Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Strides Pharma Sciences Ltd

Continued momentum with another strong quarter

Pharmaceuticals	Sharekhan code: STAR
Reco/View: Buy ↔	CMP: Rs. 1,535
Price Target: Rs. 1,874 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Q2FY25 revenues totaling Rs. 1,201 crore, demonstrating a significant y-o-y growth rate of 20%.
- EBITDA stood at Rs. 236 crore, marking a remarkable y-o-y increase of 31%. This strong performance not only underscores operational efficiency but also maintains a healthy EBITDA margin of 20%, indicating effective cost management alongside revenue growth.
- US segment achieved record-breaking revenues of $75 million in Q2FY25, showcasing an impressive growth of 26.2% compared to the same period last year.
- Currently, the stock trades at an appealing valuation of 26x and 21x its estimated EPS for FY2026 and FY2027, respectively that suggests promising investment opportunities, justifying a revised price target of Rs. 1,874.

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

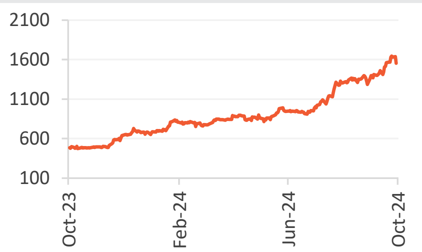
Company details

Market cap:	Rs. 14,112 cr
52-week high/low:	Rs. 1,675/467
NSE volume: (No of shares)	7.0 lakh
BSE code:	532531
NSE code:	STAR
Free float: (No of shares)	6.7 cr

Shareholding (%)

Promoters	25.8
FII	30.1
DII	18.2
Others	25.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-24.0	3.0	17.2	112.8
Relative to Sensex	-22.0	1.7	6.4	85.4

Sharekhan Research, Bloomberg

Q2FY25 numbers were impressive with revenues reaching Rs. 1,201 crore. This marks a robust 20% y-o-y increase and a solid 10% q-o-q growth, largely driven by the US business achieving its highest sales figures to date. The company's EBITDA also showcased strong performance, totalling Rs. 236 crore, reflecting a remarkable 25% rise y-o-y and a 9% increase as compared to the previous quarter. While EBITDA margin stood at 20%, this represents an increase of 71 bps y-o-y but a slight decline of 32 bps sequentially. Notably, PAT surged to Rs. 94 crore, up a staggering 37% quarter-over-quarter, a significant turnaround from a loss of Rs. 149 crore in the same quarter last year. The results underscore Strides' strong recovery trajectory and highlight its potential for sustained growth in the future.

Key positives

- US operations set a new benchmark with their highest-ever quarterly revenue of $75 million.
- Secured approvals for new products and launched three products.
- The company has made investments in new areas, specifically Control Substances Nasal Sprays and 505(b)(2) applications, as part of a long-term strategy that extends beyond the goal of ~$400 million in generics revenue.

Key negatives

- Slight decline in gross margin was observed due to an increased contribution from access markets.
- Substantial regulatory filings have begun in new regions; however, regulatory timelines in most growth markets are expected to be extended.
- Growth markets may experience uneven quarterly performance until the business stabilizes over the next two years.

Management Commentary

- Company is expecting a stronger second half of the fiscal year, with the EBITDA margin trending in line with its outlook for FY25.
- On US revenue, the company is confident in reaching the upper end of its FY25 outlook. This optimism is driven by strong market demand and product launches, positioning them well to maximize growth potential in the US.
- As regards regulated markets, the company anticipates that H2FY25 will outperform H1. This expectation is largely because most of the planned product launches are scheduled to materialize during this period.
- Global fund allocation for growth market was subdued in FY24; however, Strides experienced a higher allocation in FY25, driven by its impressive Delivery In Full On Time (DIFOT) performance. Meanwhile, revenues from Access Markets have remained uneven, but the company anticipates a stronger performance in the second half of FY25.

Revision in estimates: Revised earnings for FY26 have been adjusted based on the company's growth trajectory, and FY27 earnings estimates have also been introduced.

Our Call

Valuation: Maintain Buy with a revised PT of Rs.1874: Q2FY2025 numbers were good and The company maintained its EBITDA towards the higher end, driven by strong traction in the US region due to 1) New product launches in the regulated market 2) no price erosion pressure in the base portfolio, and. The company continues to control costs followed by a healthy product mix, which would aid the company to reach 20% EBITDA guidance by FY2025E. A healthy product mix resulted in strong cash flows, which aided the company in reducing its net debt/EBITDA to 2.1x and expect it to lower than 2X. The company's CDMO arm is also expected to clock good quarterly run rate and hence, we maintain BUY on the stock. The stock is currently trading at an attractive valuation of 26x /21x its FY2026E/27E EPS i.e. Rs. 58.3/Rs. 72.08.

Key Risks

Any change in the regulatory landscape and adverse forex movements can affect earnings prospects.

Valuation (Consolidated) Rs cr

Particulars	FY2023	FY2024	FY2025E	FY2026E	FY2027E
Total Sales	3688.4	4051.1	4652.6	5121.8	5890.07
EBIDTA	430.2	743.3	884	1024.4	1236.915
OPM (%)	11.7	18.3	19	20	21
Adj PAT*	-46.5	37	381	548	677
Adj EPS (Rs)	-4.9	3.9	40.6	58.3	72.08
PER (x)	-313	394	38	26	21
EV/Ebidta (x)	28.8	16.6	14	11.9	10.1
ROCE (%)	5.2	11.8	14.4	16.1	17.3
RONW (%)	-14.9	-6.9	9.7	15.5	16.2

Source: Company; Sharekhan estimates; * Excluding exceptional items and losses from the JV

Q2FY2025 conference call highlights:

- Gross margin fell slightly on expansion of the Access Market, which typically operates at lower gross margins.
- The company has successfully relaunched products from its dormant portfolio, acquired from Indo, resulting in a significant increase in market share and revenue in the US.
- In other regulated markets, especially in continental Europe, product launches are taking longer than anticipated. While partners have formed collaborations, the actual launch processes are experiencing delays.
- The company has identified three strong opportunities within the nasal spray niche, which are expected to offset the decline in soft gelatin volumes and EBITDA.
- The company is witnessing an unexpectedly high demand for JLP driven by two main factors: the dosage requirement for pens is twice as high, and some customers miscalculated their volume forecasts, resulting in greater demand than they initially anticipated.

Results Rs cr

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	**1,201**	**999**	**20%**	**1,088**	**10%**
Total Expenditure	965	810	19%	871	11%
Operating profit	**236**	**189**	**25%**	**217**	**9%**
Other Income	28	35	-20%	13	123%
Depreciation	51	60	-16%	49	4%
Interest	82	79	5%	80.389	2%
PBT	132	86	53%	101	31%
Tax	21	-7	-	17	26%
Reported PAT	**94**	**-149**	**-**	**68**	**37%**
Reported EPS (Rs.)	11.86	12.22	-3%	10.33	15%
Margin (%)			**YoY (BPS)**		**QoQ (BPS)**
OPM	20%	19%	71bps	20%	-32bps
NPM	8%	-15%	2275bps	6%	152bps
Tax rate	16%	-9%	2478bps	17%	-62bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Input cost easing with companies focusing on complex product launches

Over the years, Indian pharmaceutical companies have established themselves as a dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. The sector is seeing an easing of input costs like raw-material costs, freight, and power, which would aid the sector in expanding margins. The sector is also witnessing the easing of price erosion, followed by increasing contributions from new product launches. We believe the sector is in a sweet spot, where it is experiencing a healthy product mix and cost rationalisation, which increases the operational profit of companies. The sector mainly has low debt and increasing operational profit followed by experiencing the advantage of low tax rate due to its operations in the SEZ sector; hence, overall, we have a positive view on the sector.

■ Company Outlook – Green shoots of revival visible

Strides is well-positioned to benefit from opportunities in the global pharmaceutical market. The company derives a higher share of revenue from regulated markets, especially the US's healthy growth in the base business in the US and a strong product launch pipeline are expected to fuel the segment's growth. Strides has a strong product pipeline, which is approved, but yet to be commercialised and offers sizeable market opportunities. Moreover, the recent acquisition of the product portfolio from Endo Pharmaceuticals, including commercialised products, would add to the company's product basket as well as diversify its portfolio across therapies and dosage forms. Growth prospects in other regulated markets are also likely to be better, led by product launches, increased market share, and portfolio optimisation/maximisation. The emerging markets segment is expected to gain traction, backed by the likely revival of the institutional business and growth in the African business. Further, the management expects challenges in the US business in the form of price erosion and high inventories to normalise soon and has guided for $220-240 million of revenue by FY2023, translating into strong growth momentum. As markets open up, the performance of other regulated markets is also expected to improve going ahead. Further, Stelis Biopharma, the CDMO arm of the company, is progressing well and has added six new customers in the first year of operations.

■ Valuation – Maintain Buy with a revised PT of Rs.1874

Q2FY2025 numbers were good and The company maintained its EBITDA towards the higher end, driven by strong traction in the US region due to 1) New product launches in the regulated market 2) no price erosion pressure in the base portfolio, and. The company continues to control costs followed by a healthy product mix, which would aid the company to reach 20% EBITDA guidance by FY2025E. A healthy product mix resulted in strong cash flows, which aided the company in reducing its net debt/EBITDA to 2.1x and expect it to lower than 2X. The company's CDMO arm is also expected to clock good quarterly run rate and hence, we maintain BUY on the stock. The stock is currently trading at an attractive valuation of 26x /21x its FY2026E/27E EPS i.e. Rs. 58.3/Rs. 72.08.

About company

Strides is a global pharmaceutical company operating in two business verticals – regulated markets and emerging markets. Regulated markets include the U.S. and other regulated markets. The balance is constituted by emerging market verticals, which include Africa and institutional business. For segments, Strides operates in the pharma generics, branded generics, and institutional businesses. The pharma generics business largely comprises the regulated markets business and is led by IP-driven product licensing and marketing and distribution partnerships across the globe. Strides is among the leading players worldwide in soft gel capsules. The branded generic segment comprises the Africa business. Africa offers a significant opportunity for pharmaceutical companies all over the world. While it is a very complex market to do business in, it demonstrates an industry-leading growth trajectory, driven by increasing urbanisation and rapid expansion of primary healthcare facilities. In addition to the Africa business, the emerging market vertical includes the institutional business. Under this, Strides manufactures drugs in the anti-retroviral, anti-malarial, anti-tuberculosis, Hepatitis, and other infectious disease drug segments. Customers for this business segment include institutionally funded aid projects and global procurement agencies.

Investment theme

Strides derives a higher share of revenue from regulated markets, especially the U.S. The company has a strong product pipeline, which is approved but yet to be commercialised and offers sizeable market opportunities. Moreover, the recent acquisition of the portfolio from Endo Pharmaceuticals, including commercialised products, would add to the company's product basket as well as diversify the portfolio across therapies and dosage forms. Growth prospects in other regulated markets are also likely to be better, led by product launches, increased market share, and portfolio optimisation. However, with steep price erosion in U.S. markets, overall gross margins were under pressure during FY2022. As markets opened up, the performance of regulated markets improved and profitability is expected to reach historical peak levels over the short-medium term.

Key Risks

Any change in the regulatory landscape and adverse forex movements can affect earnings prospects.

Additional Data

Key management personnel

Arun Kumar	Chairman, MD, and Founder
Badree Komundur	Executive Director and Group CFO
Manjula Ramamurthy	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Quant Money Managers Ltd	5.41
2	Route One Offshore Master Fund LP	5.06
3	Aditya Birla Sun Life Asset Manage	3.19
4	Vanguard Group Inc/The	2.57
5	SBI Life Insurance Co Ltd	2.19
6	ROUTE ONE FUND I L P	2.17
7	Life Insurance Corp of India	1.91
8	Blackrock Inc	1.44
9	Dimensional Fund Advisors LP	1.37
10	Morgan Stanley	1.35

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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