Strides Pharma Science Limited

February 07, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	1,094.6	1,094.6	[ICRA]A+ &, placed on watch with developing implications
Short-term fund-based facilities	890.00	890.00	[ICRA]A1 &, placed on watch with developing implications
Short-term non-fund-based facilities	520.00	520.00	[ICRA]A1 &, placed on watch with developing implications
Unallocated facilities	624.41	624.41	[ICRA]A1 &, placed on watch with developing implications
Total	**3,129.01**	**3,129.01**	

*Instrument details in Annexure - I

Rating action

ICRA has placed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) outstanding on the Rs.1,094.6 crore term loans of Strides Pharma Science Limited (SPSL) on rating watch with developing implications. ICRA has also placed the short-term rating of [ICRA]A1 (pronounced ICRA A One) outstanding on the Rs. 890.00 crore short-term fund-based facilities, the Rs.520.00 crore short-term non-fund-based facilities and the Rs.624.41 crore proposed limits of SPSL on rating watch with developing implications.

Material Event

Strides Pharma Science Limited (SPSL / the company) had notified the stock exchanges on January 29, 2019 that it has:

- Agreed to exit its Australia business (Arrow) for a consideration of AU$ 394 mn and enter into a 10-year preferred supplier contract with the merged entity of Arrow and Apotex (Arrotex) aiming to retain 40-50% of current EBITDA from the Australia business
- Acquire 100% stake in Vensun Pharmaceuticals, Inc. (Vensun) and an effective 70% economics on the Strides partnered portfolio for an immediate consideration of US$ 18 mn
- Convert its 50:50 JVs with Vivimed to 100% ownership for a consideration of Rs.75 crore and
- Acquire 80% stake in Pharmapar Inc. (Pharmapar) for a consideration of US$ 3 mn.

Impact of the Material Event

The aforesaid corporate restructuring initiatives are expected to aid the company in reducing its net debt and increasing its focus on the US market which would be the largest revenue generator for the company going forward. The eventual debt metrics are expected to be relatively healthy given that the company plans to prepay debt to the tune of US$ 150-160 mn using the proceeds from the exit from the Australia business and the US$ 42 mn it recently received from full and final release of the General Claims Escrow relating to the Agila transaction. The company will further have AU$ 94 mn receivable from the transaction as deferred consideration secured by an instrument.

[1] *100 lakh = 1 crore = 10 million*

In May 2018, SPSL announced that it has agreed to merge its Australian business with Apotex Inc's (Apotex) Australian business. The merger transaction was expected to deliver SPSL a minimum ownership of 50% in the merged entity. SPSL was considered acquiring 100% ownership of the combined entity. However, this, despite the potential synergies would have led to a deterioration in debt metrics. Consequently, post Australian Competition and Consumer Commission (ACCC) approval and additional due diligence, SPSL decided to sell Arrow to entities owned and operated by Dennis Bastas (Executive Chairman and co-founder of Arrow) for a total consideration of AU$ 394 mn. SPSL will receive AU$ 300 mn as upfront payment at the closure of transaction while the balance AU$ 94 mn will be deferred through a secured instrument. The transaction will be subject to certain other conditions and approval of the shareholders of SPSL. It also remains subject to the completion of the Arrow / Apotex merger which is expected to complete by March 31,2019.

SPSL has also decided to acquire 100% stake in Vensun and increase its stake to 100% in its JVs with Vivimed to sharpen its focus on the US market and to partially make up for the revenues which it will be losing pursuant to exit from Arrow. SPSL's existing ANDA portfolio of 86 filings with 31 files pending approval will have additional 12 commercialized ANDAs and 12 files pending approvals from Vensun. Further, converting its 50:50 JVs with Vivimed to 100% ownership will give SPSL access to Vivimed's portfolio of 10 approved ANDAs to potentially add an annualized revenue of US$ 25 mn starting from FY2020. Further, Vivimed's USFDA-approved Alathur facility with a capacity of 1.5 billion oral solids is expected to secure supplies for the company's regulated markets business going forward. SPSL has also decided to acquire 80% stake in Pharmapar to enable its foray in Canada, a new market for the company.

The company is expected to generate AU$ 300 mn (US$ 213 mn) immediately on closure of the Arrow sale while AU$ 94 mn would be received through a secured instrument later. From the immediate proceeds into the company and the US$ 42 mn received from the Agila transaction, SPSL proposes to prepay debt of US$ 150-160 mn and pay out ~US$ 31 mn towards the stake acquisitions in Vensun, Vivimed and Pharmapar retaining about US$ 60-70 mn which would be used as growth capital for its future investments. ICRA will continue to monitor the impact of the aforesaid corporate restructuring on the business and credit profile of the company and will take appropriate action when further details are available.

Liquidity Position:

The company's current liquidity position remains healthy given cash balances of ~Rs.791.8 crore as on September 30, 2018. In terms of repayment, the company had taken up debt refinancing during Q4 FY018 with relatively longer tenure loans and currently has limited repayments of Rs.24.2 crore in FY2019. The repayments and overall debt of the company is expected to reduce significantly over the near future given the recent fund inflow. The company will repay term loans to the tune of US$ 150-160 mn immediately once proceeds from the Australia transaction are received. Further, the company will be retaining US$ 60-70 mn (post payment for the recently announced corporate actions) either towards growth capital or will further use the balance available towards debt reduction. The company will also have AU$ 94 mn receivable from the transaction as deferred consideration secured by an instrument which further supports its liquidity position.

The previous rating rationale on the company is available at the following link:
https://www.icra.in/Rationale/ShowRationaleReport/?Id=70399

About the company:

Incorporated in 1990, Strides Pharma Science Limited (previously known as Strides Shasun 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. During November 2017, the company had sold its India generics business to Eris Lifesciences Limited to increase its focus on strengthening its market position in the regulated and African markets.

Currently, the company's business became broadly classified into regulated markets formulations (comprising mainly the US, Europe and Australia), emerging markets (primarily Africa), institutional segment (tender-driven business mainly in developing markets) further to the API business being demerged from the company post receipt of NCLT approval effective October 01, 2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2,830.8	2,879.7
PAT (Rs. crore)	279.7	70.2
OPBDIT/ OI (%)	21.3%	15.2%
RoCE (%)	12.9%	7.1%
Total Debt/ TNW (times)	1.3	1.0
Total Debt/ OPBDIT (times)	6.1	5.8
Interest coverage (times)	3.3	2.2

Source: the company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; **The Adj.Net Debt/TNW ratio for FY2017 and FY2018 is 0.7x and the Adj.Net Debt/OPBDITA ratio for FY2017 and FY2018 is 3.4x and 4.0x respectively (Adjusted for receivable of Rs.131 crore receivable from SAPL towards sale of Strides Chemicals); the core ROCE for SPSL is 18.4% and 9.3% during FY2017 and FY2018*

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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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