

January 31, 2024

## Strides Pharma Science Limited: Ratings reaffirmed; Outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, fund-based – Term loans	193.50	263.54	[ICRA]A-(Stable); Reaffirmed, outlook revised from 'Negative' to 'Stable'
Long-term, fund-based facilities	900.00	1050.00	[ICRA]A-(Stable); Reaffirmed, outlook revised from 'Negative' to 'Stable'
Short-term, non-fund-based facilities	480.00	470.00	[ICRA]A2+; Reaffirmed
Unallocated limits	226.50	16.46	[ICRA]A2+; Reaffirmed
<b>Total</b>	<b>1,800.00</b>	<b>1,800.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation and revision in outlook from 'Negative' to 'Stable' factors in improvement in Strides Pharma Sciences Limited's (Strides/the company) financial performance on the back of strong performance of its US business over the last six-seven quarters. Further, ICRA also notes the significant reduction in Corporate Guarantees extended by Strides to Stelis Biopharma Limited (Stelis/SBL) following sale of Stelis' Unit 3 to Syngene Limited. Further, the ratings continue to take into account Strides' strong business profile with majority of the revenues being derived from the regulated markets, improving performance in the emerging markets, its long track record of operations and strong management team. Strides' strong manufacturing and research & development (R&D) capabilities as well as front-end presence in the US market have resulted in healthy performance of the company in FY2023 and 9M FY2024. ICRA expects the same to continue going forward as well.

However, the ratings remain constrained by the company's high working capital intensity of operations, given the high receivables and inventory holding period requirements for its US business. While the company's working capital intensity reduced in H1 FY2024 on the back of an improved receivables position, it remains elevated. ICRA notes that the relatively higher competition in the generic pharmaceutical industry has limited the company's pricing flexibility and adversely impacted the operating margins in the past. The ratings are further constrained by the high debt levels of the company, which improved over a period but continues to be elevated, resulting in moderately stretched coverage indicators primarily characterised by TD/OPBDITA of 3.8 times as on December 31<sup>st</sup> 2023. The Net Debt to Operating Profit (ND/OPBDITA) improved from 6.9 times in FY2023 but remained moderately high at 3.3 times as on December 31<sup>st</sup>, 2023. The net debt does not include the cash amount of Rs 82.9 crore, which is a deferred consideration from Arrotex and Singapore plant sale.

Strides currently has an outstanding corporate guarantee extended to Stelis of Rs. 510.0 crore as of December 2023 against outstanding debt of Rs. 285 crore. Stelis has plans to raise further debt by Q4 FY2024 to support its business operations and pre-pay its other repayment obligations, which are further expected to be backed by CG from Strides. However, the proceeds from the fresh funds will also be utilised towards repaying other CG- backed liabilities for Stelis and, therefore, the CG extended by Strides is expected to continue to be ~Rs. 500 crore in near future. Given the continued operating losses of Stelis' Contract Development and the Manufacturing (CDMO) business, the timing of further equity raise or refinancing to meet its sizeable debt repayment commitments remains critical. Any delay in the same could weigh in on Strides' cash flows as majority portion of Stelis' term debt is backed by a corporate guarantee from Strides.

ICRA further notes that as on December 31<sup>st</sup>, 2023, the promoters held a 27.39% equity stake in the company, of which around 69.17% is pledged, a sharp increase in the pledged shareholding from the earlier levels of 37.8% December 31, 2021. The company has a track record of growing and diversifying through strategic acquisitions. Any significant debt-funded acquisition, thereby impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis. However, there are no such plans of any debt-backed acquisition in near-term. ICRA also notes proposed demerger of its CDMO

segment and soft gelatin business into Stelis, which will house the entire group's CDMO operations under the name Onesource. The overall impact of the demerger on the Stride's financial risk profile is yet to be seen and remains a key monitorable.

ICRA has revised its outlook from Negative to Stable, given the improvement in company's operational performance which has reflected in its quarterly performances largely led by revival in US business. This apart, the gradual reduction in debt coupled with reduced CG exposure to Stelis, eventually resulting in relatively deleveraging of the company's balance sheet also contributed to the revision in outlook to Stable. However, the coverage indicators continue to remain moderately stretched.

## Key rating drivers and their description

### Credit strengths

**Diversified business and geographic mix** – Strides derived ~50% of its revenue in FY2023 and ~51% of its 9M FY2024 revenues from the US market. As on December 30, 2023, Strides had 260+ active abbreviated new drug applications (ANDA) (with 235+ approvals). At present, the company sells over 60 products out of its 260 approved ANDAs and is expected to launch 10-15 new products every year going forward. The company derived ~31% of its revenues from other regulated markets (the UK, Australia, the European Union, Canada, South Africa, etc.) in 9M FY2024. Strides also has a portfolio of products for the emerging markets (both branded and institutional businesses accounting for ~16% & 18% of revenues in FY2023 and 9M FY2024, respectively), which further support its geographic and business diversification. The revenues from the emerging markets portfolio witnessed a healthy YoY growth of ~7% in 9M FY2024, on the back of revenue growth under its institutional business. Going forward, the growth is expected to be driven by the company's US business where it is focussed on achieving total revenue of \$240-250 million in FY2024, on the back of expected new product launches. The company's emerging market business is also expected to witness healthy ramp-up in revenues driven by new product launches and expansion into new geographies. Also, improvement in other regulated market business is expected by maximisation of its product portfolio and expansion of footprint in new geographies through partnerships.

**Strong manufacturing and R&D capabilities** – The company's strong track record of ANDA filings and its manufacturing capabilities, will support its growth prospects. Further, front-end presence across markets is expected to support its revenues and margins, going forward. Its R&D spend was Rs. 71.6 crore in FY2023, accounting for 2.3% of its regulated market revenues, wherein it primarily focused on new formulations and portfolio maximisation, while evaluating its existing product basket for extension to other geographies. The R&D spend as a proportion of the company's top line is expected to reduce as scale increases and as the company is expected to launch new products from an already approved basket of ANDA for the US market.

**Healthy performance in the US market over the last few quarters resulting in improvement in operating margins** - The company has been able to post sustained improvement in operational performance largely led by new product launches and sustained market share across the product portfolio in its US business. In 9M FY2024, the company has achieved \$185 million of revenue from the US and is expected to achieve \$240-250 million in FY2024. Going forward, the pace at which the company's US business grows and translation of the same to its operating profit margins and consequent improvement in its coverage indicators will be one of the key rating monitorable for the company.

### Credit challenges

**High working capital intensity, debt coverage metrics improved but remain moderately stretched** - The company's working capital intensity improved to 43.3% as on September 30, 2023 (~45.5% as on March 31, 2023), led by slight improvement in receivable days from the US business (115 days as on September 30, 2023, reduced from 131 days as on March 31, 2023). The improvement remains nominal as reduction in receivable days was compensated to a certain extent by increase in inventory days, which increased to 177 days as on September 30, 2023, from 160 days as on March 31, 2023. ICRA expects the working capital intensity to remain in line in the near to medium term and remain elevated at ~43% levels.

In line with improving revenues and profitability of the company, the overall debt levels have also reduced to Rs. 2,779.3 crore as on December 31, 2023, from Rs. 3,029 crore in March 2023. However, despite the same, the debt coverage indicators remain moderately stretched with Total Debt to Operating Profit (TD/OPBITDA) at 3.8 times as on December 31, 2023, in comparison

to 7.8 times in March 2023. The Net Debt to Operating Profit (ND/OPBIDTA) has also improved from 6.9 times in FY2023 but remains moderately high at 3.3 times as on December 31, 2023. After including the CG extended to Stelis, which stands at ~Rs. 510 crore as on December 31<sup>st</sup> 2023, the coverage indicators further deteriorate.

**High competitive intensity** – The generic pharmaceutical business in the regulated markets is characterised by low entry barriers and high pricing pressures. The intense competitive pressures in the US market and corresponding significant price erosions in the recent past had adversely impacted the company's revenues and margins. While contribution from the acquired Endo portfolio has supported growth to a certain extent, stability in the pricing environment will be a key monitorable for the company.

**Exposure to regulatory risks** - Increasing regulatory scrutiny by the USFDA, compliance costs and risks associated with the same will be key rating sensitivities, going forward. Any other regulatory non-compliance issued to Strides for its products and/or manufacturing facilities that impact its product launches and, thus, its revenues and profitability, would be key monitorables. ICRA notes that the company had a warning letter issued by the USFDA to its Puducherry plant in May 2019, which stands resolved as of now.

### Liquidity position: Adequate

The company's liquidity position is adequate, supported by consolidated free cash and liquid investments of ~Rs. 407 crore (excluding deferred consideration amount) as on December 31<sup>st</sup> 2023 and undrawn working capital lines of around Rs. 316 crore as on September 30, 2023. The company has healthy repayment obligations in FY2024 and FY2025 on the existing term debt. Proceeds from the receipt of divestment of the Singapore unit have been utilised towards debt prepayment or reduction in working capital utilisation in the near term. ICRA expects Strides to be able to meet its near-term commitments through internal accruals, existing cash reserves, incremental equity, deferred consideration and divestments, if any.

### Rating sensitivities

**Positive factors** – Key triggers for rating upgrade include sustained operational performance, resulting in significant reduction in debt levels translating to improved debt metrics, on a sustained basis. TD/OPBIDTA of less than 2.3 times on a sustained basis may also trigger an upgrade.

**Negative factors** – Pressure on the ratings could arise, in case there is a material weakening in the company's earnings, or if debt increases on account of capex/inorganic transactions, leading to an impact on debt metrics and cash flows. Any further material financial support or Corporate Guarantee extended to Group companies could also exert pressure on the ratings.

### Environmental and Social Risks

**Environmental considerations:** Strides does not face any major physical climate risk. However, it is exposed to tightening environmental regulations with regard to breach of the waste and pollution norms, which can lead to an increase in operating costs. The company also has power supply from AMP will enable the company to reduce the carbon footprint and waste generation. To minimise the impact of environmental risks on its operations, Strides has been undertaking initiatives to reduce its energy consumption, higher usage of renewable energy, lower carbon footprint and recycling wastewater. It also ensures that the waste generated during the manufacturing process is appropriately disposed, given these are bio-medical waste. Strides also adheres to various industry standards with two of its key manufacturing sites in India being ISO 14001: Environment Management System certified.

**Social considerations:** The industry faces social risks relating to product safety and the associated litigation risks. Further, Government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry. However, the company has been proactive in addressing the same by trying to follow the best business practices.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Pharmaceutical Industry</a>
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Strides.

## About the company

Strides Pharma Science Limited, incorporated in 1990, is a medium-sized pharmaceutical company that develops, manufactures and exports a wide range of pharmaceutical products. The company has followed both organic and inorganic growth strategies over the years, that has led to its foray into new markets and the addition of new businesses, therapy segments and manufacturing infrastructure.

The company's product range covers most dosage forms including soft gel capsules, tablets, capsules and semi-solids. At present, its business is broadly classified into regulated market formulations (mainly comprising the US, the UK, Europe and Australia), emerging markets (primarily Africa) and institutional segments (tender-driven business mainly in developing markets). As on December 31, 2023, 27.39% of the company's shareholding was held by the promoter Group, with the rest held by various institutions and the public.

## Key financial indicators (audited/unaudited)

Strides consolidated	FY2022	FY2023	9M FY2024*
Operating income	3,070.3	3,688.4	2,997.2
PAT	-363.4	73.0	22.4
OPBDIT/OI	-0.4%	10.5%	18.1%
PAT/OI	-11.8%	2.0%	0.7%
Total outside liabilities/Tangible net worth (times)	1.8	1.9	-
Total debt/OPBDIT (times)	-265.6	7.8	3.8
Interest coverage (times)	-0.1	1.5	-

Source: Company, ICRA Research; \* Unaudited numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					Date & Rating in FY2021
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & Rating in FY2022		
				Jan 31, 2024	Oct 05, 2023	Oct 06, 2022	Mar 24, 2022	Nov 18, 2021 Aug 17, 2021 Apr 7, 2021	
1 Term loans	Long term	263.54	263.54	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	-
2 Fund-based bank facilities	Long term and short term	1050.00	--	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	-
3 Non-fund Based Facilities	Short Term	470.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-
4 Unallocated Facilities	Short Term	16.46	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based - Term Loans	Simple
Long-term Fund-based Facilities	Simple
Short-term Non-Fund Based Facilities	Very Simple
Unallocated Facilities	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2020	NA	FY2026	263.54	[ICRA]A- (Stable)
NA	Fund-based Facilities	NA	NA	NA	1050.00	[ICRA]A- (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	470.00	[ICRA]A2+
NA	Unallocated Facilities	NA	NA	NA	16.46	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Altima Innovations Inc, USA	100.00%	Full Consolidation
Apollo Life Sciences Holdings Proprietary Limited, South Africa	51.76%	Full Consolidation
Arco Lab Private Limited, India	100.00%	Full Consolidation
Arrow Life Sciences (Malaysia Sdn. Bhd, Malaysia)	100.00%	Full Consolidation
Beltapharm, S.P.A, Italy	97.94%	Full Consolidation
Eris Pharma GmbH, Germany	70.00%	Full Consolidation
Fairmed Healthcare AG, Switzerland	70.00%	Full Consolidation
Fairmed Healthcare GmbH, Germany	70.00%	Full Consolidation
Generic Partners Ltd., UK	100.00%	Full Consolidation
Pharmapar Inc, Canada	100.00%	Full Consolidation
Stelis Biopharma (Malaysia) Sdn Bhd, Malaysia	100.00%	Full Consolidation
Strides Arcolab International Ltd., UK	100.00%	Full Consolidation
Strides CIS Ltd, Cyprus	100.00%	Full Consolidation
Strides Lifesciences Limited, Nigeria	100.00%	Full Consolidation
Strides Netherlands BV	100.00%	Full Consolidation
Strides Nordics Aps, Denmark	100.00%	Full Consolidation
Strides Pharma (Cyprus) Ltd, Cyprus	100.00%	Full Consolidation
Strides Pharma (SA) Pty Ltd, South Africa	60.00%	Full Consolidation
Strides Pharma Global (UK) Ltd, UK	100.00%	Full Consolidation
Strides Pharma Asia Pte. Ltd, Singapore	100.00%	Full Consolidation
Strides Pharma Science Pty Ltd, Australia	100.00%	Full Consolidation
Strides Pharma Canada Inc, Canada	100.00%	Full Consolidation
Strides Pharma Global Pte Limited, Singapore	100.00%	Full Consolidation
Strides Pharma Inc., USA	100.00%	Full Consolidation
Strides Pharma International Limited, Cyprus	100.00%	Full Consolidation
Strides Pharma UK Ltd, UK	100.00%	Full Consolidation
Strides Pharma Latina, SA De, CV, Mexico	80.00%	Full Consolidation
Strides Pharma Services Private Limited, India	100.00%	Full Consolidation
SVADS Holdings SA, Switzerland	100.00%	Full Consolidation
Trinity Pharma Proprietary Limited, South Africa	51.76%	Full Consolidation
Universal Corporation Ltd, Kenya	49.00%	Full Consolidation
Vensun Pharmaceuticals Inc, USA	100.00%	Full Consolidation
Vivimed Life Sciences Private Limited, India	100.00%	Full Consolidation
Sihuan Strides (HK) Ltd	49.00%	Equity Method
Stelis Biopharma Limited, India	47.81%	Equity Method
Stelis Biopharma LLC, USA	47.81%	Equity Method

Company Name	Ownership	Consolidation Approach
Stelis Pte. Ltd., Singapore	47.81%	Equity Method
Strides Global Consumer Healthcare Limited, UK	53.64%	Equity Method
Strides Consumer LLC	53.64%	Equity Method
Strides Consumer Private Limited, India	53.64%	Equity Method
Aponia Laboratories Inc., USA	24.00%	Equity Method
Regional Bio Equivalence Centre S.C., Ethiopia	24.98%	Equity Method

Source: Company's annual report FY2023

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