Strides Shasun

Press Release

Strides Shasun announces Q1 FY18 results
Q1 FY18 Revenues at INR 8,358 Mn, EBITDA at INR 1,010 Mn

Bengaluru, August 11, 2017: Strides Shasun Limited (BSE: 532531, NSE: STAR) today announced its Q1 FY18 results

Consolidated Financial & Performance Highlights **INR Mn**

	Q1 FY17	Q1 FY18	YoY
Revenues	7,602	**8,358**	10%
EBITDA	1,400	**1,010**	-28%
EBITDA %	*18%*	***12%***	
Adj PAT*		**60**	

*Excluding Merger & restructuring costs of INR 27 Mn and loss on biotech investment INR 27 Mn

- The results have been prepared as per Indian Accounting Standards (Ind-AS)
- Total revenues for Q1 FY 18 at INR 8,358 Mn against INR 7,602 Mn in Q1 FY17
- EBITDA at INR 1,010 Mn against INR 1,400 Mn in Q1 FY17, EBITDA margins at 12 %
- R&D spend for the quarter at INR 373 Mn against INR 228 Mn in Q1 FY 17, up 64 % YoY

Shashank Sinha, Managing Director, remarked "While we are disappointed with our overall results we strongly believe that the fundamentals are in place at Strides for building a differentiated business with diversification of markets and product domains. We are lagging approvals of certain key products which would have lifted our margins and revenues significantly. We believe that our filing momentum of niche products with higher market opportunities and near term approvals of much delayed products would significantly improve our revenue and margin growth."

Performance Highlights – Q1 FY18

Revenue Composition by Business **INR Mn**

	Q1 FY17	Q1 FY18	YoY
Regulated Markets	**3,706**	**4,147**	12%
Emerging Markets	**2,526**	**2,697**	7%
Total Formulations	**6,232**	**6,843**	**10%**
API	1,369	1,514	11%
Total Revenues	**7,602**	**8,358**	**10%**

Regulated Markets Business

- Revenue at INR 4,147 Mn in Q1 FY18 (50 % of total) up 12 % compared to INR 3,706 Mn in Q1 FY17. However QoQ growth was severely impacted by under performance in the North American operations further aggravated by delay of anticipated key product approvals.

North America

- While our North American front ended operations continued to grow steadily with key products holding or growing their market share (Ranitidine - 21%, +300bps QoQ, Dutasteride - 26%, +1300bps QoQ, Ergocalciferol - 45%, Benzonatate - 19%, Lamivudine Zidovudine - 19%, Methoxsalen - 30%). Margins were impacted by industry-wide price erosion, although it's impact on our niche portfolio was moderate (mid single digit).
- Legacy partnered products which currently constitutes bulk of our North American sales faced intense competition with new product approvals and industry pricing pressures, as a consequence resulted in significant reduction in our profit share.
- While new product momentum has picked up, with 6 approvals received so far in this fiscal - Cetirizine Softgel Capsules (US$ 60 Mn market), Promethazine Hydrochloride Tablets (US$ 17 Mn market), Amantadine Hydrochloride Tablets (US$ 22 Mn market), Amantadine Hydrochloride Capsules (US$ 25 Mn market), Ibuprofen Tablets (US$ 520 Mn market) and Memantine Hydrochloride Tablets (US$ 60 Mn market). These products will start delivering marginal revenues going forward but momentum is only expected with anticipated key product approvals in the course of this quarter.

Australia

- In Australia we had a steady quarter albeit with a slight reduction on QoQ sales mainly impacted by stocking behaviour prior to recently announced PBS impacts. We continued to expand our portfolio by launching 3 new products during Q1 FY18 and increasing our distribution footprint and have achieved our first milestone of covering 1000 stores where Arrow has emerged as a frontline supplier of generics and its chemist own OTC products. We believe in the near term as we expand our store coverage, accelerate manufacturing out of our Indian Operations and launch new products, our quest to become the leader by volume and margins in the market place is firmly on track.

Emerging Markets Business

- As reported in our February release we have combined our Institutional business with the Emerging Markets. Revenues at INR 2,697 Mn in Q1 FY18 (32 % of total) up 7 % compared to INR 2,526 Mn in Q1 FY17
- Africa Brands business had a strong growth this quarter, as key brands continued to gain strength and primary sales (selling-in) was on track with secondary sales (selling-out). Good business hygiene, favorable product mix and improved sales force productivity have helped in margin expansion. Key brands in Africa continue to improve their market share – Renerve (32% , +250 bps), Combiart (6.9%, + 250 bps) , Solcer (7.8%, +130 bps)
- India Brands business was significantly impacted by channel destocking ahead of the implementation of GST. Retail trade cut inventory down to half prior to the 1st July, 2017 GST launch date, which impacted quarter-end sales heavily. While business is expected to return

to normal in the coming months, we have pro-actively taken initiatives to improve salesforce productivity and improve operating leverage in the business.

- The Institutional business rebounded in this quarter driven by the Anti – Retroviral (ARV) portfolio. Our share of the Anti - Malarial business was steady albeit on a lower base due to reduced funding from the donor agency funded programs.
- Institutional business margins during the quarter were impacted by the adverse product mix of lower contribution from Anti – Malarial products. The Anti - Malarial business is expected to grow in the coming quarters.
- The Kenyan facility (UCL) successfully completed a WHO regulatory inspection during the quarter and continues to enjoy WHO approved status; being among the few such facilities in Africa. The program to add new products to the portfolio continued, which will drive growth further in the East African market.
- There is continued focus on portfolio expansion for Anti – Retroviral and Anti – Malarial with new product introduction for adult and paediatric use in line with the evolving treatment regimen. Transfer of current institutional products to our Kenyan WHO approved facility (UCL) is on track and supplies are expected to commence from H2 FY 18.

R&D – Strong filing and approval momentum

- We stepped up our R&D investment during the quarter by 64% YOY to INR 373 Mn against INR 228 Mn in Q1 FY 17.
- Our new product filing momentum has picked up pace with 5 filings in FY18. We're on track to file 15-20 products this fiscal, which includes complex molecules, in soft gelatin, topical and extended release platforms.
- As of now we have 67 cumulative ANDA filings (Non-PEPFAR) with USFDA.
- We have received 6 new product approval so far in FY 18 and currently have 29 ANDA filings pending approval from USFDA. Cumulative market value of the portfolio pending approval is US$ 9.6 Bn across a variety of dosage formats.

Dosage Formats	ANDA Pending Approval
Topicals	7
Modified Release tablets /Capsules	3
Soft Gelatin Capsules	2
Hard Gelatin Capsules	5
Tablets	11
Others	1

Active Pharmaceutical Ingredients (API)

- Revenues at INR 1,514 Mn in Q1 FY18, (18 % of total) were up 11 % compared to INR 1,369 Mn in Q1 FY17. Our expected margin improvement in this business was impacted due to the delay of a key product launch of Sevelamer for our partners. We expect our partners to have approvals in the near term and for the API division to drive stronger growth.

Corporate Update

Demerger of commodity API business

- We have received key approvals from the Competition Commission of India, stock exchanges and SEBI for previously announced demerger of the API business.
- Next step involves seeking clearance from National Company Law Tribunal and taking shareholder and creditor approval.
- The appointed date for the demerger is 1st October 2017 as previously announced.

Joint Venture with Vivimed

- In Q4 FY 17, we announced a definitive agreement with Vivimed Labs Limited to enter into a 50:50 Joint Ventures for its US FDA approved formulations facility at Alathur, Chennai.
- The transaction has achieved closure.
- The Joint venture helps de-risk the manufacturing footprint with additional capacity of 1.5 billion tablets/capsules per annum in a mirrored facility and also provides access to a strong product pipeline currently under development.

Successful completion of USFDA inspection at multiple sites

- In Q1 FY 18, four facilities including API and formulations were inspected by the USFDA.
- Three out of the four inspections were completed with Zero 483 status.
- The Bangalore facility was issued a form 483 with 3 observations. The observations have been addressed comprehensively and we have since received 2 product approvals from the facility.

Credit rating

- India Ratings and Research, a Fitch Group company has affirmed Strides Shasun Limited's Long Term issuer rating at **'IND A'** with a **'Stable'** outlook.
- ICRA has reaffirmed the long-term rating of '**ICRA A+'** on term loans of Strides Shasun Limited. ICRA has also reaffirmed the short-term rating of **'ICRA A1+'** on short-term fund and non-fund based facilities.

Annexure:

EBITDA Computation:

	Q1 FY18
SEBI Results	**Column 1**
Profit/(loss) before exceptional items and tax as per SEBI reporting	**82**
Less: Interest, Dividend income, Gain on sale of securities	**(224)**
Add : Depreciation and Amortization and Finance costs	**1,152**
Consolidated EBITDA as per press release	**1,010**

About Strides Shasun

Strides Shasun, listed on the Bombay Stock Exchange Limited (532531) and National Stock Exchange of India Limited (STAR), is a vertically integrated global pharmaceutical Company headquartered in Bangalore. The Company has four business verticals, viz., Regulated Markets, Emerging Markets, Institutional Business and Active Pharmaceutical Ingredients.

The Company has global manufacturing foot print with 9 manufacturing facilities spread across three continents including 7 US FDA approved facilities and 2 facilities for the emerging markets. The Company has two dedicated R&D facilities in India with global filing capabilities and a strong commercial footprint across 85 countries. Additional information is available at the Company's website at www.stridesarco.com

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