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Q4FY22 result review;  
earnings and reco  
revision

## Pharmaceuticals

Target price: Rs392

### Earnings revision

(%)	FY23E	FY24E
Sales	4.0	6.3
EPS	47.6	(5.8)

### Target price revision

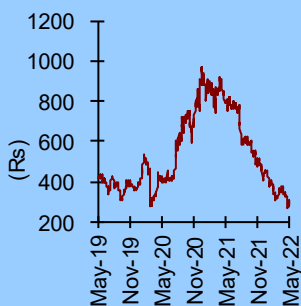
Rs392 from Rs360

### Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	29.6	29.6	30.6
Institutional investors	45.4	40.9	38.5
MFs and other Banks, FI's, Insurance co	14.2	14.8	13.9
FII's	0.0	0.0	0.0
FII's	31.2	26.1	24.6
Others	25.0	29.5	30.9

Source: BSE India

### Price chart



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# INDIA

## Strides Pharma Science

# BUY

Upgrade from *Reduce*

### Strong recovery across segments

## Rs306

Strides Pharma Science's (Strides) Q4FY22 performance was above our estimates driven by strong recovery across business segments. Revenue grew 9.0% QoQ to Rs8.7bn (I-Sec: Rs7.8bn). US revenue grew 15.8% QoQ to US\$44mn as against our estimate of US\$36mn. Sequential improvement in gross margin coupled with operational leverage lifted EBITDA margin to 4.8% (+420bps QoQ). The company believes it can achieve US\$250mn sales in the US in FY23 driven by new product launches (~20/year) including the integration of Endo Pharma portfolio. Strides has announced a series of steps to be undertaken in FY23, which include debt reduction (~Rs10bn), inventory normalisation, cost reduction and unprofitable business exits. Recent correction in the stock price (~40% in past 6 months) has made valuations attractive, hence, we upgrade to BUY (from Reduce) with a revised target price of Rs392/share (earlier Rs360/share).

- **Business review:** US revenue grew 15.8% QoQ to US\$44mn led by incremental sales from Chestnut Ridge portfolio. We expect the quarterly revenue run-rate to gradually increase with new launches and complete integration of Endo Pharma from Jun'22. In other regulated markets, Strides witnessed 5.7% QoQ growth driven by healthy traction across key front-end markets and partnership business. Africa witnessed healthy traction with YoY growth of 23.5%. Institutional business was flat YoY, but grew 3.5% sequentially with steady offtake in partners. Favourable revenue mix aided 110bps improvement in gross margin sequentially. Operating leverage helped EBITDA margin improve 420bps QoQ. We expect EBITDA margin to improve from current levels (0.5% in FY22) to ~15% over the next two years.
- **Concall highlights:** 1) Guided US\$250m in US revenue in FY23, 2) intends to reduce gross debt by Rs10bn in FY23 led by upfront payment from AUS partner (few months before the deadline) and internal accrual, 3) rationalise R&D investments in the US, 4) capex guidance of Rs1bn/year and 5) Stelis Biopharma has appointed Frank Ternes as the Chief Business Officer (prior- Chief commercial officer at Recipharm).
- **Outlook:** Expect FY23E to witness material improvement in the US business led by new launches and integration of Endo Pharma. Cost rationalisation, especially with logistics (due to high inventory levels at front-end warehouses) will support the EBITDA margin. Overall, we expect revenue CAGR of 17.3% over FY22-FY24E with EBITDA margin jumping to ~15%.
- **Valuations and risks:** We raise our revenue estimates by 4-6% to factor in the strong growth in the US. We also raise our FY23E EPS by 48% on a low base and recovery in margins. However, we reduce our EPS estimate by ~6% for FY24E due to higher interest costs. Recent correction in the stock price (~40% in past 6 months) has made valuations attractive, hence, we upgrade to **BUY** from *Reduce* with a revised target price of Rs392/share, based on 15x FY24E EPS (earlier: Rs360/share).  
**Key downside risks:** Slowdown in recovery of US sales and regulatory hurdles.

Market Cap	Rs27.5bn/US\$355mn
Reuters/Bloomberg	STSA.BO/STR IN
Shares Outstanding (mn)	89.8
52-week Range (Rs)	828 / 266
Free Float (%)	69.4
FII (%)	24.6
Daily Volume (USD/'000)	5,477
Absolute Return 3m (%)	(7.4)
Absolute Return 12m (%)	(61.5)
Sensex Return 3m (%)	(3.5)
Sensex Return 12m (%)	7.4

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	33,159	30,703	37,918	42,224
Net Income (Rs mn)	2,161	(2,759)	468	2,449
EPS (Rs)	23.0	(29.4)	5.0	26.1
% Chg YoY	95.2	(227.6)	(117.0)	423.0
P/E (x)	13.3	(10.4)	61.3	11.7
CEPS (Rs)	45.0	(4.6)	31.5	54.5
EV/E (x)	7.0	(548.6)	13.8	8.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoCE (%)	6.6	(2.2)	3.5	7.4
RoE (%)	8.1	(10.7)	2.0	9.9

**Table 1: Q4FY22 performance***(Rs mn, year ending March 31)*

<b>(Rs mn)</b>	<b>Q4FY22</b>	<b>Q4FY21</b>	<b>YoY % Chg</b>	<b>Q3FY22</b>	<b>QoQ % Chg</b>
<b>Net Sales</b>	<b>8,660</b>	<b>9,085</b>	<b>(4.7)</b>	<b>7,944</b>	<b>9.0</b>
EBITDA	415	1,592	(73.9)	46	801.2
Other income	424	(68)	(726.2)	(141)	(401.1)
<b>PBIDT</b>	<b>839</b>	<b>1,524</b>	<b>(44.9)</b>	<b>(95)</b>	<b>(985.1)</b>
Depreciation	607	519	17.0	609	(0.4)
Interest	495	416	18.9	423	17.1
Extra ordinary income/ (exp.)	(763)	(29)		(185)	312.2
<b>PBT</b>	<b>(1,025)</b>	<b>561</b>	<b>(282.9)</b>	<b>(1,311)</b>	<b>(21.8)</b>
Tax	(1,315)	115	(1,244.3)	(45)	2,836.2
Minority Interest & Discontd. Op.	(3)	(15)	(82.8)	(50)	(94.8)
<b>Reported PAT</b>	<b>292</b>	<b>461</b>	<b>(36.6)</b>	<b>(1,217)</b>	<b>(124.0)</b>
<b>Adjusted PAT</b>	<b>77</b>	<b>492</b>	<b>(84.4)</b>	<b>(1,038)</b>	<b>(107.4)</b>
EBITDA margins (%)	4.8	17.5	-1270bps	0.6	420bps

Source: Company data, I-Sec research

**Table 2: Sales breakup***(Rs mn, year ending March 31)*

	<b>Q4FY22</b>	<b>Q4FY21</b>	<b>YoY % Chg</b>	<b>Q3FY22</b>	<b>QoQ % Chg</b>
Regulated Market	6,434	6,995	(8.0)	5,821	10.5
Emerging Market (incl. Institution)	2,265	2,119	6.9	2,148	5.4

Source: Company data, I-Sec research

## Valuations

We expect revenue CAGR of 17.3% over FY22-FY24E. EBITDA margin should jump to 14.7% by FY24E on the back of strong growth in the US business. Subsequently, Strides should report healthy improvement in PAT over FY22-FY24E. Quick integration of the Endo portfolio and fast-paced new launches in the US are crucial for growth, margin improvement and free cashflow generation (necessary for de-leveraging). Recent correction in the stock price (~40% in past 6 months) has made valuations attractive, hence, upgrade to **BUY** from *Reduce* with a revised target price of Rs392/share based on 15x FY24E earnings (earlier: Rs360/share based on 16x Sep'23E EPS).

## Financial summary (consolidated)

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Regulated markets	26,636	22,830	29,352	33,237
Emer Mkt & Insti. Biz	6,672	8,116	8,565	8,987
<b>Total Net Revenue</b>	<b>33,159</b>	<b>30,946</b>	<b>37,918</b>	<b>42,224</b>
YoY Growth%	20.5	(6.7)	22.5	11.4
<b>Total Op. Exp.</b>	<b>26,891</b>	<b>30,806</b>	<b>33,808</b>	<b>36,011</b>
<b>EBITDA</b>	<b>6,268</b>	<b>140</b>	<b>4,110</b>	<b>6,213</b>
Margins %	18.9	0.5	10.8	14.7
YoY Growth%	17.2	(97.8)	2,829.9	51.2
Dep. & Amort.	2,063	2,330	2,482	2,658
<b>EBIT</b>	<b>4,205</b>	<b>(2,190)</b>	<b>1,628</b>	<b>3,555</b>
Other Income	(384)	212	956	1,306
Interest	1,501	1,767	2,046	2,046
EO Items	434	(2,536)	-	-
<b>PBT</b>	<b>2,754</b>	<b>(6,282)</b>	<b>538</b>	<b>2,815</b>
Tax	317	(1,783)	70	366
Tax Rate (%)	11.5	28.4	13.0	13.0
P/L from discont. Op.	139	-	-	-
Minority Interest	(107)	(140)	-	-
<b>Reported PAT</b>	<b>2,684</b>	<b>(4,359)</b>	<b>468</b>	<b>2,449</b>
<b>Adj PAT</b>	<b>2,161</b>	<b>(2,542)</b>	<b>468</b>	<b>2,449</b>
Net Margins (%)	6.5	(8.2)	1.2	5.8

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Paid-up Capital	897	898	898	938
Reserves & Surplus	26,870	22,694	22,841	24,928
<b>Total Equity</b>	<b>27,767</b>	<b>23,592</b>	<b>23,738</b>	<b>25,866</b>
Minority Interest	373	241	241	241
<b>Total Debt</b>	<b>23,482</b>	<b>30,250</b>	<b>31,750</b>	<b>30,250</b>
Deferred Liabilities	(1,519)	(1,794)	(1,794)	(1,794)
<b>Capital Employed</b>	<b>50,104</b>	<b>52,289</b>	<b>53,935</b>	<b>54,562</b>
Current Liabilities	18,064	15,318	17,660	18,970
<b>Total Liabilities</b>	<b>68,168</b>	<b>67,607</b>	<b>71,596</b>	<b>73,532</b>
<b>Net Fixed Assets</b>	<b>26,667</b>	<b>26,377</b>	<b>25,895</b>	<b>25,238</b>
Investments	5,980	5,403	5,403	5,403
Inventory	12,007	11,738	11,594	12,349
Debtors	11,069	12,073	14,910	16,604
Other Current Assets	10,193	10,308	10,803	11,098
Cash and Equivalents	2,252	1,707	2,990	2,841
<b>Total Cur. Assets</b>	<b>35,521</b>	<b>35,827</b>	<b>40,297</b>	<b>42,892</b>
<b>Total Assets</b>	<b>68,168</b>	<b>67,607</b>	<b>71,596</b>	<b>73,532</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
PBT	2,894	(6,525)	538	2,815
Depreciation	2,063	2,330	2,482	2,658
Net Chg in WC	(3,281)	(1,899)	(1,238)	(1,669)
Taxes	1,568	23	(70)	(366)
Others	70	1,725	393	234
<b>CFO</b>	<b>3,314</b>	<b>(4,346)</b>	<b>2,105</b>	<b>3,673</b>
Capex	(3,014)	(2,875)	(2,000)	(2,000)
Net Investments made	(2,184)	1,081	-	-
Others	(10)	607	-	-
<b>CFI</b>	<b>(5,208)</b>	<b>(1,187)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Change in Share capital	37	36	-	-
Change in Debts	1,378	5,939	1,500	(1,500)
Div. & Div Tax	(179)	(224)	(322)	(322)
Others	85	(142)	-	-
<b>CFF</b>	<b>1,321</b>	<b>5,609</b>	<b>1,178</b>	<b>(1,822)</b>
<b>Total Cash Generated</b>	<b>(573)</b>	<b>76</b>	<b>1,283</b>	<b>(150)</b>
<b>Cash Opening Balance</b>	<b>2,371</b>	<b>1,798</b>	<b>1,874</b>	<b>3,156</b>
<b>Cash Closing Balance</b>	<b>1,798</b>	<b>1,874</b>	<b>3,156</b>	<b>3,007</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY43E
Adj. EPS	23.0	(29.4)	5.0	26.1
YoY Growth%	95.2	(227.6)	(117.0)	423.0
Cash EPS	45.0	(4.6)	31.5	54.5
EBITDA - Core (%)	18.9	0.5	10.8	14.7
NPM (%)	6.5	(8.2)	1.2	5.8
Net Debt to Equity (x)	0.6	1.2	1.2	1.0
P/E (x)	13.3	(10.4)	61.3	11.7
EV/EBITDA Core (x)	7.0	(548.6)	13.8	8.9
P/BV (x)	1.0	1.2	1.2	1.1
EV/Sales (x)	1.3	1.8	1.5	1.3
RoCE (%)	6.6	(2.2)	3.5	7.4
RoE (%)	8.1	(10.7)	2.0	9.9
RoIC (%)	6.4	(3.1)	3.0	7.0
Book Value (Rs)	296	252	253	276
DPS (Rs)	3.4	3.4	3.4	3.4
Dividend Payout (%)	1.1	1.1	1.1	1.1
Div Yield (%)	0.0	0.0	0.0	0.0
Asset Turnover Ratio	0.5	0.5	0.5	0.6
Avg Collection days	112	138	130	136
Avg Inventory days	135	141	126	121

Source: Company data, I-Sec research

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