OneSource Specialty Pharma Limited (Revised)

25th July 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non Convertible Debentures@	200.00	CARE A (CE); Stable	Revised from CARE BBB+ (CE); Stable
Non Convertible Debentures@	150.00	CARE A (CE); Stable	Revised from CARE BBB+ (CE); Stable
Long Term Bank Facilities	200.00	CARE BB+ (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

@ backed by credit enhancement in the form of an unconditional and irrevocable corporate guarantee from Strides Pharma Science Limited (Strides)

Unsupported rating	**CARE BB+ RWD**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

Rating assigned to the NCD of ₹350 crore by OneSource Specialty Pharma Limited (OS/OneSource) factors in the credit enhancement (CE) in the form of an unconditional and irrevocable corporate guarantee (CG) provided by Strides.

Rationale and key rating drivers of Strides

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 Specialty Private imited (SSPL), Strides and OneSource Specialty 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 and soft Gelatin 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.

Rationale and key rating drivers of OneSource

The reaffirmation of rating assigned to the bank facilities and NCD of OS is constrained on account of modest scale of operations with limited track record, product and customer concentration risks, inherent exposure to regulatory risks, net losses incurred till FY24, weak financial risk profile and exposure to contingent liability pertaining to Prestige biopharma. The company had incurred significant losses after the Russian COVID vaccine contracts did not materialize. In FY23, OS has written off close to Rs. 200 crores of inventory and around Rs. 115 crores of inventory in FY24. In FY24, the unit 3 (primarily intended for vaccine manufacture) has been sold to Syngene international. Using the proceeds OS has reduced total debt to the extent of Rs. 293 crores.

The rating, however, drives strength from QoQ improvement in sales and PBILDT margins. The company achieved break even PBILDT for the first time in Q4FY24 and has achieved PBILDT of around Rs. 9 crores, with a margin of around 12% in Q1FY25. The existence of experienced promoters with proven turnaround capabilities, ability to expand customer base and attract equity investments by leveraging established relationships, brand name of promoters, accredited manufacturing facilities and strong order book providing near term sales visibility. Bening part of the Strides' group OS enjoys considerable financial flexibility and

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

technical support from its promoter group. Its management has a track record of incubating and developing pharmaceutical businesses globally.
The reason for placing the ratings on watch with developing implications is owing to the impending restructuring and the possible impact of the same on the credit profile of OS. The restructuring involves demerger of CDMO and soft gel business of Strides, identified CDMO business of Steriscience specialty private limited both of which is expected to get merged with OneSource. Currently, the management has filed for NCLT approval and expects to complete the entire transaction by March 2025. CARE Ratings will continue to monitor the above restructuring and will resolve the watch once the transaction gets concluded.

The ratings assigned to the HDFC term loan has been withdrawn based on No due certificate received.

Rating sensitivities of Strides: 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.

Rating sensitivities of OS: Factors likely to lead to rating actions

Positive factors

- Conclusion of impending restructure successfully with TOI increasing to Rs. 1400 crores and maintaining PBILDT margins at above 20%
- Improvement in total debt to PBILDT by less than 3.5x on sustained basis

Negative factors

- Any significant delay in OneSource restructuring resulting in increased financial support from other group companies like Strides.
- Any change in support philosophy of parent company or promoter towards OS resulting in weakening of operational/financial linkages between the two.
- Fall in sales below Rs. 150 crores
- Increase in CG debt by more than Rs. 500 crores from the current levels.

Analytical approach:
For Credit Enhanced rating (NCD): Guarantor's assessment i.e. of Strides is carried out as it has extended an unconditional and irrevocable CG for the NCD of Rs. 350 crore. 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.

For Long term bank facilities and unsupported rating: CARE Ratings has adopted the consolidated approach along with its subsidiaries (list mentioned in Annexure 6) for analysing the facilities of OS, while factoring linkages with group companies.

Outlook (Strides): 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.

Detailed description of the key rating drivers of Strides:

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 including discontinued operations).

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.

Detailed description of the key rating drivers of OS:

Key weaknesses

Modest scale of operation, despite significant improvement in sales
The company was able to achieve sales of Rs. 173 crores during FY24 from ~Rs. 40 crores in FY23, owing to take off of the CDMO business. The company received the US FDA approval in FY23, post which the CDMO sales has been increasing.
Though, OS has been operational from FY21, sales has been minimal in the past years. In FY22, the sales increased to Rs. 132 crores from Rs. 21 crores and had a sharp fall to ~Rs. 40 crores in FY23. The absence of anticipated sales form the Russian vaccine combined with lower anti diabetes sales contributed to the fall. The substantial R&D expenses incurred (majority of which are capitalized) combined with the higher operating costs, has resulted in losses. This along with the inability to sell the vaccines has added more pressure on the profitability of the company. With increased order intake, the sales is expected to be in the range of Rs. 250-350 crores in FY25. The company has reported sales of ~Rs. 78 crores with PBILDT margin of 12% in Q1FY25.

Particulars	2020	2021	2022	2023	2024
Sales	2	21	132	39	173
PBILDT	(83)	(71)	(42)	(160)	(81)

Product and customer concentration risks, albeit the same improving with new product launches and customer additions:
The company has derived around 50% of sales from one product Semaglutide and around 40% from one customer. This restricts the operational flexibility of the company and exposes the company to product and customer concentration risk, as the revenue loss from one company may impact OS's revenue and profitability significantly. Though OS is in its growth phase and diversification is expected to improve in the coming years, the current revenue stream is highly concentrated. The positive outlook for its products and established relationship with customers mitigates this risk to some extent.

Weak financial risk profile
OS's credit metrics have been weak on account of continuing net losses, resulting in depleting net worth. In FY23 and FY24, the company has incurred significant losses owing to inventory write off relating to the Sputnik vaccine (FY23: ~Rs. 200 crores; FY24: Rs. 115 crores). This combined with the operating losses has resulted in reduction of the networth from Rs. 1008 crores

as on March 31, 2022 to Rs. 215 crores as on March 31, 2024, partially offset by equity infusions. The coverage ratios were not meaningful as the PBILDT was negative till FY24. In the coming years, this is expected to improve with recovering margins, a trend which has been witnessed from Q4FY24. The company achieved break even PBILDT for the first time in Q4FY24 and has achieved PBILDT of around Rs. 9 crores in Q1FY25.

Exposure to contingent liability from Prestige biopharma
Biolexis pte (BP), which is a subsidiary of SBL has received a claim of Rs. 1121 crores from Prestige biopharma (Prestige). Prestige has claimed on September 2022 that it had suffered losses owing to termination of contract by BP. SBL is legally pursuing the claim and to get refund of the advances and is currently pending with the Singapore International Arbitration Center. Any adverse outcome would significantly impact the liquidity profile of the company.

Inherent exposure to Regulatory risk
OS 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 OS as they seek to strengthen their position in the regulated markets like USA, UK etc.

Key strengths
Extensive industry experience and proven turn around track record of promoters
The primary promoter of OS is Mr. Arun Kumar, who also founded Strides in 1990. The main business model of the promoter and holding companies is to acquire distress companies, turnaround its operations and monetize them profitably. The profits made out of such divestment is used for reinvestment into existing businesses, acquisition of other distress businesses or is distributed to promoters or other shareholders. Mr. Arun Kumar has demonstrated track record of turning around business and exiting them profitably. Under his leadership, Strides Pharma has sold Agila Specialities to Mylan Laboratories at USD 1.6 billion in FY13 and exited the injectables segment.

Leveraging established relationships and brand name of promoters to attract PE investments:
Promoters have been able to infuse funds from own sources as well as attract PE investors for infusion of funds to support the operations of its businesses in its R&D phase. The investments from PE players acts as a testament to the industry's confidence in the promoters' ability and the OneSource's sales growth visibility. During FY24, the promoter group companies have infused funds in the form of debt into the company amounting to Rs. 355 Crs (net). Further the Pending Equity Commitments – as on March 31, 2024 from Tenshi Life Sciences Private Ltd (Tenshi) amounts to Rs. 57 crores (in the form of partly paid-up shares).

Reputed clientele and business model favouring long term sales in OS:
Owing to well-connected and established relationship that promoter has maintained with various global clients, backing of reputed PE players and product quality, the company, even in the absence of an established track record, was able to attract and retain renowned pharma players. The company now has a customer base of more than 25. The company received its first CSA (Commercial Service Agreement) for a GLP-1 to be launched by one of its key customers in FY25.

Accredited manufacturing facilities
OS has 2 manufacturing facilities in total (the third one was sold in December 2023), of which unit 2 is US FDA, EU GMP approved and unit 1 has EU GMP approval. Unit 1 is the R&D unit and the 2nd unit is the CDMO unit. The Company maintains adequate regulatory and quality standards and it has cleared inspections from the USFDA, EUGMP, MHRA, WHO, etc. USFDA issued Establishment Inspection Report (EIR) to the Stelis facility in FY23. EU-GMP also approved unit 1. OS has successfully completed more than 3 customer audits in FY24 and European GMP renewal inspection (German Authority) at both Unit 1 & 2 recently.

Liquidity:

Strides: 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 including from discontinued operations). 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.

OS: Stretched
The liquidity of OS is stretched considering that the company is in its growth phase and in the absence of an established long track record on a standalone basis, the cash accruals are negative till FY24, despite more than 50% YoY growth in FY24 revenues. OS has brought down debt significantly (by ~Rs. 293 crores) utilizing the consideration received from the sale of unit 3 to Syngene. The existence of DSRA and unconditional, irrevocable corporate guarantee from Strides provides comfort. As per the discussions with the management and the past track record of promoters supporting the entity, it is understood that the promoters and/or its group entities will continue infusing funds on a need basis to OS. The order book as on June 30, 2024 is around USD 33 million (~Rs. 270 crores), with around Rs. 83 crores of advance received. The existence supply agreements with established players, along with strong order book provides revenue visibility. Promoters also have a pending capital commitment of Rs. 57 Cr which shall be infused as and when required by Tenshi and there is a deferred consideration relating to the vaccine unit of Rs. 10 crores, which the management expects to recover by FY25. The capex plans include expenditure of around RS. 70 crores towards various expansion plans, which will be funded partly through customers and the remaining through the pending equity commitment from Tenshi.
Regarding the future cash flows, once the restructuring is completed, the GCA is expected to be in the range of Rs. 150-300 crores range in the next two years. The scheduled debt repayment obligations are in the range of Rs. 60-250 crores in the near term. The GCA is expected to be sufficient for the debt repayment obligations and OS should be in a position to meet its financial and operational obligations without any support from promoters or group companies once the restructuring is completed. The debt profile will include long term loans from external entities of around Rs. 550 crores, for which majority of the repayments do not commence in FY25. As per management discussion, there are also plans to raise additional equity to reduce the existing debt further before the listing. The leverage ratios are however expected to remain moderate, with the overall gearing at 2.5x as on March 2025 on a combined level.

Assumptions/Covenants – Material covenants mentioned below in Annexure - 3

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

[Consolidation](#)
[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Credit Enhanced Debt](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Pharmaceuticals](#)
[Financial Ratios – Non financial Sector](#)
[Withdrawal Policy](#)

Adequacy of credit enhancement structure:

The guarantee provided by Strides is unconditional, enforceable, irrevocable and covers the entire rated amount for the entire tenure of the NCD. Guarantor is primary obligor and payment will happen in the event of insolvency. The deed also has an explicit payment mechanism which states as follows: that in the event the Issuer fails to maintain sufficient money to the credit of the designated bank account to meet any Debenture Obligations 2(two) days prior the Due Date, then the Guarantor agrees to deposit the sufficient fund which are required to discharge Debenture Obligations prior to 1:00 PM on the day falling 1(one) Business Day prior the Due Date.

About the Credit Enhancement Provider (Strides):

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'

About the company and industry (OS):

Industry classification

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

OneSource is a biologics and Contract Development and Manufacturing Organisation (CDMO), which has capacities for clinical and commercial manufacturing to various pharma companies. The company was formed in the year 2007 as a subsidiary of Strides. OS began with the buildout of a fully integrated commercial bio-manufacturing facility in Bangalore, India. The services cover the entire CDMO value chain, from clinical development to technology transfer to commercial manufacture and regulatory assistance. As of June 30, 2024, OS has two manufacturing units – unit 1 is the R&D facility and the unit 2 is the manufacturing facility. The two facilities are approved by EU-GMP and USFDA regulatory bodies and hold ISO:14000 certification. The multi modal unit (primarily intended for vaccine production) was sold to Syngene International on December 1st 2023.

Brief Financials – Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	38.80	173.47	78
PBILDT	-159.89	-80.88	9
PAT (continuing operations)	-415.65	-365.70	NA
Overall gearing (times)	1.46	2.65	NA
Interest coverage (times)	NM	NM	NA

A: Audited UA: Unaudited; NA: Not available 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
Debentures-Non Convertible Debentures	INE013P07028	06-05-2024	12.5%	28-08-2026	200.00	CARE A (CE); Stable
Debentures-Non Convertible Debentures	INE013P07010	29-02-2024	12.5%	28-08-2026	150.00	CARE A (CE); Stable
Fund-based - LT-Term loan / Working Capital Facility		-	-	30-06-2026	200.00	CARE BB+ (RWD)
Un Supported Rating		-	-	-	0.00	CARE BB+ (RWD)

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	Fund-based - LT-Term loan / Working Capital Facility	LT	200.00	CARE BB+ (RWD)	-	1)CARE BB+ (RWD) (23-Feb-24) 2)CARE BB+ (RWD) (31-Jan-24)	-	-

						3)CARE BB+ (RWD) (20-Dec-23)		
2	Debentures-Non Convertible Debentures	LT	200.00	CARE A (CE); Stable	-	1)CARE BBB+ (CE); Stable (23-Feb-24)	-	-
3	Un Supported Rating	LT	0.00	CARE BB+ (RWD)	-	1)CARE BB+ (RWD) (23-Feb-24)	-	-
4	Debentures-Non Convertible Debentures	LT	150.00	CARE A (CE); Stable	-	1)CARE BBB+ (CE); Stable (23-Feb-24)	-	-

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

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

<table>
<tr><th>Name of the Instrument</th><th>Detailed Explanation</th></tr>
<tr><td>A. Financial Covenants
I. Restrictions on buy back</td><td>The issuer shall not:
(a) initiate any buy back of shares / securities of the Issuer or
(b) indulge any activity which might lead to a capital reduction of the issuer</td></tr>
<tr><td>II. Dividend cap</td><td>The Issuer shall not be permitted to:
Declare, pay or make any dividend or other payment or distribution of any kind on or in respect of any class of its/their shares;
Reduce, return, purchase, repay, cancel or redeem any of its/their share capital; or
Other than as expressly contemplated under in the debenture Deed, service or repay any Group Debt;
Pay / repay 1 prepay any amounts in respect of any unsecured Indebtedness availed by the Issuer in compliance with the terms of the Deed from any Person (not being a Group Debt Lender), save and except towards servicing interest/coupon payable in respect of the Existing Debt availed by the Issuer from the Existing Creditor so long as such interest/coupon is payable at a rate which is not higher than 3% (three percent) per annum and on scheduled interest/coupon payment dates in accordance with the terms of such unsecured Indebtedness
The guarantor shall not be permitted to declare, pay or make any dividend or other payment or distribution of any kind on or in respect of any class of its/their shares in excess of 35% (thirty five percent) of its PAT in any Financial Year;</td></tr>
<tr><td>III. Net Debt/TTM EBITDA</td><td>The ratio of the Net Debt/ TTM EBITDA of the Issuer (on a consolidated basis) shall, at all times until the Final Settlement Date, be in compliance with the following thresholds and shall be tested by the Secured Parties as of each Financial Quarter Date commencing on and from March 31, 2024 based on the audited consolidated financial statements or limited reviewed consolidated financial statements of the Issuer for the most recently ended Financial Quarter (as applicable) and the Compliance Certificates to be submitted by the Issuer in terms of the debenture trust Deed:-<table><tr><td>From March 31, 2025 till December 31, 2025</td><td>6.5x</td></tr><tr><td>From March 31, 2026 and thereafter</td><td>3x</td></tr></table></td></tr>
<tr><td>IV. TTM EBITDA</td><td>The minimum TTM EBITDA of the Issuer (on a consolidated basis) shall, at all times until the Final Settlement Date, be in compliance with the following thresholds and shall be tested as of each Financial Year commencing on and from March 31, 2024 based on the audited consolidated financial statements of the Issuer for the most recently ended Financial Year (as applicable):-<table><tr><td>Financial Year ending Mar 31, 25</td><td>Rs. 95 crores</td></tr><tr><td>Financial Year ending Mar 31, 26</td><td>Rs. 138 crores</td></tr><tr><td>Financial Year ending Mar 31, 27</td><td>Rs. 300 crores</td></tr></table>
Provided that, the TTM EBITDA (loss) of the Issuer (on a consolidated basis) for the Financial Year ending on March 31, 2024 shall not be in excess of Rs 90cr.</td></tr>
<tr><td>V. TTM Revenue</td><td>The minimum TTM Revenue of the Issuer (on a consolidated basis) shall, at all times until the Final Settlement Date, be in compliance with the following thresholds and shall</td></tr>
</table>

<table>
<tr><td></td><td>be tested as of each Financial Year commencing on and from March 31, 2024 based on the audited consolidated financial statements of the Issuer for the most recently ended Financial Year (as applicable):-
<table><tr><td>Financial Year ending Mar 31, 24</td><td>Rs. 120 crores</td></tr><tr><td>Financial Year ending Mar 31, 25</td><td>Rs. 260 crores</td></tr><tr><td>Financial Year ending Mar 31, 26</td><td>Rs. 360 crores</td></tr><tr><td>Financial Year ending Mar 31, 27</td><td>Rs. 650 crores</td></tr></table></td></tr>
<tr><td>Covenants for the Guarantor</td><td>(i) The ratio of the Net Debt / TTM EBITDA of the Guarantor (on a consolidated basis), shall not, at any time until the Final Settlement Date be in excess of 4x and shall be tested as of each Financial Quarter Date commencing on and from March 31, 2024 based on the audited consolidated financial statements or limited reviewed consolidated financial statements of the Guarantor for the most recently ended Financial Quarter, as applicable.
(ii) The Guarantor shall be permitted to avail of any new Indebtedness after the date of this Deed so long as the ratio of the Net Debt account the proposed Indebtedness) is less than 3x as on the date on which the Guarantor proposes to avail of any such Indebtedness.
(iii) The minimum TTM EBITDA of the Guarantor (on a consolidated basis) shall be at least Rs. 550crs and shall be tested as of each Financial Quarter Date commencing on and from March 31, 2024 based on the audited consolidated financial statements or limited reviewed consolidated financial statements of the Guarantor for the most recently ended Financial Quarter, as applicable.
(iv) The Guarantor shall not be permitted to provide Guarantees to any Person in excess of an amount of Rs. 550 cr (whether singly or in the aggregate); Provided that. this restriction shall not apply to any Guarantees provided by the Guarantor in relation to any Indebtedness availed by any of its Wholly Owned Subsidiaries or any Guarantees provided by the Guarantor in the ordinary course of its business for procuring licenses, permits and Authorisations required to enable the Guarantor to carry on its business.</td></tr>
<tr><td>B. Non-financial covenants</td><td></td></tr>
<tr><td>I Corporate action</td><td>The Issuer and Guarantor shall not undertake any form of corporate action corporate restructuring without the consent of the Investor(s). The Investor(s) shall have a call option on the NCDs exercisable upon completion of a specified event (to be identified post legal diligence) of the corporate action corporate restructuring. The Issuer shall be required to redeem the NCDs along with applicable make whole and break costs within 3 Business Days once the Investor(s) exercise the call option.</td></tr>
<tr><td>II Mandatory equity infusion</td><td>On or prior to September 30, 2024, the Issuer shall have delivered to the Debenture Trustee, evidence of completion of the Mandatory Equity Infusion.</td></tr>
<tr><td>III Delisting of Securities</td><td>The Issuer shall not de-list or take any action to de-list the NCDs, without the prior written consent of the Debenture Trustee.
The Issuer shall ensure that there is no suspension of trading in the NCDs on the Designated Stock Exchange.</td></tr>
<tr><td>IV Capital / Shareholding</td><td>There shall be no change in the management of the Issuer and/or change in the capital structure / shareholding of the Issuer in a manner which is in contravention of the thresholds contemplated in the Debenture trust Deed.</td></tr>
</table>

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - LT-Term loan / Working Capital Facility	Simple
3	Un Supported Rating	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 – Strides

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

List of all the entities consolidated – OS

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Biolexis Pte Ltd	Full consolidation	Subsidiary
2	Biolexis Private Limited	Full consolidation	Subsidiary

The Company holds 100% in Biolexis Pte Limited through Biolexis Private Limited

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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