

Granules India

BSE SENSEX
31,814

S&P CNX
9,980

CMP: INR122 TP: INR200 (+64%)
Buy

Stock Info

| | |
|-----------------------|------------|
| Bloomberg | GRAN IN |
| Equity Shares (m) | 254 |
| 52-Week Range (INR) | 157 / 91 |
| 1, 6, 12 Rel. Per (%) | -5/-19/-12 |
| M.Cap. (INR b) | 30.9 |
| M.Cap. (USD b) | 0.5 |
| Avg Val, INRm | 224 |
| Free float (%) | 46.6 |

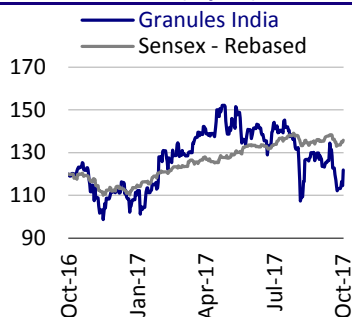
Financials Snapshot (INR b)

| Y/E Mar | 2017 | 2018E | 2019E |
|-------------|------|-------|-------|
| Net Sales | 14.4 | 17.4 | 23.4 |
| EBITDA | 3.0 | 3.6 | 5.1 |
| PAT | 1.7 | 2.0 | 2.8 |
| EPS (INR) | 7.2 | 8.0 | 11.0 |
| Gr. (%) | 32.3 | 10.5 | 37.3 |
| BV/Sh (INR) | 39.5 | 56.9 | 65.7 |
| RoE (%) | 21.1 | 17.7 | 18.8 |
| RoCE (%) | 17.9 | 16.1 | 18.3 |
| P/E (x) | 16.8 | 15.3 | 11.1 |
| P/BV (x) | 3.1 | 2.6 | 2.3 |

Shareholding pattern (%)

| As On | Jun-17 | Mar-17 | Jun-16 |
|----------|--------|--------|--------|
| Promoter | 53.4 | 53.5 | 51.1 |
| DII | 1.5 | 1.6 | 1.0 |
| FII | 12.2 | 10.0 | 7.2 |
| Others | 32.9 | 35.0 | 40.8 |

FII Includes depository receipts

Stock Performance (1-year)


Story unfolding on expected lines

Vizag-based facility under JV with Omnicem receives EIR

- Granules India's (GRAN) Vizag facility** was inspected by the US FDA in Dec-16, post which it was issued seven 483 observations. This is a new facility, and currently the JV is manufacturing pre-APIs from this facility. EIR will clear the road for the JV to reach out to innovators to supply APIs. We expect GRAN to make APIs in 2HFY19E from this plant (~12-15 months will be required for making exhibit batches and site transfers). This would lead to margin inflection (from ~21% now to ~30% by 2HFY19E).
- Granules-Omnicem JV – a potential cash cow:** This is a 50:50 JV between GRAN and Ajinomoto's subsidiary Omnicem. Omnicem would be transferring large-scale production of intermediates and APIs to the JV. It will also provide full support for quality, engineering, tech transfer, procurement, sales and management-related matters. FY17 was the first full year of operation for this JV. This JV manufactures pre-APIs of four products. Sales stood at ~INR2b in FY17, with EBITDA margin of ~22% and PAT margin of ~12%. We expect this JV to record revenue of ~INR4.5b, with EBITDA margin of >30% in FY20E.
- Base business – augmented capacity to fuel growth; focus on formulations to boost margins:** Currently, API is running at 100% capacity and PFI at 75-80% utilization. The company had planned to increase its API capacity by ~40% and PFI capacity by >20% (expansion plan to get over in FY18), which will help fuel growth in formulations (as GRAN is dependent on backward integration). This will help grow the base business at mid-to-high teens until at least FY20 (~27% CAGR over FY17-20E v/s ~7% in FY17).
- US business – plans niche foray into Rx business:** GRAN plans to file ~25 ANDAs in the US by FY19E. Of this, ~12-15 complex ANDAs will be filed from its US-based Virginia facility and rest from the India facility in Gagilapur. The company has already filed two complex generic ANDAs from its Virginia facility in March/April-17 (mkt. size of USD500m). Of these, in 1 product, GRAN could be the only generic player in the near term (TAD of Jan-18).
- PAT CAGR of >30% till FY20E despite full R&D expensing:** We expect ~35% PAT CAGR over FY17-20E. This is after assuming R&D expense of USD12m. This strong growth will be driven primarily by ramp-up of the base business (led by capacity expansion), shift in product mix, Omnicem JV, and OTC business expansion. Although FY19E will be the first year of US business sales, the full impact of investments in the US business will be visible from FY20E.
- Stock trading at ~11x FY19E PER; US business ramp-up an option value:** GRAN trades at ~11x FY19E EPS (despite assuming >10% equity dilution). We believe the stock has the potential to deliver >50% return in the next 12-18 months on the back of multiple re rating (to >18x forward earnings) and strong EPS CAGR of ~30% till FY20E. At 18x FY19E PER, fair value of GRAN's stock is INR200.

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Ankeet Pandya-Research analyst (Ankeet.Pandya@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Legacy business: Capacity expansion to fuel growth

- GRAN plans to expand its API capacity by ~40% and PFI capacity by >20% by mid-FY18.
- This will help it meet growing demand for Paracetamol/Metformin/Guaifenesin molecules across the globe. At present, the top five molecules contribute 85% of its total sales.

Strong base business; augmented capacity to fuel growth

- GRAN is among the largest manufacturers of Paracetamol and Ibuprofen APIs for the regulated markets. Along with this, it has been supplying Metformin, Guaifensin and Methacarbamol APIs. Until FY17, ~85% of its business has come from these five base molecules. Currently, API is running at 100% capacity and PFI at 73% utilization.
- The company is increasing its API capacity for Metformin, Paracetamol and Guaifensin by 15,000 TPA, and PFI capacity by >20%. Paracetamol supply will commence from 2QFY18, while Metformin supply to developed markets will start from FY19 (as clinical trial will be required). This capacity expansion in PFI/API will also help fuel growth in formulations (as the company is dependent on backward integration). This will help grow the base business at high-teens till at least FY20.
- GRAN’s base business covers 75% of the analgesics market (Paracetamol, Ibuprofen) and ~50% of the diabetes market (Metformin). Paracetamol, Ibuprofen and Metformin have maintained their status as the first line of defense in their respective segments, and have no direct replacements in the pipeline.

Exhibit 1: Molecule-wise share (%)

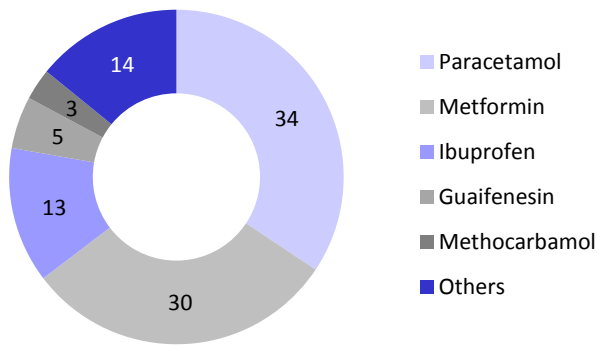


Exhibit 2: Geography-wise share (%)

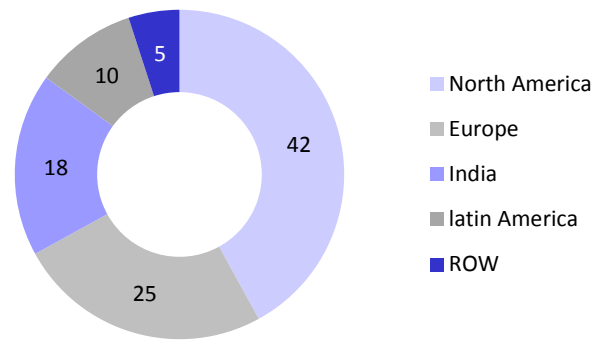
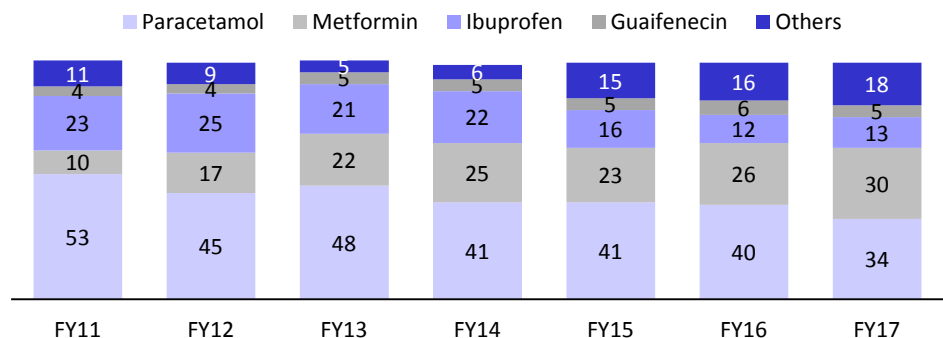


Exhibit 3: Product mix changing (%)



Source: Company, MOSL

API capacities: GRAN's existing API business is primarily driven by higher capacities, which augment production yield for the five APIs and improve profitability.

Over the years, GRAN has increased Paracetamol capacity from 8,000MTPA to 18,000MTPA, becoming the second largest Paracetamol producer in the world for the regulated markets (behind Mallinckrodt). Due to growing demand for internal and external consumption of Paracetamol in the regulated markets, GRAN has expanded its API capacities via de-bottlenecking.

Similarly, it intends to expand Metformin capacities in two phases (from 2,000MTPA to 9,000MTPA) by FY19E. Post expansion, GRAN would become one of the top three Metformin API producers in the world. The Metformin API market is growing at 8-10%/year, reflecting healthy demand for Metformin molecules due to combination products.

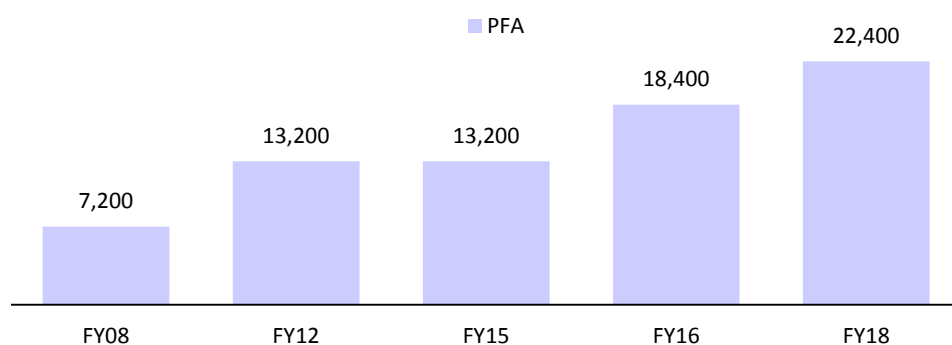
Exhibit 4: Growing API capacities

| | FY08 | FY12 | FY15 | FY16 | FY18E |
|---------------|-------|--------|--------|--------|--------|
| Paracetamol | 8,000 | 10,000 | 14,400 | 18,000 | 24,000 |
| Metformin | 960 | 2,000 | 2,000 | 2,000 | 9,000 |
| Ibuprofen | 3,600 | 4,800 | 4,800 | 4,800 | 4,800 |
| Guanfenesin | 640 | 1,200 | 1,200 | 1,200 | 3,200 |
| Methocarbamol | 96 | 180 | 360 | 360 | 360 |

Source: Company, MOSL

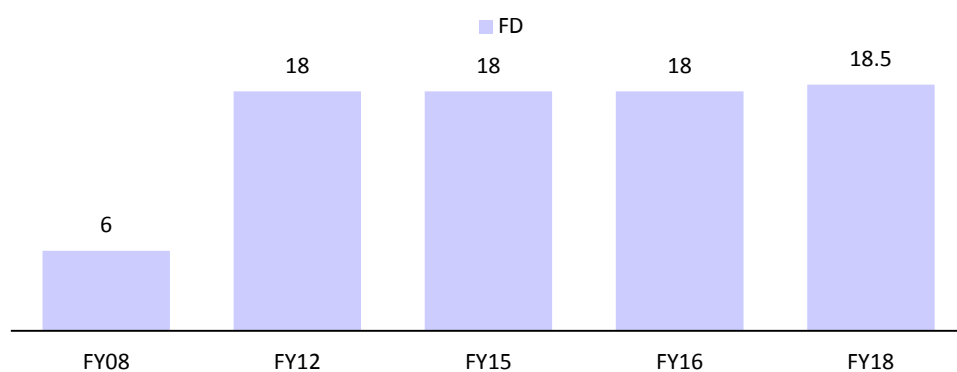
PFI capacities: GRAN has one of the largest PFI capacities globally at Gagilarpur in Andhra Pradesh, India. It is the only company in the world with capacity to handle 6MT PFI batch size. This gives GRAN a significant edge over competitors in terms of scale and profitability. GRAN already expanded its PFI capacity to 18,400MTPA in FY16 from 13,200MTPA in FY15. These PFI capacities are operating at 70-75% utilization, which is enough to support 17-18% growth in the existing PFI business over next two years.

Exhibit 5: PFI capacities at 18,400MTPA

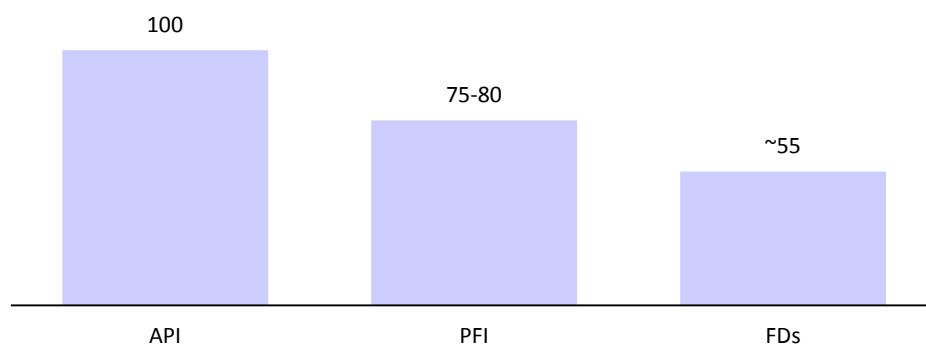


Source: Company, MOSL

Finished dosages capacity: GRAN had set up its first formulations facility in FY08, with annual capacity of 6b tablets. In FY12, it tripled this capacity to 18b tablets. It is still operating at 50-55% utilization and can comfortably support 26-30% revenue CAGR in the existing formulations business over next two years.

Exhibit 6: Finished dosage capacity at 18b tablets

Source: Company, MOSL

Exhibit 7: Utilization levels of the base business (%)

Source: Company, MOSL

Exhibit 8: API capacities of top five molecules

| Paracetamol Regulated Market Suppliers (MTPA) | |
|-----------------------------------------------|---------------|
| Mallinckrodt | 25,000 |
| Granules | 18,000 |
| Novocel | 6,000 |
| Ibuprofen Suppliers (MTPA) | |
| Shasun | 6,000 |
| IOL Chemicals | 6,000 |
| Albemarle | 5,200 |
| BASF | 5,000 |
| Granules Biocause | 4,800 |
| Metformin Suppliers (MTPA) | |
| Granules | 2,000 |
| USV Ltd | 10,100 |
| Wanbury | 9,000 |
| Harman | 6,000 |
| Methocarbamol Suppliers (MTPA) | |
| Granules | 360 |
| Synthochem | 250 |
| Guaifenesin Suppliers (MTPA) | |
| Granules | 1,200 |
| Synthochem | 800 |

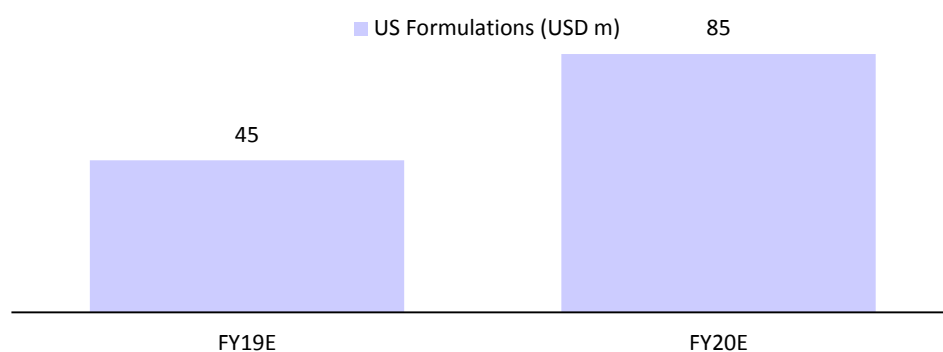
Source: Company, MOSL

US business: Plans niche foray into Rx business

Full potential will be visible in FY20

- GRAN is planning to file ~25-30 ANDAs in the US till FY19. Of these, ~10 complex ANDAs will be filed from its US-based Virginia facility and the rest of them from the India-based facility in Gagilapur. In FY18, GRAN plans to file 10-12 ANDAs, of which six will be filed from Gagilapur and the rest from Virginia.
- **Virginia facility – focus on complex filings:** GRAN acquired the Virginia-based facility for a consideration of USD1.5m. Through this plant, GRAN can focus on products with specific release properties, ODTs and DEA-controlled substances. The company plans to invest ~USD70m in this facility toward capacity expansion (currently capacity of 0.5b tablets), R&D and employee addition.
- The company has already filed two complex generic ANDAs from its Virginia facility in March/April-17 (market size of USD660m), where it expects to be 3rd/4th player at the time of launch (2HFY19). We expect own new filings for GRAN to contribute USD50-60m in FY20E.
- **US Pharma product acquisition to drive growth from FY19:** GRAN has also acquired marketing rights from US Pharma for four ANDAs (scheduled to be launched from late-FY18 to FY19). The market size of these products is >USD5b, with revenue potential of USD30-35m in FY19E.
- **Costs to be built in P&L from FY19E, but revenue potential to be visible from FY20:** Although we are already building in R&D spend of ~USD12m for FY19E, full-year revenue from own filings will start only FY20 onward. Despite this, we estimate an improvement in the consolidated EBITDA margins of 100bp due to traction in the base business and a shift in the product mix toward formulations.

Exhibit 9: Revenues from US formulation business will start contributing from FY19 (~20% of sales)



Source: Company, MOSL

Omnichem CRAMs JV – entry into high-value APIs

Partner profile: Hubei Biocause is a public listed company involved in the pharmaceuticals, chemicals and new energy fuel businesses. Biocause's pharmaceuticals business involves contract research, contract manufacturing and production of APIs, intermediates and formulations, including tablets, granules and capsules. Biocause is one of the leading pharmaceutical product producers and exporters to China, with a strong production, R&D and quality system. The company has eight APIs registered with the FDA and four APIs with CEP.

Joint venture details: The JV between Biocause and GRAN had set up a facility in Wuhan, China to manufacture Ibuprofen for the regulated markets. Currently, it is operating at 4,800MTPA capacity, making it among the five largest Ibuprofen suppliers in the world.

Granules-Omnichem JV: Established in FY15

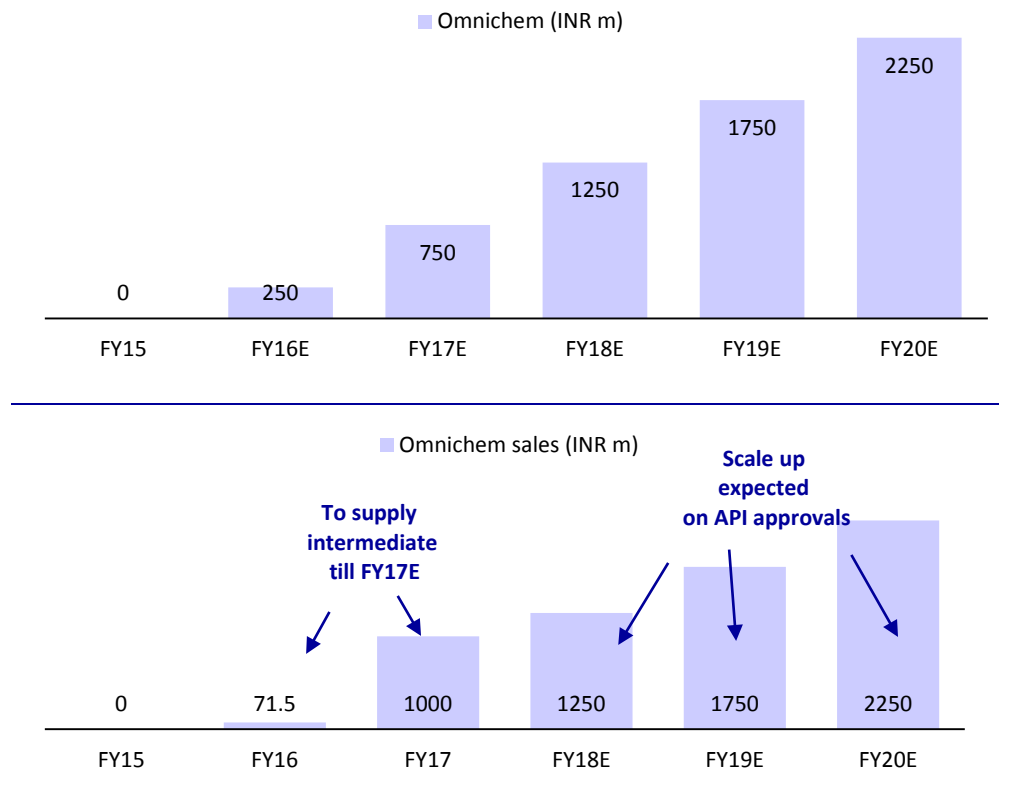
Partner profile: Ajinomoto-Omnichem is a Belgium-based company specializing in the manufacture of pharmaceutical products and fine chemicals. It is a wholly owned subsidiary of Japan-based Ajinomoto Co Inc (known for amino acids and food products). Omnichem, a division of Ajinomoto-Omnichem, focuses on development and manufacture of intermediates and active ingredients for the pharmaceutical industry (CRAMs). Each project is supported by an R&D team of ~80 people, who work on integrating the first lab experiments and pilot trials to full industrial production while maintaining confidentiality.

Omnichem JV sales expected to reach INR4.5b by FY20

Granules-Omnichem is a 50:50 JV between GRAN and Ajinimoto-Omnichem, Belgium. Omnichem would be transferring large-scale production of intermediates and APIs to Granules-Omnichem JV. It will also provide full support for quality, engineering, tech transfer, procurement, sales and management-related matters. API supply to developed markets will start from 2HFY19E. Currently, the JV manufactures various intermediates for Omnichem. Post approval, the JV would start manufacturing high-value APIs for Omnichem's CRAMs customers. These APIs are likely for innovators and MNCs to compete with generic players.

In FY17, this business generated revenue of ~INR2b. However, upon required regulatory approvals for products, Omnichem JV sales are expected to reach a peak of INR4.5b by FY20. These product approvals should kick in from FY18. Until then, the JV would continue supplying intermediates to Omnichem from this facility, which reported sales of INR1,000m in FY17. It is likely to achieve >30% EBITDA margin by selling high-value APIs (Oncology, CVS, etc.) to innovators.

Exhibit 10: Expect significant ramp-up in FY19

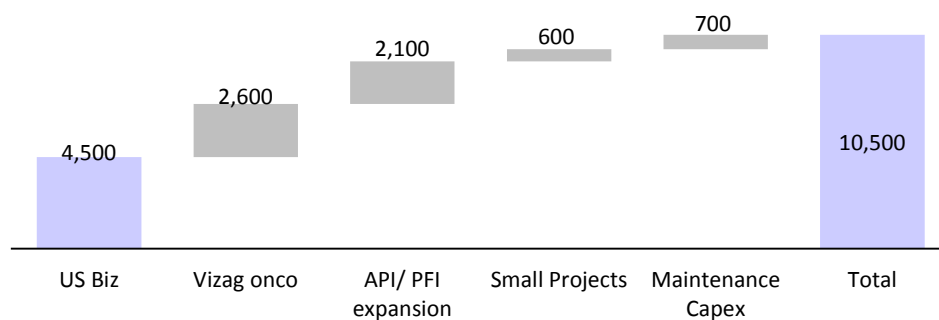


Source: Company, MOSL

Return from investments visible; adding legs to growth

- GRAN plans to invest INR10.5b over three years starting FY16. In FY16 and FY17, it incurred capex of ~INR1.3b and INR3.4b, respectively. Although full-scale benefits of these investments will be visible from FY19/20E, FY18E will be a critical year as: 1) revenue contribution from capacity expansion in traditional business will kick in, 2) filings from the US (already done 2, and ~8 by FY18E-end) will provide visibility on areas of investment in that country, 3) FDA approval to Omnicem JV plant will provide visibility on API sales from this plant (and, in turn, lead to margin improvement to >30% from ~21% currently) and 4) oncology plant should be ready.
- The company plans to incur capex of INR6.5b in FY18. It plans to invest ~INR4.5b in the US (USD10m in FY16, USD18m in FY17 and ~USD40m in FY18), mainly on R&D (~60-65% of total) and the rest on expanding capacity and buying equipment. Capex of INR2.1b has been incurred on traditional business capacity expansion (revenue contribution to start from 2QFY18), while INR2.6b will be spent on developing the oncology API/formulations plant (to get commissioned by FY19 beginning).

Exhibit 11: Total planned capex of ~INR10.5b over FY16-19E (INR m)



Source: Company, MOSL

Capex to be funded via new fresh fund raising and internal accruals: GRAN plans to invest ~INR6.5b in FY18E and ~INR2-2.5b in FY19E. GRAN will generate ~INR3.5b through internal accruals, while the rest can be funded through debt/equity. The company has already lined-up a line of credit of ~USD60m at an attractive rate of EURIBOR+2%. Also, recently, the company has raised INR3b through QIP route.

Strong regulatory history

- At present, the company conducts business via six API/intermediate facilities, two PFI facilities and two formulation facilities. There is also one API facility under construction for multi-product APIs in Vizag.
- Historically, GRAN has demonstrated a strong regulatory record, with no warning letter or import alert for any facility in last eight FDA inspections.

Exhibit 12: List of plants and recent inspections outcome

| Locations | Products | Approvals |
|-----------------------|--------------------------|-----------------------------------------------|
| API facilities | | |
| Jeedimetla | Metformin, | USFDA, KFDA, TGA, EDQM |
| Bothapally 1 | Paracetamol | USFDA, WHO, GMP, EDQM, Infarmed (EU) approved |
| Bothapally 2 | Intermediate (Auctus) | |
| Wuhan | Ibuprofen | USFDA, EDQM, TPD – Canada, MCC approved |
| Vizag 1 | Multiproduct (Auctus) | US FDA approved |
| Vizag 2 | Oncology (Omnichem JV) | Yet to approve |
| Vizag 3 | Multiproduct (Granules) | Under Development |
| PFI facilities | | |
| Jeedimetla | Multiproduct small scale | USFDA, Australian TGA, German HA approved |
| Gagilapur | Multiproduct large scale | USFDA, German HA, Australian TGA approved |
| FD facilities | | |
| Gagilapur | Tablets | Infarmed (EU), USFDA |
| US | Complex product filings | |

Source: Company, MOSL

Building a strong management team

Granule is building a strong management team as it enters the US generic space.

| Name | Designation | Hired in | Previous Company |
|-------------------------|-----------------------------------|----------|---------------------------|
| Mr. Sreekanth Muttineni | COO | 16-Sep | Aurobindo Pharma |
| Mr. Ganesh K | CFO | 17-May | Dr. Reddy |
| Mr M Gopi Reddy | Sr. VP - Quality | 16-Sep | Cipla |
| Mr. Jaishokan Velusami | Hear - R&D (Granules Pharma Inc.) | 16-Apr | Actavis & Par Pharma Inc. |

Management team profile

Mr C. Krishna Prasad – Chairman and Managing Director

Mr Prasad is the founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up a Paracetamol manufacturing facility, focused on capital and process efficiency. Pharmaceutical Formulations Intermediates (PFIs) as a cost-efficient product for global formulations manufacturers is a concept pioneered and popularized by him.

Dr. Prasada Raju – Executive Director

Dr Raju has over two decades of techno commercial experience in the global pharmaceutical space. His previous experience at Dr Reddy's encompasses new product development, fostering strategic partnerships, driving synergies between Industry and Academia, expanding into newer geographies, IP-driven early product portfolio development and program management.

Mr Sreekanth Muttineni – Chief Operating Officer

Mr Muttineni joined Granules India in September 2016. During his nine-year tenure at Lupin Ltd, he was responsible for manufacturing operations. Prior to that, Mr Muttineni worked at Aurobindo Pharma as general manager – operations, and led the establishment of generic pharmaceutical facilities and commercialization.

Mr. Ganesh K – Chief Financial Offer

Mr. Ganesh joined Granules India in May 2017. Before joining Granules, he was associated with Dr Reddy's for a span of 12 years as senior vice president – corporate finance. Mr Ganesh is a chartered accountant, having professional experience of more than 27 years. He specializes in leading large-scale M&A and treasury operations, with skills in executing business/financial management strategies and strengthening fiscal efficiency.

Mr M Gopi Reddy – Sr. Vice President (Quality)

Mr Reddy joined Granules India in September 2016. He started his career 1995 as assistant manager production at GSK Pharma, where he worked for six years. He has 21 years of experience in corporate quality assurance, working with some of the biggest pharma companies in India. In his previous stint in Cipla as head quality compliance, he was responsible for developing systems and skills to ensure compliance at all the company's manufacturing sites globally.

Mr Jaishokan Velusami – Head R&D (Granules Pharmaceuticals Inc.)

Mr Velusami has over 15 years of extensive multi-disciplinary expertise in drug development and portfolio management across a broad range of therapeutic areas, drug delivery systems and novel platform technologies. His extensive experience includes technology transfer, commercializing R&D assets, strategic planning and optimizing operation strategy across cross-functional teams. Prior to Granules, he led R&D programs at Actavis and Par Pharmaceutical Inc., and has also laid the foundation for successful start-ups (Novel and Kali Laboratories) in drug development and operational strategy.

Mr. Stefan Lohle – Chief Marketing Officer

Mr Lohle has over two decades of experience in the pharmaceutical industry. He has been associated with Granules since 2001, and previously was head of Latin American operations, where he primarily focused on the PFI business. Mr Lohle has also served at Kimberly Clark Corporation for new project development.

Valuation and view

Over the last six years, GRAN reported 39% earnings CAGR on improved profitability, higher operating leverage and superior business mix. It expanded its finished dosages business at a CAGR of 24% over FY12-17, leading to higher profitability and improved utilization of the existing capacity of 18b tablets. Profitability of the PFI business has also improved substantially, with the implementation of 6MT order capacity. As a result, GRAN has expanded its EBITDA margins from 11.8% in FY11 to ~21% in FY17.

Going ahead, we expect >30% PAT CAGR to continue till FY20E, supported by 27% revenue CAGR and ~250bp margin expansion. Our target price of INR200 discounts GRAN's FY19E EPS at 18x, which (a) is at 5-10% premium to peers, and (b) implies a PEG of 0.5x (FY17-20E EPS CAGR of ~30%).

GRAN is currently trading at ~11x FY19E EPS. We argue for a P/E re-rating for GRAN, given (a) strong PAT growth outlook – >30% CAGR over FY17-20E, backed by 27% revenue CAGR and (b) expansion in high-margin CRAMs and US generic business.

Exhibit 13: Peer comparison

| | CMP | Mkt CAP (USD m) | P/E | | EV/EBITDA | | RoE (%) | |
|-----------------------|------------|--------------------|-------------|-------------|------------|------------|-------------|-------------|
| | | | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| Granules India | 122 | 407 | 16.4 | 12.6 | 8.1 | 5.9 | 17.7 | 18.8 |
| Marksans Pharma | 48 | 301 | 26.6 | 16.2 | 15.1 | 10.8 | 16.6 | 22.3 |
| Shilpa Medicare | 626 | 771 | 28.4 | 19.3 | 20.1 | 13.9 | 17.7 | 21.5 |
| IPCA | 520 | 1035 | 31.4 | 19.4 | 11.9 | 11.8 | 8.2 | 12.2 |
| Suven | 181 | 356 | 21.8 | 18.9 | 12.8 | 10.9 | 14.9 | 15.2 |
| Neuland | 1065 | 145 | 22.8 | 14.22 | 10.5 | 7.5 | 19.2 | 25.2 |

Key catalysts to drive stock's performance over the medium term

- Finished dosages product approvals from regulated markets.
- Commercialization of new capacity.
- Higher than expected realizations from Omnicem JV.

Risks to our investment thesis

- Pricing pressure on existing products.
- Regulatory risks related to already approved manufacturing facilities.

Story in Charts

Exhibit 14: Revenues to exhibit 27% CAGR over FY17-20E

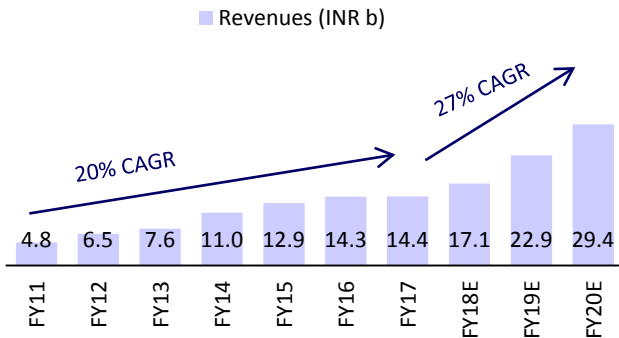


Exhibit 15: Revenues from US biz to drive growth

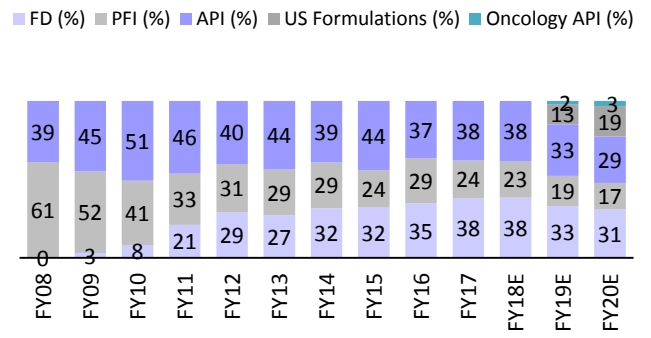


Exhibit 16: EBITDA margins to expand to 23% by FY20E

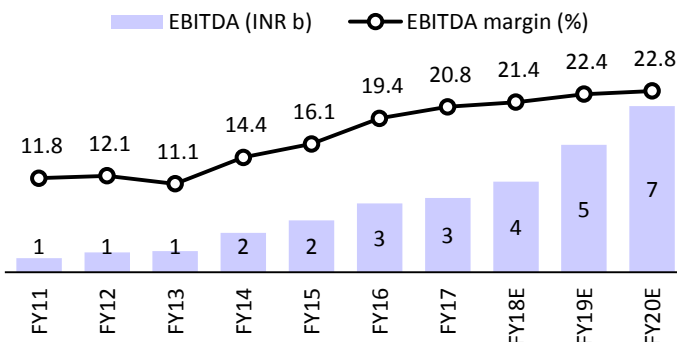


Exhibit 17: PAT to exhibit 33% CAGR over FY17-20E

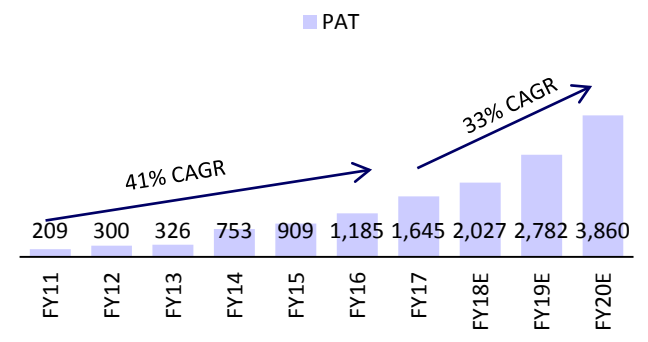


Exhibit 18: Geography wise revenue break-up

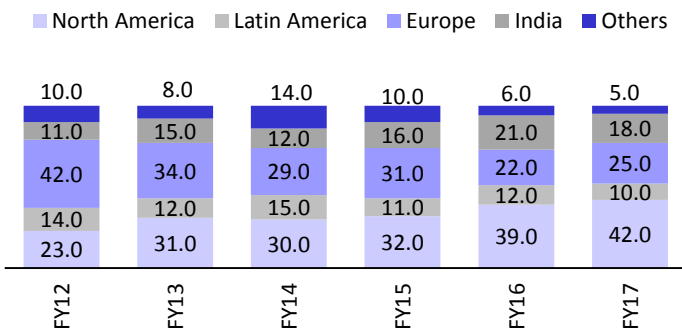


Exhibit 19: Product mix changing (%)

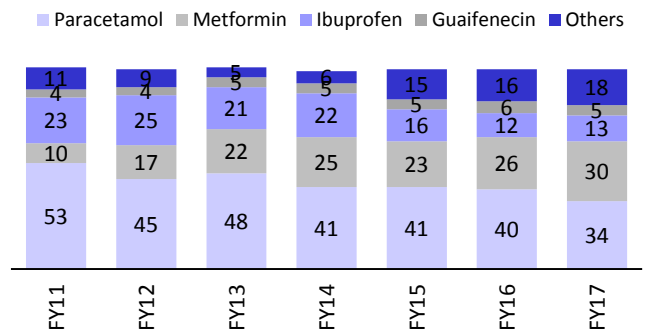


Exhibit 20: Capex needs to continue with growth

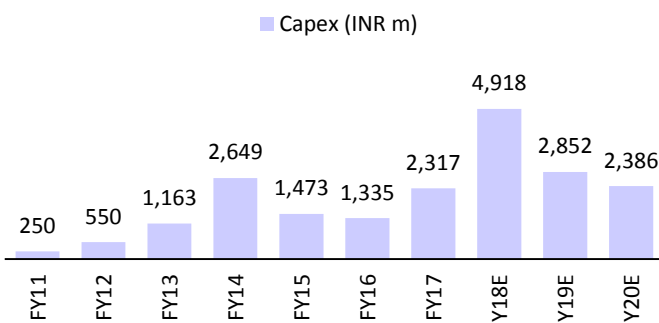
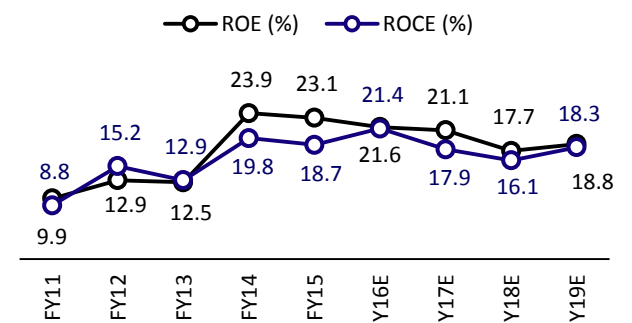


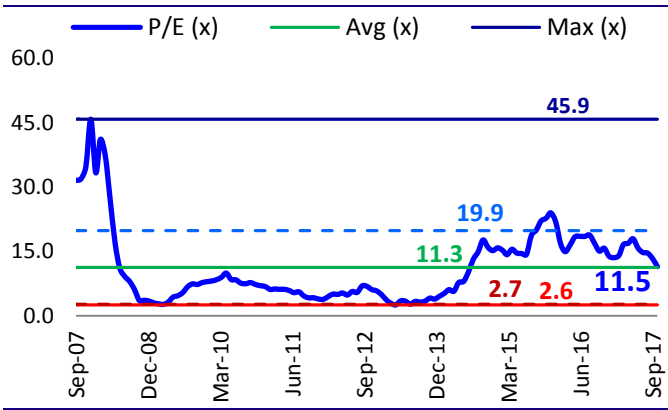
Exhibit 21: Return ratios to improve post FY18



Source: Company, MOSL

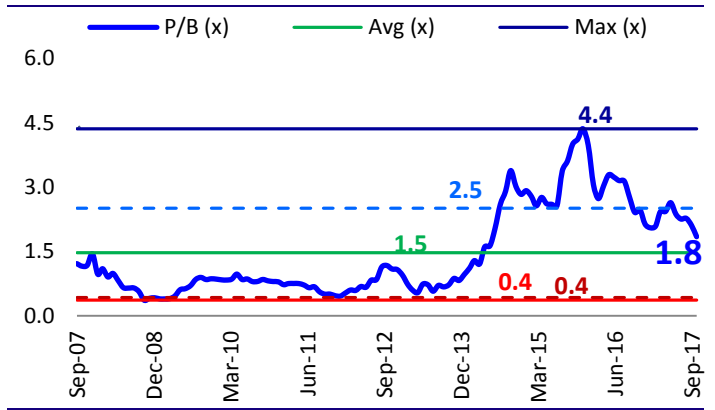
Source: Company, MOSL

Exhibit 22: P/E band Significant re-rating over past 30 months



Source: MOSL, Company

Exhibit 23: P/B chart



Source: MOSL, Company

Financials and Valuations

| Consolidated - Income Statement | | | | | | (INR Million) |
|----------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
| Income from Operations | 11,167 | 13,279 | 14,603 | 14,599 | 17,426 | 23,373 |
| Less: Excise Duty | 209 | 350 | 308 | 247 | 375 | 458 |
| Total Income from Operations | 10,959 | 12,929 | 14,295 | 14,353 | 17,051 | 22,915 |
| Change (%) | 43.4 | 18.0 | 10.6 | 0.4 | 18.8 | 34.4 |
| Total Expenditure | 9,376 | 10,843 | 11,528 | 11,364 | 13,402 | 17,782 |
| % of Sales | 85.6 | 83.9 | 80.6 | 79.2 | 78.6 | 77.6 |
| EBITDA | 1,583 | 2,086 | 2,767 | 2,988 | 3,649 | 5,133 |
| Margin (%) | 14.4 | 16.1 | 19.4 | 20.8 | 21.4 | 22.4 |
| Depreciation | 298 | 527 | 643 | 715 | 1,001 | 1,428 |
| EBIT | 1,285 | 1,560 | 2,124 | 2,273 | 2,648 | 3,705 |
| Int. and Finance Charges | 204 | 323 | 399 | 323 | 359 | 561 |
| Other Income | 43 | 43 | 77 | 99 | 140 | 137 |
| PBT bef. EO Exp. | 1,124 | 1,280 | 1,802 | 2,050 | 2,429 | 3,282 |
| EO Items | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT after EO Exp. | 1,124 | 1,280 | 1,802 | 2,050 | 2,429 | 3,282 |
| Current Tax | 305 | 287 | 535 | 652 | 777 | 1,050 |
| Deferred Tax | 66 | 83 | 82 | -9 | 0 | 0 |
| Tax Rate (%) | 33.0 | 29.0 | 34.2 | 31.4 | 32.0 | 32.0 |
| Add: Associate income | 0 | 0 | 0 | 247 | 375 | 550 |
| Reported PAT | 753 | 909 | 1,185 | 1,654 | 2,027 | 2,782 |
| Adjusted PAT | 753 | 909 | 1,185 | 1,654 | 2,027 | 2,782 |
| Change (%) | 130.8 | 20.8 | 30.3 | 39.6 | 22.5 | 37.3 |
| Margin (%) | 6.9 | 7.0 | 8.3 | 11.5 | 11.9 | 12.1 |

| Consolidated - Balance Sheet | | | | | | (INR Million) |
|-------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
| Equity Share Capital | 203 | 204 | 217 | 229 | 254 | 254 |
| Total Reserves | 3,357 | 4,107 | 6,444 | 8,807 | 14,174 | 16,420 |
| Net Worth | 3,560 | 4,312 | 6,660 | 9,036 | 14,427 | 16,674 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred Liabilities | 403 | 549 | 646 | 565 | 565 | 565 |
| Total Loans | 4,417 | 4,872 | 4,767 | 5,981 | 5,981 | 6,481 |
| Capital Employed | 8,380 | 9,732 | 12,074 | 15,582 | 20,973 | 23,719 |
| Gross Block | 6,539 | 8,438 | 9,622 | 10,099 | 16,599 | 19,099 |
| Less: Accum. Deprn. | 1,714 | 2,272 | 2,941 | 3,656 | 4,657 | 6,085 |
| Net Fixed Assets | 4,825 | 6,166 | 6,681 | 6,443 | 11,942 | 13,014 |
| Goodwill on Consolidation | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital WIP | 1,246 | 620 | 766 | 2,605 | 1,023 | 1,375 |
| Total Investments | 2 | 2 | 2 | 1,082 | 2 | 2 |
| Curr. Assets, Loans&Adv. | 3,848 | 5,184 | 7,080 | 8,633 | 12,616 | 14,716 |
| Inventory | 1,742 | 2,245 | 3,071 | 2,761 | 3,305 | 4,385 |
| Account Receivables | 1,109 | 1,326 | 1,526 | 4,177 | 4,671 | 5,964 |
| Cash and Bank Balance | 418 | 653 | 1,419 | 498 | 3,378 | 2,411 |
| Loans and Advances | 580 | 959 | 1,065 | 1,198 | 1,270 | 1,707 |
| Curr. Liability & Prov. | 1,640 | 2,295 | 2,521 | 3,183 | 2,856 | 3,691 |
| Account Payables | 1,355 | 1,887 | 1,791 | 2,160 | 1,652 | 1,949 |
| Other Current Liabilities | 162 | 233 | 608 | 934 | 725 | 974 |
| Provisions | 123 | 175 | 122 | 89 | 483 | 708 |
| Net Current Assets | 2,208 | 2,888 | 4,559 | 5,451 | 9,760 | 11,025 |
| Appl. of Funds | 8,379 | 9,732 | 12,074 | 15,582 | 21,831 | 24,577 |

E: MOSL Estimates

Financials and Valuations

Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|------------|------------|------------|------------|------------|-------------|
| Basic (INR) | | | | | | |
| EPS | 3.7 | 4.5 | 5.5 | 7.2 | 8.0 | 11.0 |
| Cash EPS | 5.2 | 7.0 | 8.4 | 10.4 | 11.9 | 16.6 |
| BV/Share | 17.6 | 21.1 | 30.7 | 39.5 | 56.9 | 65.7 |
| DPS | 0.4 | 0.5 | 0.6 | 1.0 | 1.5 | 2.2 |
| Payout (%) | 11.0 | 13.6 | 13.9 | 16.2 | 22.1 | 23.2 |
| Valuation (x) | | | | | | |
| P/E | 32.8 | 27.4 | 22.3 | 16.8 | 15.3 | 11.1 |
| Cash P/E | 23.5 | 17.3 | 14.4 | 11.8 | 10.2 | 7.3 |
| P/BV | 6.9 | 5.8 | 4.0 | 3.1 | 2.6 | 2.3 |
| EV/Sales | 2.8 | 2.4 | 2.1 | 2.3 | 1.7 | 1.3 |
| EV/EBITDA | 19.6 | 15.0 | 11.0 | 10.9 | 8.1 | 5.9 |
| Dividend Yield (%) | 0.3 | 0.4 | 0.5 | 0.8 | 1.2 | 1.8 |
| Return Ratios (%) | | | | | | |
| RoE | 23.9 | 23.1 | 21.6 | 21.1 | 17.7 | 18.8 |
| RoCE | 19.8 | 18.7 | 21.4 | 17.9 | 16.1 | 18.3 |
| RoIC | 15.9 | 14.6 | 15.2 | 14.7 | 13.2 | 14.3 |
| Working Capital Ratios | | | | | | |
| Asset Turnover (x) | 1.3 | 1.3 | 1.2 | 0.9 | 0.8 | 1.0 |
| Inventory (Days) | 58 | 63 | 78 | 70 | 71 | 70 |
| Debtor (Days) | 36 | 36 | 38 | 104 | 98 | 93 |
| Creditor (Days) | 77 | 92 | 86 | 116 | 75 | 67 |
| Leverage Ratio (x) | | | | | | |
| Current Ratio | 2.3 | 2.3 | 2.8 | 2.7 | 4.4 | 4.0 |
| Interest Cover Ratio | 6 | 5 | 5 | 7 | 7 | 7 |
| Debt/Equity | 1.2 | 1.1 | 0.7 | 0.7 | 0.4 | 0.4 |

Consolidated - Cash Flow Statement

(INR Million)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| OP/(Loss) before Tax | 1,124 | 1,280 | 1,801 | 2,050 | 2,429 | 3,282 |
| Depreciation | 298 | 527 | 643 | 715 | 1,001 | 1,428 |
| Interest & Finance Charges | 190 | 309 | 347 | 223 | 219 | 423 |
| Direct Taxes Paid | -238 | -317 | -490 | -652 | -777 | -1,050 |
| (Inc)/Dec in WC | -310 | -363 | -915 | -1,813 | -1,266 | -2,029 |
| CF from Operations | 1,064 | 1,435 | 1,387 | 524 | 1,617 | 2,116 |
| Others | 16 | 18 | 51 | 0 | -163 | -203 |
| CF from Operating incl EO | 1,080 | 1,453 | 1,438 | 524 | 1,454 | 1,913 |
| (inc)/dec in FA | -2,649 | -1,473 | -1,335 | -2,317 | -4,918 | -2,852 |
| (Pur)/Sale of Investments | 95 | 0 | 0 | -1,080 | 1,080 | 0 |
| Others | 8 | 17 | 53 | 0 | 140 | 137 |
| CF from Investments | -2,546 | -1,456 | -1,281 | -3,397 | -3,697 | -2,714 |
| Issue of Shares | 11 | 11 | 1,059 | 1,874 | 3,775 | 0 |
| (Inc)/Dec in Debt | 1,709 | 628 | 191 | 1,214 | 0 | 500 |
| Interest Paid | -205 | -319 | -406 | -323 | -359 | -561 |
| Dividend Paid | -47 | -83 | -234 | -268 | -459 | -679 |
| Others | 0 | 0 | 0 | 247 | 375 | 550 |
| CF from Fin. Activity | 1,467 | 238 | 609 | 2,744 | 3,332 | -140 |
| Inc/Dec of Cash | 0 | 236 | 766 | -129 | 2,088 | -967 |
| Opening Balance | 417 | 417 | 653 | 1,419 | 1,290 | 3,378 |
| Closing Balance | 417 | 653 | 1,419 | 1,290 | 3,378 | 2,411 |

E: MOSL Estimates

NOTES

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