Initiating Coverage I Healthcare I India Research

Strides Arcolab Ltd

CMP: INR411 Reco: BUY

Target Price : INR526

Upside : 28%

Nifty	5,788
Sensex	17,362

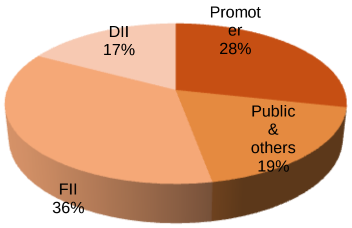
Stock Data

Sector	Healthcare
Reuters Code	STAR.NS
Bloomberg Code	STR IN
No. of shares (mn)	58.4
Market Cap (INRbn)	24
Market Cap (USDmn)	478
3m Avg daily t/o(USD mn)	88

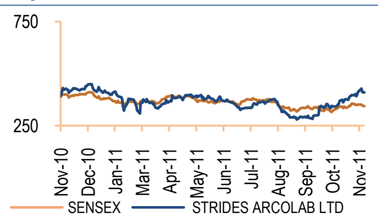
Stock Performance (%)

52-week high/low	INR456/276		
	1M	**3M**	**12M**
Absolute (%)	18.8	29.9	(6)
Relative (%)	16	26	10

Shareholding Pattern



Nifty and Stock Movement



14 November, 2011

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Giant strides in international markets

- **Strides has completely changed its business model from lower margin oral dosage form (pharma) business to much higher margin sterile (specialty) business**
- **Strides has incumbent global partners having the ability to capture a significant market share in global markets**
- **Expecting balance sheet to improve as majority of the capex is behind and margins will continue to improve due to improvement in product mix**

Doubled capacity in sterile space

The company has changed its business model completely from being an oral dosage form (ODF) player to steriles. Strides has invested close to USD 312 mn in the sterile space, more than doubling the capacity from 200 mn doses to 426 mn doses. Close to 86% of the sterile drugs in the US have 5 or less players in the market, which makes for limited competition. Close to 40% of the drugs under the shortage list in the USA are sterile and after the USFDA ban on two of Hospira's sterile facilities, the contribution has gone up to 77%

Global partnerships to help gain better market share

The company has entered into several partnerships with some big pharma companies (Teva, Sandoz, Pfizer, GSK, Actavis etc). The most significant of these is the partnership with Pfizer. The company has entered into a partnership to supply 45 sterile drugs to Pfizer for US, Europe, Japan, New Zealand and South Korea. Most of these belong to the niche oncology space. The company has also sold 22 ANDAs, which were part of its JV with Akorn, further widening Pfizer's product basket. Pfizer has already captured a 17%-20% market share in most products launched by it in a very short span of time

Pharma business to grow steadily

We expect its pharma business to grow steadily going forward even though the management has indicated that the pharma business is not their key focus area and that they intend to sell the business and concentrate only on sterile. The Company's Australasian subsidiary is consistently growing above 20% and we expect the growth rate to be maintained. The company's ATM business (AIDS, tuberculosis and malaria) has also gained momentum through fresh orders in the African region. The US geography should provide a significant push as the company has launched some niche products like immunosuppressant's and soft gels

Base business margins to improve substantially

Strides has received 41 ANDA approvals in the sterile space of which it has been able to commercialise only 17 due to capacity constraints. Its newer sterile facilities have just recently received approvals and company should be able to launch the remaining approved, non-launched ANDAs before the end of CY11. Its pharma facilities are also operating at only 50% to 60% capacity and the management has indicated they would try to utilize this capacity first and then go for further expansion. Overall we believe that the company's capacity utilization is set to go up, which will result in consistent improvement in margins

Recommend BUY rating and a target price of INR526

At a CMP of INR411, the stock trades at 7.8CY12E core business EPS. We initiate coverage with a BUY rating on the stock and a target price of INR526 based on 10xCY12E EPS

Key financial summary

	Revenue (INR mn)	EBITDA (INR mn)	Adj PAT (INR mn)	EPS (INR)	PER (x)	EV/ EBITDA (x)	P/BV (x)	EBITDA (%)	APAT (%)	ROE (%)	ROCE (%)
CY09	12,048	1,870	522	9.0	45.5	20.6	2.8	15.5	4.3	12.9	8.6
CY10	13,338	3,266	1,218	21.1	19.5	16.3	1.9	19.3	9.1	9.5	9.3
CY11E	20,933	5,048	2,547	44.1	9.3	10.3	1.6	20.3	12.2	16.7	13.8
CY12E	26,733	5,887	3,399	58.9	7.0	9.1	1.3	21.3	12.7	18.4	15.6
CAGR (CY10-12E)	41.6%	34.3%	67.0%	67.0%	-	-	-	-	-	-	-

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Key Investment Arguments

Change in business focus towards sterile

Close to 39% of Strides revenue in CY10 came from sterile space which should go up since Strides has completely changed its business model from being an oral dosage form player to a player in the market for steriles. The company's oral dosage form business is known as pharma business whereas it its sterile business is known as specialties

The company has invested close to USD 312 mn on steriles over the last four years, both organically as well as inorganically, to double its capacity from 200 mn doses to 426 mn doses

Exhibit 1: Details about Strides sterile manufacturing facilities

Facility	Old Facilities			New Facilities			
Therapy	Steriles	Penicillin	Cephalo-sporins	Steriles	Oncology	Penems/ Penicillins	controlled substances + steriles
Location	Bangalore	Bangalore	Bangalore	Bangalore	Bangalore	Brazil	Poland
USFDA approval Status (Y/N)	Y	Y	Y	Y	Y	N. Inspection done. Approval expected by end of CY11	UKMHRA approved
Capacity (mn units)	64	33	44	140	66	25	56

The company's newer facilities received approval just 4-5 months ago and its Brazilian facility is also expected to receive approval by the end of the year as it has already been inspected

Strides has also raised its capacity in the sterile space in segments like Lyophilization and liquid vials, which require significant engineering skills

Exhibit 2: Packaging format wise capacity of Strides

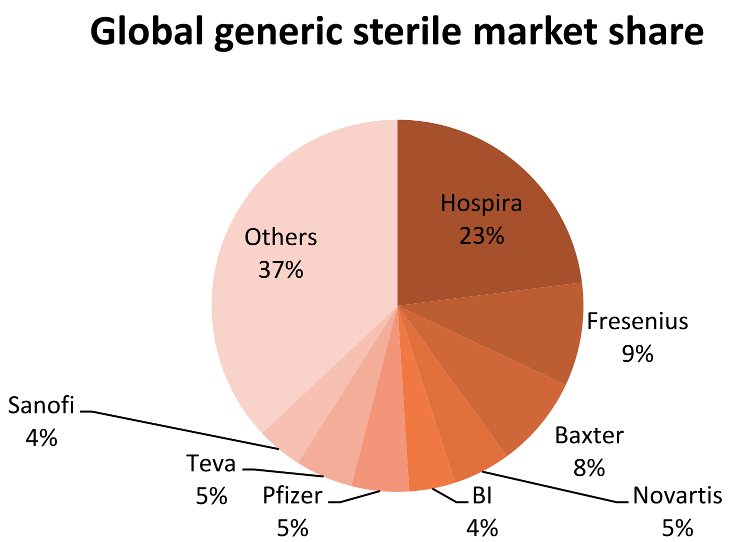
Segment	Lyophilisation	Liquid vials	Others
Initial capacity(mn units)	10	11	146
USFDA approved capacity(mn units)	57	97	176
Total capacity (mn units)	63	103	262

Source: Company, PUG Research

Sterile segment; much better margins than plain vanilla generics

The sterile segment poses a significant entry barrier in the form of high capital investment, a complex development process and manufacturing complexity. This is borne out by the fact that close to 86% of the sterile generic product market in the USA have 5 or less than 5 players in the market

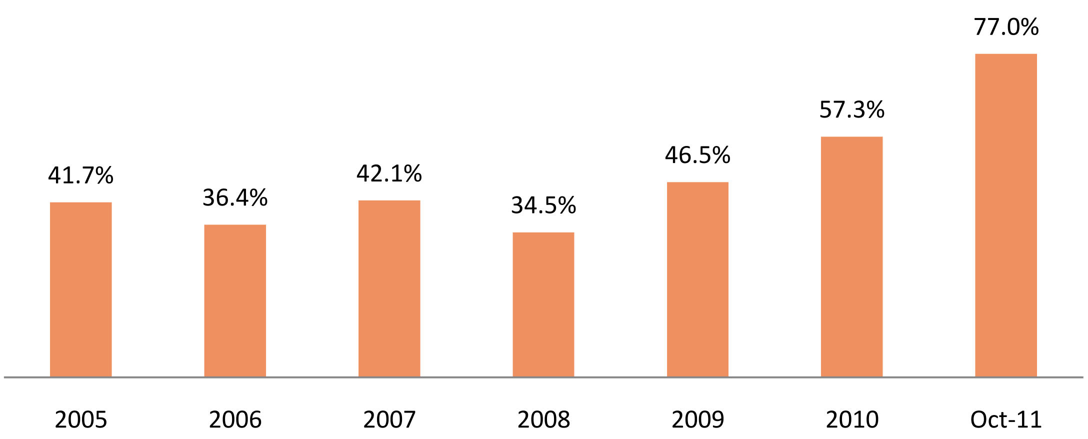
Exhibit 3: Hospira was a leader in Global generic sterile market before the USFDA ban



Source: EPSICOM, PUG Research

Close to 57% of the overall drugs in shortage list in USA in 2010 was in steriles. After the USFDA warning letter on the 2 manufacturing facilities of Hospira (Rocky Mount and Clayton), the overall contribution has gone up to almost 77%. Hospira is the leader in the global sterile space and the two facilities used to contribute close to 35% to its overall sales. Strides has done filings on most of this products

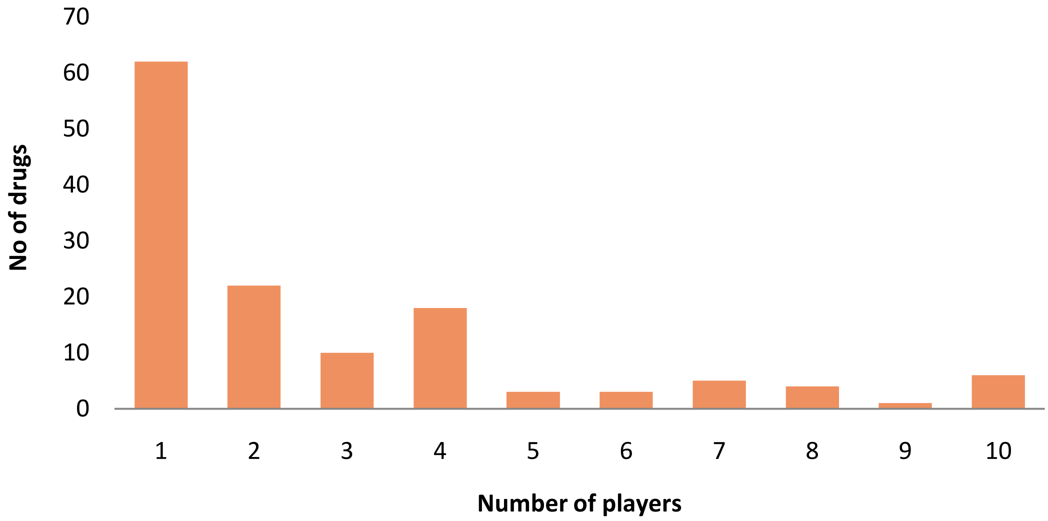
Exhibit 4: % contribution of Steriles to overall drug shortage list in USA



Source: USFDA, PUG Research

Consequently, supply will always lag behind demand in the sterile space and margins will be higher than in normal, plain, vanilla generics. Strides has done filings for most of these products. It maintains 25%-30% EBIDTA margins in the sterile space in comparison to its pharma business where it maintains 12%-14% EBIDTA margins

Exhibit 5: 86% of sterile products have 5 or less than 5 players in the market



Source: Company, PUG Research

Partnerships with Big Pharma companies to help gain higher market share:

The company also has international partnerships in the sterile space with some of the biggest pharma companies of the world, the most significant one being with Pfizer

Exhibit 6: Details of the Pfizer deal

Country	Segment	No of products	Market Size (USD mn)
USA	Steriles oncology	40	8788
USA	Steriles non oncology	5	83
USA	Orals	2	1632
USA-Akorn Strides	Steriles	22	775
Canada	Steriles (oncology and non-oncology)	33	378
Europe	Steriles (oncology and non-oncology)	37	6057
Korea	Steriles (oncology and non-oncology)	38	231
Japan	Sterile Oncology +1 non oncology	16	2540
ANZ	Steriles (oncology and non-oncology)	21	153
Total			**20637**

Source: Company, PUG Research

Initially, the company had a tie-up with Pfizer for 40 sterile products, primarily in the oncology space, for the USA market. The partnership got further strengthened when Pfizer increased the coverage of the partnership to 45 products, including the markets of Canada, EU, Australia, New Zealand, Japan and Korea

Strides later sold off 22 ANDAs, which were a part of the Akorn-Strides JV, to Pfizer, Cumulatively, the overall market size of the Pfizer deal is USD 20.6 bn

We believe that Strides is a far more dominant partner in the partnership for the following reasons:

- All the IPs is with Strides and since the partnership is not an exclusive one, it is free to move out of the partnership
- Pfizer has agreed to pay licensing income + cost plus margins
- Pfizer has promised to achieve a certain level of market share; otherwise, Strides can change its partner
- Pfizer has mentioned in its press release that Strides is a power house in the sterile space and they went through 100 pharma companies before signing the deal with Strides

Pfizer is the biggest pharma company in the world and enjoys significant brand value, particularly in the US market. The sterile market in the USA is dominated by 4 GPOs which have a combined market share of 75%. Pfizer has very good relationships with these GPOs and we expect Pfizer to capture a higher market share, thereby generating higher revenues for Strides

Close to USD 8.3 bn worth of oncology products are expected to go off patent by 2015 and Strides has done filings on almost 60% of these products. This should help the company significantly ramp up its partnership Pfizer has been able to capture 15%-20% market share in most products procured from Strides' manufacturing facilities. In the two significant products being vancomycin and gemcitabine, Pfizer has been able to capture a 15%+ market share within a very short span of time. Pfizer has also been able to double the market share of the ANDAs that were initially sold by Akorn and have now been transferred to Pfizer after the Akorn-Strides JV sold its ANDAs to Pfizer. We believe that the exclusion of Hospira from most sterile products in USA should help Pfizer to continuously increase its market share, at least for the next 2 to 3 years, as the manufacturing issues of Hospira are not expected to be sorted until CY13

We believe that concerns regarding the change in the CEO at Pfizer and comments that the new CEO might sell the generic division are not justified as the EPBU (the generic division of Pfizer) is growing at a tremendous pace, clocking a billion dollar top line within one year of establishment. Pfizer will also have to continue to concentrate on the generic side of business since the loss of Lipitor exclusivity will hit them hard from CY12 onwards. Besides, the R&D pipeline of Pfizer is dry with no new blockbuster product expected to get launched by it over the next couple of years. Hence, Indian pharma companies like Strides, which already have a good relationship with Pfizer, are expected to benefit immensely from the patent expiries in the advanced markets of US and Europe

Exhibit 7: Strides has global partnerships with global players other than Pfizer in the sterile space

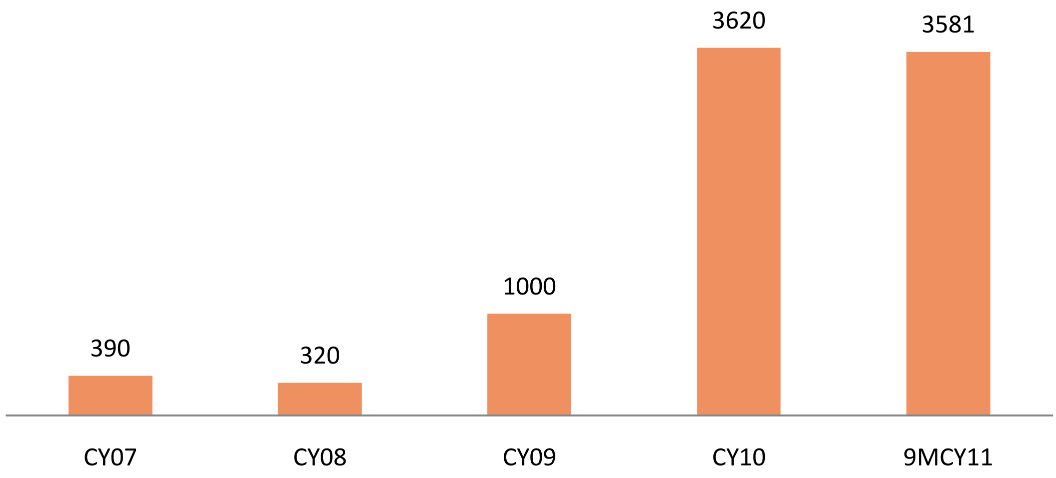
Partner	Nature of partnership and comments
Sagent	28 sterile products which have a cumulative market size of USD 850 mn. Currently, looks the second most important partnership after Pfizer
GSK	10 oncology products for 95 emerging markets. Partnership was expected to increase to 45 products but we believe that it will not happen as GSK has signed a bigger partnership with Dr Reddy's
ICN	Partnership to market products that would be manufactured from its Poland facility
Martindale	20 pre-filled syringe products to be marketed in Europe
Novartis	One oncology products and one non-oncology product
Actavis	Two products for the European market. Strides has out licensed the products to Actavis
Teva	Two products for the USA and European market

Source: Company, PUG Research

Increase in global partnerships have augmented licensing income

Strides has seen a surge in licensing income ever since its partnership with Pfizer. Since Strides maintains close to 50 per cent EBIDTA on licensing income, it is extremely profitable. The company has not only generated licensing income from its partners in steriles but has also received a significant amount from its pharma business in Q3CY11. We believe licensing income will go down going forward as the actual supplies to its global partners will improve its core business margins

Exhibit 8: Licensing income of Strides (INR mn)

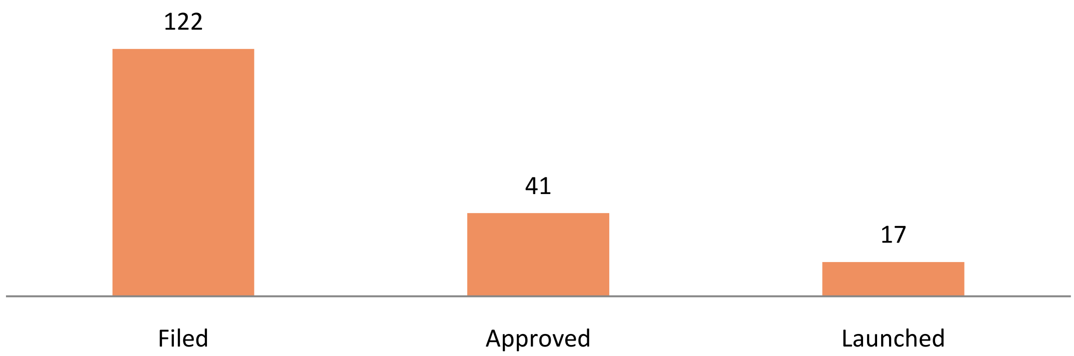


Source: Company, PUG Research

Surge in ANDA approvals expected due to extensive ANDA pipeline in sterile space:

Strides has filed for 122 ANDAs and has received approvals for 41 ANDAs although it has been able to launch only 17 ANDAs. This is because all the products were filed from its older sterile facilities that were facing capacity constraints

Exhibit 9: Strides has a the largest ANDA sterile pipeline amongst Indian companies



Source: Company, PUG Research

The company's newer Bangalore sterile facilities have received approvals in July-August, 2011. Normally, it takes around 1-4 months to do a site transfer between 2 USFDA approved facilities; hence, we expect the remaining 24 ANDAs to be launched before the end of CY11 from the newer facilities. These 24 ANDAs have a cumulative market size of USD 700 mn. We believe that the surge in ANDA approvals will act as a major boost to the stock price

Exhibit 10: Market size of filings

Particulars	Number	Market Size (USD mn)
ANDAs Filed	122	8000
ANDAs Approved	41	1500
ANDAs Launched	17	800

Source: Company, USFDA, PUG Research

The company has filed for 31 oncology ANDAs since 2008-2010. We expect most of the products to receive approvals over the next 12 months since it usually takes around 27-30 months to receive ANDA approval after filing for the product

Apart from USA, Strides has also submitted a large number of filings for the sterile segment in other regions and countries, details of which are given below:

Exhibit 11: Global sterile filings of Strides

	Sterile Filings		Sterile Approvals	
	Non Oncology	Oncology	Non Oncology	Oncology
Europe	27	21	8	2
Australia	18	8	14	0
South Africa	66	5	25	0
Canada	20	0	19	0
New Zealand	1	2	1	0
Africa	145	4	119	0
Latin America	181	2	151	0
ROW	211	85	119	11
Total	**669**	**127**	**446**	**13**

Source: Company, USFDA, PUG Research

Company is consistently targeting bigger market size products in sterile segment

Strides management initially targeted smaller market size molecules is now shifting focus towards bigger market size products which are also complex in terms of development as well as manufacturing. We believe that as the company continues to gain expertise in the sterile segment, one would see niche launches from Strides in the coming years

Exhibit 12: Company has increased number of ANDA filings in the second phase

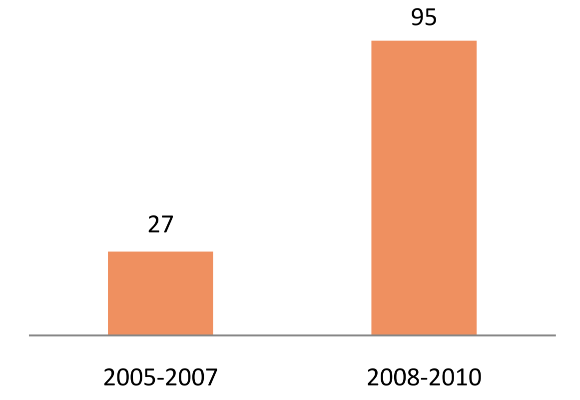
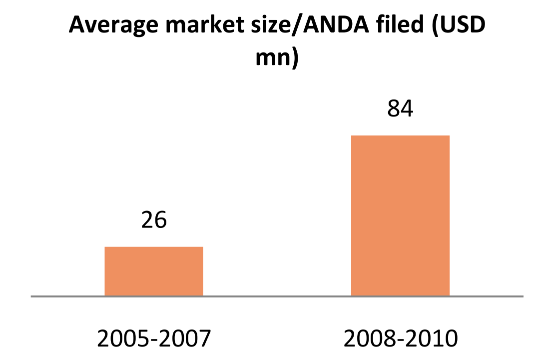


Exhibit 13: Strides is also now targeting bigger market size ANDAs



Source: Company, PUG Research

Penems approvals could be another important trigger in the stock

The company has a tie-up with a large generic company in the USA which will be marketing two Penems, both generic, manufactured by Strides in its newly acquired Brazilian facility. These Penems have cumulative market size of USD 400 mln Apart from the two filings, company has one more penem in the development stage and the filing is expected very soon. Because of the complexity in developing Penems, competition is limited in the case of the two products that have been filed with less than 3 players even after genericization. The management expects the commercial launch of Penems in the next couple of months as the facility has already been inspected by the USFDA and approval can be expected before the end of CY11. This launch in advanced markets, apart from the oncology launches, would be another important milestone

Exhibit 14: Details regarding penems in USA

Penem	Innovator	Patent Expiry	Generic Approvals
Imipenem	Merck	Expired	0
Doripenem	Janssen Pharma	June-2015	0
Ertapenem	Merck	Aug-2013	0
Meropenem	AstraZeneca	Expired	3

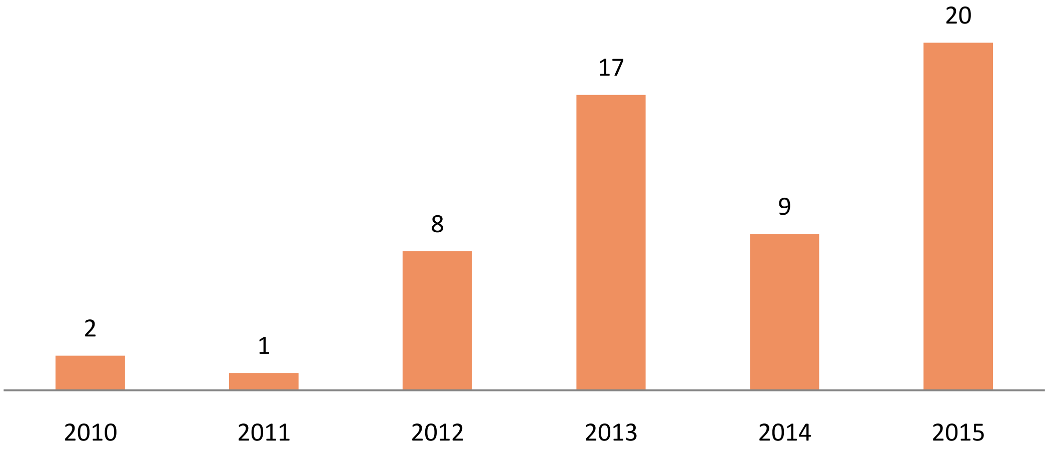
Inbioprio acquisition signals foray in Biosimilar space

Strides has acquired a 70% stake in a biotech company, Inbioprio, which gives it an entry in the biosimilar space. Strides will have to invest close to INR650 mn in Inbioprioove over the next 3 years. Inbioprio has 8 products in the development phase, which have a cumulative market size of USD 28 bn. The management expects the commercial launch of the products from 2013 onwards. Five out of the 8 products are monoclonal antibodies, which are used in the treatment of oncology, further strengthening Strides' presence in the oncology space. The company is currently constructing a biosimilar plant in Malaysia, which would involve zero investment initially; later, when the plant becomes operational, Strides will have to pay a rental to the Malaysian government

Overall, biosimilars are expected to be the next growth wave for pharma companies from 2014 onwards as patent expiries head for slowdown from 2014 onwards. Close to USD 59 bn worth of biologics are expected to lose patents by 2015, increasing the market size of biosimilars to USD 13 bn by 2015

Currently, the biggest hurdle is getting regulatory approvals in advanced markets, as the regulatory pathway keeps on changing every 2-3 months in Europe whereas no biosimilar has so far received approval in USA. However, the regulatory bodies are working on clearing regulatory hurdles as around 6 biosimilars have already received approval in Europe. We believe that by 2014, the regulatory pathway will become even clearer and we would see biosimilar launches by Strides from 2014 onwards

Exhibit 15: Biologics going off patent in USD bn



Source: Lonza company presentation, PUG Research

Poland facility to manufacture controlled substances

Strides has acquired a controlled substances facility in Poland from ICN. Stringent manufacturing controls and restrictions on the movement of controlled substances are a huge entry barrier. The process of capturing market share in the segment is slow and gradual but once captured, is usually sticky. We believe that Strides' focus on controlled substances will provide a significant boost to its business as controlled substances receive approvals in Europe and a proper basket of products is available in the market. Going forward, we expect that Strides would also foray into the US market for controlled substances as they gain experience in Europe

Pharma business to grow at a steady pace

The company's pharma business consists mainly of its oral dosage form business. It can be divided into branded generics and generics. The company sells its branded generics in Australasia, India and Africa. As far as its generic business is concerned, it sells considerable amounts in the regulated markets of USA and Europe. The company also is a key player in the AIDS, Tuberculosis and Malaria (ATM) segment and participates in global tenders floated by humanitarian agencies (UNICEF, PAHO, etc) and governments

Although the pharma business is not a key focus area for the company, the business has recovered significantly in Q3CY11 and the management is confident of 12%-15% growth being delivered by the pharma business. The company will not be spending much on capex as the current pharma facilities are operating at 50%-60% capacity utilization and an increase in capacity utilization will continue to improve margins of the business

Strides is also keen to sell the pharma business in future though this is likely to happen only after the management ramps up business profitability which will enable them to get higher valuation for this business

Australasia to lead Pharma growth

Strides has an Australasian subsidiary, Ascent PharmaHealth (94% stake), which caters to Australasia, Singapore and five other emerging South East Asian countries. Ascent Pharmahealth Limited has developed into a leading Australasian supplier of generic pharmaceuticals and over-the-counter health products. The company primarily sells branded generics and OTC products and has some powerful brands like Avene, Hairy Lemon, Estelle and Dermorganics. Ascent is amongst the top five generic companies in Australia and the largest generic company in Singapore

Ascent has entered into a distribution and services agreement with Pfizer Australia to promote and sell the full range of Pfizer's established off-patent medicines to Australian pharmacies. Under the agreement, Ascent will promote and distribute Pfizer's off-patent branded medicines to pharmacies via Ascent's direct distribution as well as promote and sell a number of Pfizer's branded generics, including established the generic brand Xydep. Pfizer has around 100 drugs in Australia. We expect this deal to significantly boost the overall revenues of Ascent

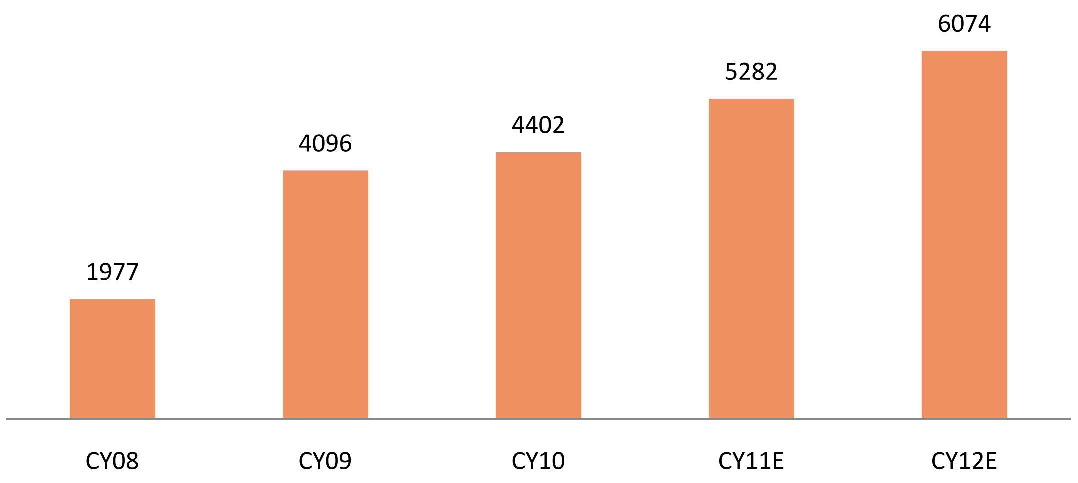
The company is also in talks with other companies manufacturing generics around the world to distribute their products in Australia since pharmacies operate through a corporate model in which one corporate own more than 50 chemist shops in Australia and Ascent has good relations with the topmost corporate in Australia

Ascent has two subsidiaries in Singapore, i.e., Drug Houses and Green Cross. Drug Houses caters to the government tender-based markets and Green Cross to the prescription market of Singapore, which makes Ascent a complete generic products company in Singapore which caters to both the segments of generic business in the region

Ascent is continuously growing above 15% with consistent improvement in margins. The company's has posted margin improvement during PBS reforms in Australia, which is a commendable feat. PBS reforms were introduced in Australia to bring down drug prices in the region

Ascent's margins will continue to improve as Strides will now shift manufacturing of some of the key products of Ascent to India. These products were manufactured by third parties in Australia

Exhibit 16: Australasia sales (INR mn)



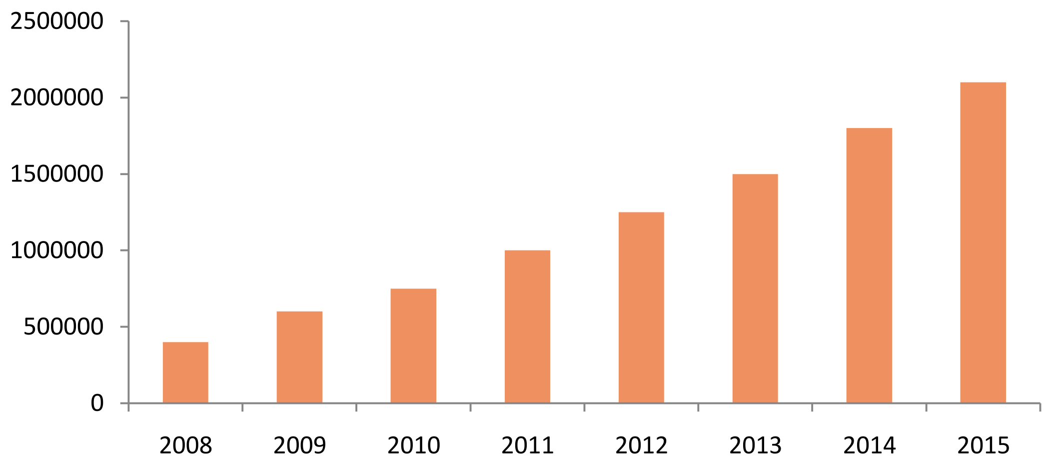
Source: Company, PUG Research

ATM segment to be a steady performer

The company's ATM segment has shown revival in the last two quarters and we believe that the business will continue to grow at a steady pace. Strides has contractual agreements with global aid and charitable organizations like UNICEF, PEPFAR and Clinton Foundation. It also has a JV with Sandoz for ATM products, which should ensure growth in the coming years. Even though it is a very low margin business, large contracts that require mass manufacturing make it a profitable one

PERFAR funding alone is expected to treble to almost USD45 bn in Africa in the ATM space because of the significant incidence of these diseases in the region

Exhibit 17: Number of people receiving Anti Retrovirals by the South African government is expected to go up significantly



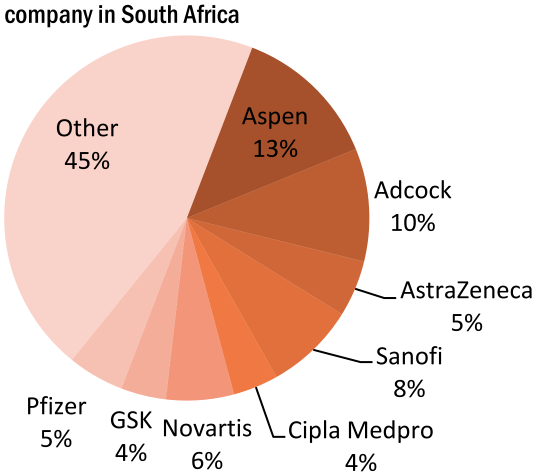
Source: Aspen, SA Gov, PUG Research

The chart above shows that the HIV segment is on a strong footing in the African region. Twenty-nine per cent of pregnant South African women are HIV positive and the total number infected is estimated at five to six million

Branded generics business in Africa to be aided by partnerships

Strides is one of the few Indian pharma companies that has a branded generics presence in Africa. It sells its branded generic products both through its own sales force and in partnerships with local companies. The company has a partnership with the largest pharma company in South Africa, Aspen. We believe that the partnership will receive a further boost once Aspen starts to sell Strides oncology products in the African region

Exhibit 18: Aspen is the largest Pharma company in South Africa

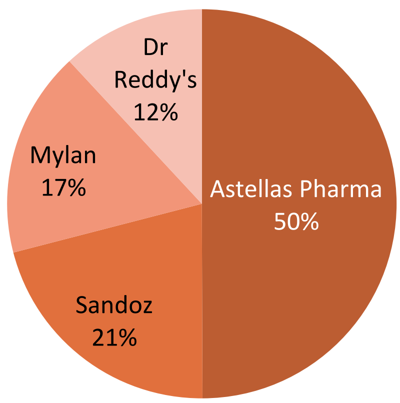


Source: Aspen, PUG Research

To focus on niche generic products in Pharma segment in USA

The company is going to file and launch generic pharma products that face limited competition in the USA. Strides has already launched products in segments like soft gels and immunosuppressant's. Its soft gel launch of Ergocalciferol has already proved beneficial and has captured close to a 20% market share in the product. Strides follows a partnership model and has launched Ergocalciferol in partnership with Paddock. Teva was the only generic company in the segment in the USD 65 mn market with close to 95% market share before Strides' version of generic Ergocalciferol was launched

Exhibit 19: Tacrolimus market share as of sept-2011



Source: Bloomberg, PUG Research

The company's immunosuppressant launches of Mycophenolate Mofetil (MMF) and Tacrolimus are also likely to prove beneficial to the company. We believe that the upside from MMF would be limited but Tacrolimus still looks a decent opportunity as the innovator, Astellas Pharma, still has close to a 50% market share, which means good possibility for further generic penetration

Domestic business set to ramp up

The company's subsidiary, Grandix, focuses on niche segments of diabetes, cardiovascular, neurology and female healthcare. Grandix currently operates only in the southern part of India and wants to move into other regions. Grandix maintains margins that are higher than the overall pharma business margins of the company as it sells branded products in India. The company is also going to target hospitals in India

Strides has also started a new division known as 'Ray of Life', which will be selling oncology products in the Indian market. We believe that although its Indian business is at a very nascent stage, it should become an important growth driver in the future as Strides has taken some important initiatives domestically

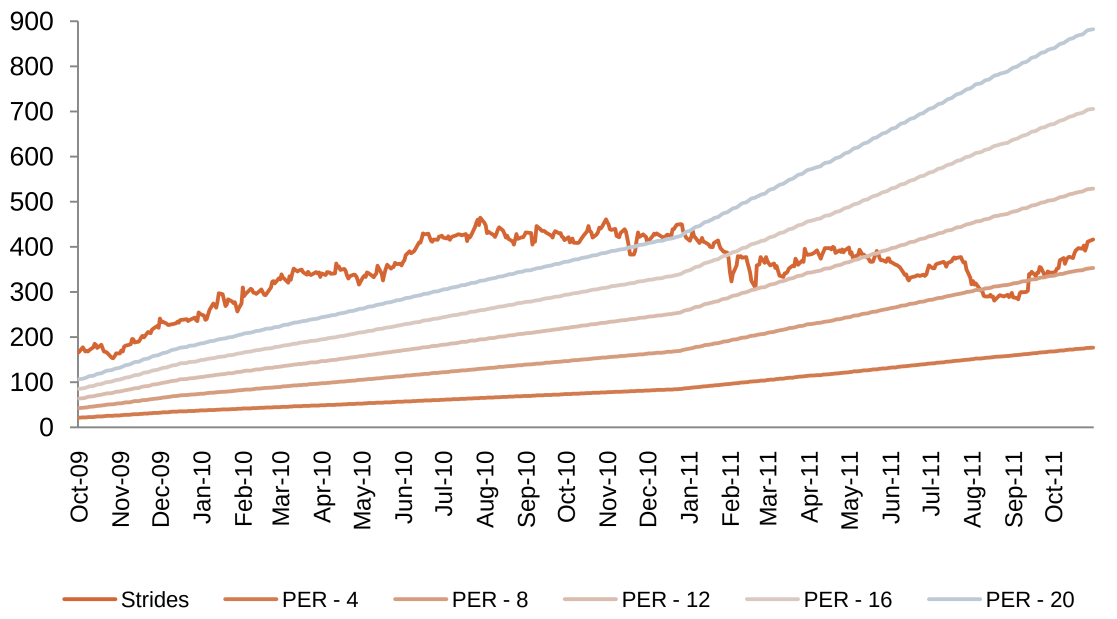
Valuation and Outlook

At a CMP of INR411, the stock is currently trading at 7.8xCY12E (core business). We believe that the stock deserves to be rerated for the following reasons:

- The quality of earnings of the company's core business (excluding licensing income) is expected to go up because of the focus on the higher margin sterile segment. We expect its core business EBIDTA margin to go up from 10.9% to 20.3% from CY10 to CY12E. The company's margins will also improve significantly due to improvement in capacity utilization in its newly approved facilities
- D/E is expected to come down from 1.6x in CY10 to 0.8x in CY12E as the company's investment phase is over and the company will only incur maintenance capex until CY12

  ROE is expected to improve from 9.5% in CY10 to 18.2% in CY12E

Exhibit 20: PE Band



Source: Bloomberg, PUG Research

The stock has recently traded in the range of 8x-12x its one year forward earnings, **We initiate coverage with a BUY rating on the stock and a target price of INR526, based on 10x the CY12E core EPS of INR 52.6. From the last closing price of INR411, this provides a 28% upside from current levels**

Exhibit 21: Peer Comparison (based on CY12E)

Company	Strides	Claris	Aurobindo
PE	7	5	5.4
EV/EBIDTA	9.3	3.2	5.3
P/B	1.3	0.7	1.1
ROE	18.4	15.8	21.2

Source: Bloomberg, PUG Research

*Aurobindo based on FY13E

Key concerns

- More than 90% of its revenues come from exports, which makes the stock vulnerable to forex movement
- Any ban on any of its manufacturing facilities from global regulatory bodies, particularly any ban on its sterile facility, could result in loss of sales
- The company has a lot of global partnerships. Consolidation in the sector might result in loss in sales for some time

Company background

Incorporated in 1990, Strides Arcolab is a first generation, pharmaceutical company headquartered in Bangalore, India. Strides has presence in specialty pharmaceuticals, pharma generics and branded generics

Company has two major business segments:

Exhibit 22: Segment wise sales in CY10

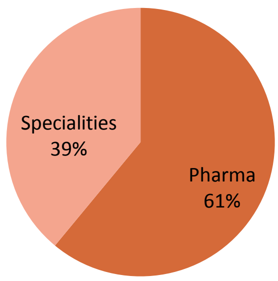
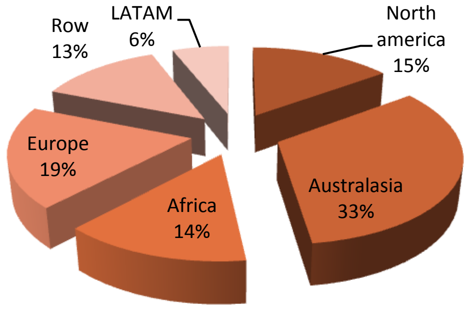


Exhibit 23: Geography wise sales in CY10



Steriles

Company's sterile segment has been named as Agila Specialty by the company. Agila is a full services player with a well diversified portfolio of products across categories that include oncology, penems, penicillin's, cephalosporin's, ophthalmic, peptides and controlled substances. Agila delivers products in varied packaging formats including vials (liquid and dry powder), pre filled syringes, suspension injections, and ampoules and lyophilized forms. Agila has eight world class sterile manufacturing facilities across the globe that include the largest sterile capacity in the Bangalore which has one of the largest lyophilisation capacities in the world

Pharma

Company's oral dosage form business is known as the pharma business. Strides is an innovative provider of oral products, developing and manufacturing orals across therapeutic formats including soft gel capsules in which it is amongst the leading players worldwide, tablets (coated/uncoated), hard gel capsules, powders, granules in sachets, ointments and creams. Company operates in branded generic emerging markets as well as generic Regulated markets of USA and Europe. Strides also bids for international tenders in AIDS, Tuberculosis and Malaria (ATM) segment. Strides has 6 manufacturing facilities of which three are in India and one each in Italy, Singapore and Nigeria

Board of Directors

Name	Designation	Description
Mr. Arun Kumar	Executive Vice Chairman and Group CEO	Arun Kumar is the Founder and Promoter Director of Strides Arcolab Limited and has been on the Board as Managing Director since its inception. Arun Kumar was earlier General Manager of British Pharmaceuticals Limited
Mr. Deepak Vaidya	Chairman	Deepak Vaidya has been a member of the Board since January, 1998, and was appointed Chairman in December, 2005. In his previous stint, Deepak was the Country Head of Schroder Capital Partners (Asia) Pte. Ltd. for over 12 years. He is currently the Chairman of Arc Advisory Services Pvt. Ltd
Mr. A. K. Nair	Director	A K Nair is a Director of Kerala Chemicals and Proteins Limited. In his previous tenures, he was Executive Director & Managing Director of KSIDC and Managing Director of Kerala Chemicals and Proteins Limited
Mr. K. R. Ravishankar	Director	K R Ravishankar has been a Board Member since March 1994. He is an entrepreneur and has nearly two decades of experience in the pharmaceutical industry.
Mr. M.R. Umargi	Director	M R Umarji is a consummate banking professional and has held key positions at the Reserve Bank of India, Corporation Bank and Dena Bank. He is Chief Legal Advisor to the Indian Banks Association and a Director of UTI Advisory Services Limited
Mr. Mukul Sarkar	Director	Mukul Sarkar has over 20 years of experience in the financial services industry and is General Manager and Group Head, Corporate Banking Group, Export-Import Bank of India (Exim Bank).
Mr. P.M. Thampi	Director	P M Thampi has over 43 years of experience in the Indian chemical industry. He worked in ICI India for 29 years, before assuming the position of Chairman and Managing Director with BASF India for 14 years.
Mr. Venkat Iyer	Director	Venkat Iyer has been with Strides Arcolab Limited since 1999 and is CEO, Agila Specialties Pvt Ltd. He has over 28 year experience in the field of formulations, natural products, nutraceuticals, herbal extracts and natural drugs and has had tenures with companies like Ranbaxy, Kancor Flavors and Extracts, GlaxoSmithKline India and Searle India
Mr. Virtanes Saatci	Director	Virtanes Saatci has served as Director on the Board since February, 1995. He has over four decades of experience in the pharmaceutical industry and has contributed significantly to developing the overseas operations of the Company

Financial Summary

Profit and loss

Year end 31 Mar (INR mn)	CY09	CY10	CY11E	CY12E
Total Income	13,048	16,958	24,833	27,633
Total operating expenses	11,178	13,693	19,785	21,746
EBITDA	**1,870**	**3,266**	**5,048**	**5,887**
Depreciation	492	639	960	987
EBIT	**1,378**	**2,627**	**4,088**	**4,900**
Interest expenses	759	1466	1793	1495
Other income	236	697	767	843
Extraordinary items	-575	-6	0	0
Profit before tax	**1,430**	**1,864**	**3,062**	**4,248**
Provision for tax	219	452	459	850
Minority interest	114	187	56	0
Reported profit	1,097	1,224	2,547	3,399
APAT	522	1,218	2,547	3,399

Growth rates (%)

Year end 31 Mar (INR mn)	CY09	CY10	CY11E	CY12E
Revenue	21.9	10.7	56.9	27.7
EBITDA	168.5	74.7	54.6	16.6
EBIT	366.1	90.7	55.6	19.9
APAT	221.8	133.4	109.0	33.5

Key ratios

Year end 31 Mar (INR mn)	CY09	CY10	CY11E	CY12E
Per share (INR)				
Adj EPS	9.0	21.1	44.1	58.9
Dividend per share	1.0	1.6	2.1	2.1
Book value (BV)	143.9	222.2	263.8	320.3
Margins (%)				
EBITDA margin	15.5	19.3	20.3	21.3
EBIT margin	11.4	19.7	19.5	18.3
PAT margin	4.3	9.1	12.2	12.7
Valuation parameters				
P/E (x)	45.5	19.5	9.3	7.0
Div.yield (%)	0.3	0.4	0.5	0.5
Price/BV(x)	2.9	1.9	1.6	1.3
EV/sales (x)	2.9	3.1	2.1	1.9
EV/EBITDA (x)	20.6	16.3	10.3	9.1
ROE (%)	13.2	9.5	16.7	18.4
ROCE (%)	8.6	9.3	13.8	15.6

Balance sheet

Year end 31 Mar (INR mn)	CY09	CY10	CY11E	CY12E
Equity Capital	402	577	577	577
Reserves and surplus	7,909	12,251	14,657	17,915
Shareholders funds	**8,311**	**12,828**	**15,235**	**18,493**
Minorities	2585	2725	2781	2781
Borrowings	**14,569**	**20,098**	**17,073**	**15,573**
Others	34	46	46	46
Total Liabilities	**25,499**	**35,698**	**35,135**	**36,893**
Assets				
Gross block	10,713	11,511	16,351	17,026
Depreciation	2,241	2,984	3,944	4,932
Net block	**8,472**	**8,526**	**12,407**	**12,094**
Capital WIP	**847**	**1,915**	**1,149**	**1,149**
Cash equivalents	912	3,395	4,082	4,161
Loans advances	2,054	9,252	2,283	2,283
Sundry Debtors	4,161	3,838	5,448	6,958
Inventory	2,334	3,120	4,454	5,688
Total current assets	**9,461**	**19,604**	**16,267**	**19,090**
Sundry creditors	5,057	7,249	7,589	8,341
Provisions	1743	1988	1988	1988
Total current liabilities	**6,799**	**9,236**	**9,577**	**10,329**
Net current assets	2,661	10,368	6,690	8,761
Others	13519	14889	14889	14889
Total Assets	**25,499**	**35,698**	**35,135**	**36,893**

Cash flow statement

Year end 31 Mar (INR mn)	CY09	CY10	CY11E	CY12E
Gross Cash Flow	**1,703**	**2,050**	**3,563**	**4,386**
Less: Changes in W.C.	-946	5,224	-4,364	1,992
Others	0	0	0	0
Net Operating Cash Flow	**2,649**	**-3,173**	**7,927**	**2,395**
Capex	2,973	1,866	4,074	675
Investments	-50	-3396	0	0
Investing cash flows	**2,923**	**-1,531**	**4,074**	**675**
Increase in equity	-820	4698	0	0
Increase in debt	1549	5530	-3026	-1500
Other Adj	174	-42	140	140
Financing cash flow	**555**	**10,270**	**-3,166**	**-1,640**
Change in cash	**281**	**8,627**	**687**	**79**

Rating System (In Absolute Terms)

BUY	=	Expected to give a return of 15% or more over a 12 months' time frame.
HOLD	=	Expected to give a return of -10% to +15% over a 12 months' time frame.
SELL	=	Expected to give a return of -10% or lower over a 12 months' time frame

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