

November 18, 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 Q2 FY2022 on November 10, 2021. The company reported an operating income of Rs. 721.5 crore reflecting a YoY degrowth of 9.1% and a QoQ growth of 4.8%. It reported an operating loss of Rs. 1.1 crore in Q2 FY2022 compared to an operating loss of Rs. 55.4 crore in Q1 FY2021. Strides also reported an exceptional expense of Rs. 59.9 crore, including Rs. 25.2 crore towards the impairment of assets (non-cash) and Rs. 22.1 crore of exchange loss on long-term foreign currency loans, derivatives, deferred consideration and intra-group loans. The company reported a net loss of Rs. 144.6 crore including one-time exceptional items.

Impact of Material Event

ICRA notes that the company's performance in Q2 FY2022 was impacted primarily as the US business performance witnessed continued pricing pressures (as prescription levels continued to be below pre-covid levels), lack of new product approvals and delay in FDA inspection of facilities amidst pandemic. The US market is a key geography for Strides and accounted for 34% of the revenues. Being present in the oral solids segment with a higher presence in the acute therapies space, the company's performance in the US markets was severely impacted (-38% (YoY) and -17% (QoQ)) due to aforementioned reasons. On a QoQ basis, Strides witnessed 4.8% growth (despite 17% QoQ de-growth in US business) primarily aided by improved performance in other regulated markets. In other regulated markets, growth was driven by improving demand scenario and resumption of company's supplies to partners during the quarter post the Covid related manufacturing disruptions in Q1. Also, the emerging markets business continued to witness healthy growth (22% QoQ) in Q2 FY2022.

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 24.7 million and Strides has availed ~Rs. 150 crore debt to fund the transaction. Strides has completed the acquisition by October 20, 2021. The acquisition of Endo has also resulted in diversification of its product basket as Endo's portfolio has mix of acute and chronic products with more than 60% of its products catering in chronic.

Strides witnessed improvement in gross margins from 49.3% in Q1 FY2022 to ~55% in Q2 FY2022 aided by favorable product mix, stable raw material prices and aggressive cost reduction measures. In Q2 FY2022, consequently, the company has

reported operating loss of Rs. 1.1 crore as compared to Rs. 55.4 crore operating loss in Q1 FY2022. Strides' operating margins reduced to -0.1% in Q2 FY2022 from 19.1% in Q2 FY2021 owing to continued price erosion, higher logistic costs. The company's logistics cost during Q2 FY2022 were at Rs. 89.7 crore up ~20% QoQ and up 135% YoY, logistics cost as percent of sales was at 12.2% for Q2 FY2022 versus 4.8% in Q2 FY2021.

Going forward, the company is expected to derive higher revenues from Endo's products. This coupled with expected recovery in US markets aided by expected stability in the pricing environment is expected to support improvement in the company's performance in H2 FY2022. 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 September 30, 2021, the company had cash balances and liquid investments of Rs. 421.5 crore and working capital buffer of ~Rs. 300 crore over drawing power. It has debt repayment of ~Rs. 110 crore in H2 FY2022 wherein ICRA expects it to meet its obligations through internal accruals basis its current and expected financial performance. In addition, the company expects to receive the deferred consideration (Rs. 526.8 crore as on March 31, 2021 towards sale of its Australian business in FY2019) by March 2022 vis-à-vis earlier commitment of receiving the payment in Q2 FY2023 which is expected to support Strides' liquidity in the near term. 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		
					Nov 18, 2021 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: www.icra.in

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
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 (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
Generic Partners (R&D) Pte Ltd., Singapore	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 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, Denmark	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	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
Strides Vivimed Pte Ltd, Singapore	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Vensun Pharmaceuticals Inc, USA	100.00%	Full Consolidation
Vivimed Life Sciences Private Limited, India	100.00%	Full Consolidation
Juno OTC Inc	60.00%	Equity Method
Sihuan Strides (HK) Ltd	49.00%	Equity Method
Stelis Biopharma Private Limited, India	47.81%	Equity Method
Stelis Biopharma LLC, USA	47.81%	Equity Method
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 annual report; As on March 31, 2021

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

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

Mithun Hegde
+91 80 4332 6411
mithun@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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