

March 18, 2013

STRIDES ACROLAB LTD.

BSE Code: 532531 NSE Code: STAR Reuters Code: STAR.NS Bloomberg Code: STR:IN

Established in 1990, Strides Arcolab Limited (STRIDES) is a global pharmaceutical company. It indulges in developing and manufacturing a wide range of IP-led niche pharmaceutical products with an emphasis on sterile injectable. The company has 14 manufacturing facilities across 6 countries with presence in more than 75 countries in developed and emerging markets. The company's products include softgel capsule, hard-gel capsules, tablets and dry and wet injectable. Currently it has ~77 product approvals in the sterile segment in US, of which it has launched over 50 products.

Investor's Rationale

Top-line remained flat in Q4CY'12 on lower licensing income

STRIDES registered a slight decline in its consolidated revenues by 0.1% YoY at ₹6.3 bn in Q4CY'12. The revenues were impacted on lower licensing income of ₹0.4 bn as the company bought back key product portfolios which it expects to launch on its own in Q2CY'13E. Besides, the firm has inked a pact with a drug manufacturer, Eli Lilly and Company in order to expand delivery of cancer medicines in the emerging markets.

Forex loss and lower Brazil business impacted the bottom-line by 17.5% YoY

Despite the higher growth in other income of 36.7% to ₹0.2 bn and a significant surge in EBITDA margin, the company saw a 17.5% YoY decline in net profit to ₹0.6 bn in Q4CY'12 on account of forex loss of ~₹0.2 bn. Further, margins for the specialty segment were pulled down by Brazil business which reported a loss at EBITDA level of ₹0.1 bn on account of ANVISA strike. However, it has marked a decent hike of 21% QoQ on improved sales of 0.1% QoQ. Besides, the depreciation and tax charges rose by 2.8% and 5.5% YoY to ₹0.3 bn and ₹0.1 bn respectively. Finally, NPM weakened by 123 bps YoY to 9.7% as against 11%.

EBITDA margin expanded 462 bps YoY on lower operating expenses

The company posted a 19.4% YoY rise in EBITDA at ₹1.3 bn in Q4CY'12 mainly due to a decline in stock in trade and raw material cost by 1,216 bps and 608 bps to 10.3% and 33.2% respectively. Consequently, EBITDA margin grew by 462 bps YoY to 20.2% from 15.6%.

Signed agreement with Mylan Inc to sell Agila Specialties Private Ltd (ASPL)

The Company has entered into an agreement with Mylan Inc to sell its Specialties unit, ASPL for a consideration of ~US\$1,600 mn in cash and potential additional consideration of up to US\$250 mn.

Market Data

CMP (₹)	891.9
Target Price	981
Stop Loss	847
Duration	Short-term
52-week High-Low (₹)	1,224.9/546.7
Rise from 52WL (%)	63.2
Correction from 52WH (%)	(27.2)
Beta	1.9
1 year Average Volume (mn)	0.3
	3M- (1.8)
Stock Return (%)	6M- (1.3)
	1Y- 54.3
Market Cap (₹bn)	52.1
Book Value	232.8

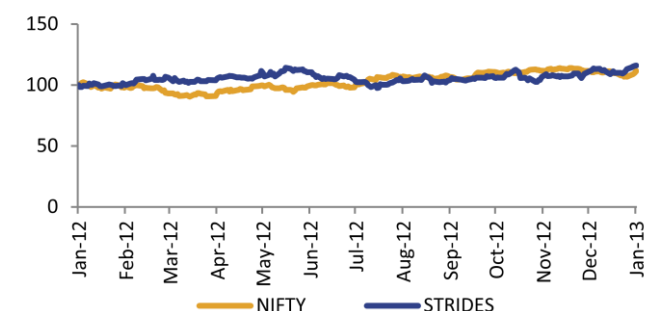
Shareholding Pattern

	Dec'12	Sep'12	Chg
Promoters (%)	27.5	27.6	(0.1)
FII (%)	37.3	40.7	(3.4)
DII (%)	12.0	13.4	(1.4)
Public & Others (%)	23.2	18.3	4.9

Quarterly Performance (Consolidated)

(₹bn)	Q4 CY'12	Q4 CY'11	Q3 CY'12	YoY Change(%)	QoQ Change(%)
Revenue	6.3	6.9	6.0	(0.1)	0.1
Op. exp	5.1	5.8	4.5	(12.9)	13.1
EBITDA	1.3	1.1	1.5	19.4	(14.3)
OPM (%)	20.2	15.6	25.0	462bps	(484bps)
Net profit	0.6	0.7	0.5	(17.5)	21.0
NPM (%)	9.7	11.0	8.7	(123bps)	105bps
EPS (₹)	10.3	11.7	8.9	(12.1)	16.3

One Year Price Chart





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