

October 05, 2023^(Revised)

Strides Pharma Science Limited: Update on material event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating outstanding
Long-term, fund-based – Term Loans	193.50	193.50	[ICRA]A- (Negative)
Long-term, fund-based facilities	900.00	900.00	[ICRA]A- (Negative)
Short-term, non-fund-based facilities	480.00	480.00	[ICRA]A2+
Unallocated facilities	226.50	226.50	[ICRA]A2+
Total	1,800.00	1,800.00	

*Instrument details are provided in Annexure-I

Rationale

Material Event

On September 25, 2023, Strides Pharma Science Limited (Strides or SPSL/the company) announced that it will be demerging its Contract Development and the Manufacturing (CDMO) segment and soft gelatin business into Stelis Biopharma Limited (SBL), subject to regulatory and other approvals. Further, there will be a demerger of CDMO (whole India operations) from Steriscience Specialties Private Limited (SSPL) to SBL. The above businesses will be moved into Stelis, which is being renamed as Onesource, and will be a speciality pharmaceutical company of the group dealing in CDMO with capabilities in biologics, oral soft-gels, complex injectables, sterile injectables, including other complex drug delivery systems. Appointed date for the proposed scheme of arrangement is April 1, 2024. Indicative timeline for completion of the transaction is 12-15 months. This apart, the resultant company i.e., Onesource is also proposed to be listed as part of the scheme.

Impact of Material Event

ICRA notes that the aforesaid material event is expected to result in the shift of Rs. 500 crore of revenues, Rs. 150 crore of OPBDITA and Rs. 300 crore of debt from SPSL to SBL/OneSource during FY2025. This is expected to be margin dilutive for SPSL to a certain extent given that the company's margins for Q1 FY2024 stood at 17.9% as compared to the ~30% operating margin guidance for the business which is expected to be demerged from SPSL. While the company expects its OPBDITA to be in excess of Rs. 750 crore in FY2025 (as compared to its estimate of Rs. 700-750 crore OPBDITA in FY2024) post demerger of the CDMO and soft gelatin business, the same remains a monitorable. Further, while the Debt/OPBDITA of the business which is being demerged would be ~2.0x (Rs. 300 crore debt with OPBDITA of Rs. 150 crore), the current Debt/OPBDITA of SPSL is relatively higher which would result in deterioration of the company's debt metrics immediately post completion of the transaction. While the management has guided that the Debt/OPBDITA of SPSL would be 2.5x as on March 31, 2025, on the back of its strong product pipeline and global market expansion resulting in free cash generation and debt reduction, the same remains to be seen.

ICRA will continue to monitor the impact of the aforesaid scheme of arrangement on the business and credit profile of the company and will take appropriate action when further details are available.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, and Rating sensitivities. [Click here](#).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
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. It has also acquired a basket of ANDAs and a facility at Chestnut Ridge (US) from Endo in October 2021 for a consideration of USD 24 million. 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 June 30, 2023, 27.9% 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	Q1FY2024*
Operating income	3,070.3	3688.4	930.0
PAT	-363.4	73.0	23.6
OPBDIT/OI	-0.4%	10.5%	17.9%
PAT/OI	-11.8%	2.0%	2.5%
Total outside liabilities/Tangible net worth (times)	1.8	1.9	-
Total debt/OPBDIT (times)	-ve	7.8	-
Interest coverage (times)	-ve	1.5	-

Source: Company, PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore, *Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2024)					Chronology of rating history for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	
				Oct 05, 2023	Oct 06, 2022	Mar 24, 2022	Nov 18, 2021 Aug 17, 2021 Apr 7, 2021	-	
1	Term Loans	Long Term	193.50	NA*	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	-
2	Fund-based Facilities	Long Term	900.00	--	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A (Negative)	[ICRA]A+ (Stable)	-
3	Non-fund Based Facilities	Short Term	480.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-
4	Unallocated Facilities	Short Term	226.50	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	-

Source: Company, *Not available

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	2020	NA	FY2024	193.50	[ICRA]A- (Negative)
NA	Fund-based Facilities	2019/2020	NA	NA	900.00	[ICRA]A- (Negative)
NA	Non-fund Based Facilities	2019/2020	NA	NA	480.00	[ICRA]A2+
NA	Unallocated Facilities	NA	NA	NA	226.50	[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

Corrigendum

Rationale dated October 05, 2023 has been revised with following change as below:

On page 3 in the rating history for the past 3 years, the ratings for unallocated facilities for dates 7 April 2021, 17 Aug 2021 and 18 Nov 2021 has been mentioned as [ICRA]A1.

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