

## RETAIL EQUITY RESEARCH

## Strides Pharma Science Ltd

## Pharmaceuticals

BSE CODE: 532531

NSE CODE: STAR

Bloomberg CODE: STR:IN

SENSEX: 36,257

31<sup>st</sup> January, 2019

BUY

Rating as per mid cap

12months investment period

CMP Rs. 461 TARGET Rs. 530 RETURN 15% ↑

## A quarter marked with strategic decisions...

Strides Pharma science (SS) is a R&D focussed, vertically integrated pharmaceutical company with an experienced management team and presence across multiple speciality therapeutic segments.

- SS to exit Australian business for ~394m AUD and a new supply deal will be struck in its place with Arrotex (Arrow- Apotex merged entity).
- More focus to the US markets as they are witnessing strong business momentum driven by new product launches.
- Regulated market saw high growth rate (55% YoY) driven by better business environment in key markets & portfolio expansion.
- We adjust our Revenue / PAT estimate for FY20E by 14%/21% resp. to factor sale of Australian business (~700crs).
- However we forecast Rev/PAT to grow by 13/57% in FY21 on better performance from the US and value SS at a multiple of 18x on FY21E EPS and upgrade the rating to Buy from Accumulate.

## SS to exit Australian business...

Strides has opted out of the merger plan with Apotex citing leverage concerns whereby they will sell their entire stake at Arrow for AUD394m (~2000crs). They will receive an upfront payment of AUD 300m at the closure of transaction while the balance AUD 94m will be deferred through a secured instrument to be used for growth capital. The deal is expected to get completed by end of FY20 which allows SS to enter into a 10-year preferred supplier contract with the merged entity which enables SS to retain ongoing earnings of 40%-50% of current EBITDA at Arrow.

## Focus shifting to the US market...

US witnessed strong business momentum (30% QoQ) driven by new product launches and healthy volume trajectory for base portfolio. With healthy order book visibility and steady pricing environment, the management is optimistic on this market as several partnered products is returning in Q4FY19. There is also strong approval (11 in YTD FY19) momentum which looks encouraging. Other corporate actions include Acquisition of Vensun Pharmaceuticals, Inc (US) and 100% ownership in JV with Vivimed Labs which is expected to add ~\$40M additional sales.

## Other regulated markets had a stellar performance...

Other Regulated markets grew the largest by 55% on a YoY basis driven by improved market share for key molecules and healthy pricing environment. African business growth was modest with better expectations for future. However, institutional business de-grew by 15% YoY on account of muted procurement by donor funding agencies. Q3FY19 revenue grew by ~6% YoY primarily driven by the growth in the US and other regulated markets (accounting for ~15%). We therefore expect EBITDA margins to stabilise around 14% during FY19-21E.

## Valuations...

We are adjusting our FY20 Rev/PAT estimates by 14% and 21% resp. downward to factor sale of Australian business. However we believe that ceasing of partnership model in US coupled with more product filings and good numbers from other regulated markets will make up the difference and drive the earnings growth going forward. We therefore factor a revenue/PAT growth of 13/57% for FY21. Hence, we value Strides at 18x on FY21E EPS and upgrade the rating to Buy from 'Accumulate' with a target price of Rs530.

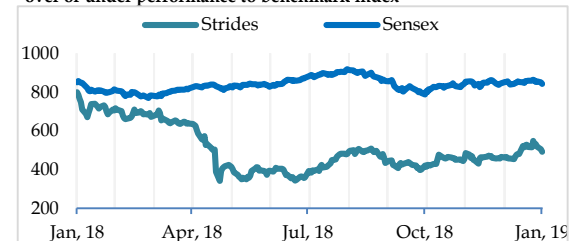
## Company Data

Market Cap (cr)	Rs. 4,126
Enterprise Value (cr)	Rs. 6,366
Outstanding Shares (cr)	8.9
Free Float	69%
Dividend Yield	0.4%
52 week high	Rs 819
52 week low	Rs 334
6m average volume (cr)	0.22
Beta	1.1
Face value	Rs. 10

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19
Promoters	31.3	31.0	30.8
FII's	23.1	22.1	22.0
MFs/Insti	23.2	25.0	25.1
Public	22.4	22.0	22.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	16.3%	24.6%	-38.5%
Absolute Sensex	2.1%	-5.4%	-3.1%
Relative Return	14.2%	30.0%	-35.4%

\*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19E	FY20E	FY21E
Sales	2,994	2,971	3,376
Growth (%)	5.4	(0.8)	13.6
EBITDA	418	415	478
Margin (%)	14.0	14.0	14.2
PAT Adj	41	163	256
Growth (%)	(39.7)	297.2	56.7
Adj.EPS	4.6	18.2	28.6
Growth (%)	(39.7)	297.2	56
P/E	100.4	25.3	16.1
P/B	1.7	1.6	1.5
EV/EBITDA	16.3	12.3	10.3
ROE (%)	1.7	6.5	9.5
D/E	1.0	0.3	0.2

Dilish K Daniel,  
Analyst

## Quarterly Financials

### Profit & Loss Account

(Rs cr)	Q3FY19	Q3FY18	YoY Growth %	9MFY19	9MFY18	YoY growth %
Sales	794.5	748.8	6%	2190.6	2360.1	-7%
EBITDA	127	131	-3%	307.5	318	-3%
EBITDA margins (%)	16.0	17.5	-150bps	14.0	13.5	+56bps
Depreciation	40.7	38.0	7%	128.0	127.5	0.5%
EBIT	86.4	93.0	-7%	179	190.5	-6%
Interest	50.1	49.8	1%	142.7	162.4	-12%
Other Income	0.8	15.7	-95%	19.2	73.9	-74%
Exceptional Items	0.7	-0.2	-	-11.6	-21.3	-46%
PBT	37.9	52.6	-28%	44.4	80.8	-45%
Tax	6.3	2.0	215%	3.7	1.9	90%
Share of profit from Associate	-7.0	0	-	-27.2	-11.6	134%
Reported PAT	24.6	47.3	-48%	13.5	67.3	-80%
Adjustments	0.0	44.9	-	0.0	41.5	-
Adj PAT	24.6	92.3	-73%	-13.5	108.7	-88%
No. of shares (cr)	9.0	9.0	-	9.0	9.0	-
EPS (Rs)	2.7	10.3	-73%	1.5	12.1	-88%

### Change in estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY19E	FY20E	FY19E	FY20E	FY21E	FY19E	FY20E
Revenue	2,968	3,462	2,994	2,971	3,376	0.9%	-14.17%
EBITDA	370	484	418	415	478	13.0%	-14.26%
Margins (%)	12%	14%	14%	14%	14.2%	2%	0%
Adj. PAT	44	206	41	163	256	-6.5%	-20.71%
EPS	4.9	23.0	4.6	18.2	28.6	-6.2%	-20.66%

### Region wise Revenue projections..

(Rs cr)	FY18A	FY19E	FY20E	FY21E
US	775	838	1,047	1,204
%		8%	25%	15%
Australia	919	1,019	612	703
%		11%	-40%	15%
Regulated	339	517	672	806
%		53%	30%	20%
Africa	264	217	234	258
%		-18%	8%	10%
Institutional	561	402	382	386
%		-28%	-5%	1%

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales</b>	<b>2,755</b>	<b>2,839</b>	<b>2,994</b>	<b>2,971</b>	<b>3,376</b>
% change	(3.7)	3.1	5.4	(0.8)	13.6
<b>EBITDA</b>	<b>526</b>	<b>397</b>	<b>418</b>	<b>415</b>	<b>478</b>
% change	27.1	(24.6)	5.5	(0.8)	15.3
Depreciation	126	154	170	175	185
EBIT	400	243	248	240	293
Interest	183	196	188	139	73
Other Income	161	94	40	90	90
<b>PBT</b>	<b>342</b>	<b>97</b>	<b>85</b>	<b>182</b>	<b>285</b>
% change	107.3	(71.7)	(12.4)	114.5	56.7
Tax	63	10	9	19	29
Tax Rate (%)	18.6%	10.1%	10.2%	10.2%	10.2%
<b>Reported PAT</b>	<b>445</b>	<b>680</b>	<b>41</b>	<b>163</b>	<b>256</b>
Adj*	129.8	(610.1)	-	-	-
<b>Adj PAT</b>	<b>279</b>	<b>68</b>	<b>41</b>	<b>163</b>	<b>256</b>
% change	136.8	(75.5)	(39.7)	297.0	56.7
No. of shares (crs)	8.9	9.0	9.0	9.0	9.0
<b>Adj EPS (Rs)</b>	<b>31.2</b>	<b>7.6</b>	<b>4.6</b>	<b>18.2</b>	<b>28.6</b>
% change	136.6	52.8	(39.7)	297.0	56.7
DPS (Rs)	4.00	4.50	4.00	4.00	4.00

### Cash flow

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	54	29	26	36	47
Non-cash adj.	-177.6	-991.4	-44.8	7.0	-116.0
Changes in W.C	(34)	(19)	(11)	16	0
<b>C.F.O</b>	<b>33</b>	<b>19</b>	<b>13</b>	<b>50</b>	<b>46</b>
Capital exp.	(68)	(40)	(28)	(27)	(27)
Change in inv.	(31)	48	(22)	155	5
Other invest.CF	31	47	(3)	(3)	(3)
<b>C.F - investing</b>	<b>(71)</b>	<b>58</b>	<b>(52)</b>	<b>125</b>	<b>(25)</b>
Issue of equity	(81)	(474)	300	-	-
Issue/repay debt	646	(278)	260	(1,740)	(190)
Dividends paid	(4)	(4)	(4)	(4)	(4)
Other finance.CF	539	(264)	26	-	-
<b>C.F - Financing</b>	<b>34</b>	<b>(102)</b>	<b>38</b>	<b>(173)</b>	<b>(19)</b>
Chg. in cash	(34)	(246)	(19)	20	14
Closing cash	320	256	237	257	271

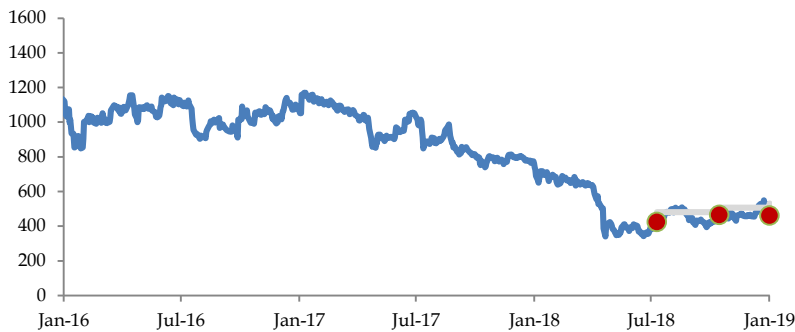
### Balance Sheet

Y.E March (Rs cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	322	256	237	257	271
Accounts Receivable	997	882	927	920	1,036
Inventories	738	552	799	782	799
Other Cur. Assets	154	84	172	171	194
Investments	1,595	662	680	530	530
Gross Fixed Assets	1,140	807	1,007	1,257	1,507
Net Fixed Assets	978	665	694	770	834
CWIP	205	322	397	417	437
Intangible Assets	2,510	2,368	2,568	1,168	1,118
Def. Tax (Net)	(9)	62	46	46	46
Other Assets	503	497	527	559	593
<b>Total Assets</b>	<b>8,037</b>	<b>6,478</b>	<b>7,049</b>	<b>5,620</b>	<b>5,859</b>
Current Liabilities	1,628	895	1,039	1,172	1,332
Provisions	43	74	98	98	111
Debt Funds	1,638	1,551	1,851	351	301
Other Liabilities	461	402	480	495	495
Equity Capital	89	90	90	90	90
Reserves & Surplus	2,621	2,365	2,366	2,489	2,705
Shareholder's Fund	2,710	2,455	2,455	2,579	2,795
<b>Total Liabilities</b>	<b>8,037</b>	<b>6,478</b>	<b>7,049</b>	<b>5,620</b>	<b>5,858</b>
<b>BVPS(Rs)</b>	<b>303</b>	<b>274</b>	<b>274</b>	<b>288</b>	<b>312</b>

### Ratios

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	19.1	14.0	14.0	14.0	14.2
EBIT margin (%)	14.5	8.5	8.3	8.1	8.7
Net profit mgn.(%)	10.1	2.4	1.4	5.5	7.6
ROE (%)	10.4	2.6	1.7	6.5	9.5
ROCE (%)	14.8	9.9	10.1	9.3	10.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	134.5	120.8	110.3	113.4	105.7
Inventory (days)	89.5	82.9	82.3	97.1	85.4
Payables (days)	89.7	107.7	104.8	115.2	102.9
Current ratio (x)	1.1	1.9	1.9	1.7	1.6
Quick ratio (x)	0.7	1.3	1.1	1.0	1.0
<b>Turnover &amp;Levg.</b>					
Gross asset T.O (x)	2.5	2.9	3.3	2.6	2.4
Total asset T.O (x)	0.4	0.4	0.4	0.5	0.6
Int. covge. ratio (x)	2.2	1.2	1.3	1.7	4.0
Adj. debt/equity (x)	1.1	1.0	1.0	0.3	0.2
<b>Valuation ratios</b>					
EV/Sales (x)	2.5	2.3	2.3	1.7	1.5
EV/EBITDA (x)	13.2	16.4	16.3	12.3	10.3
P/E (x)	14.8	60.5	100.4	25.3	16.1
P/BV (x)	1.5	1.7	1.7	1.6	1.5

## Recommendation Summary( last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
9 <sup>th</sup> August 2018	Buy	480
15 <sup>th</sup> November 2018	Accumulate	507
31 <sup>st</sup> January 2019	Buy	530

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

## General Disclosures and Disclaimers

### CERTIFICATION

I, Dilish K Daniel, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

### DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

### GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

### RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

### FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term,

there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

#### JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

#### REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

#### 1. Disclosures regarding Ownership\*:

*Geojit confirms that:*

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

*Further, the Analyst confirms that:*

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

#### 2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

- (a) Have not received any compensation from the subject company;
- (b) Have not managed or co-managed public offering of securities for the subject company
- (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company.
- (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company
- (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report
- (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

#### 3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

#### 4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Dilish K Daniel, Research Analyst of Geojit have not served as an officer, director or employee of the subject company

#### 5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company. Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing..

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com), For grievances: [grievances@geojit.com](mailto:grievances@geojit.com), For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226