**Strides Shasun** 

**Strong outlook driven by Lovaza and Renvela supplies in the near term**

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- 1Q FY18 was weak with EBITDA margins at 10.5%, but we stay positive as the near-term outlook is strong on: (1) Lovaza and first modified release approval expected in the near term and market share gains in own products; (2) Sevelamer’s supply to partners began in 2Q FY18; (3) clear facilities; & (4) API demerger.

- Strides guided for formulations’ business top line to grow at least 20% in FY18 with approvals from the US expected to pick up and Australia growth in low double digits. This should help margins.

- Key disappointment was 21% QoQ fall in regulated business. US hit due to (1) pricing pressure on partnered portfolio; (2) inventory filling in 4Q FY17; and (3) seasonality. However, Strides did well and gained share on its own front-end sales (up QoQ). We cut estimates 32%/15% and TP to Rs1,000 to factor in weak results.

- Other takeaways: (1) ANDA filing momentum is strong (five in FY18 and a target of 15-20 filings in FY18); (2) API demerger has been approved by CCI and stock exchanges; key step is NCLT approval; (3) Malaria supplies were negligible in this quarter and will pick up over the next couple of quarters (rebidding in Sep).

**Figure 2: Split of pending ANDAs**

**Figure 3: Strides 1QFY18: weak results (Rs mn)**

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3-Year Price and Rating History for Strides Shasun Limited (STSA.BO)

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<th>Closing Price</th>
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**Target Price and Rating**

**Valuation Methodology and Risks: (12 months) for Strides Shasun Limited (STSA.BO)**

**Method:** Our target price of Rs 1000 for Strides is based on 18x FY19E earnings per share (10% discount to peers). Strides is in the process of integrating the acquisitions and current margins are not reflective of the core business. We have an Outperform as we expect margins and ROCE to improve.

**Risk:** Risks to our target price of Rs1000 and Outperform rating for Strides Shasun Limited include: (1) higher-than-expected impact of PBS cuts, (2) integration issues w.r.t acquisition, (3) adverse currency movements.

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