

February 28, 2017

Strides Shasun Limited

Instruments	Amounts	Rating Action
	(Rs. crore ¹)	February 2017
Term loans	1,045.38	[ICRA]A+ & , placed on rating watch with developing implications
Fund based facilities	690.00	[ICRA]A1+ & , placed on rating watch with developing implications
Non-fund based facilities	429.55	[ICRA]A1+ & , placed on rating watch with developing implications
Proposed limits	120.91	[ICRA]A1+ & , placed on rating watch with developing implications

** Instrument details are provided in Annexure I; & Rating under watch with developing implications*

Rating Action

ICRA has placed the long term rating outstanding of [ICRA]A+ (pronounced ICRA A plus) on the Rs.1,045.38 crore term loan facilities of Strides Shasun Limited (SSL) on rating watch with developing implications. ICRA has also placed the short term rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs.690.0 crore fund based facilities, the Rs.429.55 crore non-fund based facilities and the Rs.120.91 crore proposed limits of SSL on rating watch with developing implications.

Rationale

ICRA's rating action follows the recent announcement by SSL pertaining to corporate restructuring by the company involving hiving off of its active pharmaceutical ingredients (API) vertical, exiting the generics business in Africa, the divestment of probiotic business and capping its investment in biotech subsidiary at the already invested amount of USD 22 million. The aforesaid corporate restructuring initiatives are expected to aid SSL in sharpening its focus on the relatively high margin front-end businesses spread across regulated and emerging markets. While the eventual business mix is likely to be favorable, ICRA will continue to monitor the impact of the aforesaid corporate restructuring on the capital structure and debt protection metrics of the company. ICRA will take appropriate action as and when further details are available.

Key Rating Drivers

Credit Strengths

- Diversified business mix with presence across regulated and emerging markets lends revenue stability.
- Vertically integrated player with capabilities in API and formulations; improving front-end presence across geographies to drive business scale-up.
- Strong research and development (R&D) capabilities as evident from regular product filings and relatively shorter product development cycle.
- Strong manufacturing infrastructure with key facilities approved by regulatory authorities of developed markets
- Financial profile characterised by strong revenue growth, healthy margins and cash accruals

¹ 100 lakhs = 1 crore = 10 millions

Credit Weakness

- Debt-funded nature of past acquisitions has impacted capital structure and debt protection metrics; however, sizeable cash and liquid investment balances and healthy operating accruals are expected to ease the same.
- Generic pharmaceutical business in regulated markets is characterized by low entry barriers and strong pricing pressures
- Integration challenges arising from acquisitions and business restructuring in the last few years; 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 have resulted in higher compliance costs.

Description of key rating drivers highlighted above:

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. SSL's business profile remains strong with reasonably diversified presence across geographies and therapy segments. Furthermore, SSL's strong manufacturing infrastructure with key facilities having been approved by regulatory authorities of developed markets facilitate product approvals and launches in regulated markets. Expected increase in pace of product filings supported by its strong R&D and regulatory capabilities are likely to support SSL's business growth going forward. While the debt-funded nature of past acquisitions has impacted SSL's capital structure and debt protection metrics; ICRA draws comfort from the company's strong cash balance, healthy operating accruals and comfortable repayment schedule in relation to the same.

The industry is characterized by relatively high competition especially in the generic pharmaceutical space 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. Furthermore, SSL continues to face challenges with respect to increasing regulatory compliance costs, and the vulnerability of its 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.

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.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of Strides Shasun Limited and its subsidiaries.

Links to applicable Criteria:

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Rating methodology for pharmaceutical companies

<http://www.icra.in/Files/Articles/Pharma-Methodology-Finalised.pdf>

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

Recent Results

For 9M FY2017, the company reported net profit of Rs.314.4 crore on operating income of Rs.2,763.0 crore as against net profit of Rs.95.1 crore on operating income of Rs.2,195.6 crore during the same period previous fiscal. During FY2016, the company posted net profit of Rs.208.9 crore on operating income of Rs.3,156.4 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				Feb 2017	Mar 2016	Oct 2014	Mar 2014
1	Term loans	LT	1,045.38	[ICRA]A+ &	[ICRA]A+ (Stable)	[ICRA]A+ &	[ICRA]A+ (Stable)
2	Fund based facilities	LT	690.00	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+
3	Non-fund based limits	ST	429.55	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+
4	Proposed limits	LT	120.91	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+

& Ratings under watch with developing implications

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term loans	-	-	Sep 2017 to Mar 2023	1,045.38	[ICRA]A+ &
Fund based facilities	-	-	-	690.00	[ICRA]A1+ &
Non-fund based limits	-	-	-	429.55	[ICRA]A1+ &
Proposed limits	-	-	-	120.00	[ICRA]A1+ &

Source: Strides Shasun Limited ; & Rating under watch with developing implications

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

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

Shamsher Dewan
+912 4454 5328
shamsherd@icraindia.com

Swathi Hebbar
+91 80 4332 6404
swathi.hebbar@icraindia.com

Name and Contact Details of Relationship Contacts:

L Shivakumar
+91 22 6114 3406
shivakumar@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**](http://www.icra.in)

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**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