STRIDES PHARMA SCIENCE LIMITED

July 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	400.00	CARE A; Stable	Assigned
Long Term / Short Term Bank Facilities	305.00	CARE A; Stable / CARE A2+	Assigned
Short Term Bank Facilities	1,495.00	CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Strides Pharma Science Limited (Strides) takes into account the impending restructuring and expected improvement in credit profile post successful completion, existence of experienced promoters, established track record of operations with reputed clientele, accredited manufacturing facilities and low product concentration risks. The ratings also favourably factors established track record of the promoter in turning around the businesses successfully.
Strides has announced in Sept 2023 that the board of directors of Steriscience speciality private limited (SSPL), Strides and OneSource speciality pharma limited (Previously Stelis Biopharma limited) are intending to build an integrated Contact Development and Manufacturing ('CDMO') company. In this regard, it is proposed to combine the Identified CDMO Business of Strides and the Identified CDMO Business of Steriscience under OneSource.
The ratings also positively factor the improvement overall performance and profitability margins in FY24 results. Strides achieved a growth of ~10% in its FY24 revenues, driven by improvement in the US segment and PBILDT margins improving to 18% after reporting losses in FY22.
CARE Ratings believes the post the OneSource restructuring, the corporate guarantee will reduce significantly. This along with the scheduled repayments, the net debt to EBIDTA is expected to be below 2.5x by March 2025. Any significant delay in the successful completion of the transaction and listing will be a key monitorable.
The above factors are constrained by inherent exposure to regulatory risks, current exposure to OneSource, elongated working capital cycle and moderate credit profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to successfully scale up operations and achieve PBILDT margins consistently around 19%.
- Improvement in net total debt to PBILDT around 2x on sustained basis.

Negative factors

- Fall in sales below Rs. 3000 crores or decline in PBILDT% below 13%
- Large debt funded capex resulting in net total debt/PBILDT going beyond 3.5x on a sustained basis.
- Any significant delay in OneSource restructuring resulting in higher overall gearing (factoring CG extended to Associate entities) and continued high pledge of shares from promoters.
- Continuing losses in group companies, resulting in additional support either in the form of corporate guarantees or intercompany loans to be extended by Strides which impact the liquidity of Strides significantly resulting in adjusted overall gearing (wherein debt level factors the exposure towards group entities and/or entities to which it has extended corporate guarantee) going beyond 2x.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for Strides along with its subsidiaries (list mentioned in Annexure 6) considering the operational, financial and managerial linkages. The analytical approach also factors in the support extended by strides to its group companies, while calculating the adjusted debt figures.

Outlook: Stable

The stable outlook reflects CARE's expectation that the company will continue to derive strength from the existence of experienced promoters and the restructuring of OneSource will be completed in the next 9 months.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Impending restructuring to improve credit profile

Strides has announced in Sept 2023 that the board of directors of SSPL, Strides and OneSource are intending to build an integrated Contact Development and Manufacturing ('CDMO') company. In this regard, it is proposed to combine the identified CDMO Business of Strides and the identified CDMO Business of Steriscience under SBL.

The management has articulated to bring down the net debt to PBILDT levels below 2.5x by March 2025 on the back of Softgel hive off (resulting in Rs. 280 crores of debt reduction) and scheduled repayments (of around Rs. 200 cores). Post the restructuring, OneSource has plans to raise equity to finance the existing debt, consequently the current Corporate Guarantee (CG) given will reduce. As of June 2024, the amount outstanding as against which Strides has extended CG to OneSource is ~Rs. 450 crores. Around 70% of the promoters' shares are pledged, this is also expected to reduce over 90%.

Existence of experienced promoters and established track record of promoters

The primary promoter is Mr. Arun Kumar, who founded Strides in 1990. Mr. Arun Kumar has demonstrated track record of turning around business and exiting them profitably. He has around 34 years of experience in the pharma sector. Over the years he has cultivated a strong and positive relationship with the clients. The top 10 customers accounted for around 60% of sales in FY24. The business model of strides has been built on a mix of organic and inorganic growth, along with leveraging and scaling up of available opportunities. The promoter usually buys controlling stake in smaller companies, consolidate them, scale up the revenue and profitability, increase utilization of manufacturing units etc and typically offload his stake to an established pharma company. While doing so, there is generally a non-compete clause and a long-term supply agreement with those pharma companies. Thus, enabling in establishing and maintaining customer relationships.

Recovering profitability and successful product launches

Strides achieved a growth of ~10% in its FY24 revenues, driven by improvement in the US segment. This is driven by demand for the existing products and successful off take of the newly launched products (like Icosapent). Though the flu season was not as strong as previous years', owing to the additional sales from the new products launched, the company was able to achieve YoY sales growth in FY24. The company was able to achieve 18% PBILDT margins after reporting losses in FY22 owing to successful turnaround strategies like launching new products to further diversify portfolio, increase the exposure to chronic therapeutic segments, exiting the products where there is significant price erosions. Further, in FY25, sales is expected to be more than Rs. 4500 crores (including softgel business) on the back of expected product launches in H2FY25.

Low product concentration risks

Strides has a diversified portfolio of 65+ products. In addition, the company has a healthy pipeline of 100+ approved products of which around 60 products to be launched over the next 36 months. Given the diversified products, Strides has the benefit of prioritizing other products if some products face price erosions. Also, having a product profile with diverse mix of acute and chronic products (contributes around 40% of FY24 revenues) combined with having a large basket of approved products is expected to ensure lower dependency on new ANDA filings and approvals in the near term. The company currently has around 260+ ANDAs filings of which 245 are approved. This provides revenue visibility to some extent, the ultimate realization of sales remains a key monitorable. The sales from top 10 products has reduced from 54% in FY23 to 38% in FY24, owing to the successful take off of new products launched.

Accredited manufacturing facilities

The company has 7 manufacturing facilities of which 4 are approved by US FDA. The company exports to around 100 countries and the other key authorizations are UK Medicines and Healthcare products Regulatory Agency (MHRA), World Health Organisation (WHO), Therapeutic Goods Administration, Australia (TGA), Brazilian Health Surveillance Agency (ANVISA), Pharmaceuticals and Medical Devices Agency, Japan (PMDA) and Health Sciences Authority, Singapore (HSA).

Key weaknesses

Exposure to OneSource:

The company has extended corporate guarantee to its group entity OneSource. Majority of the OneSource's borrowings are backed by the corporate guarantees provided by Strides, which also has a significant influence.

Higher CG's were to support OneSource in FY23 & FY22. However, with sale of their vaccine unit to Syngene, most of their vaccine related loans have been repaid and Strides CG's have come down accordingly.

The management of strides and OneSource have been consistently aiming at reducing the corporate guarantee extended by Strides, with the improvement in the profitability of OneSource. In FY24, OneSource has achieved break even PBILDT for the first time in Q4FY24 and a net loss of Rs. 391 crores (PY: 800 crores).

In addition to the CG the company has pledged its shared investment in OneSource to the extent of Rs. 101 crores as on March 31, 2024.

CARE ratings believes that till such time OneSource generates gross cash flows sufficient to meet its liabilities and operating costs, Strides will continue to extend financial and operational support required. The impending restructuring happening in OneSource, if successful, is expected to bring the CG to nil by March 31, 2025 and the same has been factored in the ratings.

Elongated working capital cycle:
Aligned to Strides strategy of optimise cost and maximise sale, most of the production is in India which is subsequently exported to overseas subsidiaries, in order for sale to external customers in regulated, growth and access markets. Considering the business model, working capital is subject to long gestation period. The overall working capital days improved from 162 days in FY22 to 146 days in FY24 owing to improvement in debtors and inventory days. The management further aims to reduce this by 10-20 days in the near future.

Moderate credit profile
Due to decline in profitability and high leverage, debt protection metrics deteriorated in FY23. Strides has moderate capital structure with the overall gearing as at March 31, 2024 at 1.63x (1.95x including guaranteed debt) and Total debt to PBILDT at 3.36x (PY: 6.95). Though the metrics have improved from FY23 levels, they still remain elevated.
In addition to this the working capital limits remain majorly (around 90%) utilized. In the absence of any major debt funded capex combined with recovering PBILDT margins, the coverage metrics are expected to further improve in FY25.

Inherent exposure to Regulatory risk
Strides is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical formulations and injectables. Besides, the pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies including Strides and its group companies as they seek to strengthen their position in the regulated markets like USA, UK etc.

Risk of raw material price volatility and forex fluctuation risk
The impact of pricing of raw material could be witnessed in FY22 numbers, which among others, contributed to the moderation of operating margins of the company. The company derived about 100% revenue from international markets of which 50% is from the US, thus it is exposed to the foreign currency fluctuation risk. The company's offshore pharma operations provides a natural hedge for the company to an extent. Strides has forward hedging policy to mitigate the forex risk. Strides continues to hedge through forward covers against future forex exchange fluctuations.

Liquidity: Adequate
The liquidity of strides is adequate considering the expected GCA of around Rs. 400-650 crores in the next two years (factoring the restructuring), while the scheduled repayment obligations are around Rs. 200 crores. Also, the company has around Rs. 186 crores of cash balance and Rs. 106 crores of liquid investment providing additional cushion. The debt profile of the company has reduced from Rs. 3029 crores on March 31, 2023 to Rs. 2517 crores as on March 31, 2024, owing to repayment of term loans. This combined with recovery of PBILDT resulted in fall of total debt to PBILDT from 6.95x as at the end of FY23 to 3.36x in FY24. The company's near-term capex plans are also minimal with around Rs. 150-200 crores of maintenance capex, to be primarily funded through internal accruals. The working capital utilization remains on the higher side at 90% for the 12 months ending April 2024. The existence of an experienced promoters along with established relationships with clients and ability to attract investments from global and local PE players minimises refinance risk.
Strides has exposure to group companies (primarily OneSource) through extension of corporate guarantees (outstanding amount as on June 20, 2024 is Rs. 447 crores) and any further increase would remain a key monitorable. In FY24, OneSource has reported a loss of Rs. 391 crores (PY: 800 crores of losses). The impending restructuring is expected to bring the CG close to nil. This along with the gradual improvement in PBILDT and positive revenue outlook for OneSource provides comfort.

Environment, social, and governance (ESG) risks
Amongst the ESG factors, significant ones for pharma companies include product quality and safety in social; regulatory compliance in governance. Given that most Indian pharma companies undertake manufacturing activities of Active Pharmaceutical Ingredients (APIs) or formulation for globally established innovator companies, environmental impact like waste and water management, reduction of emissions also plays a vital role. Pharma companies focusing on exports also have exposure to different geographies, each having its own regulatory requirements which are continuously evolving, any non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. In order to avoid any potential negative impact arising from such lapses, pharma companies are increasingly focusing on product safety and quality by increasing internal audits and quality checks, digital quality system initiatives, taking adequate insurance cover for clinical and product liability, setting up dedicated teams to constantly collaborate with the regulatory authorities and keep a close watch on latest legal changes, etc.
Strides has been compliant by filing its BRSR in timely manner. Company's FY23 Annual Report, includes BRSR. The Company has recently formalised its comprehensive ESG framework and is also in the process of implementing the ESG framework on

long term basis. The Company already has a comprehensive risk management framework in place wherein the risk register captures these critical aspects which is reviewed by the Risk Management Committee of the Board of Directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
Factoring linkages

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Strides pharma science limited was incorporated in 1990 and has its headquarters in Bangalore. The company was promoted by Mr. Arun Kumar and has had multiple mergers, acquisitions, demerger, spin offs etc. in the past 34 years. Strides has seven manufacturing facilities spread across four continents, including four US FDA approved facilities with around 70% of capacity utilization. The company manufactures niche generic formulations in various dosage forms focusing on three distinct target markets: regulated markets (United States, Europe, and Australia), emerging markets (primarily in Africa) and donor-funded institutional business.

Brief Financials – Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	3075.47	3694.34	4065.64
PBILDT	-14.89	436.13	748.14
PAT	-474.25	-230.90	-148.53
Overall gearing (times)	1.47	1.83	1.63
Interest coverage (times)	NM	1.67	2.38

A: Audited P: Provisional NM: Not Meaningful ; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Working Capital Limits	-	-	-	-	1135.00	CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	305.00	CARE A; Stable / CARE A2+
Non-fund-based - ST-Working Capital Limits	-	-	-	-	360.00	CARE A2+
Term Loan-Long Term	-	-	-	31/12/2029	400.00	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Term Loan-Long Term	LT	400.00	CARE A; Stable	-	-	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST	305.00	CARE A; Stable / CARE A2+	-	-	-	-
3	Non-fund-based - ST-Working Capital Limits	ST	360.00	CARE A2+	-	-	-	-
4	Fund-based - ST-Working Capital Limits	ST	1135.00	CARE A2+	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Working Capital Limits	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Working Capital Limits	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Altima Innovations Inc.	Full consolidation	Subsidiary
2	Apollo Life sciences Holdings Proprietary Limited	Full consolidation	Subsidiary
3	Arco Lab Private Limited	Full consolidation	Subsidiary
4	Arrow Life Sciences (Malaysia) SDN. BHD.	Full consolidation	Subsidiary
5	Beltapharm S.p.A	Full consolidation	Subsidiary
6	Eris Pharma GmbH ^^	Full consolidation	Subsidiary
7	Strides Pharma International AG	Full consolidation	Subsidiary
8	Fairmed Healthcare GmbH	Full consolidation	Subsidiary
9	Generic Partners UK Ltd	Full consolidation	Subsidiary
10	Pharmapar Inc.	Full consolidation	Subsidiary
11	Stelis Biopharma (Malaysia) SDN. BHD	Full consolidation	Subsidiary
12	Strides Arcolab International Ltd.	Full consolidation	Subsidiary
13	Strides CIS Limited	Full consolidation	Subsidiary
14	Strides Foundation Trust	Full consolidation	Subsidiary
15	Strides LifeSciences Limited	Full consolidation	Subsidiary
16	Strides Netherlands B. V.	Full consolidation	Subsidiary
17	Strides Nordics ApS	Full consolidation	Subsidiary
18	Strides Pharma (Cyprus) Limited	Full consolidation	Subsidiary
19	Strides Pharma (SA) Pty Ltd.	Full consolidation	Subsidiary
20	Strides Pharma Global (UK) Ltd.	Full consolidation	Subsidiary
21	Strides Pharma Asia Pte. Ltd.	Full consolidation	Subsidiary
22	Strides Pharma Science Pty Ltd	Full consolidation	Subsidiary
23	Strides Pharma Canada Inc.	Full consolidation	Subsidiary
24	Strides Pharma Global Pte. Limited	Full consolidation	Subsidiary
25	Strides Pharma Inc.	Full consolidation	Subsidiary
26	Strides Pharma International Limited	Full consolidation	Subsidiary
27	Strides Pharma UK Ltd.	Full consolidation	Subsidiary
28	Strides Pharma Latina. SA De CV@	Full consolidation	Subsidiary
29	Strides Pharma Services Private Limited	Full consolidation	Subsidiary
30	SVADS Holdings SA	Full consolidation	Subsidiary
31	Trinity Pharma (Pty) Ltd.	Full consolidation	Subsidiary
32	Universal Corporation Limited ^	Full consolidation	Subsidiary
33	Vensun Pharmaceuticals. Inc.	Full consolidation	Subsidiary
34	Strides Alathur Private Limited	Full consolidation	Subsidiary
35	Strides Softgels Pte Ltd*	Full consolidation	Subsidiary
36	UCL Brands Limited*	Full consolidation	Subsidiary
37	Neviton Softech Private Limited**	Full consolidation	Subsidiary
38	Neviton Technologies Inc.**	Full consolidation	Subsidiary
39	OneSource specialty pharma Ltd.	Proportionate	Associate company
40	Universal Corporation Limited	Proportionate	
41	Aponia Laboratories Inc	Proportionate	
42	The Regional Bio Equivalence Centre S.C.	Proportionate	
43	Sihuan Strides (HK) Limited	Proportionate	JV

^Ceased to be subsidiary with effect from September 30, 2022

*Incorporated during the year

**Subsidiary with effect from January 5. 2024

^^ Ceased to be subsidiary with effect from January 31, 2024

@ Ceased to be subsidiary with effect from March 31. 2024

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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