Strides Shasun Limited

Instruments	Amounts	Ratings Action
	Rs. Crore	**September 2016**
Term Loans	1,045.38	[ICRA]A+ (Stable) /outstanding
Fund based facilities	690.00 (revised from 540.00)	[ICRA]A1+ / assigned
Non-fund based facilities	429.55	[ICRA]A1+ / outstanding
Proposed limits	120.91	[ICRA]A1+ / outstanding

ICRA has assigned short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 690 crore (enhanced from Rs.540 crore) Fund-Based Bank Facilities of Strides Shasun Limited (SSL / the company). ICRA also has a long-term rating of [ICRA]A+ (pronounced ICRA A plus) outstanding on the Rs.1,045.38 crore term loan facilities and a short-term rating of [ICRA]A1+ outstanding on the Rs.429.55 crore non-fund based facilities and Rs.120.91 crore proposed limits of SSL.

The assigned rating takes into account SSL's diversified and strong business profile with vertically integrated operations, the company's long track record and its strong management team. With the conclusion of series of inorganic investments over the last four-five quarters, the company is in the process of integration of acquired business in turn resulting in lower than expected operating margins during Q1 FY2017. However, ICRA expects eventual synergies from these investments together with management efforts towards price renegotiations in the active pharmaceutical ingredients (API) vertical to aid in margin expansion going forward. The ratings continue to factor SSL's strong manufacturing infrastructure with key facilities having been approved by regulatory authorities of developed markets that would facilitate product approvals and launches in regulated markets and the expected increase in pace of product filings supported by its strong R&D and regulatory capabilities supporting SSL's business growth going forward.

While the debt-funded nature of recent acquisitions has impacted SSL's capital structure and debt protection metrics; the ratings draw comfort from the company's strong cash balance, healthy operating accruals and comfortable repayment schedule in relation to the same. Further, potential divestment opportunities arising from certain non-strategic segments are also expected to aid in easing overall debt levels of SSL. The ratings also take into account relatively high competition in the generic pharmaceutical industry which may limit the pricing flexibility and growth to an extent; however, the company's focus on niche segments and limited competition products are expected to provide comfort. The ratings also take into account challenges with respect to increasing regulatory compliance costs, and the vulnerability of the company's margins to foreign exchange fluctuations with majority of revenues being derived through exports – though the same is mitigated to some extent by natural hedge from foreign currency denominated loans. Going forward, the company's ability to reduce its debt levels especially in the face of increase in working capital intensity, improve its operating accruals and enhance its credit metrics would remain key rating sensitivities.

ICRA has considered the consolidated business and financial profile of SSL and its subsidiaries for the purpose of the rating. Historically, the company has been active in the inorganic space targeting growth through strategic acquisitions. While we expect the company to maintain its credit profile, sizeable in-organic investments remains an event risk and would be evaluated on a case by case basis for its impact on the ratings.

Company Profile

Incorporated in 1990, Strides Shasun Limited (previously known as Strides Arcolab Limited) is a medium sized pharmaceutical company engaged in the development, manufacture and export of a wide range of pharmaceutical products. The company has followed an inorganic growth strategy over the years that resulted in 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 tablets, capsules and semi-solids. Following the divestment of its sterile/injectable business to Mylan Inc. in 2013, it concluded the merger with Shasun Pharmaceuticals Limited and acquired Aspen's Australian generic pharmaceuticals business (Arrow Pharmaceuticals) during FY2016. Subsequently, the company's business became broadly classified into: regulated markets formulations (comprising mainly the US, Europe and Australia), emerging markets (primarily India and Africa), institutional segment (tender-driven business mainly in developing markets) and

Active Pharmaceutical Ingredients (APIs) and services (the erstwhile business of Shasun Pharmaceuticals Limited).

Recent results (consolidated)
For Q1 FY2017, SSL reported net profit of Rs.32.6 crore on operating income of Rs.875.6 crore as against net profit of Rs.11.5 crore on operating income of Rs.613.0 crore during the same period previous fiscal. For full year FY2016, the company reported net profit of Rs.208.9 crore on operating income of Rs.3,156.4 crore.

September 2016

For further details, please contact:
Analyst Contacts:
Mr. Subrata Ray (Tel. No. +91 22 6114 3408)
subrata@icraindia.com

Swathi Hebbar (Tel No. +91-80-4332 6404)
swathi.hebbar@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	