

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR673
Target Price	: INR861
Potential Return	: 28%

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COMPANY UPDATE

Strides Arcolab Limited

High growth in unsold business

Strides has received a series of ANDA approvals like Methoxsalen (soft gel approval), Pramipexole, and Imiquimod (first dermatology approval) in the last one month. The recently approved ANDAs, along with other pending ANDAs, should result in an EBITDA CAGR of 31.9% from FY14-16e for its unsold Pharma business. The recently awarded tenders for Arthemether and Lumefantrine (A+L) should also be meaningful driver in the medium-term. We are raising our target price by 21% to INR861 /share, incorporating Lovaza and Avodart in our estimates, and also raising target multiple to 12x from 11 x (inline with other midcap).

Consistent ANDA launches to deliver high growth

The company has already received two positive approvals - Methoxsalen and Imiquimod - after the recent USFDA clearance for its Bangalore and Italian plants. Strides's partners are also gaining share in older products like Vancomycin and Ergocalciferol, which have not seen any new competition despite over two years of genericisation, due to complexity in development and manufacturing. With recent approvals and pending ANDAs like Combivir, Tacrolimus, Lovaza and Avodart the US business is on a high growth phase. The company also has three more soft gel filings and one more dermatology filing pending approval. Majority of the products in these two segments enjoy limited competition. Lovaza launch in FY16 will be a game changer, with total brand sales of USD1.1bn and only 4-5 players.

A+L tender to provide further fillip

It has won tenders for A+L from global humanitarian funds. The overall market size of A+L is close to USD350m. Even a 15% market share could result in annualised sales of USD20m for the company. It had started supplies only in 2HFY14, and the drug had generated sales of less than USD8m in FY14.

SoTP-based target price

Sr.	Particular	INR/share
1.	Pharma business 12x FY16e	673
2.	PV of USD100m kept in escrow account for tax purpose (INR per share)	69
3.	Value of contingent payment from Mylan on resolution of warning letter (INR per share) (deducted for DDT)	237
4.	Assuming 50% probability of receipt of contingent payment (INR per share)	119
5.	Target price (1+2+4)	861
6.	Total excluding contingent payment (1+2)	742

Source: Antique

Key financials

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
Revenue (INRm)	25,245	23,073	13,410	13,818	17,951
EBITDA (INRm)	4,878	5,353	2,234	2,847	4,057
EBITDA Margin (%)	19.3	23.2	16.7	20.6	22.6
PAT (INRm)	1,976	3,061	946	2,225	3,298
EPS (INR)	34.2	53.0	16.4	37.8	56.1
P/E (x)	14.2	9.1	29.6	12.8	8.6
ROCE	9.2	9.5	4.3	12.8	17.7
ROE	15.4	22.3	4.7	20.5	25.2

Source: Company, Antique Year ending changed to March from FY14. FY14 is a 15-month period.

Market data

Sensex	:	25,824
Sector	:	Pharma
Market Cap (INRbn)	:	40.0
Market Cap (USDbn)	:	0.7
O/S Shares (m)	:	59.6
52-wk HI/LO (INR)	:	675/239
Avg Daily Vol ('000)	:	265
Bloomberg	:	STR IN

Source: Bloomberg

Valuation

	FY14	FY15e	FY16e
EPS (INR)	16.4	37.8	56.1
PE (x)	29.6	12.8	8.6
P/BV (x)	2.6	2.1	1.7
EV/EBITDA (x)	12.7	9.4	6.0
Dividend Yield (%)	106.0	-	-

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	27	59	84	77
Relative	22	39	48	31

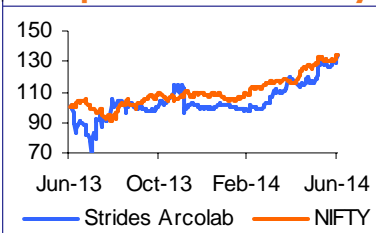
Source: Bloomberg

Shareholding pattern

Promoters	:	28%
FII	:	49%
DII	:	3%
Others	:	20%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg

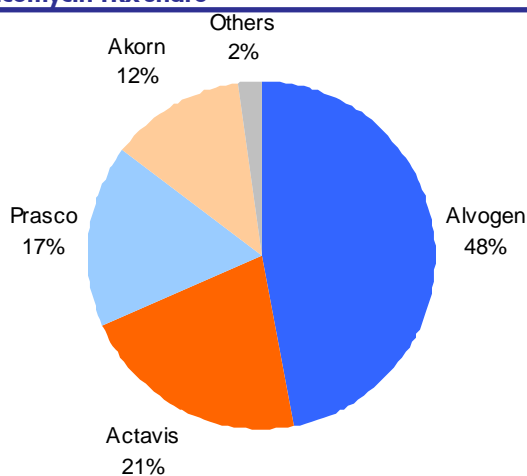
Key ANDA launches expected from Strides Arcolab

Brand name	Launch status	Brand size (USDm)	Number of players	Expected sales (USDm)	Expected EBITDA (USDm)	Comments
Methoxsalen	Launched	14	2	5	3	Soft gel product. Only generic to receive approval
Lovaza	FY16	1,100	5	22	7	Teva has already launched in Apr-14 since it was awarded FTF. Apotex has settled for 1QCY15 launch. Par is other known filer
Avodart	Nov-15	580	6	6	2	Patent expires in Nov-15
Combivir	2QFY15	275	5	6	2	
Tacrolimus	2QFY15	955	7	10	3	
Calcitriol	2QFY15	30	4	5	2	Soft gel

Source: Company, Antique

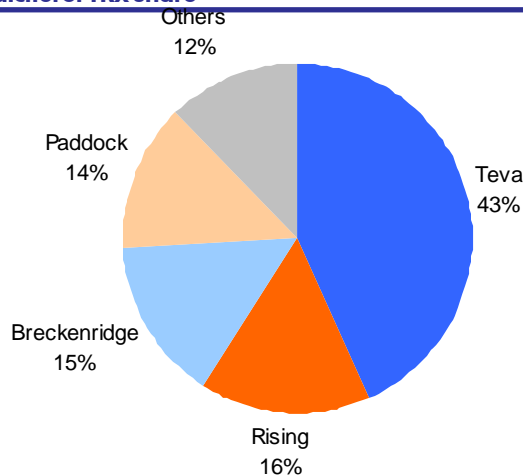
Strides Arcolab's partners Alvogen and Paddock have gained positive market share in Vancomycin and Ergocalciferol

Oral Vancomycin TRx share



Source: Company, Antique

Ergocalciferol TRx share



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
Net Sales	25,245	23,073	13,410	13,818	17,951
Material costs	12,638	9,980	7,147	7,600	9,711
Employee cost	2,801	2,809	1,572	1,575	1,993
Other Expenses	4,929	4,931	2,457	1,796	2,190
Operating expenses	20,367	17,720	11,175	10,972	13,894
EBITDA	4,878	5,353	2,234	2,847	4,057
Depreciation	1,043	1,095	565	507	593
EBIT	3,835	4,258	1,669	2,339	3,464
Other income	526	583	602	663	729
Interest	1,903	1,934	1,089	220	70
PBT	2,459	2,907	1,183	2,782	4,123
Tax	387	1,021	3,245	556	825
APAT	2,072	3,072	946	2,225	3,298
Minority interest & prior period items	95	11	0	0	0
Net profits	1,976	3,061	946	2,225	3,298
AEPS	34.2	53.0	16.4	37.8	56.1

Balance sheet (INRm)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
Share capital	584	588	588	588	588
Reserves & surplus	13,131	19,674	10,265	12,490	15,788
Net Worth	13,715	20,263	10,853	13,078	16,376
Minority interest	465	719	719	719	719
Total borrowings	25,664	14,161	2,711	1,611	511
Other liabilities	93	287	287	287	287
Total liabilities	39,937	35,429	14,570	15,696	17,894
Gross block	16,622	18,239	6,239	6,739	7,879
Less: Acc. depreciation	-4,572	-4,976	-1,541	-2,048	-2,641
Net block	12,050	13,264	4,699	4,692	5,239
CWIP	3,523	2,414	562	607	709
Others	20,046	16,919	16	16	16
Investments	0	1	4430	4430	4430
Current assets	18,921	15,378	11,323	12,301	15,429
Inventories	4,799	4,423	1,797	1,974	2,564
Debtors	5,384	4,832	3,618	3,937	5,016
Cash and bank balances	2,597	1,657	2,942	3,422	4,881
Other current assets	1,597	1,872	374	374	374
Loans & Advances	4,543	2,592	2,592	2,592	2,592
Current liabilities	11,449	11,147	6,040	5,930	7,509
Provisions	3,257	1,399	420	420	420
Net current assets	4,216	2,831	4,863	5,951	7,500
Others	101	0	0	0	0
Total Assets	39,937	35,429	14,570	15,695	17,893

Per share data

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
No. of Shares (Mn)	58	59	59	59	59
BVPS (INR)	235	345	185	222	278
CEPS (INR)	52	71	26	46	66
DPS (INR)	2	2	591	-	-

Source: Company, Antique

* Company had paid high dividend due to payment from Mylan
Year ending changed to March from FY14. FY14 is a 15-month period.

Revenue Mix (INRm)

Year ended 31 Mar	FY13	FY14	FY15e	FY16e
Generic	3,560	4,218	5,490	8,792
Branded	2,180	2,736	3,283	3,940
Institutional	3,520	4,446	5,045	5,219
Total	9,260	11,400	13,818	17,951

Cash flow statement (INRm)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
Net profit	1976	3061	946	2225	3298
Depn and w/o	1043	1095	565	507	593
Change in working cap	-5354	-445	748	607	90
Others	1933	8670	0	0	0
CF from operations (a)	6,481	1,344	763	2,126	3,801
Capital expenditure	6,720	508	(13,853)	545	1,243
Chg in investments and others	(18)	1	4,430	0	0
CF from investing (b)	(6,565)	(8,065)	46,714	(545)	(1,243)
Free cash flow (a+b)	(83)	(6,722)	47,478	1,581	2,559
Equity raised/(repaid)	1	2	0	0	0
Debt	5,566	(11,504)	(11,449)	(1,100)	(1,100)
Dividend (incl. tax)	136	137	34,744	0	0
Others	(6,446)	21,541	0	0	0
CF from financing (c)	(1,017)	9,900	(46,193)	(1,100)	(1,100)
Net chg in cash (a+b+c)	(1,100)	3,179	1,284	481	1,459

Growth indicators (%)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
Revenue	48.9	(8.6)	(41.9)	3.0	29.9
EBITDA	49.4	9.7	(58.3)	27.4	42.5
PAT	62.2	54.9	(69.1)	135.1	48.2
AEPS	62.2	54.9	(69.1)	130.9	48.2

Valuation (x)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
PE (X)	14.2	9.1	29.6	12.8	8.6
P/BV (X)	2.0	1.4	2.6	2.1	1.7
EV/EBITDA (X)	10.5	7.7	12.7	9.4	6.0
EV/Sales (X)	2.0	1.8	2.1	1.9	1.3
Dividend Yield (%)	0.4	0.4	106.0	-	-

Financial ratios

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
RoE	15.4	22.3	4.7	20.5	25.2
RoCE	9.2	9.5	4.3	12.8	17.7
Debt/Equity (x)	1.9	0.7	0.2	0.1	0.0
EBIT/Interest (x)	2.0	2.2	1.5	10.6	49.6

Margins (%)

Year ended 31 Mar	CY11	CY12	FY14	FY15e	FY16e
EBITDA	19.3	23.2	16.7	20.6	22.6
EBIT	15.2	18.5	12.4	16.9	19.3
APAT	7.8	13.3	7.1	16.1	18.4

Source: Company Antique

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Analyst ownership in stock

Yes for Strides Arcolab



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