

July 5, 2016
BSE Code: 532531 NSE Code: STAR Reuters Code: STAR.NS Bloomberg Code: STR:IN

Strides Shasun Limited (Strides) is a fully integrated global pharmaceutical company with business interests in developing niche and complex pharmaceutical products. With its presence in more than 85 countries, Strides is engaged in the manufacturing of pharmaceutical dosage forms in branded as well generic categories. The company manufactures capsules, including soft gelatin capsules, parenterals and semi-solids.

Key Developments

Regulated markets business:

In FY16, the growth in North American markets was driven by front-end operations while base portfolio delivered a strong performance with healthy market share gains for key products such as Vancomycin, Ergocalciferol, Methoxsalen, Calcitriol. Importantly, Strides has more than 120 products in the pipeline with a focus on Softgels, derma and extended release.

Performance of the Emerging markets:

Strides witnessed improvement in African revenues on account of two factors: 1) higher growth in branded formulations during FY16 and 2) disciplined approach followed to counter the credit risks in a volatile operating environment. Branded business continues to post healthy growth while demand for generic products got impacted as few countries in Africa faced volatile currency environment.

Shasun acquisition:

Shasun merger provides vertical integration benefits leading to cost synergies. It will further strengthen institutional and US business. Before acquiring Shasun, Strides used to outsource API from third parties.

Domestic market performance:

Strides entered the Indian market through the Grandix acquisition in 2007, which provided Strides with the ReNerve brand. In 2014, Strides acquired brand Raricap (women's health portfolio) and the Indian Branded Generic Business of Bafna Pharmaceuticals to strengthen domestic brands business, which now has a pan-India reach.

Market Data

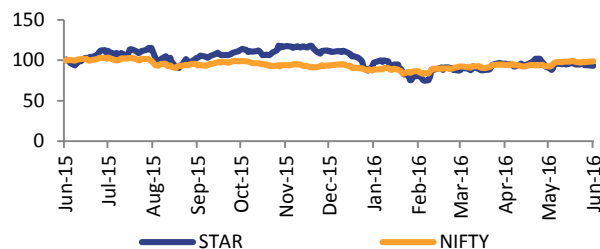
CMP (Rs.)	1,155
Face Value	10.0
52 week H/L (Rs.)	1,412/848
Adj. all time High (Rs.)	1,412
Decline from 52WH (%)	18.2
Rise from 52WL (%)	36.2
Beta	1.0
Mkt. Cap (Rs.Cr)	10,319
Enterprise Value(Rs. Cr)	12,262

Fiscal Year Ended

	FY14*	FY15	FY16
Total revenue (Rs.cr)	1,341	1,196	3,156
Adj. Profit (Rs.cr)	(207)	9	246
Share Capital (Rs.Cr)	60	60	89
EPS (Rs.)	(34.7)	1.5	27.5
P/E (x)	(31.5)	728.8	39.7
P/BV (x)	6.5	5.7	3.4
ROE (%)	(13.6)	0.8	12.3

*FY14 is a 15 month period

One year Price Chart



Shareholding	Mar16	Dec15	Diff.
Promoters (%)	31.1	31.0	0.1
Public (%)	68.9	69.0	(0.1)
Others (%)	-	-	-

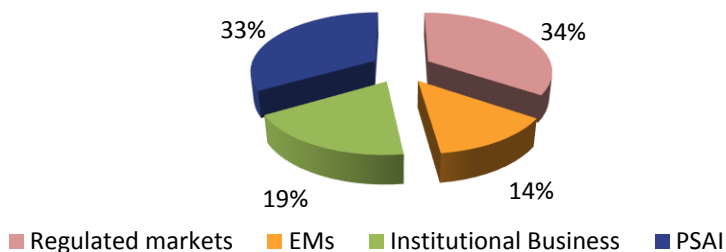
With its presence in more than 85 countries, Strides is engaged in the manufacturing of pharmaceutical dosage forms in branded as well generic categories.

Strides Shasun Ltd: Business overview

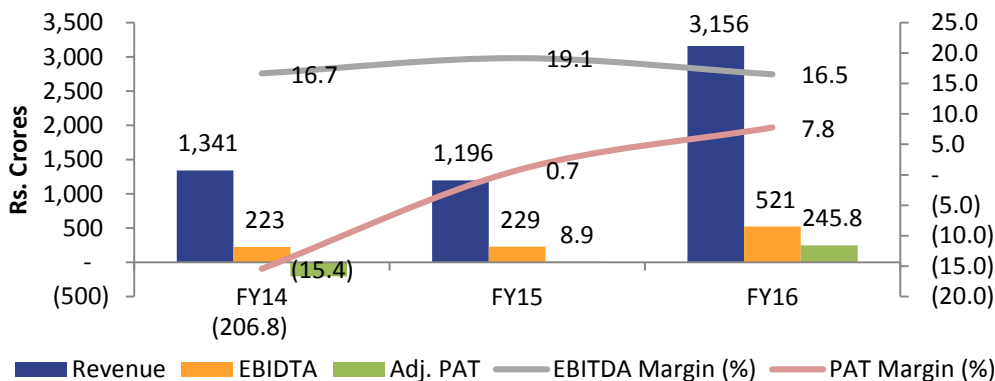
Strides Shasun Limited (Strides) is a fully integrated global pharmaceutical company with business interests in developing niche and complex pharmaceutical products. With its presence in over 85 countries, Strides is engaged in the manufacturing of pharmaceutical dosage forms in branded as well generic categories. The company manufactures capsules, soft gelatin capsules, parenterals and semi-solids. The Company also has a strong commercial platform to market its pharmaceutical products globally through front-end presence. The pharma generics business focuses on the key regulated markets of US, UK, Euro and Australia. Branded generics business caters to the emerging markets of India and Africa. Institutional business represents company's business with global funding agencies for Anti-retroviral and Anti-malaria medicines.

Strides (formerly Strides Arcolab) has acquired Shasun Pharmaceuticals (Shasun) for a consideration of USD 200 mn in all-stock deal. Post that Shasun was merged with Strides Arcolab and the combined entity was named as "Strides Shasun Ltd".

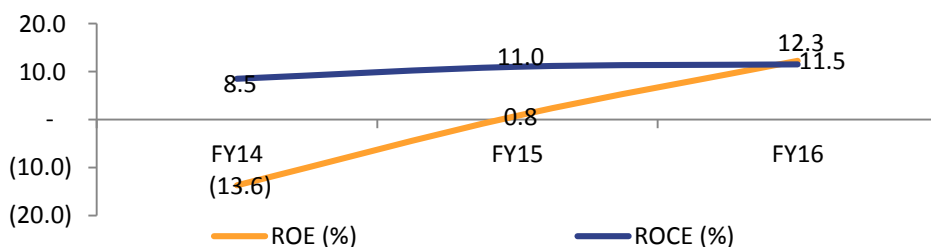
Strides' geographic mix



Financial snapshot of Strides



Return Ratios Trend



Source: Company, In-house research, FY14 is a 15 month period

With the merger of Shasun, Strides revenue streams got geographically diversified across regulated markets in Europe and US.

Branded business continues to post healthy growth while demand for generic products got impacted as few countries in Africa faced volatile currency environment.

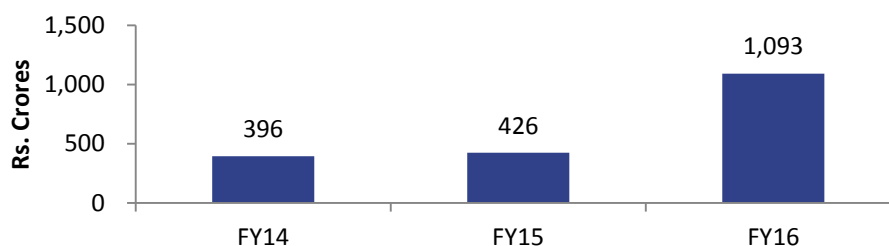
In 2014, Strides acquired brand Raricap (women's health portfolio) and the Indian Branded Generic Business of Bafna Pharmaceuticals to strengthen domestic brands business, which now has a pan-India reach.

Contribution of the regulated markets

Post divestment of Agila's business in 2013 (injectable segment), Strides became a small player in US with FY15 sales of just USD 19 mn. However, it has started its own front-end in the US and built a new R&D centre in Bangalore. In addition, the Shasun acquisition has provided Strides with a large complementary product pipeline. Strides is focusing on small off-patent products and derma in the complex generics.

Importantly, regulated markets contributed 34% to total revenues in FY16. Further, the growth in North American markets was driven by front-end operations while base portfolio delivered a strong performance with healthy market share gains for key products such as Vancomycin, Ergocalciferol, Methoxsalen, Calcitriol. Further, Strides has more than 120 products in the pipeline with a focus on Softgels, derma and extended release. With the Shasun merger, Strides revenue contribution increased from regulated markets in Europe and US.

Regulated markets growth trend



Source: Company, In-house research, FY14 is a 15 month period

Performance of the emerging markets

Strides has been one of the few Indian companies which has focused on African markets. While it sells generics in 27 countries, the branded products are available in just 12 of these countries. It entered Africa in 1990 via the generic market, and started supplying to partners. It later on forayed in the branded business expanding its reach to Nigeria, Ghana and other new geographies. It owns six manufacturing plants in Africa.

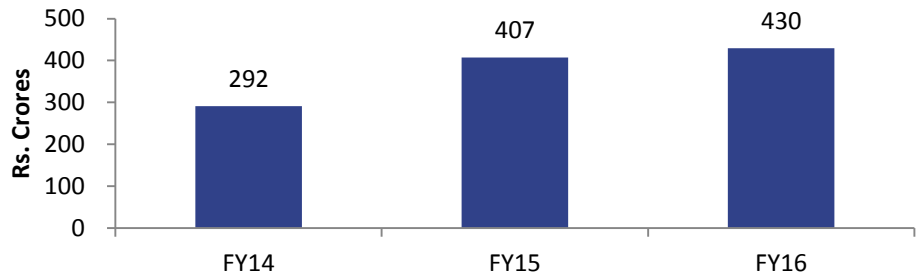
Strides witnessed improvement in African revenues on account of two factors: 1) higher growth in branded formulations during FY16 and 2) disciplined approach followed to counter the credit risks in a volatile operating environment. Branded business continues to post healthy growth while demand for generic products got impacted as some countries faced volatile currency environment. Besides, it has comprehensive portfolio of product registrations across these markets with a robust pipeline of ~300 products.

Domestic market performance

Strides entered the Indian market through the Grandix acquisition in 2007, which provided Strides with the ReNerve brand. In 2014, Strides acquired brand Raricap (women's health portfolio) and the Indian Branded Generic Business of Bafna Pharmaceuticals to strengthen domestic brands business, which now has a pan-India reach. The company collaborated with Gilead Sciences Inc to produce generic sofosbuvir for chronic Hepatitis C. The collaboration enabled it to distribute medicines to 91 developing countries and it is one among the seven pharmaceutical companies in India (launched a generic drug Sofosbuvir in India, under the brand name Virso), who have licensing agreement with Gilead Sciences Inc.

Increased off take in ARV segment and strong supply chain execution for higher volumes in Anti-Malarial's helped to deliver paramount performance in FY16.

Emerging markets performance over FY14-16

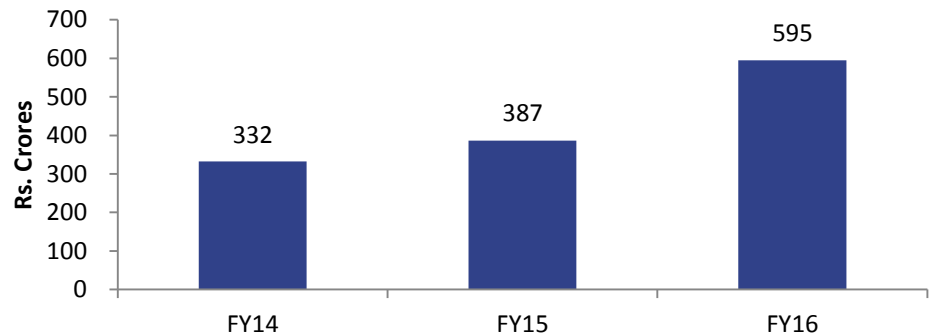


Source: Company, In-house research, FY14 is a 15 month period

Institutional business of Strides

Institutional business contributed 19% to overall revenue in FY16. The company develops and manufactures antiretroviral and antimalarial medicines for institutionally-funded projects and Global Procurement Agencies, such as UNITAID, Global Drug Facility, PEPFAR and Clinton Foundation. It has multiple qualified WHO and USFDA sites for manufacturing ARV and antimalarial drugs. Currently it is working in collaboration with Medicines for Malaria Venture (MMV) for the development of rectal artesunate for pre-referral treatment of children with severe malaria. It has already signed a sub-licensing agreement with the Medicines Patent Pool (MPP) to develop Dolutegravir (DTG) for treatment of HIV in developing countries. Further, it has tied up with Gilead Sciences for development and distribution of Tenofovir Alafenamide (TAF) in developing economies.

Institutional business growth



Source: Company, In-house research, FY14 is a 15 month period

PSAI: APIs captive consumption on the rise

PSAI (Pharmaceutical Services and Active Ingredients) business contributed 33% to overall revenue in FY16 due to Shasun's acquisition. The company intends to use this division for backward integration rather than selling it externally. It has strong API manufacturing capability with 3 manufacturing facilities in India and UK approved by the USFDA. The company has aligned R&D function for API and formulations to ensure smooth backward integration for its key products across markets. In FY16, it has filed 5 new DMF's including 3 filed for captive use in line with formulations strategy. It has further rationalized API portfolio to reduce its dependence on commodity products with a focus towards higher margin products.

Balance Sheet (Consolidated)

(Rs.Cr)	FY14*	FY15	FY16
Share Capital	60	60	89
Reserve and surplus	947	1,085	2,774
Net Worth	1,007	1,145	2,863
Minority Interest	76	19	43
Total Debt	547	892	3,447
Other non-current liabilities	29	35	31
Total Equity & Liabilities	1,658	2,090	6,384
Net Fixed Assets	486	590	3,273
Capital WIP	64	146	175
Goodwill	103	137	177
Investments	443	630	1,304
Net current assets	471	473	1,149
Deferred tax assets (net)	(2)	5	(15)
Other non-current assets	92	110	322
Total Assets	1,658	2,090	6,384

Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14*	FY15	FY16
Net profit/loss before tax& extraordinary items	2,890	992	268
Net cashflow from operating activities	(272)	83	(295)
Net cash used in investing activities	4,077	52	(3,422)
Net cash used from financing activities	(3,319)	(421)	3,848
Net inc/dec in cash and cash equivalents	487	(286)	131

Financial performance snapshot

Net sales of the company stood at Rs. 3,156 Crores in FY16, a growth of 163.9% as compared to Rs. 1,196 Crores in FY15. The operating expenses of the company increased by 172.5% YoY to Rs. 2,635 Crores from Rs. 967 Crores during the year. The company's EBITDA grew by 127.8% YoY to Rs. 521 Crores in FY16 from Rs. 229 Crores in FY15. EBITDA margins contracted by 262 bps to 16.5% in FY16 from 19.1% in FY15. Net profit decreased by 75.3% to Rs. 209 Crores in FY16 from Rs. 845 Crores in FY15. The NPM expanded by 704 bps to 7.8% from 0.7% during the above period.

Note:- * denotes fifteen month period from 1st Jan,2013 to 31st Mar,2014.

Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14*	FY15	FY16
Net revenue	1,341	1,196	3,156
Expenses	1,118	967	2,635
EBITDA	223	229	521
Depreciation	56	64	157
EBIT	167	165	364
Interest cost	109	47	180
Other Income	60	39	121
Profit Before Tax	118	156	305
Tax	325	148	72
Profit After Tax	(206)	8	233
Minority Interest	1	(1)	(13)
P/L from Associates	-	-	-
Adjusted PAT	(207)	9	246
E/o expense / (income)	1,974	836	(37)
Reported Profit	1,767	845	209

Key Ratios (Consolidated)

	FY14*	FY15	FY16
EBITDA Margin (%)	16.7	19.1	16.5
EBIT Margin (%)	12.4	13.8	11.5
NPM (%)	(15.4)	0.7	7.8
ROCE (%)	8.5	11.0	11.5
ROE (%)	(13.6)	0.8	12.3
EPS (Rs.)	(34.7)	1.5	27.5
P/E (x)	(31.5)	728.8	39.7
BVPS(Rs.)	169.0	192.0	320.5
P/BVPS (x)	6.5	5.7	3.4
EV/EBITDA (x)	30.9	31.8	24.8



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