August 17, 2021

Strides Pharma Science Limited – Update on material event

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Term Loans	200.00	200.00	[ICRA]A+ (Stable)
Long-term Fund-based Facilities	940.00	940.00	[ICRA]A+ (Stable)
Short-term Non-fund Based Facilities	480.00	480.00	[ICRA]A1
Unallocated Facilities	180.00	180.00	[ICRA]A1
Total	**1,800.00**	**1,800.00**	

**Instrument details are provided in Annexure-1*

Rationale

Material event

Strides Pharma Science Limited (Strides) announced its quarterly results for Q1 FY2022 on August 6, 2021. The company reported an operating income of Rs. 688.4 crore reflecting a YoY degrowth of 12.0% and a QoQ degrowth of 24.2%. It reported an operating loss of Rs. 55.4 crore compared to an operating profit of Rs. 151.0 crore in Q1 FY2021. Strides also reported an exceptional expense of Rs. 91.5 crore, including Rs. 139.9 crore towards the impairment of assets (non-cash) and a gain of Rs. 52.9 crore towards the gain on dilution in investments of associate companies. The company reported a net loss of Rs. 189.1 crore including one-time exceptional items.

Impact of Material Event

ICRA notes that the company's performance in Q1 FY2022 was impacted by a) lower-than-usual footfalls in hospitals and pharmacies, resulting in volume reduction as prescription generation across regulated markets was muted; b) pricing pressure for some of the molecules supplied by the company in the US; c) supply chain-related challenges leading to failure to supply (FTS) penalties and higher freight costs; and d) lockdown in the UK and certain pricing impacts faced in the UK market. Strides' operating margins reduced to -8.0% in Q1 FY2022 from 19.3% in Q1 FY2021 owing to severe pricing pressure, logistics issues (as it had to send shipments via higher-cost air fright to meet its supply obligations versus the traditional sea route) and lower scale.

To offset the impact of pricing pressure and to diversify its product mix in the US, Strides entered into a definitive agreement with Endo Pharmaceuticals to acquire its basket of abbreviated new drug applications (ANDAs), wherein, Strides' ANDA portfolio will more than double which also includes 20 commercialized products as well as a facility located at Chestnut Ridge (US). The consideration for the same is USD 24 million (~Rs. 180 crore). Strides expects the acquisition to be completed over the next two months and expects the acquired portfolio to contribute to the top line from Q3 FY2022.

Strides' management has guided that despite the pricing pressure in the US, the overall revenue in Q2 FY2022 is expected to be better compared to Q1 FY2022. In Q3 FY2022, the company expects to derive much higher revenues, also supported by the revenues generated from Endo's products. Strides has indicated a go-to market strategy for faster commercialisation by enabling 5-6 new product launches every quarter from the combined portfolio. In other regulated markets, Strides has indicated that its healthy order book position, enhanced market footprint coupled with large product basket available for commercialisation is expected to drive the performance going forward. Under institutional business, the company has healthy orderbook position and a strong product pipeline. Additionally, the company also intends to be more cost-efficient.

In terms of liquidity, as on June 30, 2021, the company had cash balances and liquid investments of ~Rs. 350 crore and unutilised working capital limits of ~Rs. 300 crore. It has debt repayment of ~Rs. 198.5 crore in FY2022 wherein ICRA expects it to meet its obligations through internal accruals basis its current and expected financial performance. ICRA will continue to monitor Strides' operational and financial performance and will take appropriate rating action as and when required.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities, and key financial indicators: **Click here**

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Strides.

About the company

Incorporated in 1990, Strides Pharma Science Limited is a medium-sized pharmaceutical company which develops, manufactures and exports a wide range of pharmaceutical products. The company has followed an inorganic growth strategy over the years that led to its foray into new markets and the addition of new business segments, therapy segments and manufacturing infrastructure. The company's product range covers most dosage forms including soft gel capsules, tablets, capsules and semi-solids. Currently, its business is broadly classified into regulated markets formulations (comprising mainly the US, the UK, Europe, Australia), emerging markets (primarily Africa) and institutional segments (tender-driven business mainly in developing markets). As on June 30, 2021, 29.62% of the company's shareholding was held by the promoter group, while the balance was held by various institutions and the public.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating	Date & Rating In FY2021	Date & Rating In FY2020	Date & Rating in FY2019			Date & Rating in FY2018		
					Aug 17, 2021 Apr 7, 2021	-	Nov 29, 2019	Feb 07, 2019	May 28, 2018	May 16, 2018	Mar 12, 2018	Jan 02, 2018	Jul 12, 2017
1	Term Loans	Long Term	200.0	50.0	[ICRA]A+ (Stable)	-	-	[ICRA]A+ &	[ICRA]A+ (Negative)	[ICRA]A+ &	[ICRA]A+ &	[ICRA]A+ &	[ICRA]A+ &
2	Fund-based Facilities	Long Term	940.0	894.0	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	-	-	-	-	-	-
3	Non-fund Based Facilities	Short Term	480.0	NA	[ICRA]A1	-	[ICRA]A1	[ICRA]A1 &	[ICRA]A1	[ICRA]A1 &	[ICRA]A1 &	[ICRA]A1+ &	[ICRA]A1+ &
4	Unallocated Facilities	Short Term	180.0	NA	[ICRA]A1	-	[ICRA]A1	[ICRA]A1 &	[ICRA]A1	[ICRA]A1 &	[ICRA]A1 &	[ICRA]A1+ &	[ICRA]A1+ &
5	Fund-based Facilities	Short Term	-	-	-	-	-	[ICRA]A1 &	[ICRA]A1	[ICRA]A1 &	[ICRA]A1 &	[ICRA]A1+ &	[ICRA]A1+ &

& - Under Watch with Developing Implications

Complexity level of the rated instrument

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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	2020	NA	FY2024	200.0	[ICRA]A+ (Stable)
NA	Fund-based Facilities	2019/2020	NA	NA	940.0	[ICRA]A+ (Stable)
NA	Non-fund Based Facilities	2019/2020	NA	NA	480.0	[ICRA]A1
NA	Unallocated Facilities	NA	NA	NA	180.0	[ICRA]A1

Source: *Company*

Annexure-2: 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
Arrow Pharma (Private) Limited, Sri Lanka	100.00%	Full Consolidation
Arrow Pharma Life Inc, Philippines	100.00%	Full Consolidation
Arrow Pharma Pte Ltd, Singapore	100.00%	Full Consolidation
Arrow Remedies Private Limited, India	100.00%	Full Consolidation
Beltapharm, S.P.A, Italy	97.94%	Full Consolidation
Fagris Medica Private Limited, India	100.00%	Full Consolidation
Generic Partners (Canada) Inc, Canada	100.00%	Full Consolidation
Generic Partners (International) Pte Ltd, Singapore	100.00%	Full Consolidation
Generic Partners Ltd., UK	100.00%	Full Consolidation
Pharmapar Inc, Canada	80.00%	Full Consolidation
Shasun Pharma Solutions Inc, USA	100.00%	Full Consolidation
Stabilis Pharma Inc, USA	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 Emerging Markets Limited, India (formerly Strides Emerging Markets Private Limited, India)	100.00%	Full Consolidation
Strides Lifesciences Limited, Nigeria	100.00%	Full Consolidation
Strides Pharma (Cyprus) Ltd, Cyprus	100.00%	Full Consolidation
Strides Netherlands BV	100.00%	Full Consolidation
Strides Nordics Aps	100.00%	Full Consolidation
Strides Pharma (SA) Pty Ltd, South Africa	60.00%	Full Consolidation
Strides Pharma Asia Pte. Ltd, Singapore	100.00%	Full Consolidation
Strides Pharma Canada Inc, Canada	100.00%	Full Consolidation
Strides Pharma Global (UK) Ltd, UK (formerly Strides Pharma (UK) Ltd)	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 Shasun Latina Sa De CV, Mexico	80.00%	Full Consolidation
SVADS Holdings SA, Switzerland	100.00%	Full Consolidation
Trinity Pharma Proprietary Limited, South Africa	51.76%	Full Consolidation
Universal Corporation Ltd, Kenya	51.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Strides Vivimed Pte Ltd, Singapore (formerly Vivimed Global Generics Pte Ltd)	100.00%	Full Consolidation
Vensun Pharmaceuticals Inc, USA	100.00%	Full Consolidation
Vivimed Life Sciences Private Limited, India	100.00%	Full Consolidation
Eris Pharma GmbH, Germany	70.00%	Equity Method
Oraderm Pharmaceuticals Pty Limited, Australia	50.00%	Equity Method
Fairmed Healthcare AG, Switzerland	70.00%	Equity Method
Fairmed Healthcare GmbH, Germany	70.00%	Equity Method
Juno OTC Inc	50.00%	Equity Method
Regional Bio Equivalence Centre SC	24.98%	Equity Method
Sihuan Strides (HK) Ltd	49.00%	Equity Method
Stelis Biopharma LLC	47.81%	Equity Method
Stelis Pte. Ltd.	47.81%	Equity Method
Strides Consumer LLC	53.64%	Equity Method
Strides Global Consumer Healthcare Limited, UK	53.64%	Equity Method
Aponia Laboratories Inc., USA	24.00%	Equity Method
Regional Bio Equivalence Centre S.C., Ethiopia	24.98%	Equity Method
Stelis Biopharma Private Limited, India	47.81%	Equity Method

Source: *Company annual report; As on March 31, 2020*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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