July 12, 2017

Strides Shasun Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	969.60 (Revised from 1045.38)	[ICRA]A+ & / Reaffirmed
Short-term fund based facilities	890.00 (Revised from 690.00)	[ICRA]A1+ & / Reaffirmed
Short-term non-fund based facilities	520.00 (Revised from 429.55)	[ICRA]A1+ & / Reaffirmed
Unallocated facilities	624.41 (Revised from 120.91)	[ICRA]A1+ & / Reaffirmed
Total	**3004.01**	

**Instrument details are provided in Annexure-1; & indicates ratings on watch with developing implications*

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) outstanding on the Rs.969.60 crore (revised from Rs.1045.38 crore) term loans of Strides Shasun Limited (SSL / the company)[1]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs.890.00 crore (revised from Rs.690.00 crore) short-term fund based facilities, the Rs.520.00 crore (revised from Rs.429.55 crore) short-term non-fund based facilities and the Rs.624.41 crore (revised from Rs.120.91 crore) of SSL. The outlook on the long term rating is “stable”.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of SSL along with its subsidiaries since all its subsidiaries operate in the same line of business and have operational linkages.

The ratings continue to be on rating watch with developing implications following SSL’s announcement of hiving off its active pharmaceutical ingredients (API) vertical. While the eventual business mix is likely to be favorable, ICRA will continue to monitor the impact of the aforesaid corporate restructuring on the financial performance of the company. ICRA will take appropriate action as and when further details are finalized.

The ratings continue to be supported by SSL’s diversified business profile with vertically integrated operations, the company’s long track record and its strong management team. Improving front-end presence across both regulated and emerging markets coupled with strong manufacturing infrastructure approved by major regulatory authorities further underpin the ratings. Further, healthy pace of product filings (and faster approvals of the same under the new GDUFA regimen) supported by its strong R&D and regulatory capabilities are expected to support SSL’s business prospects going forward. While the company’s revenue growth was 23.0% (excluding CRAMS business which was sold during Q2 FY2017) during FY2017, the company’s margins remained supported by healthy market share for the company’s products in US, Australia and institutional business.

[1] For complete rating scale and definition, refer ICRA’s website (www.icra.in) or other ICRA rating publications

While the company's debt levels continue to remain high (~Rs.3,792.0 crore as on March 31, 2017) on account of debt-funded acquisitions in the past, ratings continue to draw comfort from the company's strong cash balance (~Rs.1,631.5 crore as on March 31, 2017), healthy operating margins and healthy cash accruals. ICRA also notes that while the company has substantial repayments during FY2018, part of the debt is expected to be divested to the commoditized API division which is expected to be hived off from H2 FY2018. The ratings also take into account relatively high competition in the generic pharmaceutical industry which would limit the pricing flexibility and growth to an extent; however, the company's focus on niche segments and products with limited competition 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.

While the company has been active in the in-organic space targeting growth and diversification through strategic acquisitions in the past, going forward, this remains an event risk and would be evaluated on a case by case basis. Going forward, the company's ability to reduce its debt levels especially in the face of increase in working capital intensity (on account of GST), improve its operating accruals and enhance its credit metrics would remain key rating sensitivities.

Key rating drivers

Credit Strengths

- Diversified business and geographic mix lends revenue stability; focus on improving front end presence expected to support long-term revenue growth prospects.
- Vertically integrated player with capabilities in API and formulations
- Strong research and development (R&D) capabilities as evident from healthy pace of product filings
- Strong manufacturing infrastructure with key facilities approved by major regulatory authorities
- Financial profile characterised by healthy margins and strong cash accruals.

Credit Weaknesses

- High debt levels on account of debt-funded nature of acquisitions in the past; however, healthy cash balances provide comfort to a certain extent
- Generic pharmaceutical business in regulated markets is characterised by low entry barriers and strong pricing pressures
- Given the past history of inorganic growth, any large debt funded acquisition can impact the credit profile.
- Increasing scrutiny and stricter controls by regulatory authorities of developed markets had resulted in higher compliance costs over the recent past

Description of key rating drivers highlighted above:

During FY2017, SSL derived about 50% of its revenues from the regulated markets, followed by 18% from the emerging markets while the balance was accounted for by the institutional business and API segments. SSL witnessed revenue growth of about 15.7% during FY2017 on the back of further integration of assets in Australia and market share improvement in key US products. Further, company's revenues from emerging markets witnessed growth of 37%. The company's API business (16% of total revenues) witnessed decline of 5% yoy on account of portfolio rationalization and increased captive consumption.

During FY2017, the company's operating margins remained supported by healthy revenue growth in the regulated markets and increased captive consumption from the API facilities which reaped benefits of backward integration. Further, portfolio rationalization under API segment also contributed to the same. However, margins were lower than company's guidance primarily on account of delay in approvals of 5-6 new products in the US on account of US-FDA inspections. Going forward, we expect revenue growth/margin to improve from H2 FY2018 supported by healthy product approval rate in the US, new products and expanding pharmacy coverage in Australia and exit from lower-margin API business.

Of the company's cash balance of Rs.1,631.5 crore as on March 31, 2017, Rs.1,036.3 crore is earmarked as cash-backing for debt repayment. During FY2018, the company has repayment obligations of Rs.737.5 crore of which Rs.380 crore is cash- backed, with an option to rollover. The balance is likely to be partially refinanced / repaid using internal accruals. With no significant capital expenditure plans, debt levels of the company are expected to decline steadily over the next few years. However, with the implementation of GST, the company's working capital requirements are likely to increase during FY2018 owing to the time lag in receiving input credit.

Analytical approach: ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria
Corporate Credit Rating Methodology
Rating Methodology for Pharmaceutical Industry

About the company:
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 APIs and services (the erstwhile business of Shasun Pharmaceuticals Limited).

Key Financial Indicators of SSL

	FY2016	FY2017
Operating income (Rs.Crore)	3,156.4	3,652.0
PAT (Rs.Crore)	208.9	446.0
OPBDITA/ OI (%)	16.6%	22.2%
RoCE (%)	12.4%	12.8%
Total Debt/ TNW (times)	1.3	1.3
Net Debt/ TNW (times)	0.7	0.8
Total Debt/ OPBDITA (times)	7.0	4.7
Net Debt/ OPBDITA (times)	4.1	2.7
Interest coverage (times)	2.9	3.6
NWC/ OI (%)	43.4%	28.6%

Source: company, ICRA; ***Source*** *– Abridged financials for FY2017and financials from annual report for FY2016*

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable **Rating history for last three years:**

S. No	Name of Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2017			Month-year & Rating in FY2016	Month-year & Rating in FY2015
				July 2017	February 2017	September 2016	April 2016	June 2015	September 2014
1	Term Loans	Long Term	969.60	[ICRA]A+ &	[ICRA]A+ &	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]A+ &
2	Fund based facilities	Short Term	890.00	[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+ &
3	Non-fund based facilities	Short Term	520.00	[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+ &
4	Unallocated facilities	Short Term	624.41	[ICRA]A1+ &	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+ &

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
<u>Instrument Details</u>

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loans	-	-	By FY2024	969.60	[ICRA]A+ &
Fund based facilities	-	-	-	890.00	[ICRA]A1+ &
Non-fund based facilities	-	-	-	520.00	[ICRA]A1+ &
Unallocated facilities	-	-	-	624.41	[ICRA]A1+ &

Source: Strides Shasun Limited

Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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.
For more information, visit **www.icra.in**

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	