

Strides Arcolabs (STAR)


 DOLAT CAPITAL

CMP: Rs 380

Target Price: Rs 440

Pharmaceuticals / Accumulate

Nearing the Inflection Point ...!

Strides Arcolab (STAR) has emerged as a leading injectable player from a generic pharmaceutical company. It has invested aggressively to equip itself with strong technology platforms — both onshore and global — and has garnered USD 130mn as upfront licensing income (through front end partnerships forged with Pharma MNC's), clearly reflecting the monetizable value of its pipeline. The recent FDA approval to its Bangalore Sterile facility (~2x of existing capability) permits it to move the products already approved (25 of them with an addressable market opportunity of USD 500mn) into the commercialisation phase. The impending FDA approval for its Oncology block now acts as a key trigger going ahead. We expect 38% earnings growth over CY10-12E, leading to an uptick in return ratios. The possible divestment of the generic pharmaceutical division (unmatched competencies to speciality business) is a latent trigger.

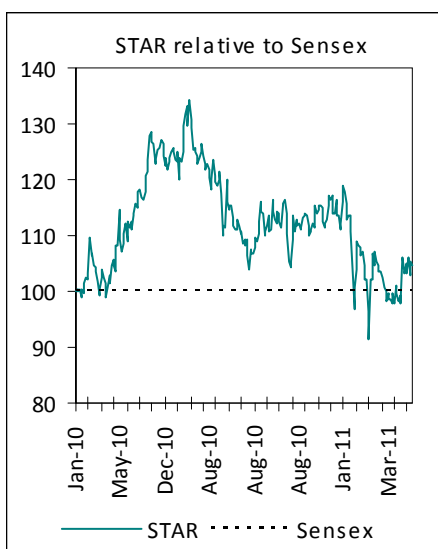
BSE Sensex	19602
NSE Nifty	5885

Scrip Details

Equity	Rs.580mn
Face Value	Rs.10/-
Market Cap	Rs.22bn
	US\$488mn
52 week High/Low	Rs 478 / 302
Avg. Volume (no)	421333
BSE Code	532531
NSE Symbol	STAR
Bloomberg Code	STR IN
Reuters Code	STAR.BO

Shareholding Pattern as on Dec'10(%)

Promoter	27.9
MF/Banks/FIs	18.0
FII's	32.1
Public / Others	22.0



Investment Rationale

Transformation into a leading speciality (injectables) player: STAR has emerged from being a generic pharmaceutical player (legacy business) to a speciality player, with increased focus on steriles (injectables). It has reorganized its business structure with emphasis on two broad verticals — 'Specialties' and 'Pharmaceuticals'. Strides has built a strong manufacturing platform via both the organic and inorganic route, and has an enriching pipeline of IP assets, which it leverages through the partnership modus operandi.

Agila Specialty – At The tipping Point

The company follows a two-pronged growth strategy — supply to JV partner Sagent and supply to front-end partners - Pfizer Plc and GSK Plc. Manufacturing capacity constraints limited Strides's ability to commercialise products (10 launches of 35 products already approved). The recent FDA approval to its newly-set up Sterile facility permits it now to accelerate the already approved products into the execution phase. Oncology product filings (under GSK and Pfizer supply agreements) initiated in 2009 are likely to get approved by early CY12E. We believe the pending FDA approval for its Oncology block acts as a key growth trigger going ahead. We expect the specialty segment's revenues to grow 32% over CY10-12E.

Pharmaceuticals – Legacy Continues...

The pharmaceutical business is the flagship segment of the company (61% of sales – CY10). The division comprises branded generics (geographic mix tilted towards emerging markets), GDI initiative (anti-malaria/TB tenders) and soft gels. New product launches and increased penetration in Emerging Markets aids growth momentum, which is mainly volume-driven.

Valuations

We expect 38% earnings growth over CY10-12E. Increased contribution from the steriles segment revenues and concurrent receipts of licensing income (late stage pipeline) will partly lift concerns over a stretched balance sheet. Further, with the capex cycle nearing an end, return ratios will observe an uptick. At CMP of 380, the stock trades at 11.9x CY11E and 9.5x CY12E earnings. We initiate coverage on the stock and recommend **Accumulate** with a target price of Rs 440 (11x CY12E Earnings).

Financials

Years	Net Sales	% growth	EBIDTA	OPM %	PAT	% growth	EPS(Rs.)	% growth	PER(x)	ROANW %	ROACE %
CY09	13,283	23.0	2,105	15.8	1,097	1.6	18.9	1.6	20.0	17.6	7.2
CY10P	17,611	32.6	3,918	22.2	1,224	11.6	21.1	11.6	17.9	11.6	10.9
CY11E	20,832	18.3	4,463	21.4	1,855	51.5	32.0	51.5	11.9	13.5	10.2
CY12E	24,845	19.3	5,087	20.5	2,320	25.1	40.0	25.1	9.5	15.6	11.6

Figure in Rs.mn, P= Balance Sheet figures are projected

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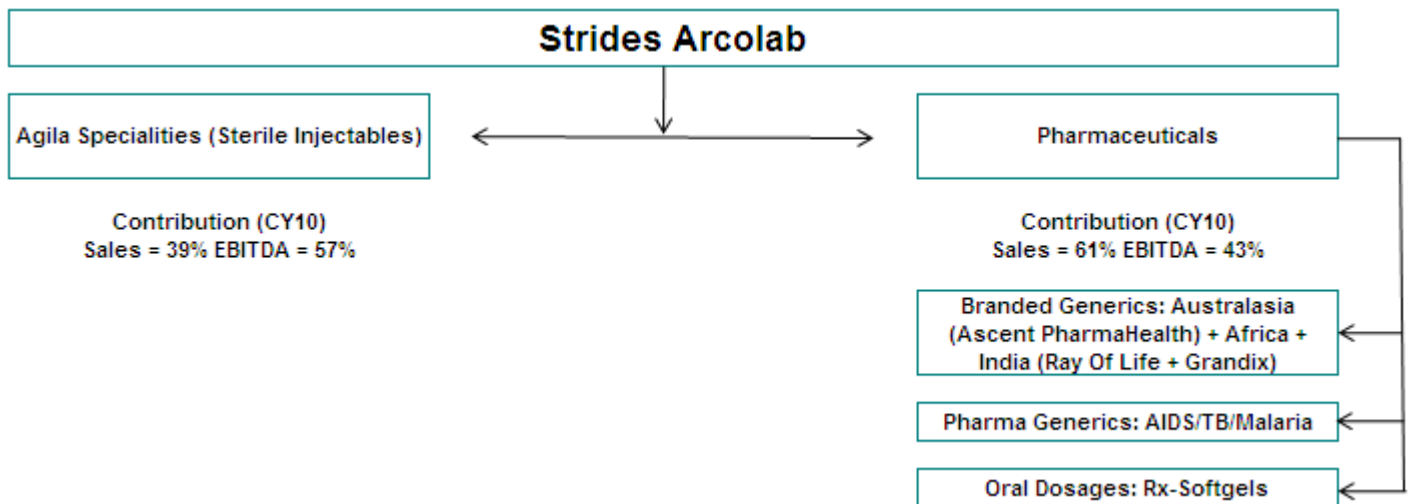
21 April 2011

Redefining its DNA: Speciality Ahoy!

Strides has emerged from being a generic pharmaceutical player (legacy business) into a speciality player with increased focus on steriles (injectables). Strides's gradual inclination towards product development in niche areas led to a complete transition in the business model.

Post revamp, the company had a simplified business structure. It has two domains viz. pharmaceuticals (diversified portfolio – such as soft gels and branded generics) and Agila Specialties (steriles). The company leverages its strong manufacturing platform (built via organic and inorganic route) and an enriching pipeline of IP assets through the 'partnership-based model'.

Business Model



Source: Company, Dolat Research

Agila Specialties (Injectables Portfolio) – At the Tipping Point

Strides's strategic intent of building its forte in niche segments prompted it to foray into manufacturing injectables — entailing capex, complex manufacturing and a longer gestation cycle (product approval time lag of ~two years). The company adopted organic and inorganic growth initiatives to scale up its manufacturing capabilities with concurrent emphasis on building product portfolio.

Globally, the injectables market is estimated to be around USD 145bn, growing at a CAGR of ~11% over CY12E. The injectables generic market is estimated to be around USD 15bn and is estimated to grow at ~10% annually. Among these, oncology products are a key segment where ~USD 9bn worth drugs are going off-patent by 2015.

Strides's strategy involves developing a complete range of products (~80-90% of the identified therapeutic segment) and subsequently out-licensing the product basket. It has so far partnered with Akorn (US) and Sagent (US) (under the JV route) and has also signed supply-based agreements with Pfizer (US) and GSK (UK) to monetise upon its oncology injectables portfolio

Strides - Preferred Partner of Choice...

Strides Arcolab		
Portfolio	Infrastructure	R&D
<p>Develops & manufactures steriles across therapeutic areas & formats for global pharma companies – Anti-infectives, Oncology, CNS, GI</p> <p>Key Specialties: High Potency Drugs Oncology, Peptides, & Controlled Substances Suspension Injections, Hormones, Antibiotics Penems, Penicillins & Cephalosporins</p> <p>Key Formats: Lyophilisation Vials – Liquid & Dry Powder Pre Filled Syringes ('PFS') Ampoules, Devices, Softgels (Onco) Tablets coated/ uncoated (Onco)</p>	<p>7 strategically located plants to serve markets / customers competitively – India, Poland, Brazil</p> <p>Manufacturing facilities have gained approval from global regulatory bodies such as FDA, MHRA, etc.</p> <p>15 successful inspections by USFDA/EMEA/PIC over last 12 months</p> <p>Zero observation track record in all USFDA inspections till date</p> <p>Pending FDA approval for 3 new plants will accelerate growth momentum</p>	<p>Total Specialty portfolio 115 ANDA filings 35 approvals 10 commercialized</p> <p>Focus on niche areas</p> <p>Aims to develop 120 products & file 40 ANDAs annually</p>

Growth Mantra

Leadership through partnership

JV partnerships

Sagent, Akorn (US)
Develop, Supply and market injectables in US Market.

Akorn JV portfolio sold to Pfizer Inc..

Front-ending partnerships

GSK Plc (Jul'08) -
Supply of 10 Onco products (scope to expand deal to 45 products) for 95 EMs

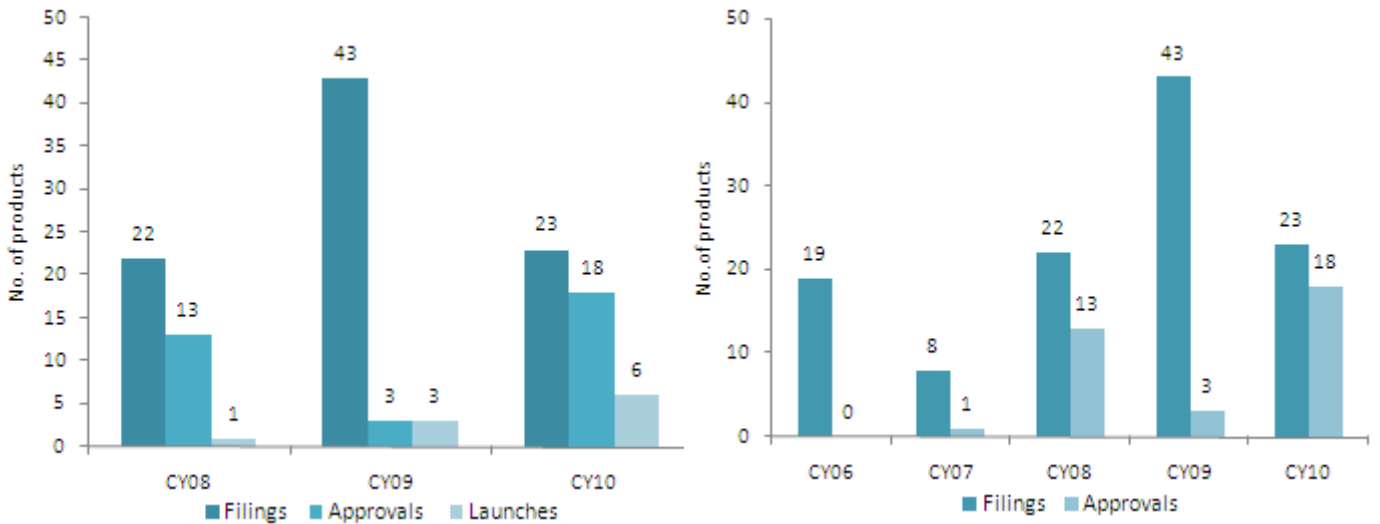
Pfizer Plc (May'10) -
45 products - 40 for US & 37 for EU

Adds Akorn Portfolio of 22 products (16 approvals)

Source: Dolat Capital, Company Presentation - Mar'11

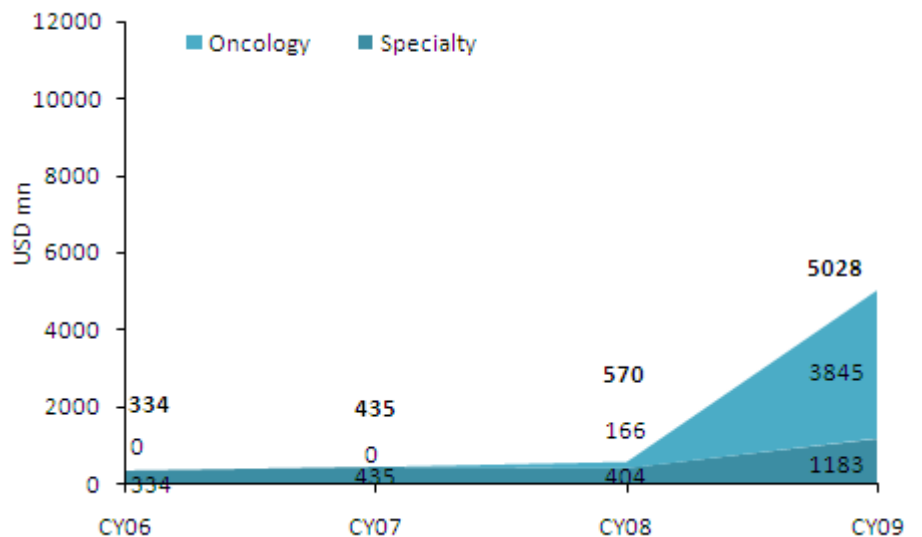
Enriching Product Pipeline

Strides's R&D setup has been the cornerstone to its progressive build up of its overall injectables portfolio. To its credit, Strides has 115 filings with 35 product approvals in the steriles segment. It has been aggressive over product filings and aims at ~40 sterile filings annually over the next 2-3 years. Notably, the time lag from the date of filing to approval is 24-28 months.



Source: Dolat Capital, Company Presentation - Mar'11

Strides is well positioned to capitalise on the near-term generic opportunity (oncology products going off patent), in US with significant filings initiated in 2009 (likely to get approved by early CY12E). The company has recently received its first oncology product approval in EU market (amongst 37 drugs under Pfizer deal). We believe the pending FDA approval for its Oncology block acts as a key growth trigger going ahead.

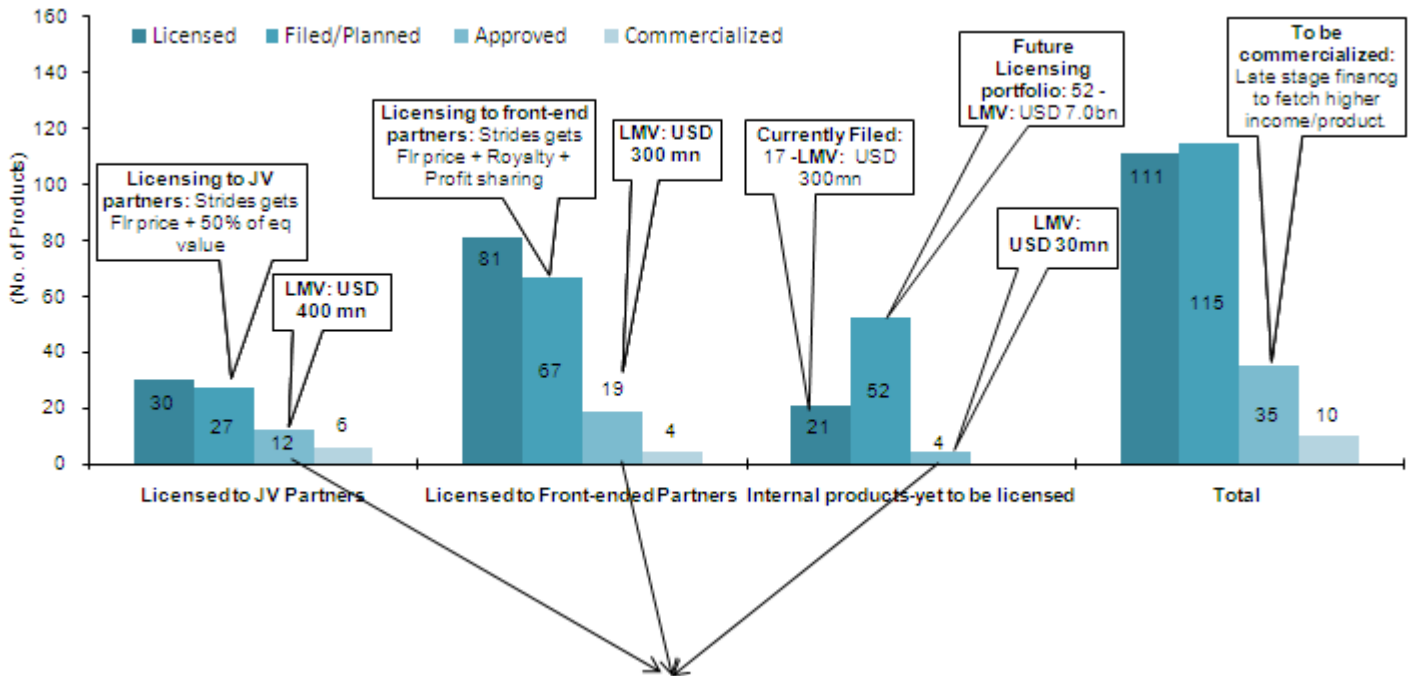


Source: Dolat Capital, Company Presentation - Mar'11

Strides recently acquired a 70% stake in Bangalore-based biotech firm Inbiopro Solutions. This marks its foray in biologics. The acquisition entails an investment of Rs 650mn (phased over three years) for development and commercialisation of products. The company aims to launch eight products (with estimated global sales of ~USD 8bn) in 2013E.

Licensing Pipeline - Partnership Modus Operandi...

It follows a two-pronged growth strategy — supply to JV partner - Sagent and front-end partners - Pfizer Plc and GSK Plc. The recent FDA approval to its new Sterile block in Bangalore (~2x existing capacity) permits the company to accelerate its already approved products into execution phase.



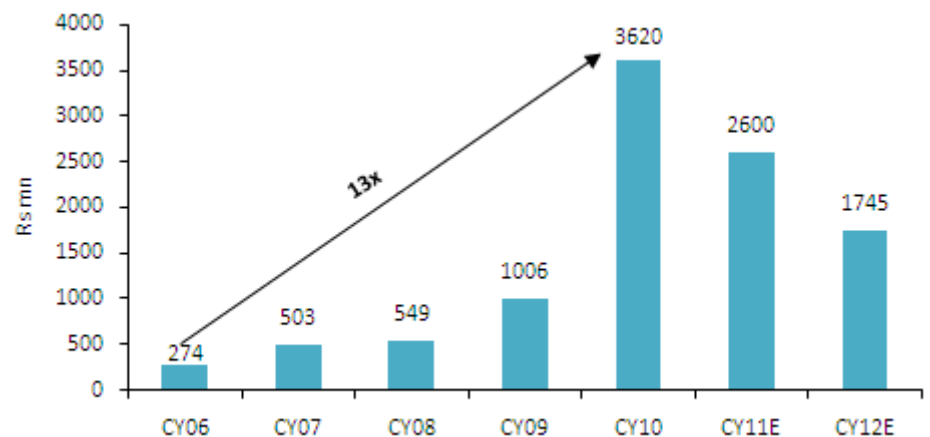
Capacity constraints donewith. FDA approval (3 new plants) to kickstart launches (products already approved).

Source: Dolat Capital, Company Presentation - Mar'11

Notably, Strides divested 22 filings (16 approved) under the Akorn JV to Pfizer Plc for USD 28mn. This in turn adds muscle to Strides's front-end capabilities (under front end partners) with additional products coming under the marketing prowess of Pfizer Inc. The Akorn JV would continue selling limited number of approved products until end Apr'11E.

Strides's inclination towards late-stage financing fetches higher value to its IP assets under agreement. It has 52 products in the advanced-development stage (LMV – USD 7bn), which in our view provides visibility over future potential deals (milestone payments).

Licensing Income - Timely Milestone payments off-set R&D and Regulatory expenses.

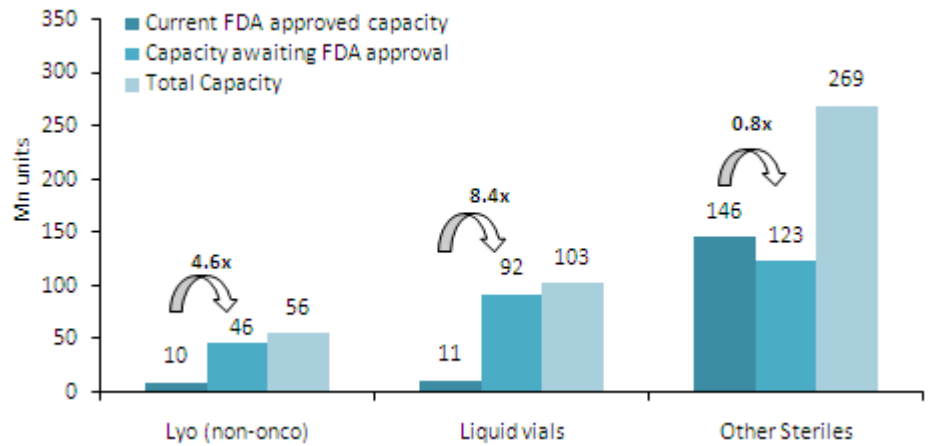


Source : Company, Dolat Research

Future milestone payments will enable Strides to deploy proceeds back in R&D (accelerate product portfolio) and maintain ROI, given the limited cash generation ability from its residual pharmaceutical business.

Capex Cycle Nears End, Enters Monetisation Phase

Capacity Expansion



Manufacturing site particulars	Existing facilities			New facilities			Poland
	Steriles	Penicillins	Cephalosporins	Steriles	Penicillins/ Penems	Oncology	
Location	Bangalore India	Bangalore India	Bangalore India	Bangalore India	Campos Brazil	Bangalore India	Warsaw Poland
USFDA Approval Status	Plant: Yes	Yes	Yes	Yes	Awaited	Awaited	Primary focus on European Mkt
Products	Yes	Awaited	Awaited	Yes	Awaited	Awaited	Approved by MHRA
Total capacity (Mn Units)	64	33	44	140	66	25	56 ⁽¹⁾
Filings (US) Nos	54	7	5	15	2	32	N.A.
Approvals (US) Nos	35	Nil	Nil	1	Nil	Nil	N.A.
Commercialized Nos	10	Nil	Nil	Nil	Nil	Nil	N.A.

Vancomycin Commercialization from new facility will release ~70% capacity in the existing facility thereby enabling additional product launches.

Note: (1) Includes existing ampoules capacity of 26mn units

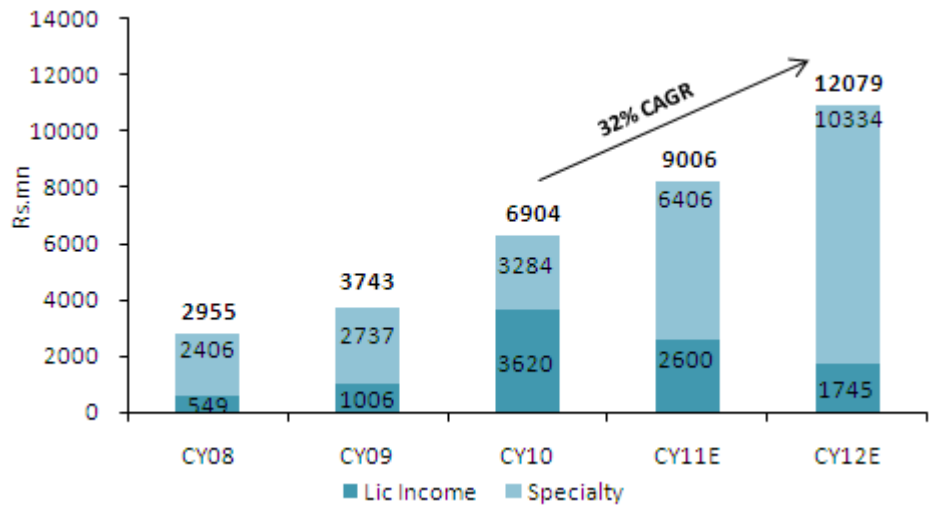
- To capitalize on controlled substances segment - UK-MHRA approved facility in Warsaw, Poland.
- All USFDA approved products can be moved from one USFDA approved plant to another in 30 days.

Source: Dolat Capital, Company Presentation - Mar'11

Inorganic Initiatives – Core to Growth...

The purchase consideration of USD 68mn towards Campos (Brazil) facility acquisition has been concluded. This facility makes Penicillin and Penems and generates annual sales of USD 40mn. In addition, the company recently concluded buyout of Aspen's 51% stake in the two JVs — Onco Therapies (India) and Onco Labs (Cyprus) for USD 117mn. This in turn shall catapult revenue growth, given that the contractual agreements with GSK and Pfizer are nearing commercialisation.

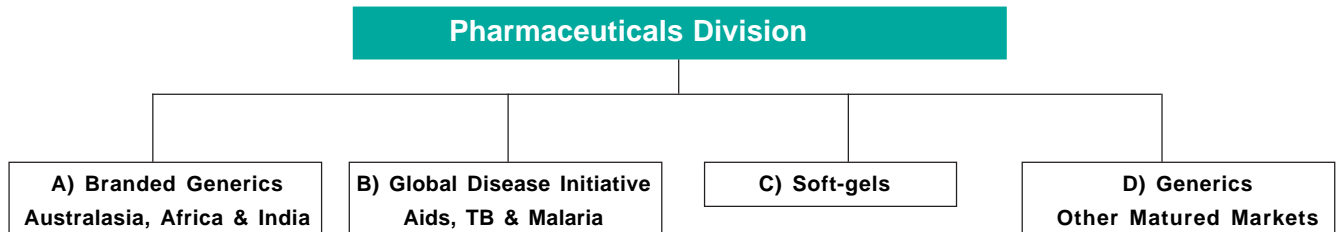
Agila Specialities – Growth on track



Source : Company, Dolat Research

Pharmaceuticals division: Legacy Continues

The Pharma business has been the company's flagship segment (legacy business). This vertical comprises branded generics, prescription soft gels, AIDS/TB/malaria-related products (global disease initiative). Strides has followed the inorganic route in creating this vertical. The pharmaceutical division contributes 61% to consolidated revenues and 43% to EBITDA (CY10).



Branded Generics –

	Australasia	Africa	India
Sales CY-10 (CY09)	5,846 (4,090)	1,370 (919)	594 (735)
Description	Ascent Pharmahealth-Aus (60.3% stake) * Established presence (>20% Mkt-Share) in Singapore via Greencross acquisition; Agreement with Pfizer (Aus) to distribute off-patented drugs	Manufacturing and marketing operations	Acquired: Grandix (Jun'07) and Initiated Ray of Life (Dec'09)
Manufacturing	Dedicated facility in Jurong, Singapore	3 dedicated facilities: 1 in Lagos, Nigeria and 2 in India	Orals plant in Bangalore also used for manufacturing branded generics
Footprint	Australia (5th largest) & Singapore (Largest) with growing operations in 5 other Emerging South-East Asian markets	West Africa, French Africa & other parts of Africa	Grandix has presence in 5 states in South India
Products	Generic pharmaceuticals OTC & Skincare Brands: Avene (Skincare), Hairy Lemon (OTC) & Estelle (Prescription medicine) & Dermorganics (Organic Skincare)	Branded generics, Commodity generics & OTC products marketed through own sales team in partnership with local distributors	Grandix covers therapeutic areas of diabetes, cardiovascular diseases, neurology and female healthcare The flagship brand Renerve (Rs.750mn) Ray of Life covers critical care health products in oncology segment

*Figures in Rs mn * To acquire residual stake & privatize the company by Apr'11*

Source: Dolat Capital, Company Presentation - Mar'11

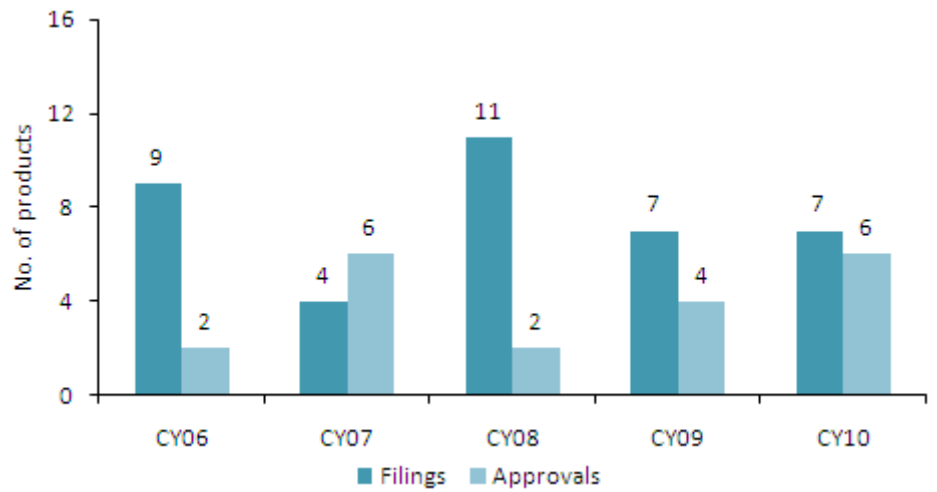
Global Disease Initiatives

Strides is a leading supplier to various bodies fighting AIDS, TB and Malaria in developing markets. Its oral dosage forms facility in Bangalore is pre-qualified by WHO for manufacture of anti-retroviral drugs (ARVs) and anti-TB products.

Soft gels

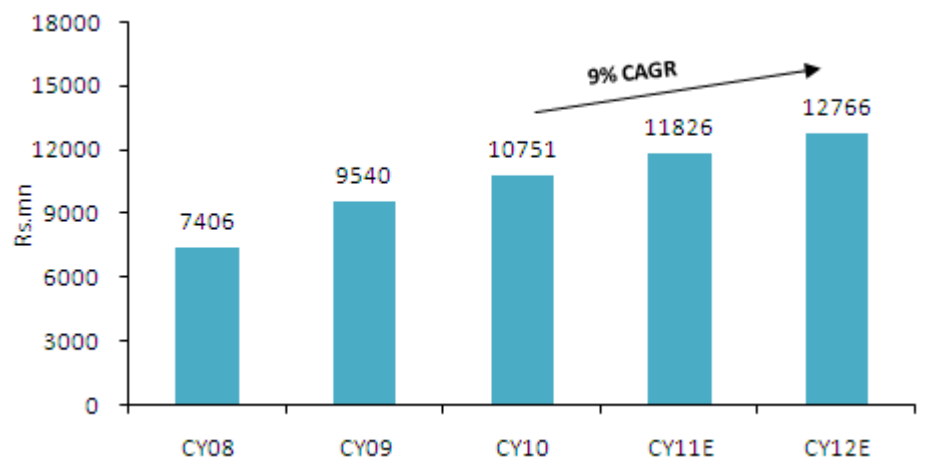
Strides has one of the largest soft gel capacities in the world with five dedicated lines in oral drug facility (Bangalore). It produces a wide range of soft gel products – from nutraceuticals to prescription, specialty OTCs and immune-suppressants.

Pharmaceuticals Division: Filings & Approvals



Source: Company, Dolat Research

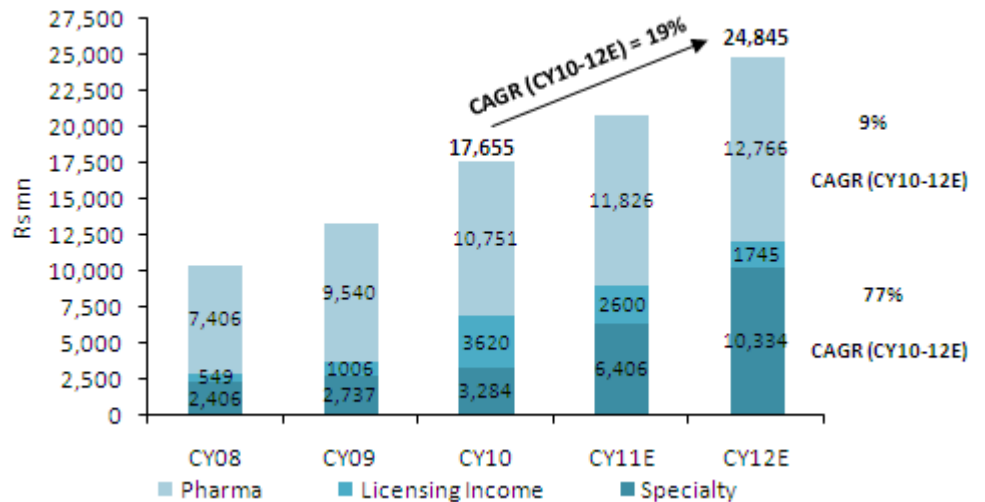
Revenue growth in Pharmaceuticals -



Source: Company, Dolat Research

Financials

Revenue Projections



Source : Company, Dolat Research

We expect revenue growth of 19% CAGR over CY10-12E, primarily driven by increased contribution from steriles (49% of sales – CY12E). Traction in specialty segment CY11 onwards includes a) revenue contribution from commencement of product supplies (post FDA approval) and b) recent buyouts - the Campos (Brazil) facility and Aspen's 51% stake in OTL/ OLL JVs.

Concerns over strained balance sheet to ease

The company has undertaken aggressive expansion in the steriles domain, which has been primarily funded via debt due to limited cash flow generation from the legacy business.

Contractual commitments of USD 259mn met during CY10.

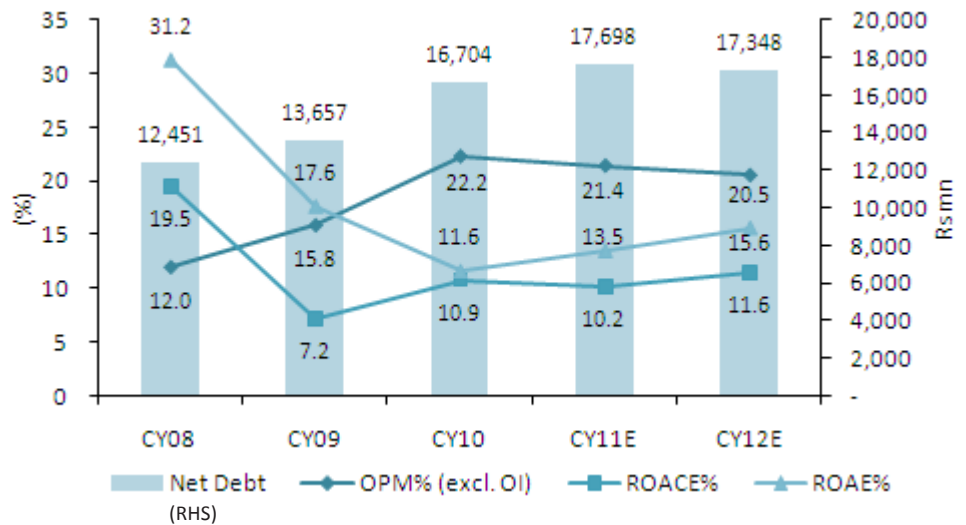
Major Cash Outflows - 2010	USD mn
Acquisition of Brazil business	68
Acquisition of 50% Oncology Stake	87
Acquisition - Inbiopro Solutions (Bangalore)	7
Capex	42
FCCB Redemption (1st tranche)	48
Preference Shares Redemption	7
Total	259

We believe outstanding liabilities related to FCCB redemption – 2nd tranche (includes premium of 145%) aggregating to USD 116mn due in July'12 will be repaid through mix of debt financing and internal accruals.

We expect gearing to gradually recede, considering a) investments (capacity creation in steriles) to fructify into higher earnings growth, and b) recurring licensing income (future product pipeline with potential market value of USD 7bn)

Improving Return Ratios

The capex cycle has nearly come to an end. We anticipate an uptick in return ratios from hereon.



Source: Company, Dolat Research

Valuations

We expect 38% earnings growth over CY10-12E. Increased contribution from the steriles segment revenues (as the pipeline moves into execution phase) and concurrent receipts of licensing income (late stage pipeline) will partly lift concerns over a stretched balance sheet. With the capex cycle nearing an end, return ratios will see an uptick. Possible divestment of the generic pharmaceutical business is a latent trigger. At CMP of 380, the stock trades at 11.9x CY11E and 9.5x CY12E earnings. **We initiate coverage on the stock and recommend Accumulate with a target price of Rs 440 (11x CY12E Earnings).**

Valuation Comparison

Company Name (Rs.mn)	CMP	Mcap	Net Sales				OPM%				Adj.EPS (Rs)			
			CY09	CY10E	CY11E	CY12E	CY09	CY10E	CY11E	CY12E	CY09	CY10E	CY11E	CY12E
Strides Arcolab	380	22,021	13,283	17,611	20,832	24,845	15.8	22.2	21.4	20.5	18.9	21.1	32.0	40.0
Aurobindo*	195	56,769	35,754	42,292	49,051	55,222	23.0	21.9	22.3	22.3	14.9	19.2	22.6	25.1

Company Name (Rs.mn)	PEx				ROANW(%)				EV/EBITDA(x)			
	CY09	CY10E	CY11E	CY12E	CY09	CY10E	CY11E	CY12E	CY09	CY10E	CY11E	CY12E
Strides Arcolab	20.1	18.0	11.9	9.5	17.6	11.6	13.5	15.6	16.9	9.9	8.9	7.7
Aurobindo*	13.1	10.1	8.6	7.8	28.3	25.5	23.6	22.0	9.4	8.6	7.6	6.5

* Year ending Mar, Bloomberg Estimates

Concerns:

- Delay in Regulatory Approvals: Delay in FDA approval of the Bangalore Onco facility can impact our earnings estimates.
- Adverse Currency Issues: Rupee appreciation would have a negative impact on the stock's valuation.
- Continued high leverage on books would be an overhang on the stock. Notably, significant goodwill of Rs14.7bn (vs net worth of Rs12.8bn) on balance sheet stands as a risk as well.

INCOME STATEMENT					CASH FLOW				
Particulars	Dec09	Dec10	Dec11E	Dec12E	Particulars	Dec09	Dec10	Dec11E	Dec12E
Net Sales	13,048	16,958	20,132	24,095	Profit before tax	854	1,858	2,348	2,937
Operating Income	236	652	700	750	Depreciation & w.o.	492	639	800	900
Income from Operations	13,283	17,611	20,832	24,845	Net Interest Exp	759	1,466	1,315	1,250
Other income	0	45	0	0	Direct taxes paid	(219)	(452)	(493)	(617)
Total Income	13,283	17,655	20,832	24,845	Change in Working Capital (Non Cash)	946	(5,241)	382	838
Total Expenditure	11,178	13,693	16,369	19,758	(A) Cash Flow from Operating Activities	2,832	(1,730)	4,352	5,309
Other Expenses	2,363	3,388	3,974	4,727	Capex {Inc./ (Dec.) in FA n WIP}	(2,973)	(1,761)	(3,300)	(2,000)
EBIDTA (Excl. Other Income)	2,105	3,918	4,463	5,087	Free Cash Flow	(141)	(3,491)	1,052	3,309
EBIDTA (Incl. Other Income)	2,105	3,963	4,463	5,087	Inc./ (Dec.) in Investments	50	3,414	0	0
Interest	759	1,466	1,315	1,250	Other (Bal fig.)	130	(5,482)	(631)	13
Gross Profit	1,346	2,496	3,148	3,837	(B) Cash Flow from Investing Activities	(2,792)	(3,829)	(3,931)	(1,987)
Depreciation	492	639	800	900	Issue of Equity/ Preference	(328)	4,126	2	(1,620)
Profit Before Tax & EO Items	854	1,858	2,348	2,937	Inc./ (Dec.) in Debt	1,549	5,530	(1,548)	(100)
Extra Ordinary Exps/(Income)	(575)	(6)	0	0	Interest exp net	(759)	(1,466)	(1,315)	(1,250)
Profit Before Tax	1,429	1,864	2,348	2,937	Dividend Paid (Incl. Tax)	(159)	(147)	(102)	(102)
Tax	219	452	493	617	(C) Cash Flow from Financing	302	8,042	(2,963)	(3,072)
Net Profit	1,210	1,412	1,855	2,320	Net Change in Cash	342	2,482	(2,542)	250
Minority Interest	114	187	0	0	Opening Cash balances	570	912	3,395	852
Net Profit	1,097	1,224	1,855	2,320	Closing Cash balances	912	3,395	852	1,102
BALANCE SHEET					<i>E-estimates</i>				
Particulars	Dec09	Dec10P	Dec11E	Dec12E	IMPORTANT RATIOS				
Sources of Funds					Particulars	Dec09	Dec10	Dec11E	Dec12E
Equity Capital	402	577	580	580	(A) Measures of Performance (%)				
Preference Capital	492	0	0	0	EBIDTA Margin (excl. O.I.)	15.8	22.2	21.4	20.5
Monies pending allotment	142	0	0	0	EBIDTA Margin (incl. O.I.)	15.8	22.5	21.4	20.5
ESOP outstanding account	35	21	23	26	Interest / Sales	5.8	8.6	6.5	5.2
Share Premium	2,138	6,581	6,581	4,961	Gross Profit Margin	10.1	14.2	15.1	15.4
Other Reserves	5,102	5,648	7,402	9,620	Tax/PBT	15.3	24.2	21.0	21.0
Net Worth	8,311	12,828	14,586	15,187	Net Profit Margin	8.3	7.0	8.9	9.3
Revaluation reserve					(B) As Percentage of Net Sales				
Secured Loans	7,787	15,497	14,000	17,000	Raw Material	52.8	45.7	47.0	48.0
Unsecured Loans	6,782	4,601	4,550	1,450	Employee Expenses	13.6	12.8	12.5	12.5
Loan Funds	14,569	20,098	18,550	18,450	Other Expenses	17.8	19.2	19.1	19.0
Deferred Tax Liability	23	31	41	52	(C) Measures of Financial Status				
Minority Interest	2,585	2,725	2,725	2,725	Debt / Equity (x)	1.8	1.6	1.3	1.2
Total Capital Employed	25,487	35,682	35,902	36,413	Interest Coverage (x)	2.8	2.7	3.4	4.1
Applications of Funds					Average Cost Of Debt (%)	5.5	8.5	6.8	6.8
Gross Block	10,713	13,320	16,620	18,620	Debtors Period (days)	116.4	82.6	90.0	90.0
Less: Accumulated Dep.	2,241	2,880	3,680	4,580	Closing stock (days)	65.3	67.2	75.0	80.0
Net Block	8,472	10,441	12,941	14,041	Inventory Turnover Ratio (x)	5.6	5.4	4.9	4.6
Capital Work in Progress	847	0	0	0	Fixed Assets Turnover (x)	1.2	1.3	1.2	1.3
Goodwill	10,094	14,756	15,500	15,500	Working Capital Turnover (x)	4.9	1.6	2.7	3.5
Investments	3,414	0	0	0	Non Cash Working Capital (Rs Mn)	1,749.4	6,990.6	6,608.7	5,770.2
Current Assets, Loans & Advances					(D) Measures of Investment				
Inventories	2,334	3,120	4,137	5,281	EPS (Rs.)	18.9	21.1	32.0	40.0
Sundry Debtors	4,161	3,838	4,964	5,941	CEPS (Rs.)	39.5	32.3	45.8	55.6
Cash and Bank Balance	912	3,395	852	1,102	DPS (Rs.)	1.5	1.5	1.5	1.5
Loans and Advances	1,751	8,859	6,800	5,900	Dividend Payout (%)	7.9	7.1	4.7	3.7
Other Current Assets (Unbilled Revenues)	303		412	441	Book Value (Rs.)	206.7	222.1	251.7	262.1
528					RoANW (%)	17.6	11.6	13.5	15.6
<i>sub total</i>	9,461	19,623	17,194	18,752	RoACE (%)	7.2	10.9	10.2	11.6
Less : Current Liabilities & Provisions					RoAIC (%) (Excl Cash & Invest.)	7.5	11.7	10.9	11.9
Current Liabilities	5,057	7,249	7,722	9,242	(E) Valuation Ratios				
Provisions	1,743	1,990	2,011	2,638	CMP (Rs.)	380	380	380	380
<i>sub total</i>	6,799	9,238	9,733	11,880	P/E (x)	20.1	18.0	11.9	9.5
Net Current Assets	2,661	10,385	7,461	6,872	Market Cap. (Rs. Mn.)	21,943	21,943	22,021	22,021
Misc Expenses	0	99	0	0	MCap/ Sales (x)	1.7	1.3	1.1	0.9
Total Assets	25,487	35,682	35,902	36,413	EV (Rs. Mn.)	35,600	38,647	39,719	39,369
<i>E-estimates, P - Balance sheet figures are projected</i>					EV/Sales (x)	2.7	2.3	2.0	1.6
					EV/EBDITA (x)	16.9	9.9	8.9	7.7
					P/BV (x)	1.8	1.7	1.5	1.5
					Dividend Yield (%)	0.4	0.4	0.4	0.4
					<i>E-estimates</i>				

Annexure:

Emergence of IP- led Niche Specialty Player.....

1999-2004	2005	2006	2009-2010
Focus on Orals, Generics & Branded formulations	Forays into Specialties - Sterile Injetables.	Commissions first Steriles plant	Evolves as a Global player having two verticals viz. Specialties & Pharmaceuticals. Well positioned as a key partner of choice...

1990	1999	2001	2002	2003	2004
Incorprtn	Acq'd 90% stake in Medgene Pharma	Partnership with Sagent Pharma (USA)	Strides Inc. (US); Arcolab SA (Switzerland) both become 100% subsidiaries	Signed MoU with Ribbon SRL (Italy) for 50:50 JV	Set up JV with Akorn (USA)
	Acq'd stake in Plama Labs (Mangalore) & Soft-Gel facility (USA)	Acq'd toll mfg firm Caryl-Labs	BDPL amalgamated; Infabra (Brazil) & Solara (Mexico) JVs set-up	Transferred CRAMs to 100% subsidiary Strides Research & Specialty Chemicals	Latam ops merged into Strides Latina, agreement with partners to acq. controllg stake
				Incd Quantum LS (100% sub) for Ceph Proj implementation (Bangalore)	Commenced production - SD facility in Vittoria (Brazil)

1990	1999	2001	2002	2003	2004
	Acq'd. 90% stake in Medgene Pharma	Partnership with Sagent Pharma (USA)	Strides CIS (Cyprus) becomes subsidiary to operate in Ukrain	Quantum LS (100% subsidiary) renamed Strides Specialties	To acquire Campos (Brazil) facility from Aspen for USD80mn.
	Acq'd. Strides Arcolab UK Ltd (UK)	Accu-Break JV called-off	Strides CIS (Cyprus) becomes subsidiary to operate in Ukrain	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
	Acq'd 70% in Beltapharm (Italy) & 100% in Fabryka na Daniszewskiej (Poland)	Set up Starsmore & Linkace (100% subsidiaries) Cyprus	Strides CIS (Cyprus) becomes subsidiary to operate in Ukrain	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
	Acq'd 100% in Drug Houses of Australia (Asia)	Fermentation facility of Diaspa, Italy acq'd	Quantum Remedies becomes 100% subsidiary	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
	Setup JV with Accu-Break (US)	Acquired 99.59% in Grandix Pharma	Completed Rearrangement of biz	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
Expanded KRSG Anti-TB facility (Bangalore)	Setup JV with Invent Farma (Spain)	Acq'd 74% in Strides Vital Nigeria	QRPL acquired assets of Palghar unit	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
Estd. new tech-centre christened STAR	Strides & Invent Farma JV buy 100% Farma Plus in Oslo (Norway)	Divested entire stake in Sequent Scientific	Divested entire stake in Strides Italia	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
Acq'd stake in Strides Latina (Uruguay) from 40%-52.5% (Feb'05) & to 67% (May'05)	Setup JV with Abdi Ibrahim Pharma (Turkey)	Co-Pharma (UK), Formule Naturelle (SA) become subsidiaries	Sold 50% in Lakerose Ltd to Aspen	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
	Setup JV with Onco Therapies, (India) becomes subsidiary	Onco Therapies, (India) becomes subsidiary	Acq'd 55.46% in Ascent Pharmahealth	STAR Pvt Ltd. became 100% subsidiary	To purchase 50% in (OLL & OTL) from Aspen for USD 117mn.
				Corporate reorganization of biz completed	Received the cGMP from MHRA (UK) for Campos (Brazil) facility
				Ascent PHA acquires Green Cross Pharma	

Source: Company, Dolat Research

State of the Art Infrastructure

Business/Plant /Acquisition	Year of Establishment /Acquisition	Approvals and Certifications	Annual Capacity
Pharmaceutical Business			
Oral Dosage Forms Facility - I, KRS Gardens, Bengaluru	Set up in 1998	MHRA, UK United States FDA TGA, Australia MCC, South Africa ANVISA, Brazil WHO, Geneva ISO 14001	Tablets, 2,200 mn Soft Gel Capsules, 2,300 mn Sachets, 72 mn Hard Gel Capsules, 450 mn
Oral Dosage Form Facility - II, Hosur	Acquired in 1999	-	Tablets, 1,200 mn
Oral Dosage Form Facility - III, Mumbai	Acquired in 2008	-	Tablets, 540 mn Capsules, 204 mn Syrups, 1.9 mn bottles
Beltapharm, Milan, Italy	Acquired in 2006	E.U.	Steroid Creams, 17.7 mn tubes Other Creams, 6.1 mn tubes Liquids, 4.6 mn bottles
Drug Houses of Australia (Asia) Pte Ltd, Singapore	Acquired in 2006	HSA, Singapore	Tablets, 360 mn Liquid Preparations, 1,320 kls Creams, 43.2 metric tons
Strides Vital Nigeria Limited, Nigeria	Acquired in 2007	NAFDAC	Tablets, 261 mn Ointments, 178 mn tubes Creams, 43.2 metric tons
Specialised Sterile Product Business			
Cephalosporins Facility, Bengaluru	Set up in 2006	United States FDA TGA, Australia MHRA, UK ANVISA, Brazil	Dry Powder Vials, 120,000 Units / day
Beta-Lactams Facility, Bengaluru	Set up in 1999	United States FDA MHRA TGA MCC ANVISA	Dry Powder Vials, 100,000 Units / day
Sterile Products Business - I, Bengaluru	Set up in 1996	United States FDA TGA, Australia MHRA, UK Health Canada ANVISA, Brazil WHO, Geneva	Sterile Liquid Vials, Sterile Dry Powder Vials, Lyophilisation, Pre-filled Syringes, Ampoules 170,000 Units / day
Sterile Products Business - II, Bengaluru	Set up in 2009	TGA, Australia MHRA, UK ANVISA, Brazil NDA, Uganda	Sterile Liquid Vials, Sterile Dry Power Vials, Lyophilisation, Pre-filled Syringes, Ampoules, Suspension Dosages 400,000 Units / day
Onco Therapies Limited, Bengaluru	Set up in 2008	TGA, Australia MHRA, UK ANVISA, Brazil	Sterile Liquid Vials, Sterile Dry Powder Vials, Lyophilisation, Pre-filled Syringes 25,000 Units / day
Strides Arcolab Polska, Warsaw, Poland	Acquired in 2006	EU	Ampoules, Lyophilisation, Liquid Vials, Pre-filled Syringes 100,000 Ampoules / day 200,000 Vials / day
Recently Acquisitions:			
Business/Plant /Acquisition	Year of Establishment /Acquisition	Approvals	Annual Capacity
Penems Facility, Campos, Brazil	Ownership of the facility in the process of transition to Strides Arcolab (pursuant to an agreement dated 25 Feb'10)	ANVISA, Brazil MHRA, UK	Dry Powder Vials 50,000 Units / day
Penicillins Facility, Campos, Brazil	Ownership of the facility in the process of transition to Strides Arcolab (pursuant to an agreement dated 25 Feb'10)	ANVISA, Brazil	

Source: Company, Dolat Research



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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