

We had raised our 9-12mth target price on Strides Arcolab to Rs1,075 in our Q3 FY15 result update dated **February 03, 2015**. The stock has hit our target delivering a cumulative ~57% return since our BUY reco given in Q2 result update. We advise investors to book profit in the stock as upsides appear limited in th near term.

Reco Price: **Rs933**
 Closure Price: **Rs1,075**
 Return Achieved: **15.1%**

Sector: **Pharmaceuticals**
 Sector view: **Positive**
 Sensex: **28,838**
 52 Week h/l (Rs): **1,075 / 357**
 Market cap (Rscr) : **6,284**
 6m Avg vol ('000Nos): **230**
 Bloomberg code: **STR IB**
 BSE code: **532531**
 NSE code: **STAR**
 FV (Rs): **10**
 Price as on March 12, 2015

Change in Estimates Rating Target

Q3 FY15

Strides Arcolabs



Rating: **BUY**
 Target : **Rs1,075**
 CMP: **Rs933**
 Upside: **15.1%**

Sector: **Pharmaceuticals**
 Sector view: **Positive**
 Sensex: **29,122**
 52 Week h/l (Rs): **999 / 344**
 Market cap (Rscr) : **5,557**
 6m Avg vol ('000Nos): **230**
 Bloomberg code: **STR IB**
 BSE code: **532531**
 NSE code: **STAR**
 FV (Rs): **10**
 Price as on February 02, 2015

- Consolidated sales flat qoq while global pharma EBIDTA up 8.5% yoy
- Institutional sales jumped ~58% qoq on higher anti malarial supplies while regulated market revenues impacted by lower profit share on Vancomycin
- Reiterate BUY on the back of growth, margin levers in combined Strides + Shasun businesses with revised 9-12mth target of Rs1,075

Result table (standalone)

(Rs m)	Q3 FY15	Q2 FY15	% qoq	Q3 FY14	% yoy
Net sales	2,418	2,168	11.5	2,534	(4.6)
Adj RM	(1,377)	(1,116)	23.4	(1,190)	15.7
Purchase of traded goods	(99)	(74)	34.5	(386)	(74.4)
Staff	(300)	(293)	2.2	(197)	52.2
Other expenditure	(374)	(366)	2.2	(484)	(22.7)
Operating profit	269	319	(15.8)	277	(2.8)
OPM (%)	11.1	14.7	(361) bps	10.9	21 bps
Depreciation	(123)	(127)	(2.7)	(97)	26.7
Interest	(69)	(97)	(28.4)	(399)	(82.7)
Other income	274	272	0.4	13,882	(98.0)
PBT	350	369	(5.0)	13,663	(97.4)
Tax	(253)	(828)	(69.5)	(11,175)	(97.7)
Extra ordinary items	877	3,844	(77.2)	32,765	(97.3)
Reported PAT	974	3,385	(71.2)	35,252	(97.2)

Source: Company, India Infoline Research

Strides Q3: flat consol revenues qoq but margins expand

Strides reported flat revenues qoq on consolidated basis (pharma + biotech) while EBIDTA margins improved ~150bps sequentially. Q3 saw strong filings of niche products in US as well as ramp in anti malarial business.

Global pharma

Adjusting for one time revenues in Q3 last year, sales increased 19% driven by first full quarter of Raricap in domestic branded business and commencement of anti malarial supplies. Global pharma EBIDTA up 9.8% qoq on the back of increased R&D spend with 4 US filings during the quarter and significantly lower profit share recognized on Vancomycin, pending reconciliation of chargebacks and other costs with the partner. During the quarter, Strides received US FDA approval for Calcitriol Softgel capsules with market value of ~US\$50mn. Net R&D spend in global pharma at Rs109mn in Q3 (vs Rs57mn in Q2 FY15) or 3.3% of consol sales while biotech net R&D at Rs10mn.

Regulated markets: sales declined 11.6% qoq on account of lower profit share on Vancomycin recognized during the quarter. Launched 2 new products in US namely Bupirone Hydrochloride tablets and Tacrolimus capsules.

Institutional business: Anti-malarial supplies drove ~58% qoq jump in revenues. Strides collaborated with Medicine for Malaria venture for development of rectal artesunate for pre-referral treatment of severe malaria in children.

Emerging markets: revenues down 1.1% qoq and Q3 first full quarter of Raricap integration with domestic branded business.



Share holding pattern

%	Jun-14	Sep-14	Dec-14
Promoters	27.7	27.7	27.7
Insti	50.7	46.8	46.4
Others	21.6	25.5	25.9

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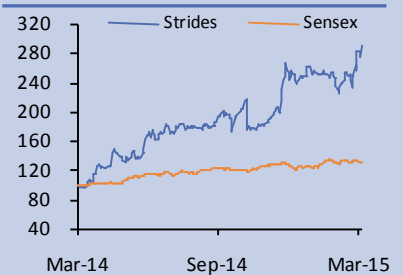
February 03, 2015

Result Update

Company rating grid

	Low → High				
	1	2	3	4	5
Earnings Growth				■	
Cash Flow			■		
B/S Strength			■		
Valuation appeal		■			
Risk	■				

Share price trend



Share holding pattern

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March 12, 2015

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Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

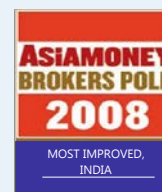
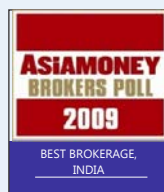
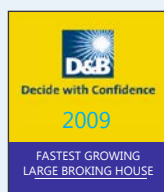
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Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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