THE COMPASS

Strides Arcolab: Healthy product pipeline

Recent rise in share price factors in some of the gains despite multiple growth drivers

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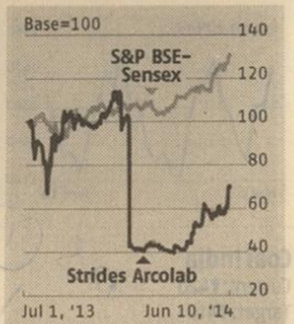

Compiled by BS Research Bureau

Through the past week, the Strides Arcolab stock has jumped 20 per cent, a large part of the gains coming on Friday, after the company received approvals from the US Food and Drug Administration (US FDA). The Street is bullish on the stock, partly because of the company's prospects, considering its product pipeline.

The company, through the past week, received approvals for two drugs, with total market size of $550 million in the US. The first was the generic version of Mirapex, used in treating neurological disorders. Though the market is crowded with 10 players, its size is big, with annual sales of the drug pegged at $536 million. The latest approval is for a generic version of Methoxsalen capsules, used to treat skin ailments. While the market size of this drug is about $14 million, the company is the only player to market the generic version. What is important is these are the first abbreviated new drug applications (ANDAs) to be approved after the US FDA's compliance concerns were resolved in April this year. After an audit of a company plant in December 2013, the regulatory body had issued a Form 483, with inspection observations.

Analysts expect more lucrative approvals, given most of the 18 pending ANDAs have been filed from the same plant. Among these are Combivir (HIV infection), Calcitriol (vitamin D) and Tacrolimus (anti-inflammatory), which are expected to add about $21 million to the company's revenue in 2015, according to Antique Stock Broking. While the Strides management has not given any forecast for FY15, the company is expecting five-seven ANDA approvals, expected to be a key factor in boosting revenue and margins. Another opportunity could be orders on account of tender-based supply of anti-malarial drugs worth $200 million. The tender-based business is dominated by Cipla, IPCA and Ajanta Pharma; Strides has low single-digit market share. The institutional business, which includes tender-based sales, is a key segment for Strides.

In addition to the niche presence in the US market and institutional business, analysts see good growth prospects for Africa-branded formulation and EU generics. Another trigger is a closure of the warning letter for its Agila specialties division unit, expected in the next couple of quarters. Resolution of this issue will help the company receive the balance payment from Mylan, which acquired the Agila unit from Strides in February 2013 for $1.75 billion. The pending payment of $250 million may result in a special or one-time dividend of ₹250-300, analysts say. While there are triggers and the company is on course to reap the upsides, some gains have already been priced in. At current levels, the stock is being traded at nine times its FY16 estimated earnings.