



Moving ahead with conviction

Q3FY23 Earnings Update

Strides Pharma Science Limited
January 24, 2023

Strides reports continued improvement in Q3FY23

Performance led by highest ever regulated markets revenues and margin expansion



Quarterly Performance (₹m)

Particulars	Q3 FY23	Q2 FY23	Q3 FY22	QoQ	YoY
Revenues	8,686	8,995	7,968	-3%	9%
Gross Margin	5,011	5,125	3,957	-2%	27%
Gross Margin %	57.7%	57.0%	49.7%	70bps	800bps
EBITDA	1,201	1,006	40	19%	100%+
EBITDA %	13.8%	11.2%	0.5%	260bps	1,330bps

9M Performance (₹m)

Particulars	9M FY23	9M FY22	YoY
Revenues	27,138	22,247	22%
Gross Margin	14,876	11,498	29%
Gross Margin %	54.8%	51.7%	310bps
EBITDA	2,864	-418	100%+
EBITDA %	10.6%	-1.9%	1,250bps



We are pleased to report continued momentum in our performance led by strong growth in the regulated markets. Our US operations delivered a strong quarterly performance driven by improved volume for the base products and healthy traction for recently launched products. We have launched ten new products so far during the financial year and expect the new launch velocity to continue in the near term. We continue to focus on a profitable outcome for the business and have, by design, let go of several low-margin businesses.

The Other Regulated Markets business has bounced back strongly during the quarter, with growth across all markets. We continue to expand our footprint across key regulated markets outside the US through new customer acquisition and expansion of our product offering. The business continues to have strong order book visibility, and we are confident of the growth trajectory continuing for the Other Regulated Markets.

Several of our cost initiatives, including R&D cost optimization, Alternate Vendor Development (AVD), Cost Improvement Programs (CIPs) along with a superior supply chain execution, have enabled us to deliver an improved margin performance with gross margins expanding ~800bps YoY to 57.7% and EBITDA margins expanding ~1,330 bps YoY to 13.8%. Adjusted PAT for the quarter was at ₹ 198m; however, reported PAT was impacted by loss from JV and associates on account of inventory write-off related to the covid portfolio.

We have received the Arrow transaction-related deferred consideration towards the end of the quarter. The proceeds will be used to deleverage the balance sheet. We are focused on getting our Net Debt to EBITDA below 3x in the near term.

Arun Kumar

Founder, Executive Chairperson & Managing Director



Strong performance in regulated markets business driven by growth across all key markets

Regulated markets business crosses the \$100M mark for the first time in quarterly revenues



Market Wise Performance- Quarter on Quarter (₹m)

Particulars	Q3 FY23	Q2 FY23	Q3 FY22	QoQ	YoY
US	5,072	4,726	2,831	7%	79%
Other Reg Mkt	3,138	2,414	2,990	30%	5%
Total Reg Mkt	8,210	7,140	5,821	15%	41%
Emerging Mkt	475	1,855	2,148	-74%	-78%
Total	8,686	8,995	7,968	-3%	9%

US business reported its highest revenue in a quarter

- ▶ US revenues at ₹5,072m (\$63m) for Q3FY23, up from ₹4,726m (\$60m) in Q2FY23 and ₹2,831m (\$38m) in Q3FY22.
- ▶ US business contributed 58% of consolidated revenues in Q3FY23.
- ▶ This is the highest quarterly revenue for Strides in the US market.
- ▶ Continued momentum in the business as the existing products witness improved volume traction and new launches gain market share.

Other regulated markets return to growth territory

- ▶ ORM Revenues at ₹3,138m (\$39m) for Q3FY23, versus ₹2,414m (\$31m) in Q2FY23 and ₹2,990m (\$40m) in Q3FY22.
- ▶ ORM businesses contributed 36% of consolidated revenues in Q3FY23
- ▶ Post a muted performance in Q2FY23, the Other Regulated Markets(ORM) returns to its historical growth trajectory with reported revenues up 30% QoQ Q3FY23.
- ▶ Strong performance across all geographies with healthy volume traction and new customer additions

Market Wise Performance – YTD 9M (₹m)

Particulars	9M FY23	9M FY22	YoY
US	13,350	8,349	60%
Other Reg Mkt	8,599	8,047	7%
Total Reg Mkt	21,949	16,396	34%
Emerging Mkt	5,188	5,852	-11%
Total	27,138	22,247	22%

Negligible off-take in Institutional business impacted the emerging markets

- ▶ Emerging markets revenues at ₹475m (\$6m) for Q3FY23, versus ₹1,855m (\$23m) in Q2FY23 and ₹2,148m (\$29m) in Q3FY22.
- ▶ Emerging markets business contributed 6% of consolidated revenues in Q2FY23.
- ▶ The Branded business remained on track and delivered the targeted outcomes for the quarter.
- ▶ Institutional business had a lower off-take, given the previously contracted orders were executed in H1FY23. The results of the new long-term awards have been announced and Strides has maintained its volumes share with deliveries to commence from Q1FY24.

Cost control measures start yielding results driving improved operating leverage

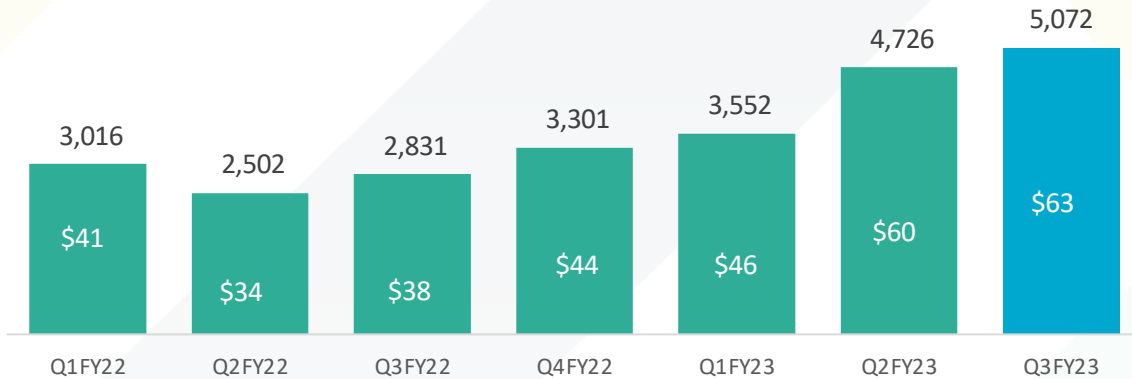
- ▶ Institutionalization of Cost Improvement Programs (CIPs) and softening of freight rates over the last few quarters have started yielding results.
- ▶ Gross margin for Q3FY23 at 57.7%, up 800bps YoY, driven by improved business mix and procurement synergies.
- ▶ EBITDA margins for the quarter at 13.8%, up 1,330 bps YoY, with optimization of all cost line items across P&L.

Market Wise Outlook

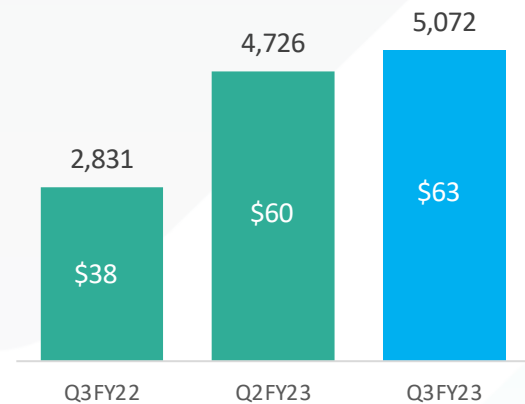
US business continued the growth momentum with \$63m revenues in Q3FY23



US Revenues - Quarterly Trend (\$ ₹/m)



Quarterly Performance (\$ ₹/m)



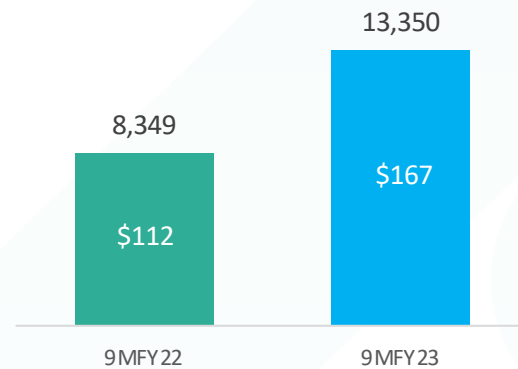
QoQ%

7%

YoY%

79%

Nine Months Performance (\$ ₹/m)



YoY%

60%

Quarterly Updates

- Revenues from the US for Q3FY23 stood at ₹5,072m (\$63m), up 7% QoQ and 79% YoY.
- US represented 58% of consolidated revenues for Q3FY23.
- Key products continue to maintain a healthy market share with a stable pricing environment
- The base business witnessed improved volumes, with most products returning to peak historical volumes (pre-covid).
- Winter portfolio witnessed healthy traction during the quarter with high incidence of cold and flu in the US.
- Launched ten products in FY 23, with the new launch momentum to further pick up in the coming quarters.

Business Outlook

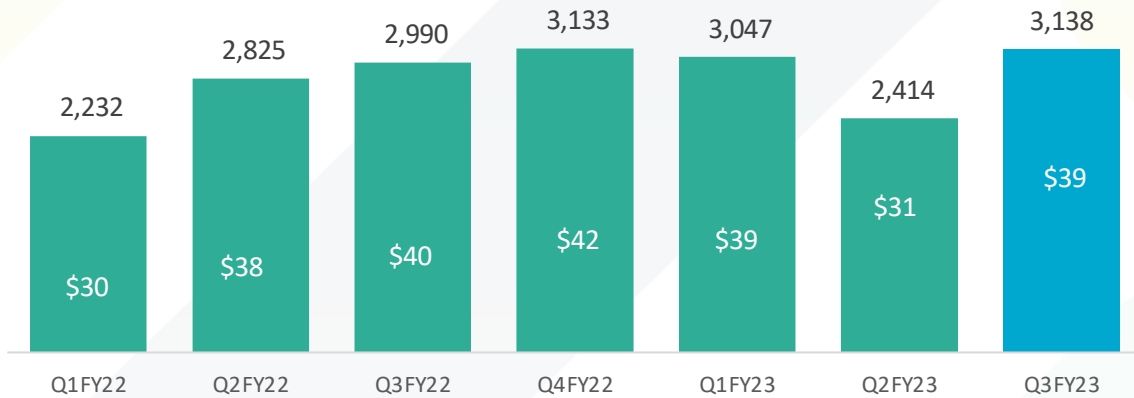
- The US will continue to be a focus market for Strides, with growth driven by portfolio expansion.
- US business has a basket of 280 ANDAs comprising a diverse mix of acute and chronic products, including domains of Controlled Substances, Hormones, and Nasal Sprays.
- A large basket of approved products will ensure lower dependency on new ANDA filings and approvals in the near term
- Portfolio expansion to drive growth with 15-20 new launches each year, US business to have 100+ commercial products over the next two years.
- Focus on customer advocacy and superior supply execution to be a reliable channel partner.

The Other Regulated Markets (ORM) returns to its historical growth trajectory

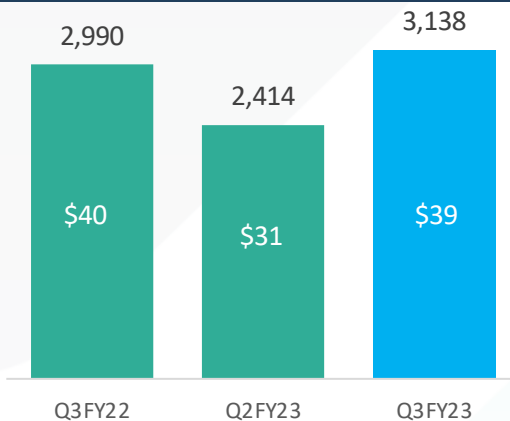
Strong orderbook visibility to enable continuing growth across all key markets



ORM Revenues - Quarterly Trend (\$ ₹/m)



Quarterly Performance (\$ ₹/m)



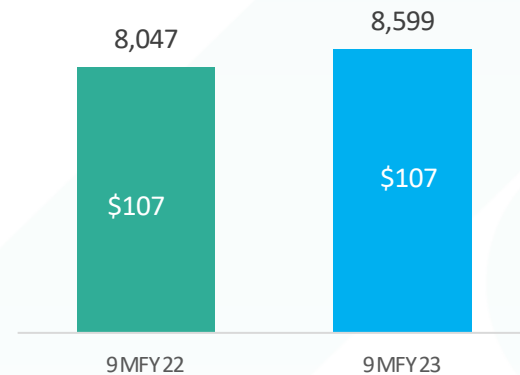
QoQ%

30%

YoY%

5%

Nine Months Performance (\$ ₹/m)



YoY%

7%

Quarterly Updates

- Revenues from the ORM for Q3FY23 stood at ₹3,138m (\$39m), versus ₹2,414m (\$31m) in Q2FY23 and ₹2,990m (\$40m) in Q3FY22.
- ORM business contributed 36% of consolidated revenues for Q3FY23.
- Post the strategic exit of certain low-margin P&Ls in Q2FY23, our continuing ORM business reported a strong sequential performance growing by 30% QoQ
- Witnessed healthy growth across all key markets during the quarter with improving volume traction and new customer additions.
- The order book visibility continues to be healthy for mature businesses. The newly seeded businesses have witnessed healthy traction, further strengthening the growth momentum.

Business Outlook

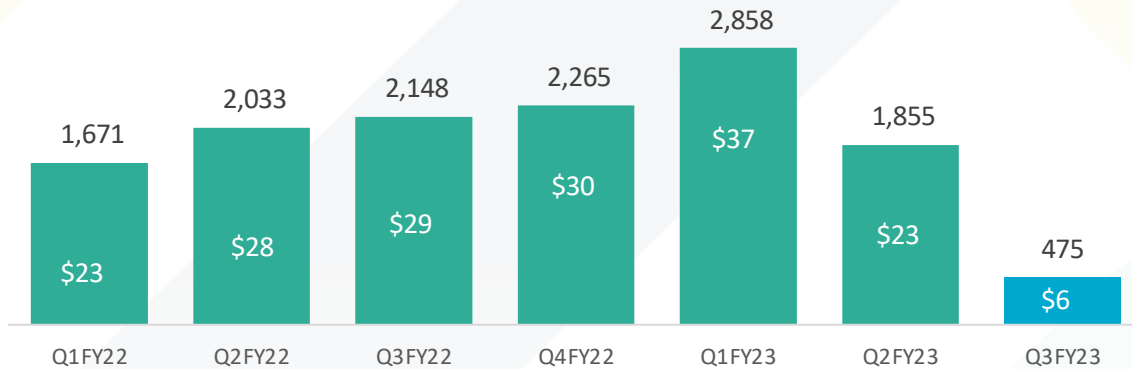
- ORM business is a significant part of our growth strategy driven by our frontend in key markets, and IP-led B2B partnerships in Europe, Australia, and other parts of the world
- Growth in ORM business to be driven through scaling up of partnership business with strategic tie-ups across key regulated markets (ex-US) and enhancing frontend presence through new channel addition and portfolio expansion.
- Expansion of products offerings to new geographies through portfolio maximization to be an important growth pivot in the near term
- Focused R&D investments to strengthen product portfolio for further growth impetus.

Brands business in Africa delivers steady performance

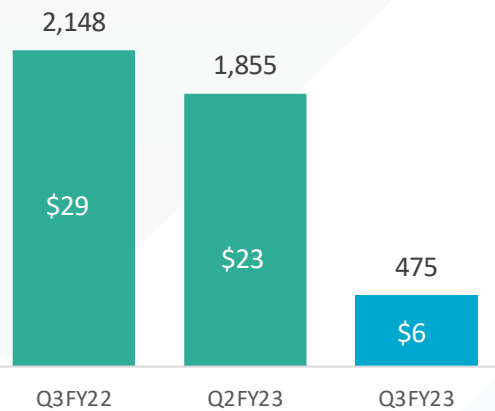
Access markets business impacted due to lower offtake by donor funded agencies



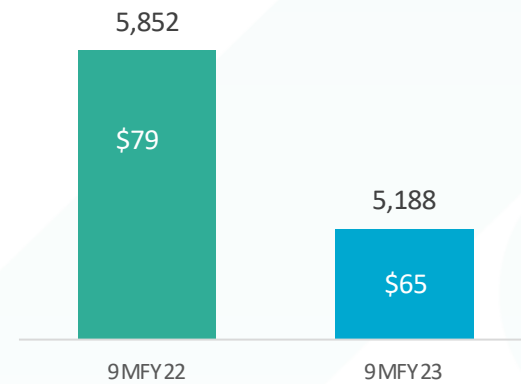
EM Revenues - Quarterly Trend (\$ ₹/m)



Quarterly Performance (\$ ₹/m)



Nine Months Performance (\$ ₹/m)



QoQ%

-74%

YoY%

-78%

YoY%

-11%

Quarterly Updates

- Revenues from the Emerging and Access Markets for Q3FY23 stood at ₹475m (\$6m), versus ₹1,855m (\$23m) in Q2FY23 and ₹2,148m (\$29m) in Q3FY22.
- Emerging markets business contributed 6% of consolidated revenues for Q3FY23.
- Branded business in Africa is tracking to plan with healthy primary and secondary sales trend.
- Institutional business had a lower off-take, given the previously contracted orders were executed in H1FY23.
- The results of the new long-term awards have been announced and Strides has maintained its volumes share with deliveries to commence from Q1FY24

Business Outlook

- An improved market footprint and portfolio expansion in key countries will drive growth in African business.
- Focus on field force productivity and effectiveness to enable better operating leverage.
- Focus on cost competitiveness for an improved wallet share in the access market business.

Financial Performance

Key P&L Highlights – Q3 FY23



Income statement (₹m)

Particulars	Q3 FY23	Q2 FY23	Q3 FY22	QoQ	YoY
Revenues	8,686	8,995	7,968	-3 %	9%
EBITDA	1,201	1,006	40	19 %	100%+
EBITDA %	13.8 %	11.2 %	0.5%	260bps	1,330bps

Reconciliation of EBITDA (₹m)

As per SEBI results	Q3 FY23	Q2 FY23	Q3 FY22
Profit before exceptional items & tax	239	-78	-914
<i>Less: Interest, Dividend income</i>	<i>225</i>	<i>210</i>	<i>77</i>
<i>Add : Depreciation and Amortization</i>	<i>602</i>	<i>617</i>	<i>609</i>
<i>Add : Finance costs</i>	<i>584</i>	<i>676</i>	<i>423</i>
Consolidated EBITDA as per press note	1,201	1,006	40

Arrow transaction-related deferred consideration received during quarter end

Proceeds to be used for debt reduction



Strides had guided for a target Gross Debt reduction of ~ ₹10bn in FY23 (Constant currency basis)

Adjusting for Arrow deferred consideration (~ ₹5,193m) and Currency impact (~1,586m), Gross Debt at the end of 9MFY23 at ₹22,054, lower by ~5,867m from ₹27,921m at the end of FY22

Working Capital efficiencies prevented debt increase despite significant scale up in high working capital intensive US business which grew from \$38M in Q3FY22 to \$63M in Q3FY23 (\$100m annualized increase)

Network optimization and corporate actions planned in FY23 will now be concluded by Q1FY24 aiding further deleveraging of balance sheet

Focus on reducing the Net Debt to EBITDA ratio <3x in near term

Particulars	Dec'22 ₹m*	Mar'22 ₹m
Term Loans	13,707	12,997
<i>Less: Cash and Cash Equivalents</i>	<i>-5,621</i>	<i>-1,886</i>
<i>Less: Deferred Consideration</i>	<i>-585</i>	<i>-5,763</i>
Net Term Loans	7,501	5,348
- Long Term – Revolver (US)	3,954	3,304
- Other Net Term Loan	3,547	2,043
Short Term Loans	15,126	14,924
Reported Net Debt	22,627	20,271
<i>Forex Impact for 9MFY23</i>	<i>-1,586</i>	
Constant Currency Net Debt	21,041	20,271

* Currency impact on Net debt during the 9MFY23 at ₹ 1,586m due to adverse movement in INR / USD and AUD /USD pair.

Long Term Loans with the original tenor of >1 year

Earnings Call Details



*invites you to interact with the senior management
on Q3FY23*



January 24 , 2023

4:30pm IST / 11:00am GMT / 6:00am EST / 7:00pm HKT



Arun Kumar

*Founder,
Executive Chairperson &
Managing Director*

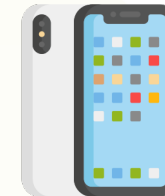


Badree Komandur

*Executive Director - Finance
& Group CFO*



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Thank You

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