

31 October 2023

India | Equity Research | Q2FY24 results review

Strides Pharma Science

Pharma

Mixed results, divestment to revitalize operating performance

Strides Pharma Science (Strides)'s Q2FY24 revenue growth (up 11% YoY) was better, though EBITDA margins (adj. margins at 16.8%) were a tad weaker than anticipated. Revenue growth in the quarter was driven by other regulated markets (35% YoY) and Africa (up 36%). Strides is re-grouping its CDMO business under one umbrella 'Onesource' – this entity will likely clock revenues of USD 400mn in FY27, from USD 150mn in FY24E. It is also divesting a new manufacturing facility of Stelis to Syngene for INR 7bn and its Singapore-based facility for USD 15mn to Rxilient Biohub (completion in Q3FY24). Management aims for a strong H2FY24 with improved profitability. It now aims to achieve the higher-end of FY24E US sales and EBITDA guidance of USD250mn and INR 7,500mn respectively. We raise our FY24E EPS by ~3% while maintain our FY25 estimates. Strides has corrected ~10% since Sep'23. We upgrade our recommendation to a **HOLD** (from **Reduce**) with an unchanged TP of INR 495 based on 14x FY25E EPS.

Margins weaker despite strong top-line performance

Revenues grew a strong 11% YoY (7% QoQ) to INR 10bn (I-Sec: INR 9.8bn). Adjusting for the divested business of UCL and Kenya operations, growth stood at ~21% YoY. Gross margins expanded 130bps YoY (-40bps QoQ) to 58.2% led by improved product mix and easing of API costs. Consequently, EBITDA margins rose 740bps YoY (-110bps QoQ) to 16.8% (I-sec: 18.2%). EBITDA grew 100% YoY to INR 1.7bn (I-sec: INR 1.8bn) supported by cost optimisation benefits and easing freight costs. It reported a loss of INR 1.3bn due to an exceptional charge of INR 1.8bn (including INR 1.3bn on impairment of Singapore plant). Adj. PAT stood at INR 405mn (I-Sec: INR 226mn).

Plant divestments aimed at restructuring P&L

US revenues rose 7% QoQ to USD 61mn, as it sustained market share across the product portfolio. Strides aims to launch 15 products p.a., which will help it clock USD 250mn in FY24 and USD 400mn by FY26E. Other regulated markets grew 35% YoY (14% QoQ) to INR 3.3bn. African branded grew 36% YoY to INR 1.1bn. Product registrations in newer geographies will likely drive growth in the near term. The lumpy institutional sales were down 15% YoY to INR 883mn. Strategic initiatives to improve the underlying business performance – i) unlocking value of CDMO biz by regrouping it under new entity Onesource; and ii) debt reduction and earnings boost led by proceeds of the Stelis and Singapore plant divestment (P&L savings of USD 2mn in operational cost and USD 7mn in depreciation and lease expenses).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	30,703	36,884	40,798	43,618
EBITDA	(103)	4,302	7,548	8,113
EBITDA Margin (%)	(0.3)	11.7	18.5	18.6
Net Profit	(2,759)	(2,075)	1,940	3,234
EPS (Rs)	(30.6)	(23.0)	21.5	35.8
EPS % Chg YoY	(227.6)	(24.8)	(193.5)	66.7
P/E (x)	(9.5)	(21.8)	136.8	13.7
EV/EBITDA (x)	(696.2)	16.3	9.4	8.4
RoCE (%)	(2.2)	(0.3)	7.4	10.0
RoE (%)	(10.7)	(9.1)	8.8	13.7

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Market Data

Market Cap (INR)	44bn
Market Cap (USD)	530mn
Bloomberg Code	STR IN
Reuters Code	SRID BO
52-week Range (INR)	549 /268
Free Float (%)	72.0
ADTV-3M (mn) (USD)	4.5

Price Performance (%)	3m	6m	12m
Absolute	6.6	44.0	63.0
Relative to Sensex	9.4	38.0	54.6

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

Earnings Revisions (%)	FY24E	FY25E
Revenue	3.1	(0.1)
EBITDA	4.5	2.1
PAT	1.1	(0.0)

Previous Reports

26-09-2023: [Company update](#)

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

Valuation and risks

We expect revenue CAGR of 8.7% over FY23–FY25E, driven by new product launches in the US. Growing US revenues, improved product mix and cost optimisation initiatives will likely lead to a 694bps EBITDA margin improvement over FY23–FY25E.

We raise our FY24 APT estimates by 6% to factor in revised guidance. That said, we maintain our FY25 estimates. While we like the recent strategic developments being carried out by management, in terms of operating efficiencies and capital controls, we believe it has been sufficiently factored into the price. The stock has corrected ~10% post the announcement of regrouping CDMO operations in Sep'23. We raise our recommendation to HOLD (from Reduce) with an unchanged target price of INR 495/share based on 14x FY25E earnings. **Key upside risk:** Strong ramp up in institutional business. **Key downside risks:** Slowdown in US sales, and regulatory hurdles.

Exhibit 1: Q2FY24 financial performance

Particulars (INR mn)	Q2FY24	Q2FY23	YoY % Chg	Q1FY24	QoQ % Chg
Net Sales	9,994	8,971	11.4	9,300	7.5
Gross Profit	5,813	5,100	14.0	5,450	6.7
Gross margins (%)	58.2	56.9	130bps	58.6	-40bps
EBITDA	1,681	842	99.8	1,666	0.9
EBITDA margins (%)	16.8	9.4	740bps	17.9	-110bps
Other income	358	235	52.8	86	314.7
PBIDT	2,040	1,076	89.5	1,752	16.4
Depreciation	601	617	(2.6)	596	0.9
Interest	786	676	16.2	764	2.8
Extra ordinary income/ (exp.)	(1,799)	285		(60)	2,909.3
Share of profit/loss of JV & associates	(423)	(448)		(329)	
PBT	(1,569)	(381)	312.1	3	(49,284.0)
Tax	(74)	(384)		97	(176.9)
Minority Interest & Discontd. Op.	(181)	(39)		(22)	
Reported PAT	(1,313)	43		(71)	
Adjusted PAT	405	45		(11)	

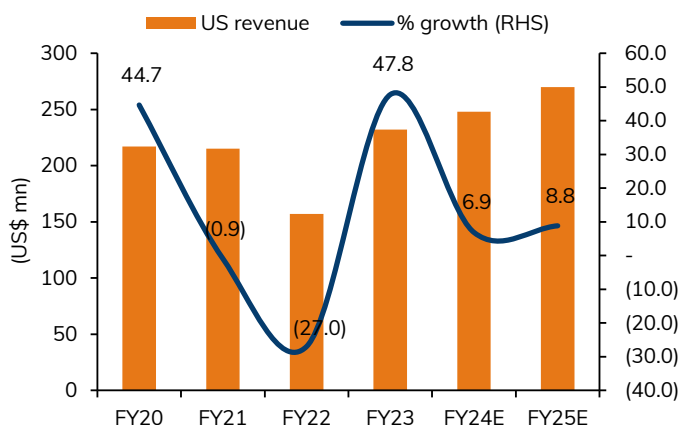
Source: Company data, I-Sec research

Exhibit 2: Segmental performance

Business segment (INR mn)	Q2FY24	Q2FY23	YoY % Chg	Q1FY24	QoQ % Chg
US	4,993	4,726	5.6	4,699	6.3
EU & Others	3,269	2,414	35.4	2,873	13.8
Africa	1,119	820	36.5	778	43.8
Institutional	883	1,035	(14.7)	970	(9.0)

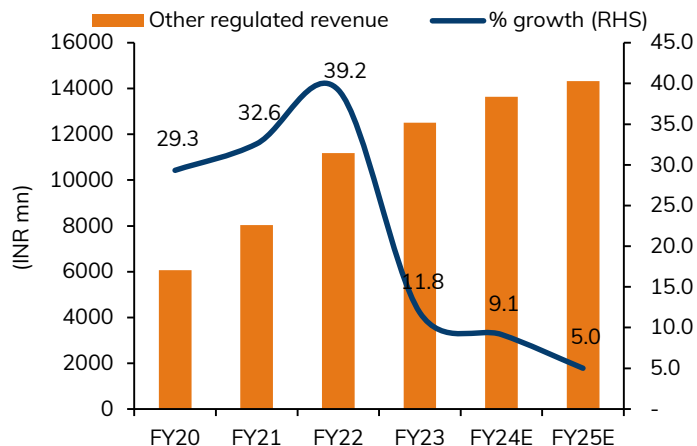
Source: Company data, I-Sec research

Exhibit 3: Launches to drive US growth



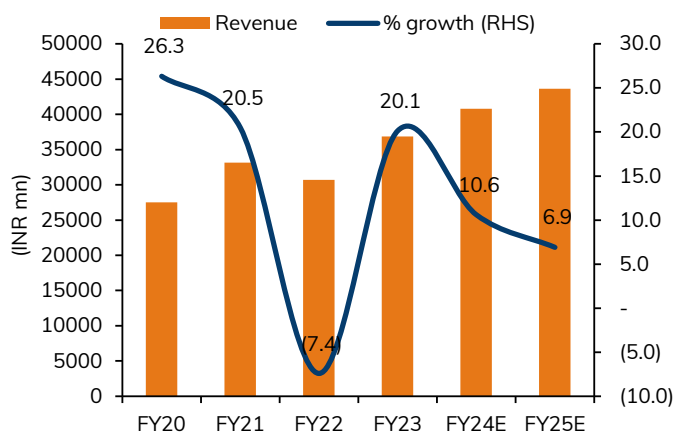
Source: Company data, I-Sec research

Exhibit 4: Other regulated market revenues to grow at 7% CAGR over FY23-FY25E



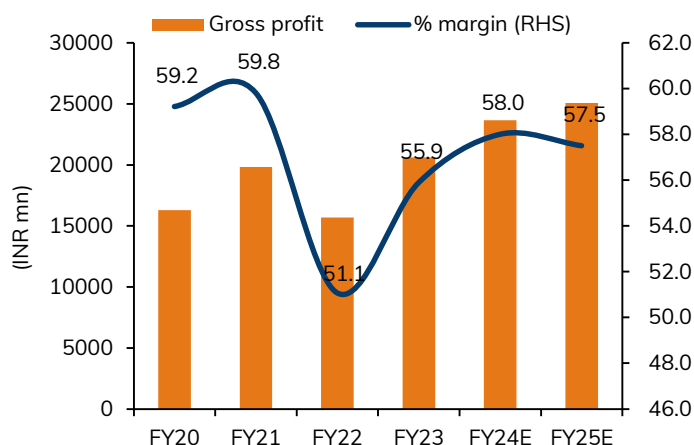
Source: Company data, I-Sec research

Exhibit 5: Revenue CAGR of 9% over FY23-FY25E



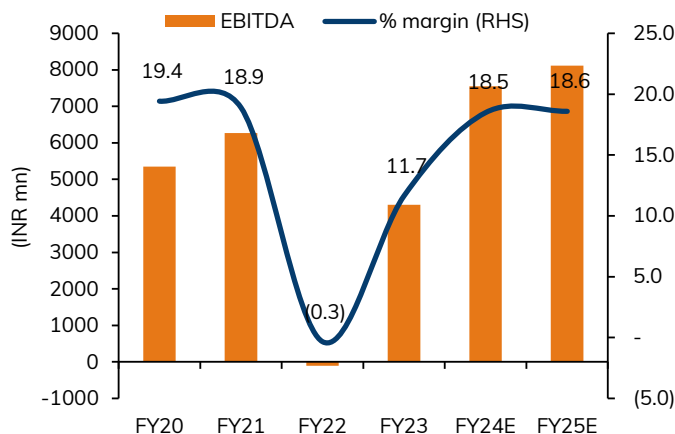
Source: Company data, I-Sec research

Exhibit 6: Gross margin on an upward trajectory with better mix



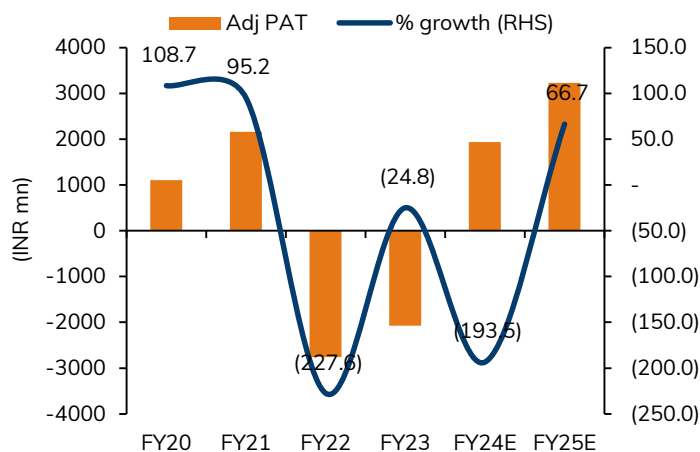
Source: Company data, I-Sec research

Exhibit 7: EBITDA margin to expand 690bps to ~19% by FY25E



Source: Company data, I-Sec research

Exhibit 8: On road to profitability



Source: Company data, I-Sec research

Exhibit 9: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	28.3	28.1	27.8
Institutional investors	37.1	36.7	37.1
MFs and others	11.1	13.9	13.7
Insurance	5.2	4.5	4.5
FII's	20.8	18.3	18.9
Others	34.6	35.2	35.1

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	30,703	36,884	40,798	43,618
Operating Expenses	15,783	16,313	16,115	16,967
EBITDA	(103)	4,302	7,548	8,113
EBITDA Margin (%)	(0.3)	11.7	18.5	18.6
Depreciation & Amortization	2,330	2,433	2,443	2,701
EBIT	(2,433)	1,869	5,105	5,412
Interest expenditure	1,767	2,611	2,384	2,244
Other Non-operating Income	1,320	903	967	986
Recurring PBT	(2,881)	161	3,688	4,154
Profit / (Loss) from Associates	(1,108)	(2,667)	(1,569)	(549)
Less: Taxes	(1,783)	(553)	34	469
PAT	(3,634)	544	1,795	3,686
Less: Minority Interest	140	97	97	97
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(4,602)	(2,026)	323	3,234
Net Income (Adjusted)	(2,759)	(2,075)	1,940	3,234

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	31,648	30,204	30,200	32,153
of which cash & cash eqv.	1,874	3,160	1,541	1,708
Total Current Liabilities & Provisions	14,087	13,041	13,877	14,950
Net Current Assets	17,561	17,163	16,323	17,203
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	4,969	4,990
Deferred Tax assets	1,970	2,230	2,466	2,637
Total Assets	55,671	53,343	52,325	52,695
Liabilities				
Borrowings	27,920	27,745	26,745	24,245
Deferred Tax Liability	357	446	446	446
provisions	643	734	812	868
other Liabilities	588	139	139	139
Equity Share Capital	898	903	903	903
Reserves & Surplus	22,935	20,826	20,729	23,544
Total Net Worth	23,833	21,729	21,632	24,447
Minority Interest	-	-	-	-
Total Liabilities	55,671	53,343	52,325	52,695

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	(2,578)	444	4,087	7,232
Working Capital Changes	1,767	2,611	2,384	2,244
Capital Commitments	(1,795)	(2,265)	(2,000)	(2,000)
Free Cashflow	(784)	2,709	6,087	9,232
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)	(2,384)	(2,244)
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)	(3,706)	(5,066)
Chg. in Cash & Bank balance	76	1,286	(1,618)	166
Closing cash & balance	1,874	3,160	1,541	1,708

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	(51.3)	(22.4)	3.6	35.8
Adjusted EPS (Diluted)	(30.6)	(23.0)	21.5	35.8
Cash EPS	(4.8)	4.0	48.5	65.7
Dividend per share (DPS)	3.6	3.6	3.6	3.6
Book Value per share (BV)	265.4	240.6	239.6	270.7
Dividend Payout (%)	(7.0)	(15.9)	99.8	10.0
Growth (%)				
Net Sales	(7.4)	20.1	10.6	6.9
EBITDA	(101.6)	(4,267.5)	75.5	7.5
EPS (INR)	(227.6)	(24.8)	(193.5)	66.7
Valuation Ratios (x)				
P/E	(9.5)	(21.8)	136.8	13.7
P/CEPS	(102.4)	123.4	10.1	7.4
P/BV	1.8	2.0	2.0	1.8
EV / EBITDA	(696.2)	16.3	9.4	8.4
P / Sales	1.4	1.2	1.1	1.0
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	51.1	55.9	58.0	57.5
EBITDA Margins (%)	(0.3)	11.7	18.5	18.6
Effective Tax Rate (%)	32.9	5,965.6	1.8	11.3
Net Profit Margins (%)	(9.0)	(5.6)	4.8	7.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.9	0.9	1.0	0.7
Net Debt / EBITDA (x)	(198.7)	4.7	2.7	2.2
Profitability Ratios				
RoCE (%)	(2.2)	(0.3)	7.4	10.0
RoE (%)	(10.7)	(9.1)	8.8	13.7
RoC (%)	(4.1)	(1.1)	7.0	9.5
Fixed Asset Turnover (x)	2.6	3.0	3.7	4.1
Inventory Turnover Days	134	124	110	108
Receivables Days	138	140	135	133
Payables Days	122	106	97	97

Source Company data, I-Sec research

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