jun-17	5+	25
Motrin IB	Ibuprofen OTC	30-May-17	5+	520
Namenda	Memantine Hydrochloride	23-May-17	5+	60
Miralax	Polyethylene Glycol 3350 (OTC)	24-Aug-16	5+	260
Zantac	Ranitidine Hydrochloride	22-Aug-16	5+	125
Flagyl	Metronidazole	25-May-16	5+	50
Avodart	Dutasteride	20-Nov-15	5+	470
Soma	Carisoprodol	12-Nov-15	5+	38
Tessalon	Benzonatate	30-Jul-15	5+	41

Note: Market size at the time of approval to STR; Source: MOSL, Company

Cetirizine Softgel Capsule is case in point

STR recently received final approval for Cetirizine Softgel Capsules, 10mg (OTC). Cetirizine Softgel is used to temporarily relieve the following symptoms due to hay fever or other upper respiratory allergies:

- Runny nose
- Sneezing
- Itchy, watery eyes
- Itching of nose or throat

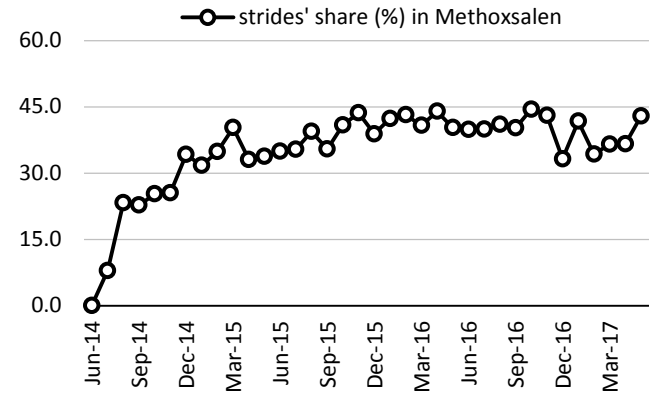
The market size for this product is ~USD60m. Though the market size is small, there is only one generic competitor. Being a limited-competition product, there would be lesser price erosion. Hence, as STR establishes its brand for this product, it would find considerable business potential, with good profitability. We expect annualized sales of USD15m-18m. The scale-up would be gradual due to brand building exercise.

Even Amantadine HCL (tablet) has limited competition, making it an attractive opportunity for STR.

We expect US sales of STR to grow from USD95m to USD278m by FY20 on the back of product launches and increased traction in existing products.

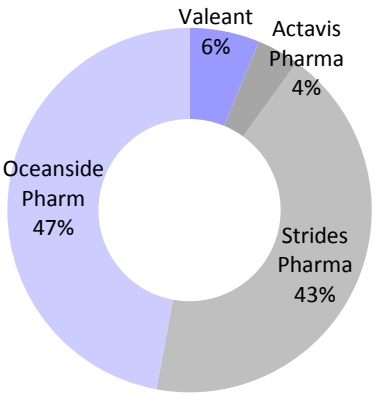
Highlighting STR's market share (and market share trends) in a few products

Exhibit 12: Since it launched Methoxsalen in June 2014…



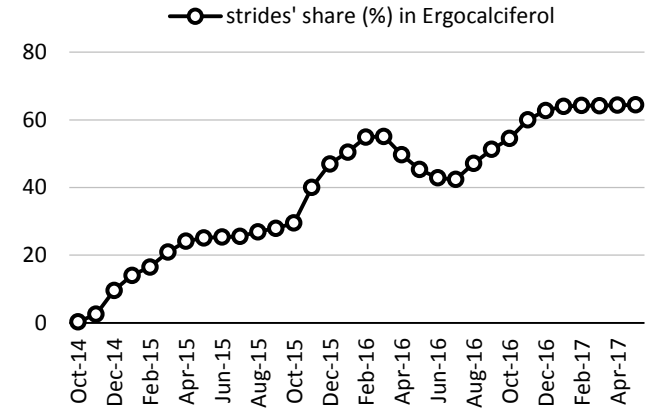
Source: MOSL, Bloomberg

Exhibit 13: …STR has continued to gain share



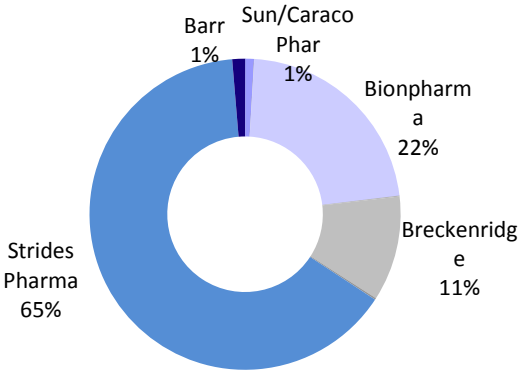
Source: MOSL, Bloomberg

Exhibit 14: Though commercialization was much later than approval timeline…



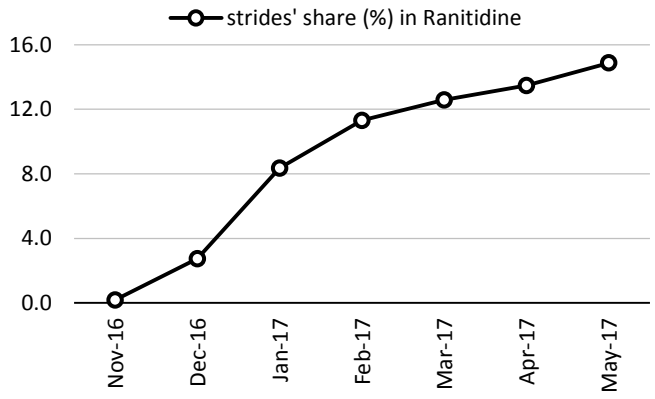
Source: MOSL, Bloomberg

Exhibit 15: …STR gained significant traction, with 65% market share in Ergocalciferol (Vitamin D2)



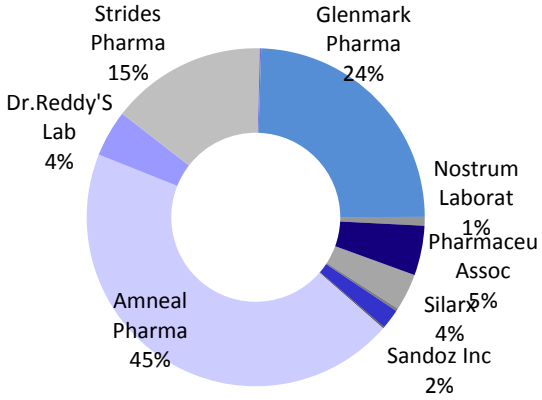
Source: MOSL, Bloomberg

Exhibit 16: Since it launched in November 2016…



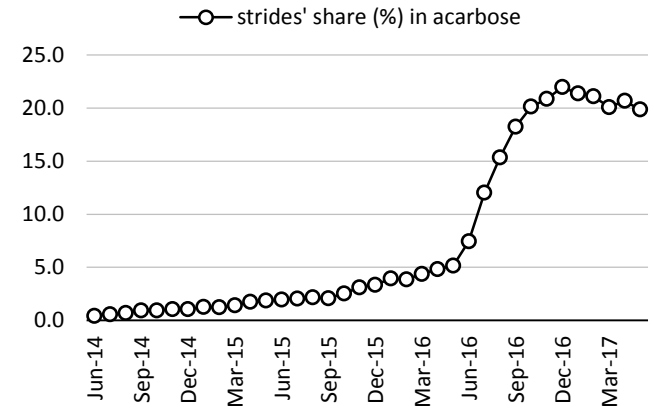
Source: MOSL, Bloomberg

Exhibit 17: …STR has gained 15% market share in Ranitidine (g-Zantac)



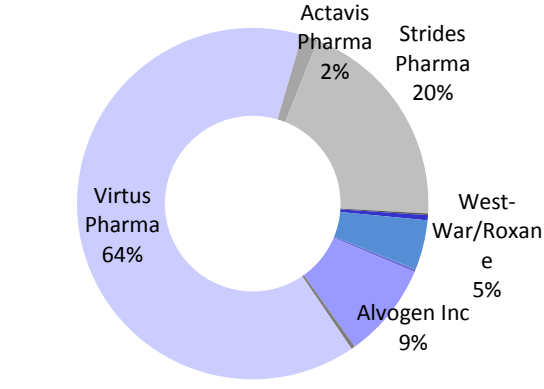
Source: MOSL, Bloomberg

Exhibit 18: Though commercialization was much later than approval timeline…



Source: MOSL, Bloomberg

Exhibit 19: …STR gained significant traction, with 20% market share in Acarbose (g-Precose)



Source: MOSL, Bloomberg

Expect strong growth on aggressive filing and reduced timeline for approval

- Even assuming USD5m per ANDA, which has been the average revenue from 18 commercialized products, we expect future approvals to add USD60m-75m to annual US revenue. In addition, superior execution should enable STR to gain market share in existing products.
- In addition, STR has six para-IV opportunities, of which two are settled.

Exhibit 20: Settled para-IV opportunities

Generic Name	Brand Name	Market Size (US$m)	Settled date of launch	Probable business of STR in 1st year post launch	Remark
fingolimod	Gilenya	2000	Feb-19	20.0	❖ Multiple generics have tentative approvals for this product. Though current market size is huge, opportunity is limited
Roflumilast	Daliresp	201	Jan-20	18.1	❖ Litigation on with multiple companies.

Source: MOSL, Company

Conscious effort on regulatory compliance

STR has been working not only on product development and supporting manufacturing base, but also on regulatory compliance.

There have been a number of instances in the past 2-3 years, where peers' existing business slowed down or even stopped due to regulatory issues. In addition, slippages on the regulatory compliance front have also impacted ANDA approvals, affecting future business.

Four of last five audits cleared with zero 483s

In contrast, STR has not only seen a pick-up in approvals in the recent past, but has also had successful inspections. This has been possible on the back of technological upgrades, increased awareness, open communication, and employee empowerment. STR has fully integrated, compliant laboratory and established good manufacturing practices, reducing regulatory risk considerably.

Consistent compliance track record

Exhibit 21: Inspection history - US FDA Inspection History

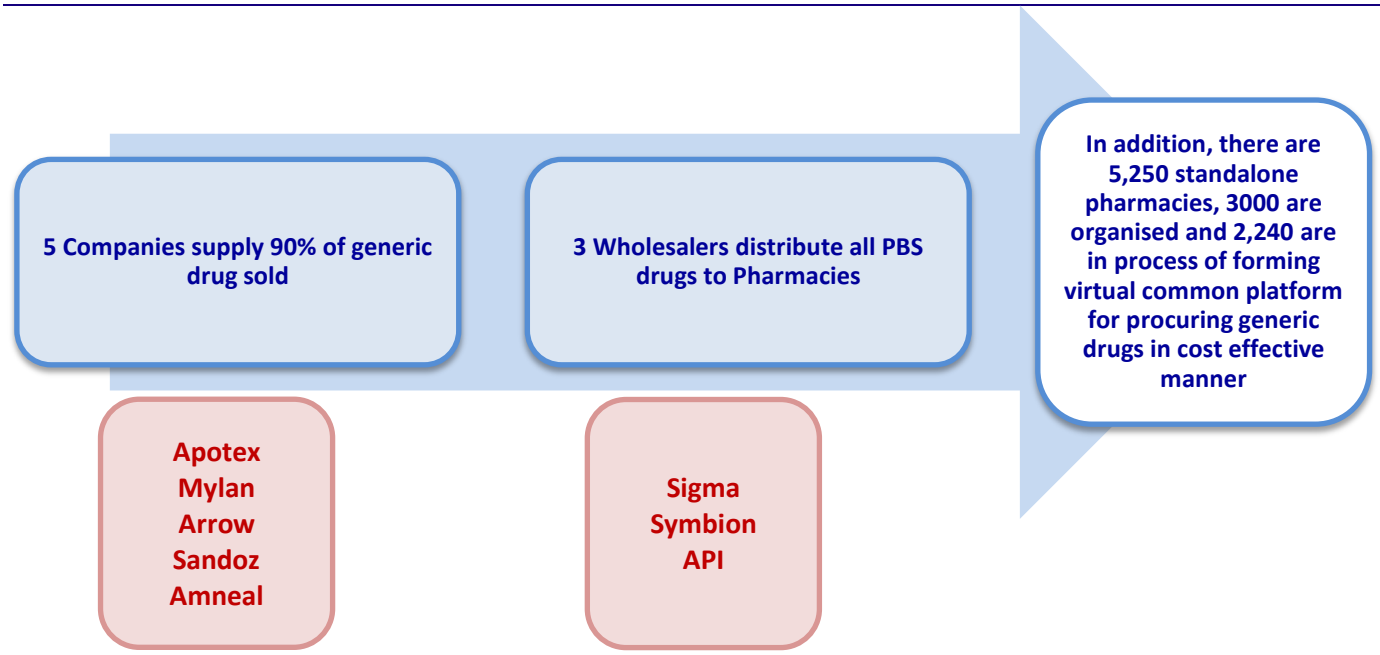
Bangalore formulation, India
❖ Inspected in May-17. Form 483 issued with 3 observations. Few product approvals already in place post inspection.
❖ Inspected in Jun-16. No form 483 issued
❖ Inspected in Feb-16. Form 483 was issued. EIR issued in Jun-16
❖ Inspected in Aug-14. Form 483 was issued. VAI status at closure of inspection
❖ Inspected in Dec-13. Form 483 was issued. NAI status at closure of inspection
❖ Inspected in Jul-11. No form 483 issued. NAI status at closure of inspection
Puducherry formulation, India
❖ Inspected in May-17. No form 483 issued
❖ Inspected in Feb-15. Form 483 was issued. VAI status at closure of inspection
❖ Inspected in Nov-11. No form 483 issued. NAI status at closure of inspection
❖ Inspected in Oct-09. No form 483 issued. NAI status at closure of inspection
Milan formulation, Italy
❖ Inspected in May-15. No Form 483 was issued
❖ Inspected in Jun-13. No form 483 issued
Perrigo API, India
❖ Inspected in FY14. No Form 483 was issued
Chennai formulation, India
❖ Inspected in Nov-16. No form 483 issued
❖ Inspected in Jun-15. VAI Status on facility post inspection

Source: MOSL, Company

2. Australia business – re-entry with renewed effort to accelerate growth

With the acquisition of Arrow Pharma in August 2015, STR re-entered the Australian generic market. It has taken strategic steps to fast-track growth in Australia.

Exhibit 22: Structure of Australian generic pharma market



Source: MOSL, Company

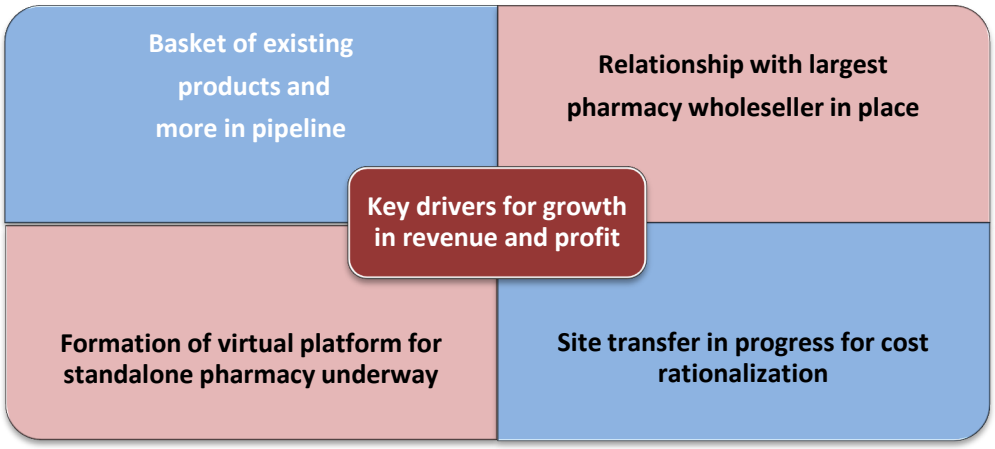
Generic drugs constitute just ~9% of the USD10.5b pharmaceuticals market (2014).

Only five companies supply 90% of generic drugs sold in Australia; entry of new generic drug manufacturers difficult

Generic drugs account for a small proportion of products sold in a pharmacy store. Also, the pharmacy alliance negotiates with only wholesalers for availability of generic drugs. Depending on the needs of the pharmacies, the wholesaler is more interested in tying up for a basket of products from a manufacturer than in negotiating for and procuring a particular or few products from a manufacturer. As a result, the wholesaler is inclined to have business relationships with a few manufacturers that are able to supply maximum number of products. It is difficult to break the existing manufacturer-wholesaler relationships.

Even the unorganized pharmacies are in the process of forming virtual procurement platforms, which would again make the entry of new manufacturers more difficult.

Exhibit 23: STR's four-pronged strategy to drive financial performance in Australia market



Source: MOSL, Company

STR has taken strategic initiatives to enhance product pipeline, assured off-take, and customer base

STR intends to enhance its product portfolio through own R&D, acquisitions, as well as in-licensing.

STR **acquired strategic stakes in Australia-based generic partners**, giving it immediate access to 47 commercialized market authorizations, 22 pending approval registrations, as well as a strong pipeline of 32 products.

STR has signed a **10-year exclusive distribution agreement with Sigma**, the largest pharmacy wholesaler by market share in Australia. With this, STR has not only improved sales of existing products but also introduced new products through the same channel.

In addition to supplying medicines through the traditional route of wholesalers and distributors, STR is **in the process of tapping standalone pharmacies** through Pharmacy Alliance. STR has entered into a 10-year supply partnership and trading platform with Pharmacy Alliance, Australia's longest standing cooperative buying group. The agreement guarantees Pharmacy Alliance members a market-leading suite of products and services across the Arrow (now STR) generic range. Pharmacy Alliance is also subsidiary of STR. Currently, out of 2,240 pharmacies, Pharmacy Alliance caters to 600 stores, for which it handles administrative work. STR continues its effort to take it to 1,000 pharmacies over the next 2-3 years.

Also, the shift of manufacturing to India would lead to improvement in profitability.

We expect STR to be on a strong growth trajectory in Australia in the next 2-3 years.

3. EU business – increasing reach, leveraging existing products

STR is leveraging its existing product portfolio in the US and Australia markets to grow in the regulated markets of the European Union (EU).

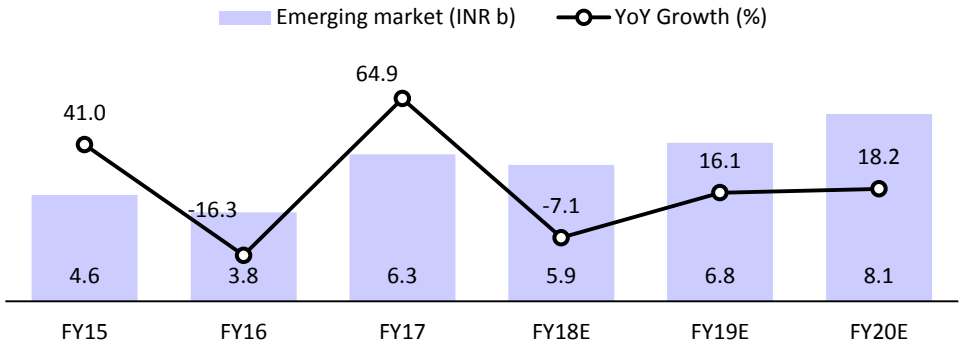
STR already supplies generics to hospitals in the UK, which are approved by NHS. It has a diversified portfolio of capsules, sachets and oral solids in different therapies.

STR also has key regulatory approvals including MHRA. Besides expanding its product base, STR intends to grow this business by increasing its reach in the UK as well as through strategic partnerships for own IP generics in the rest of Europe.

Branded generics the focus in emerging markets

In the emerging market business, STR derives revenue largely from domestic branded formulations and Africa branded formulations.

Exhibit 24: Better outlook in emerging markets on product launches and increased reach



Source: MOSL, Company

Africa – focus on branded generics, with 'In Africa for Africa' strategy

STR is a leading company in West and French Africa, and has had exposure to branded as well as generic generics. It has been growing faster than industry in the branded generic segment in the past 4-5 years.

Now, STR focuses only on branded generics and has divested six generic facilities in Africa. The divested business used to generate annual revenue of USD21m and EBITDA of USD1.4m. STR received USD16m cash for this business.

Also, it recently acquired 51% stake in Universal Corporation for USD11m.

About Universal Corporation

Universal Corporation is a manufacturing and marketing company, with considerable business in East Africa and has supply contracts with donor agencies. It is one of the two WHO-prequalified sites in Sub-Sahara Africa (other than South Africa).

With the acquisition of Universal Corporation, STR has gained a strong foothold in East Africa. It would be consolidating manufacturing of branded generic products at Universal's facility. The Universal Corporation facility would run on the hub-and-spoke model, catering to branded generic markets across the Sub-Saharan region.

About Africa pharma market

The combination of economic strength and an expanding middle class is driving demand for medicines in Africa. This coupled with better logistics, infrastructure and healthcare capabilities is not only increasing demand for medicines, but also their availability for patients. Prescription drugs, generics and OTC drugs are expected to grow at a CAGR of 6%, 9% and 6%, respectively, over 2013-20.

There have been measures by the government as well to support business activity (like price controls and import restrictions to encourage domestic manufacturing, and country-specific labeling to reduce counterfeiting and parallel imports).

STR has 250MRs catering to 30,000 doctors. It already has 750 product registrations and has a strong pipeline of 500 product registrations.

STR would be utilizing the Universal facility for institutional business, given the preference for local sourcing under donor-funded program. It is in the process of shifting the institutional portfolio to the Universal facility.

We expect medium-term growth in Africa to be driven by new product launches and improving productivity in West and French Africa, higher business from newer territory (East Africa), and increased scope of institutional business.

India – working towards expanding reach and product offerings

From a regional player in South India till 2014, STR has expanded its reach to other parts of India through both organic and inorganic means. Its flagship brand is *Renerve*, and it is among the top-5 in vitamins, minerals and nutrients involving Methylcobalamin combinations.

STR made following acquisitions to strengthen market presence:

- Acquired global rights of *Raricap* brand in FY15, which strengthened women's health portfolio. *Raricap* had annual sales of INR200m at the time of acquisition.
- Acquired the CNS division of the erstwhile Ranbaxy from Sun Pharma in FY16; it had annual sales of INR920m at the time of acquisition.
- Acquired Johnson & Johnson's brands portfolio in derma, anti-emetic and pain management in FY16; it had annual sales of INR320m at the time of acquisition.

In terms of therapeutic category, STR now has products in CNS, Diabetes, CVS, Women's Health and Pain Management.

Post the acquisitions, integration of product portfolio, and rationalization of cost and field force, STR has a sales force of 750 MRs and wide network catering to 3,500 stockists and 80,000 doctors.

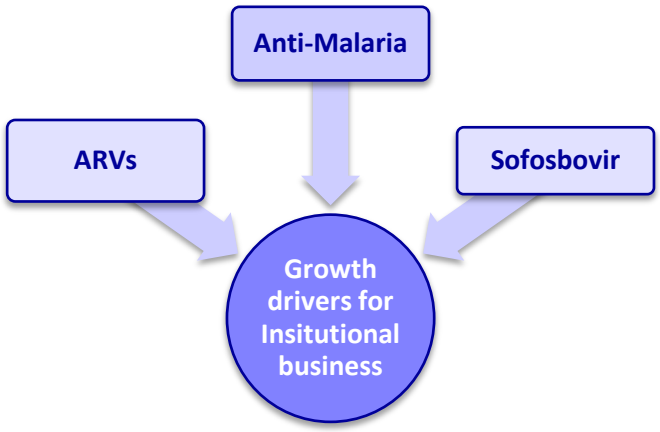
We expect 1HFY18 performance in domestic formulations to be muted on account of implementation of GST. However, as the effect of GST smoothens, we expect STR to show gradual pick-up in growth and improvement in MR productivity.

On overall basis, we expect STR's emerging market business to grow at a CAGR of 14.8% (adjusting for divested Africa generic sale) to INR8b, with better profitability compared to previous years.

Key levers in place for institutional segment

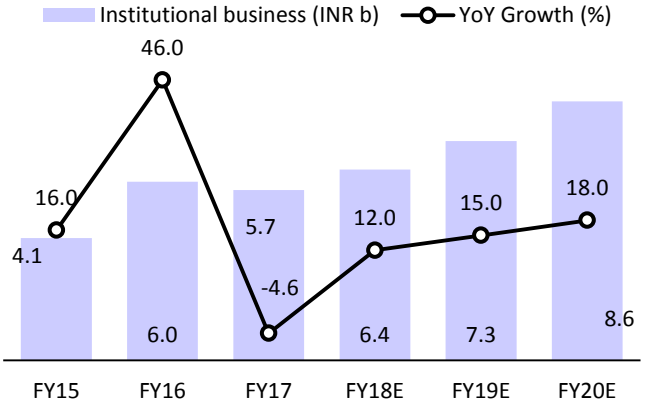
STR had sales of INR5.7b in institutional business segment and formed 16% of total sales. It has made a few strategic moves in this segment in the last two years to enhance sales and profitability.

Exhibit 25: Higher product offering in institutional segment



Source: MOSL, Company

Exhibit 26: We expect 15% CAGR in institutional business revenue



Source: MOSL, Company

Before merger with Shasun, though STR was in the list of approved suppliers for institutionally-funded projects and global procurement agencies, it was perceived as a fringe player. It had limited formulations capacity and higher dependence on external API. This led to moderate growth in this business.

The merger with Shasun has strengthened STR by not only adding formulations capacity but also by enabling backward integration and securing API supply for its products. Before the merger, STR was the only non-vertically-integrated company in the business other than Aspen.

Collaborations and limited scope of re-entry of competitor to drive anti-malaria business

STR started receiving orders from Global Fund to supply anti-malaria products from 2HFY15. The addition of anti-malaria products aided growth in institutional business. This business has grown considerably due to superior execution and partly due to regulatory issues faced by a competitor, Ipca Laboratories.

STR also collaborated with Medicines for Malaria Venture (MMV) for development of rectal artesunate for pre-referral treatment of children with severe malaria.

Industry scenario for Anti-Malaria

As per the UNITAID report, the global market for antimalarial medicines is estimated at 1.3b anti-malarial treatment courses per year and is expected to grow to 1.4b treatments by 2018. Artemesinin-based combination therapy (ACT) currently comprises only about one-third of this market, and its share is expected to increase. Within ACT-based treatment, AL (Artemether-Lumifrantine) would continue to dominate the market over the medium term.

There are three major sources of funding health systems, prevention and treatment – governments of endemic countries, Global Fund and USAID. Total funding for malaria control and elimination in 2015 was estimated at USD2.9b, having increased by USD0.06b since 2010. This total represents just 46% of the GTS 2020 milestone of USD6.4b on annualized basis.

Exhibit 27: Share of funding of governments of endemic countries

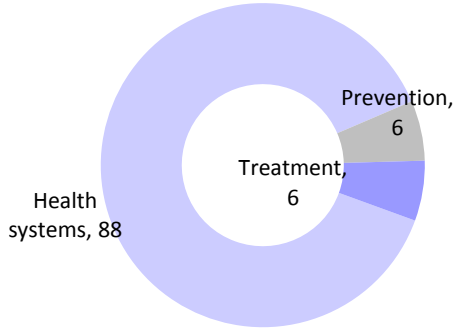


Exhibit 28: Share of funding of Global Fund

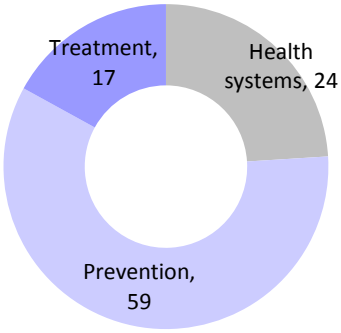
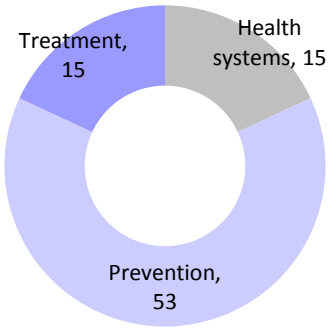


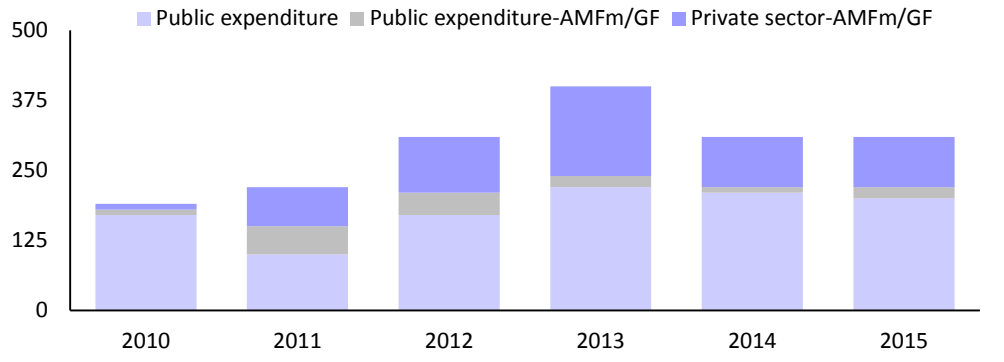
Exhibit 29: Share of funding of USAID PM



Source: Industry

Specifically, through Global Fund, the number of ACTs procured from manufacturers increased from 187m in 2010 to a peak of 393m in 2013, but subsequently fell to 311m in 2015.

Exhibit 30: ACT treatment courses delivered (m)



Source: Industry, MOSL

Industry experts suggest a marginal increase in funds available with Global Fund for procuring medicines to treat malaria in 2017. Thus, volume-based demand remains stable. Also, re-entry of Ipca Labs in tender to be awarded by Global Fund is subject to the time taken by it to implement remediation measures and subsequent clearance by USFDA post re-inspection, as well as time taken by Global Fund to

award the business. We assume loss of business to Ipca Labs to continue this year as well, as we expect it to take longer to clear the regulatory issue.

We expect the anti-malaria tender business to remain stable for STR in FY18. Given the regulatory hurdle for Ipca, we expect low probability for award of tender in October-November 2017 for FY19 business, extending stable business for STR in FY19, as well.

Focus on developing and manufacturing limited competition products to increase ARV business over the medium term

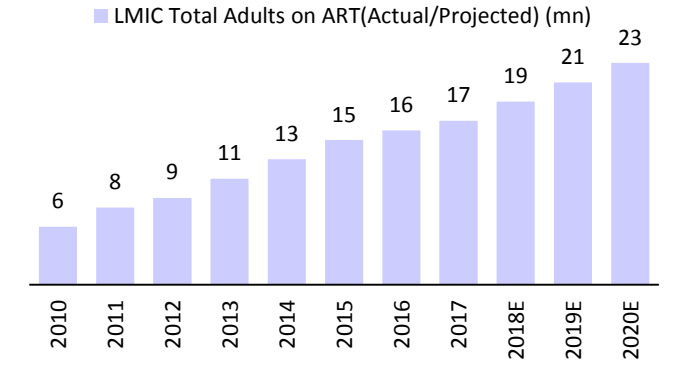
Industry scenario for ARV

Increased ARV treatment to HIV infected adults in LMICs drive institutional ARV business: The anti-retrovirals (ARV) market to treat HIV infection in LMIC (low and middle income countries) was about US$1.9b in 2015 in terms of value. ARV market has grown at 12% CAGR over FY13-15. This is largely due to increase in number of adult patients to be treated by ARVs. Approximately 14.4m adults received ART (anti-retroviral therapy) in LMICs in 2015, up 13% yoy. Treatment coverage for adults living with HIV/AIDS in LMICs increased from 41% at the end of 2014 to 46% at the end of 2015. The number of adults on ART and ART coverage in LMICs is expected to go to 22.5m by 2020, providing visibility of growth in ARV business.

TDF: Tenofovir Disoproxil Fumarate, 3TC: Lamivudine, EFV: Efavirenz.

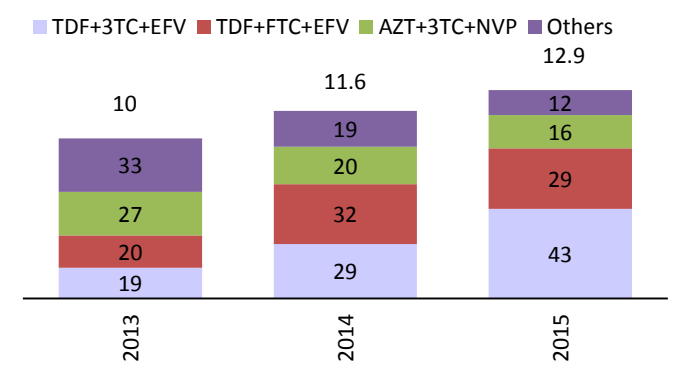
In an effort to simplify antiretroviral therapy, the WHO's 2013 guidelines reduced the preferred regimens to a single option, TDF + 3TC (or FTC) + EFV, which could be used across a range of populations as a single-pill once-daily regimen. In turn, LMICs have made great strides towards simplifying their national treatment programs, phasing out non-recommended drugs such as stavudine (d4T) in favor of Tenofovir-based combinations. This progress is reflected in the consolidation of adult first-line regimens from 2013 to 2015 around the preferred first-line regimen, Tenofovir based combination, which represented ~72% of the adult first-line patients in GA (Generic Accessible) LMICs in 2015, up ~from 39 percentage points in 2013.

Exhibit 31: Expect 12.5% CAGR in adult patients over FY17-20



Source: MOSL, Company

Exhibit 32: TDF and EVF combination dominates first-line treatment



Source: MOSL, Company

With countries ramping up TDF use in first-line treatment, EFV uptake also continues to increase. As such, EFV600 is expected to be used among the majority of first-line

patients in 2017, after which the NNRTI (class of ARV drugs) market may shift towards new products such as lower-dose EFV (EFV400) and DTG. Both drugs are expected to be more tolerable and more affordable than EFV600.

With increasing use of TDF in first-line, AZT's share is expected to decline.

Tenofovir alafenamide fumarate (TAF), a potential alternative to TDF, is a tenofovir prodrug that offers high antiviral efficacy and improved renal and bone safety profile at much lower doses than TDF. As of August 2016, Gilead has received FDA approval on three TAF-containing FDCs. Additionally, Gilead filed an NDA for the TAF 25mg singles with the FDA, but only for the adult hepatitis B indication.

The first generically-available TAF FDC is likely to be launched in early-to-mid-2018.

With STR having tied up with Gilead for manufacturing and distributing Tenofovir Alafenamide (TAF) in 112 countries, we expect good traction from this combination post genericization.

Sofosbuvir-based drugs – huge Unmet need for HepC treatment; however, improvement in diagnosis in developing countries remains the key

STR has entered into a licensing agreement to produce and distribute generic Sovaldi and investigational single tablet regimen of ledipasvir/sofosbovir for treatment of chronic Hepatitis C, for distribution to 91 developing countries including India, Eqypt and Indonesia, which are high burden countries. STR is one of the 13 companies with whom Gilead has signed licensing agreements.

Generic Sovaldi (Sofosbuvir) is another interesting opportunity for STR in the institutional segment. There are 103m patients estimated to have Hepatitis C in 101 developing countries, indicating good business opportunity for STR. Of the 103m patients, 40-50% are concentrated in Egypt, India, Indonesia and Bangladesh.

Gilead has been using different pricing strategies in different addressable markets. In the US, Gilead sells at USD84,000 per treatment of 12 weeks with one pill a day. A similar package is priced at USD51,000 in France and at USD900 in Egypt.

Though the opportunity looks sizable in terms of number of untreated patients, the key constraint is lack of diagnostic systems for detecting Hepatitis C. At the same time, public and policymaker awareness of the disease is limited, as is national and international funding for Hepatitis C screening and treatment. We expect sales from this opportunity to pick up only gradually.

We expect STR to deliver 15% CAGR in institutional sales to INR8.6b over FY17-20.

SWOT analysis

STRENGTH

- **R&D Driven** enables STR to develop low competition products which not only provides visibility of higher growth, but also enhances sustainability of sales and superior margins in US business
- **Fully Integrated Manufacturing Operations** leads to reduced dependency on out-sourcing, lowers regulatory risk and increases scope of business, both, regulated market and institutional business.
- **Strong Regulatory Compliance Structure** in terms of product quality and good manufacturing practices considerably reduces scope of adverse impact on existing business or new approvals due to regulatory hurdle.
- **Geographical diversification** into US, Australia, Africa and India reduces business dependency on particular market

WEAKNESS

- Current ANDA pipeline pending for approval is small compared to peers. STR has guided for aggressive filing of 15-20 ANDAs per annum, largely low competition products over next 3 years to not only fill product basket but also enhance business and margins.
- Stringent pricing regulation in India may reduce scope of hike in prices and thereby affect profitability.

OPPORTUNITIES

- STR has been focusing on **Robust Niche Product** Pipeline like modified release, soft gel capsules, topical and integrated products, build OTC franchise and Faster Pace of Approval from USFDA provides strong opportunity from US market.
- STR's approach is in line with **Strong Demand for Complex** Generics wherein there is limited competition due to complexity associated with development and/or manufacturing operations.

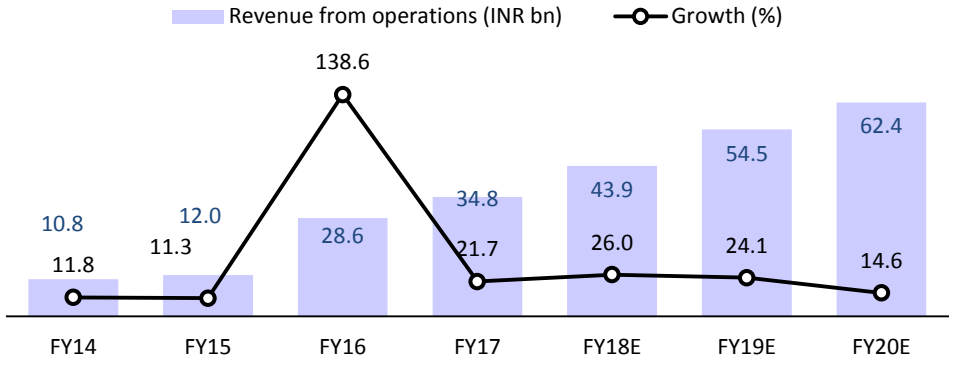
THREATS

- **Delay in Regulatory Approval** may increase competition and thereby reduce profitability of STR.
- **Higher Price Erosion** in US generics, either due to distributor level consolidation or increased competition from supplier would impact STR's performance as well.
- **Adverse Changes in Regulatory Norms** may impact outcome of strategies implemented by STR.

Return ratios to double over FY17-20

STR's revenue has grown at a CAGR of 38% to INR34.8b over FY14-17. This was led by improvement in existing business as well as acquisitions. The major acquisitions/mergers that aided revenue growth, specifically in FY16, are the merger of Shasun Pharmaceuticals and the acquisition of Australia generics business from Aspen. The full year benefit of the same was visibile in FY17.

Exhibit 33: Business from regulated market to drive overall revenue growth

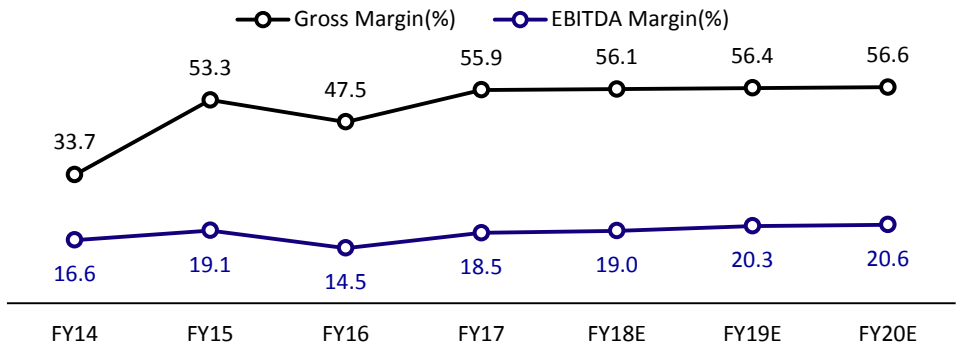


Source: MOSL, Company

We expect 21.5% CAGR in sales, led by 26% CAGR in regulated market business and 25% CAGR in the API segment. Growth would be offset to some extent due to 15% CAGR in institutional business and 8.4% CAGR in emerging market business.

Post the sale of Australia business in January 2012, gross margin declined from 49% in CY12 to 33.7% in FY14. However, STR delivered sharp increase in gross margin from 33.7% to 55.9% over FY14-17. This is mainly due increased share of high margin products.

Exhibit 34: Superior product mix and increased cost efficiency to drive margins

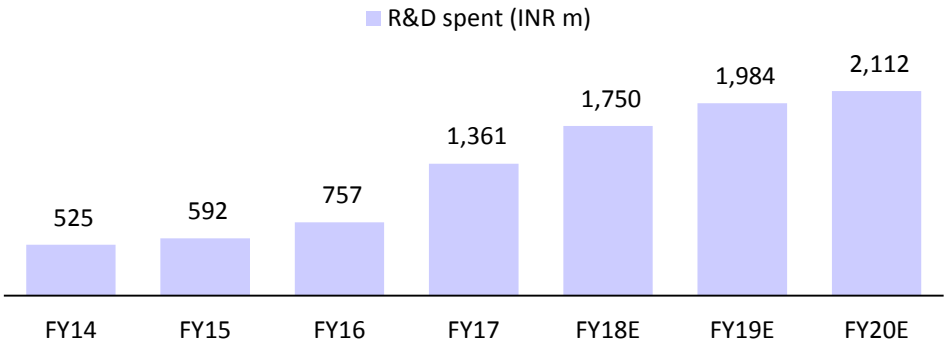


Source: MOSL, Company

However, EBITDA margin improved at lower rate of 190bp during the period due to increased R&D spend, incremental cost associated with improving compliance, and increased operating cost associated with some of the acquired facilities.

STR has spent significant amounts on these three fronts to strengthen its R&D for building its future product pipeline. It has invested in infrastructure, human resources, as well as in developing capabilities. Cumulatively, STR has spent USD70m over the last three years, largely towards setting up R&D facility, increasing R&D headcount to 500+, and developing complex generics. These generics mainly relate to topical and modified release drug substances.

Exhibit 35: R&D spend largely for products to be sold in regulated market

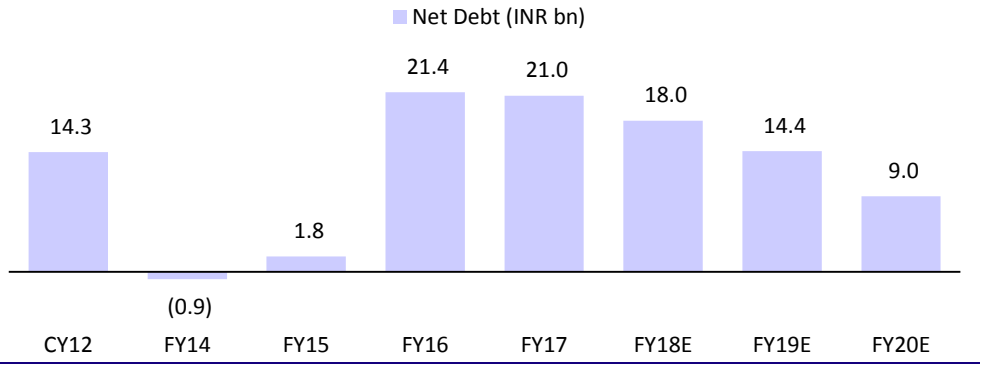


Source: MOSL, Company

With large part of the R&D spend incurred in the last three years, STR has guided that R&D spend would be capped at USD30m per annum for the next 2-3 years. This would not slow down or affect the pace of filing ANDAs for future growth.

STR's net debt stands at INR21b. Till FY15, STR had a small amount of net debt. However, mergers and acquisitions led to considerable increase in net debt. Though net debt has increased, net-debt-to-equity ratio is comfortable at 0.8x.

Exhibit 36: Net debt to reduce through internal accruals

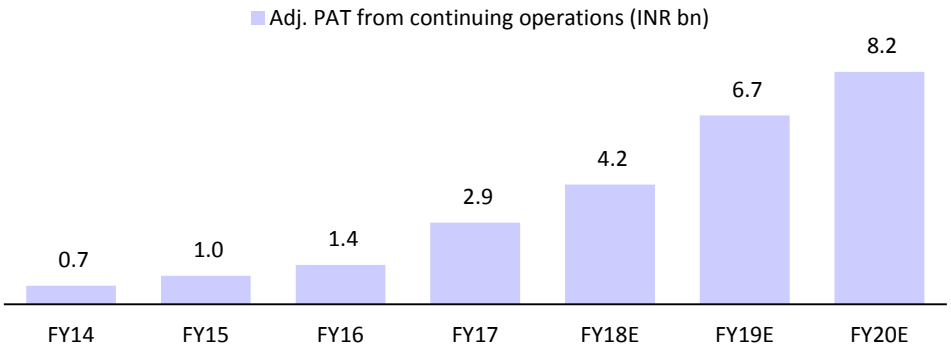


Source: MOSL, Company

With STR having largely completed its capex and investment phase, the capex is likely to be nominal and would be required for maintenance of facilities. The cash generated from ongoing business would be largely used to repay debt and reduce interest cost. STR intends to reduce debt by at least INR3b per annum over the next three years to reduce financial leverage and thereby improve profitability.

With the addition of new entities and improvement in profitability in existing business, STR's PAT multiplied 4x over FY14-17. Including API business, we expect robust 42% CAGR in adjusted PAT over FY17-20 to INR8.2b, led by revenue growth, improved operating efficiency, reduction in finance cost, and lower tax rate.

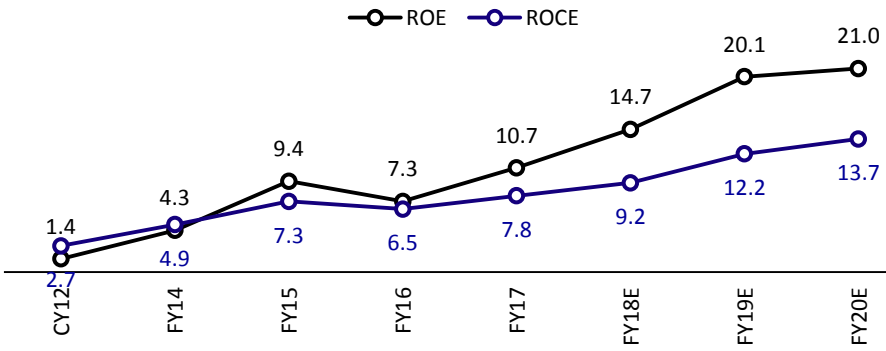
Exhibit 37: We expect 42% CAGR in adjusted PAT from continuing operations



Note: The trend includes API business, which would be transferred to Solara; Source: MOSL, Company

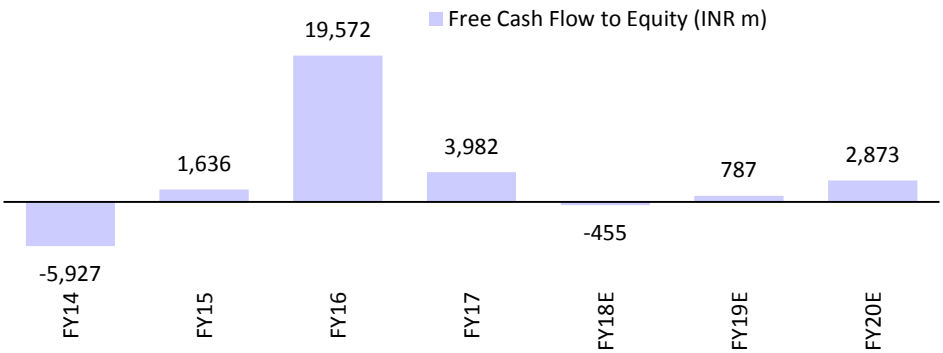
We expect RoE to improve from 10.7% in FY17 to 21% by FY20.

Exhibit 38: We expect sharp improvement in return ratios



Source: MOSL, Company

Exhibit 39: Free Cash Flow to equity to trend upward



Source: MOSL, Company

The free cash flow to equity (FCFE) has been volatile over FY14-17, largely due to multiple corporate actions in terms of acquisition/divestment of business. We expect FCFE to trend upward, despite decrease in net borrowings, due to better operating cash flow and nominal maintenance capex going forward.

Sensitivity analysis indicates limited downside

- In our base case, we factor in 21.5% revenue CAGR to INR62b and 42% PAT CAGR to INR8.2b over FY17-20, led by increased business from the US and Australia. We expect EBITDA margin to expand 214bp over FY17-20 due to increased share of high margin business and higher operating efficiency.
- In our bull case, we factor in 26% revenue CAGR to INR70b and 49% PAT CAGR to INR9.7b over FY17-20, led by faster pace of approvals and lower price erosion from the US and superior execution in Australia. We expect EBITDA margin to expand 288bp over FY17-20. The price target based on SOTP would be INR1,678, implying 60% upside.
- In our bear case, we factor in 17% revenue CAGR to INR56b and 33% PAT CAGR to INR6.8b over FY17-20, led by delay in approvals and higher price erosion in the US, and delay in ramping Australia business. We expect EBITDA margin to expand 134bp over FY17-20. The price target on SOTP would be INR995, implying limited downside.

Exhibit 40: Sensitivity analysis implies limited downside from current levels

Sensitivity Analysis	Bear Case	Base Case	Bull Case
Revenue (INR m)	49,104	54,479	58,934
EBITDA (INR m)	9,428	11,032	12,140
EBITDA margin %	19.2%	20.3%	20.6%
PBT (INR m)	6,798	8,537	9,756
Tax rate (%)	15.8	15.8	15.8
PAT (INR m)	5,223	6,687	7,714
EPS	58.5	74.8	86.3
Target Price	995	1,300	1,678
% Return	-9%	30%	60%

Source: MOSL, Company

Valuation and view

We believe STR is set for strong earnings growth over the next 2-3 years. Over the last three years, it has invested significantly to build pillars of future growth:

- **Integrated R&D capabilities** to develop complex generics for regulated markets
- **Vertical integration** of manufacturing facilities to reduce external dependency for key raw materials
- **Strong compliance culture** to reduce regulatory risk
- **Increased automation** to improve efficiency and reduce compliance-related errors
- **Presence in diversified markets** to reduce geography specific risk
- **Continued focus on branded generics**

With significant part of the investments already made, 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, implying 30% upside from current levels. We believe there is significant value accretion in STR's API business on the back of niche APIs and sound compliance track record, which would drive robust growth in sales and superior margins compared to commodity API business. Hence, we ascribe 40% premium multiple to Solara at 13x EV/EBITDA. We initiate coverage with a Buy rating.

Exhibit 41: Valuation snapshot

Particulars	FY19
Valuation of Strides Pharma	
Strides Pharma PAT (INR m)	5,412
PE multiple (x)	18
Target Mkt Cap (INR m)	97,414
Valuation of Solara	
API business EBITDA (INR m)	2,719
EV/EBITDA multiple	13
EV of API business	35,347
Net Debt of API business (INR m)	4500
Stake of Strides Pharma (%)	60
Target Mkt Cap (INR m)	18,508
Total target Mkt Cap (INR m)	**115,922**
No. of shares	89.4
Target Price (INR)	1,300
% Upside	30.0

Source: MOSL, Company

Key risks

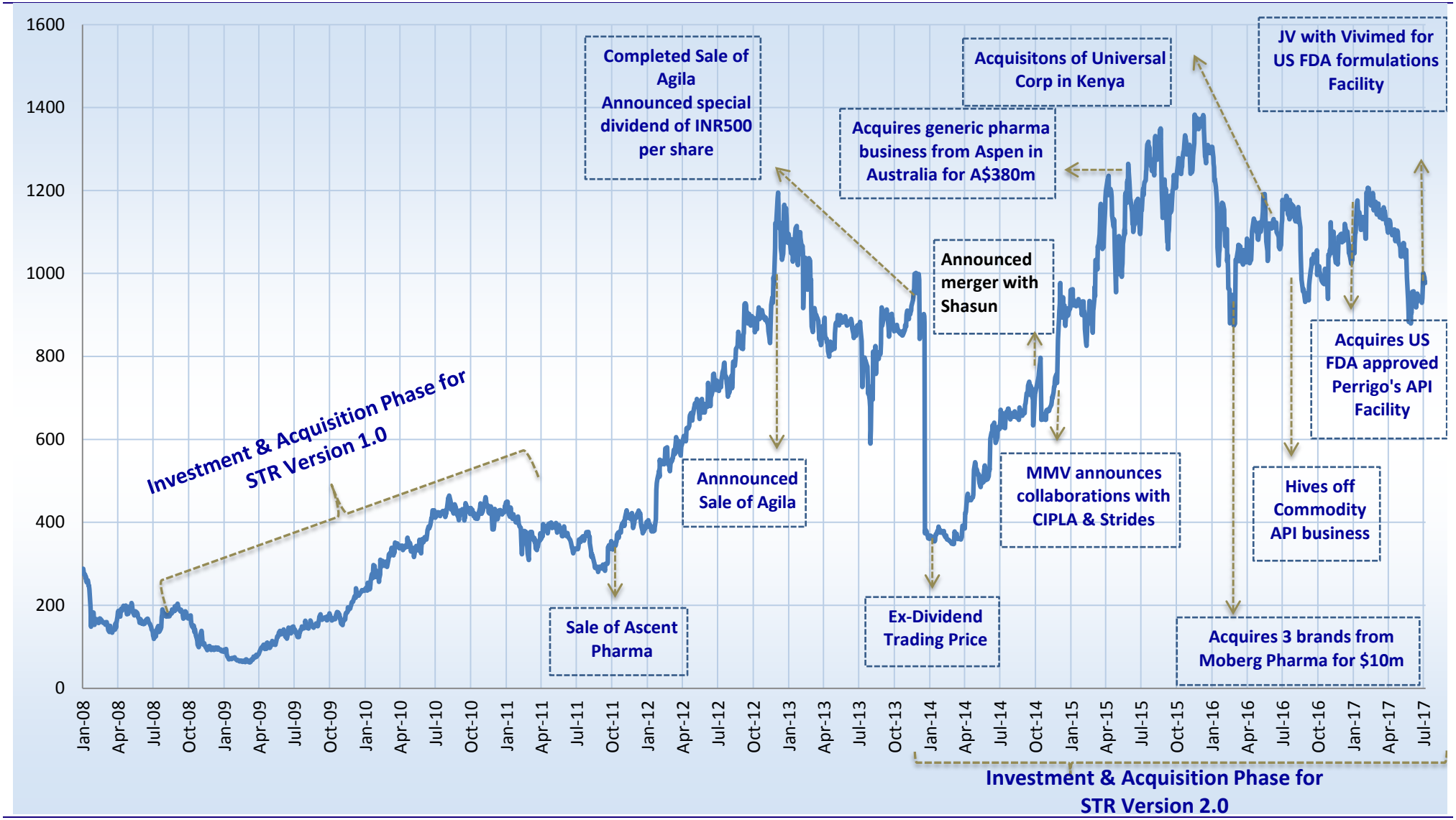
- Delay in ANDA approval may result in lower growth in US business. Higher than expected price erosion in approved products could put earnings at risk.
- Higher than expected pricing pressure in Australia and India might result in lower than expected growth in these markets.
- Lower donor funding could impact growth in institutional business.

Exhibit 42: Comparative valuations (INR b)

	MCap	Sales			EBITDA margin (%)			PAT			P/E (x)			RoE (%)		
	INR b	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ajanta	117.8	20.0	22.6	27.4	34.9	34.7	34.2	5.2	5.8	7.0	24.1	21.3	17.7	37.7	32.2	29.9
Natco	165.5	20.7	26.0	23.8	33.1	37.5	28.1	4.9	6.0	4.2	35.3	34.8	27.5	32.9	25.0	24.3
Alembic	99.9	31.0	32.5	37.2	19.7	18	19.5	4.1	3.9	4.8	25.1	26.5	21.3	23.0	19.0	20.4
Jubilant	112.0	60.1	65.9	72.9	22.4	23.9	24.3	5.8	7.3	8.8	19.8	15.6	12.9	18.1	19.5	19.6
Torrent	212.3	58.6	65.4	76.1	23.5	23.3	24.5	9.3	9.6	12.1	23.0	22.4	17.8	25.3	22.4	24.2
Strides	**89.9**	**34.8**	**43.9**	**54.5**	**18.5**	**19.0**	**20.3**	**2.9**	**4.2**	**6.7**	**31.0**	**21.1**	**13.4**	**10.7**	**14.7**	**20.1**

Source: Company, MOSL

Exhibit 43: STR has appreciated at 30% CAGR over the past nine years (adjusting for dividend)



Source: MOSL, Company

Manufacturing facilities and USFDA inspection update

Exhibit 44: Manufacturing facilities as per business segment

Business segment	Facility used to cater respective market
Regulated Market	Bangalore FDF
	Puducherry FDF
	SingaporeFDF *
	Vivimed Chennai facility #
	Perrigo API facility
Emerging market	Bangalore facility
	Nairobi Kenya
Institutional business	Bangalore
	Nairobi Kenya *

Source: MOSL, Company

About Strides Shasun

Strides Shasun (STR) is a first generation, vertically integrated global pharmaceuticals company, with business interests in differentiated pharma generics, branded generics, and biopharma. It develops niche and complex products for regulated and emerging markets.

Key personnel

Mr Arun Kumar – Founder & Chairman

Mr Kumar has founded and led Strides for 27 years. He has moved to a non-executive position from May 18, 2017. He has been on the Board since the company's inception in 1990. He holds a degree in Commerce.

Mr Shashank Sinha – Managing Director

leadership positions at Godrej Consumer Products, Sara Lee Corporation, Reckitt Benckiser plc, and Navis Capital Partners. He has a Bachelor's Degree in Engineering and received his MBA from the Indian Institute of Management, Lucknow.

Mr Badree Komandur – Executive Director and Group CFO

positions in IT and Engineering companies like Larsen & Tubro. He holds a Degree in Commerce from the University of Madras and is a member of the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, and the Institute of Cost and Works Accountants of India.

Mr Ramaraju PVS – Chief Operating Officer

experience in the pharmaceutical industry, and specializes in Manufacturing, Quality, Engineering, Sourcing, Warehouse, Distribution and Planning Functions. Prior to joining Strides, he worked with organizations like Dr Reddy's for over a decade, USV, and Unichem. He is MTech in Pharma Chemistry from BITS, Pilani.

Mr Umesh Kale – Chief Quality Officer

Mr Umesh Kale has over 24 years of experience in the Pharma industry and has been with Strides for more than 10 years. He is responsible for quality governance of the entire organization. He specializes in Qualification, Process Validation, Aseptic Processing, QMS and Automation. Before joining Strides, he worked with organizations like Nicholas Piramal, FDC, Lupin, Dr Reddy's and Ranbaxy. He is an MPharm (gold medalist) from SGS Institute of Technology and Science, Indore.

Financials and Valuations

Consolidated - Income Statement (INR Million)

Y/E March	CY12	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	**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
Raw Materials	4,918	7,147	5,605	15,023	15,362	19,271	23,753	27,088
Employees Cost	1,203	1,572	1,721	3,577	5,881	7,287	8,880	10,111
Other Expenses	2,490	2,457	2,345	5,883	7,163	8,999	10,814	12,358
Total Expenditure	**8,612**	**11,175**	**9,670**	**24,483**	**28,406**	**35,557**	**43,447**	**49,557**
% of Sales	89.5	83.3	80.9	85.5	81.5	81.0	79.8	79.4
EBITDA	**1,006**	**2,235**	**2,288**	**4,139**	**6,428**	**8,341**	**11,032**	**12,857**
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**
Int. and Finance Charges	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
PBT bef. EO Exp.	**245**	**1,183**	**1,560**	**2,066**	**3,973**	**5,597**	**8,537**	**10,393**
EO Items	7,001	-266	-74	-461	-1,002	0	0	0
PBT after EO Exp.	**7,246**	**918**	**1,486**	**1,606**	**2,971**	**5,597**	**8,537**	**10,393**
Total Tax	112	409	532	425	470	885	1,350	1,644
Tax Rate (%)	1.5	44.5	35.8	26.4	15.8	15.8	15.8	15.8
Minority Interest	11	6	-6	135	462	476	500	525
Tax on dividend received from subsidiries	0	2,837	944	0	0	0	0	0
Reported PAT from Continuing Ops.	**7,123**	**-2,333**	**16**	**1,046**	**2,039**	**4,236**	**6,687**	**8,225**
Adj. PAT from Continuing Ops.	**230**	**651**	**1,007**	**1,385**	**2,883**	**4,236**	**6,687**	**8,225**
Change (%)	-87.4	182.9	54.7	37.5	108.2	46.9	57.9	23.0
Margin (%)	2.4	4.9	8.4	4.8	8.3	9.6	12.3	13.2

Consolidated - Balance Sheet (INR Million)

Y/E March	CY12	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	588	596	596	894	894	894	894	894
Total Reserves	19,675	9,473	10,853	25,685	26,210	29,627	35,019	41,653
Net Worth	**20,263**	**10,068**	**11,449**	**26,579**	**27,104**	**30,520**	**35,913**	**42,546**
Minority Interest	719	757	187	502	1,640	1,640	1,640	1,640
Total Loans	15,945	5,466	8,917	38,025	42,232	39,107	35,832	32,057
Deferred Tax Liabilities	272	17	-54	126	557	557	557	557
Capital Employed	**37,198**	**16,308**	**20,500**	**65,232**	**71,532**	**71,823**	**73,941**	**76,799**
Gross Block	18,240	8,039	9,437	28,578	32,901	35,017	36,304	37,515
Less: Accum. Deprn.	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**
Goodwill on Consolidation	16,903	1,034	1,368	9,267	9,670	9,670	9,670	9,670
Capital WIP	2,415	995	1,712	2,942	2,045	889	754	759
Total Investments	**1**	**4,430**	**6,300**	**13,085**	**15,897**	**15,897**	**14,997**	**14,997**
Curr. Assets, Loans&Adv.	**15,378**	**9,993**	**9,668**	**25,462**	**27,335**	**31,101**	**37,781**	**43,703**
Inventory	4,423	1,760	2,077	6,131	7,380	9,238	11,287	12,875
Account Receivables	4,832	3,640	3,900	10,330	9,971	12,565	15,593	17,865
Cash and Bank Balance	1,658	2,312	1,469	3,116	3,295	869	438	978
Loans and Advances	4,465	2,281	2,223	5,885	6,690	8,430	10,462	11,986
Curr. Liability & Prov.	**10,762**	**4,655**	**4,194**	**8,998**	**9,340**	**11,707**	**14,350**	**16,383**
Account Payables	4,631	2,679	2,065	7,754	7,465	9,345	11,418	13,024
Other Current Liabilities	4,733	879	1,268	950	1,445	1,820	2,259	2,588
Provisions	1,399	1,098	861	294	430	542	673	771
Net Current Assets	**4,616**	**5,338**	**5,474**	**16,464**	**17,995**	**19,394**	**23,431**	**27,321**
Appl. of Funds	**37,198**	**16,308**	**20,500**	**65,232**	**71,531**	**71,823**	**73,941**	**76,799**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	CY12	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
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
BV/Share	226.8	112.7	128.1	297.5	303.3	341.6	401.9	476.2
DPS	1.3	336.8	72.0	4.8	3.7	7.6	12.0	14.7
Payout (%)	1.9	-1,410.0	43,880.3	49.1	19.3	19.3	19.3	19.3
Valuation (x)								
P/E			88.8	64.5	31.0	21.1	13.4	10.9
Cash P/E			54.2	33.1	18.8	14.2	10.1	8.5
P/BV			7.8	3.4	3.3	2.9	2.5	2.1
EV/Sales			8.1	4.3	3.7	2.9	2.3	1.9
EV/EBITDA			42.3	30.0	20.0	15.3	11.3	9.4
Dividend Yield (%)	0.1	33.7	7.2	0.5	0.4	0.8	1.2	1.5
FCF per share	-21.7	-82.3	-17.6	8.4	-2.5	29.9	45.5	74.4
Return Ratios (%)								
RoE	1.4	4.3	9.4	7.3	10.7	14.7	20.1	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
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	1.7	1.3	1.0	1.1	1.3	1.5	1.7
Asset Turnover (x)	0.3	0.8	0.6	0.4	0.5	0.6	0.7	0.8
Inventory (Days)	168	48	63	78	77	77	76	75
Debtor (Days)	183	99	119	132	104	104	104	104
Creditor (Days)	176	73	63	99	78	78	76	76
Leverage Ratio (x)								
Current Ratio	1.4	2.1	2.3	2.8	2.9	2.7	2.6	2.7
Interest Cover Ratio	0.9	1.5	3.5	1.7	2.0	3.1	5.3	6.9
Net Debt/Equity	0.7	-0.1	0.1	0.8	0.9	0.7	0.6	0.4

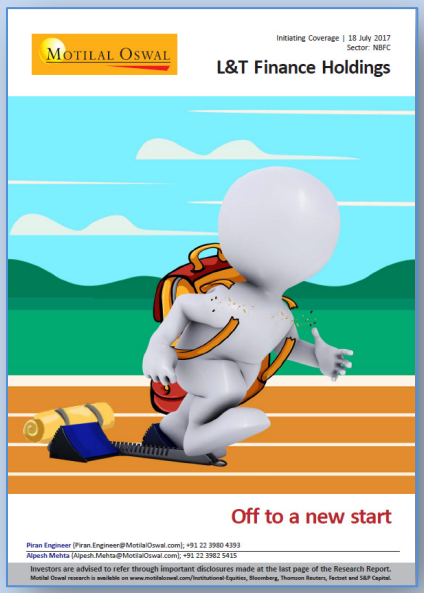
Consolidated - Cash Flow Statement (INR Million)

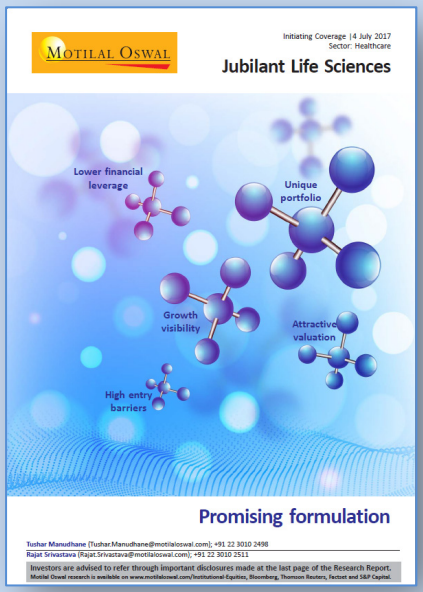
Y/E March	CY12	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	9,495	28,899	9,920	2,678	3,973	5,597	8,537	10,393
Depreciation	1,095	1,539	640	1,573	1,872	2,068	2,171	2,247
Interest & Finance Charges	1,523	1,835	163	1,001	584	676	324	217
Direct Taxes Paid	-888	-1,259	-560	-770	-470	-885	-1,350	-1,644
(Inc)/Dec in WC	-3,105	-2,607	-959	-3,424	-1,352	-3,826	-4,467	-3,350
CF from Operations	**8,121**	**28,407**	**9,205**	**1,058**	**4,606**	**3,630**	**5,214**	**7,864**
Others	-6,732	-31,124	-8,371	-341	-1,002	0	0	0
CF from Operating incl EO	**1,389**	**-2,717**	**834**	**717**	**3,604**	**3,630**	**5,214**	**7,864**
(Inc)/Dec in FA	-3,331	-4,639	-2,406	34	-3,828	-960	-1,152	-1,216
Free Cash Flow	**-1,942**	**-7,356**	**-1,572**	**750**	**-224**	**2,670**	**4,062**	**6,648**
(Pur)/Sale of Investments	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 Investments	**7,572**	**36,556**	**2,536**	**-28,565**	**-4,954**	**357**	**1,110**	**95**
Issue of Shares	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
Dividend Paid	-137	-32,683	-7,070	-251	-395	-820	-1,294	-1,592
Others	0	0	0	8	-13	-476	-500	-525
CF from Fin. Activity	**-9,900**	**-33,185**	**-4,213**	**29,495**	**1,529**	**-6,413**	**-6,755**	**-7,419**
Inc/Dec of Cash	**-940**	**654**	**-843**	**1,647**	**179**	**-2,427**	**-430**	**540**
Opening Balance	2,597	1,657	2,312	1,469	3,116	3,295	869	438
Closing Balance	**1,657**	**2,312**	**1,469**	**3,116**	**3,295**	**869**	**438**	**978**

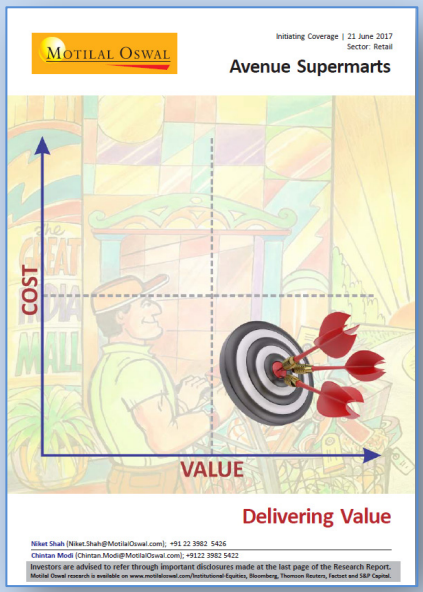
NOTES

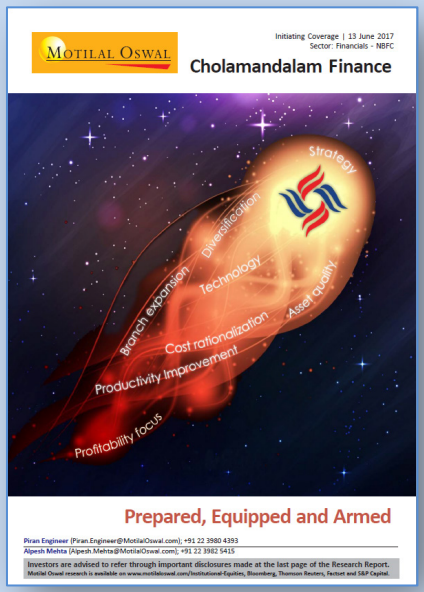
REPORT GALLERY

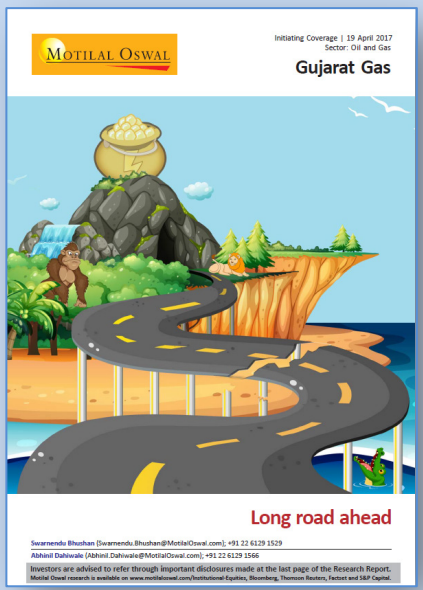
RECENT INITIATING COVERAGE REPORTS











Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Securities Ltd. (MOSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOSL is a subsidiary company of Motilal Oswal Financial Service Ltd. (MOFSL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOSL is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Metropolitan Stock Exchange Of India Ltd. (MSE) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) & National Securities Depository Limited (NSDL) and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products. Details of associate entities of Motilal Oswal Securities Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/Associate%20Details.pdf

Pending Regulatory Enquiries against Motilal Oswal Securities Limited by SEBI:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL requested SEBI to provide all documents, records, investigation report relied upon by SEBI which were referred in Show Cause Notice and also sought personal hearing. The matter is currently pending.

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