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India | Equity Research | Company Update

Strides Pharma Science

Pharma

Regrouping CDMO pieces to unlock value

Strides Pharma (Strides) is streamlining its CDMO business by merging its soft gel capsule business and injectable business of Steriscience with Stelis. It will also rename Stelis to OneSource after completion, and regrouping will help the promoter better align the focus on all the arms of the CDMO business. The combined entity is likely to have revenue of USD 180-200mn in FY25E and management expects to grow 20-25% p.a. thereon. In the near term, injectable and soft gelatin businesses may drive growth while biologic business is likely to boost growth from FY26E. The regrouping factors a premium valuation of 17x FY24 EV/EBITDA for soft gel business, 15.7x for generic injectable business and INR 29.2bn for the existing business of Stelis. We maintain our estimates for FY24E and FY25E. The stock has run-up 20% since Q1FY24 result. We lower our rating to **REDUCE** (from Hold) though we revise our target price to INR 495 (INR 460 earlier) on 15x FY25E earnings (earlier: INR 460 based on 14x FY25E EPS),

Strides shareholders to own 44% stake in new entity

As per the arrangement, Stelis will cease to be an associate company of Strides (currently 29.93% stake) and the shareholders of Strides will be issued new shares of Stelis (OneSource). Further, Strides will also issue 1 new share of OneSource for 2 shares of Strides for the transfer of oral soft gelatin business. Each share of Steriscience to fetch 1,515 shares of OneSource.

Multiple growth drivers for CDMO business

According to management, OneSource is likely to have revenue of USD 140-150mn and margin of ~25% for FY24E and revenue of USD 180-200mn and ~30% margin for FY25E. Strides has on boarded some customers for its soft gel business, which along with sterile injectables may be the primary growth driver till FY26 post which its high-end drug device combinations in GLP-1 products (currently under Stelis) may aid growth and margins.

Reconfiguration to not hit Strides materially

Soft gel business is likely to account for 13.6% of revenue and 22.4% of EBITDA of Strides in FY24E. Regrouping may require approval from shareholders and regulators and is likely to take 12-15 months for completion. Strides management has maintained its absolute EBITDA guidance of INR 7,000-7,500mn for FY24 and is confident of achieving over INR 7,500mn in FY25 even after demerging the soft gel business. Net debt under Strides is likely to be reduced by USD 35mn; it targets to achieve debt/EBITDA of under 2.5x by FY25. **Key upside risks:** Ramp up in institutional business and product launches

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	30,703	36,884	39,584	43,659
EBITDA	(103)	4,302	7,224	7,946
EBITDA Margin (%)	(0.3)	11.7	18.3	18.2
Net Profit	(2,759)	(2,075)	1,918	3,235
EPS (Rs)	(29.3)	(22.0)	20.3	32.9
EPS % Chg YoY	(227.6)	(24.8)	(192.4)	61.8
P/E (x)	(10.5)	(23.9)	26.4	16.3
EV/EBITDA (x)	(759.9)	17.8	10.4	9.5
RoCE (%)	(2.2)	(0.3)	6.8	9.4
RoE (%)	(10.7)	(9.1)	8.4	12.8

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Market Data

Market Cap (INR)	48bn
Market Cap (USD)	582mn
Bloomberg Code	STR IN
Reuters Code	SRID BO
52-week Range (INR)	549 /268
Free Float (%)	72.0
ADTV-3M (mn) (USD)	4.4

Price Performance (%)	3m	6m	12m
Absolute	30.2	95.7	67.1
Relative to Sensex	5.2	15.9	15.1

ESG Disclosure	2021	2022	Change
ESG score	39.9	44.7	4.8
Environment	16.1	30.4	14.4
Social	25.0	25.0	-
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

03-08-2023: [Q1FY24 result review](#)

15-05-2023: [Re-initiating coverage](#)

Highlights of new CDMO entity (OneSource)

Exhibit 1: Financial profile of OneSource - FY24E

Divisions	Revenue (USD mn)	EBITDA (USD mn)	Margins (%)	Net debt (USD mn)
Soft gel	65	19.5	30	35
Steriscience	60	16.8	28	25
Stelis	20	0	0	55
Onesource (consolidated)	145	36.25	25	115

Source: Company data, I-Sec research

Exhibit 2: Growth trajectory of OneSource

Onsource	FY24E	FY25E	FY26E
Revenue (USD mn)	140-150	180-200	215-250
EBITDA Margin (%)	~25%	~30%	~35%

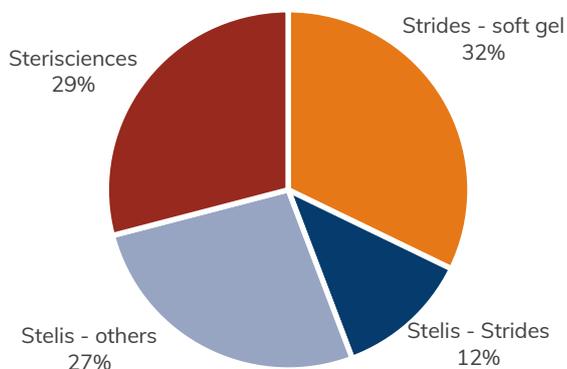
Source: Company data, I-Sec research

Exhibit 3: Proforma impact on Strides - FY24E Financials

Financials (FY24E)	Strides - consolidated	Soft gels	Strides post demerger	% impact
Revenue (INR mn)	39584	5395	34189	13.6
EBITDA (INR mn)	7224	1619	5606	22.4
EBITDA margins (%)	18.3	30.0	16.4	(185)bps

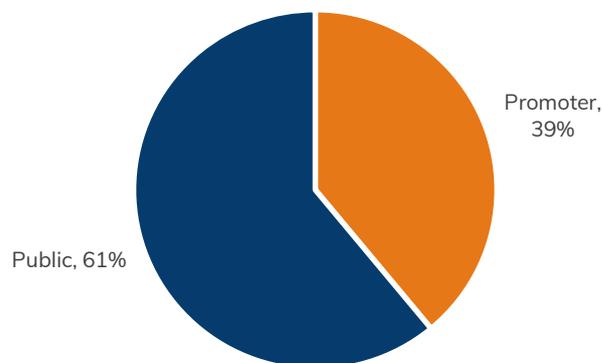
Source: Company data, I-Sec research

Exhibit 4: Shareholding of OneSource



Source: Company data, I-Sec research

Exhibit 5: Shareholding of OneSource



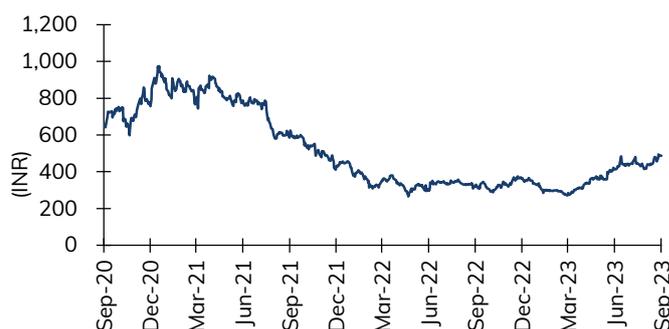
Source: Company data, I-Sec research

Exhibit 6: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	30.9	28.3	28.3
Institutional investors	37.9	37.1	37.1
MFs and others	11.6	11.1	11.1
Insurance	5.3	5.2	5.2
FIIIs	21.0	20.8	20.8
Others	31.2	34.6	34.6

Source: Bloomberg

Exhibit 7: Price chart



Source: Bloomberg

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	30,703	36,884	39,584	43,659
Operating Expenses	15,783	16,313	15,735	17,158
EBITDA	(103)	4,302	7,224	7,946
EBITDA Margin (%)	(0.3)	11.7	18.3	18.2
Depreciation & Amortization	2,330	2,433	2,443	2,701
EBIT	(2,433)	1,869	4,781	5,245
Interest expenditure	1,767	2,611	2,086	2,075
Other Non-operating Income	212	(1,950)	(603)	437
Recurring PBT	(3,989)	(2,692)	2,093	3,607
Profit / (Loss) from Associates	-	186	-	-
Less: Taxes	(1,783)	(553)	272	469
PAT	(4,743)	(2,309)	1,821	3,138
Less: Minority Interest	140	97	97	97
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	(4,602)	(2,026)	1,918	3,235
Net Income (Adjusted)	(2,759)	(2,075)	1,918	3,235

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	31,648	30,204	31,448	33,761
of which cash & cash eqv.	1,874	3,160	3,531	3,228
Total Current Liabilities & Provisions	14,087	13,041	13,472	14,963
Net Current Assets	17,561	17,163	17,976	18,797
Investments	5,535	4,515	4,515	4,515
Net Fixed Assets	12,815	11,397	10,954	10,254
ROU Assets	1,759	1,846	1,846	1,846
Capital Work-in-Progress	562	483	483	483
Total Intangible Assets	11,109	10,769	10,769	10,769
Other assets	4,330	4,941	4,961	4,990
Deferred Tax assets	1,970	2,230	2,393	2,639
Total Assets	55,671	53,343	53,896	54,292
Liabilities				
Borrowings	27,920	27,745	26,745	24,245
Deferred Tax Liability	357	446	446	446
provisions	643	734	788	869
other Liabilities	588	139	139	139
Equity Share Capital	898	903	943	983
Reserves & Surplus	22,935	20,826	22,284	25,060
Total Net Worth	23,833	21,729	23,227	26,043
Minority Interest	-	-	-	-
Total Liabilities	55,671	53,343	53,896	54,292

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(2,578)	444	5,779	6,595
Working Capital Changes	1,767	2,611	2,086	2,075
Capital Commitments	(1,795)	(2,265)	(2,000)	(2,000)
Free Cashflow	(784)	2,709	7,779	8,595
Other investing cashflow	607	5,290	-	-
Cashflow from Investing Activities	(1,187)	3,025	(2,000)	(2,000)
Issue of Share Capital	36	14	-	-
Interest Cost	(1,767)	(2,611)	(2,086)	(2,075)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(224)	-	(322)	(322)
Others	5,797	415	(1,000)	(2,500)
Cash flow from Financing Activities	3,841	(2,183)	(3,408)	(4,897)
Chg. in Cash & Bank balance	76	1,286	371	(303)
Closing cash & balance	1,874	3,160	3,531	3,228

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(51.3)	(22.4)	20.3	32.9
Adjusted EPS (Diluted)	(29.3)	(22.0)	20.3	32.9
Cash EPS	(4.8)	4.0	46.2	60.4
Dividend per share (DPS)	3.6	3.6	3.4	3.3
Book Value per share (BV)	265.4	240.6	246.3	264.9
Growth (%)				
Net Sales	(7.4)	20.1	7.3	10.3
EBITDA	(101.6)	(4,267.5)	67.9	10.0
EPS (INR)	(227.6)	(24.8)	(192.4)	61.8
Valuation Ratios (x)				
P/E	(10.5)	(23.9)	26.4	16.3
P/CEPS	(112.2)	135.2	11.6	8.9
P/BV	2.0	2.2	2.2	2.0
EV / EBITDA	(759.9)	17.8	10.4	9.5
P / Sales	1.6	1.4	1.3	1.2
Operating Ratios				
Gross Profit Margins (%)	51.1	55.9	58.0	57.5
EBITDA Margins (%)	(0.3)	11.7	18.3	18.2
Effective Tax Rate (%)	27.3	19.3	13.0	13.0
Net Profit Margins (%)	(9.0)	(5.6)	4.8	7.4
Net Debt / Equity (x)	0.9	0.9	0.8	0.6
Net Debt / EBITDA (x)	(198.7)	4.7	2.6	2.1
Profitability Ratios				
RoCE (%)	(2.2)	(0.3)	6.8	9.4
RoE (%)	(10.7)	(9.1)	8.4	12.8
RoC (%)	(4.1)	(1.1)	6.5	9.2
Inventory Turnover Days	134	124	109	110
Receivables Days	138	140	133	135
Payables Days	122	106	96	98

Source Company data, I-Sec research

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