

RETAIL EQUITY RESEARCH

Granules India Ltd

Pharmaceuticals

BSE CODE: 532482

NSE CODE: GRANULES

Bloomberg CODE: GRAN:IN

SENSEX: 34,949

30th May, 2018

BUY

Rating as per mid cap

12months investment period

CMP Rs. 82

TARGET Rs. 97

RETURN 18% **Debottlenecking: The driver for growth...**

Granules (Inc) is a leading generic player in the Indian pharmaceutical industry with a 2/3rd of its revenue generated from North America and Europe and the rest coming from Emerging markets like India.

- Q4FY18 revenue grew significantly by 39% YoY on incremental sales from newly added capacities while PAT de-grew by 55% on account of higher raw material (RM) cost and one time inventory write off.
- Production (in metric tonnes) increased by 41%(API), 45%(PFI) and 43% (FD) in Q4FY18 on a YoY basis.
- We expect EBITDA margin to remain in 17-19% range for FY19-20E with new launches in US and passing on of higher RM cost
- We forecast a PAT CAGR of 6% for FY19-20 resp. on back of increasing revenue and improving margins.
- We value Granules at 14x on FY20E EPS and arrive at a target price of Rs 97 and retain the Buy rating.

Higher crude oil prices impacted the bottomline...

While Q4FY18 revenue grew at ~41% YoY due to increased sales from enhanced capacity in Bonthapally and Gagillapur and higher Ibuprofen sales, adjusted PAT witnessed a de-growth of 55% YoY on account of higher raw material costs. We witnessed an increase in topline growth in FY18 - across all product verticals, with API registering an 18% increase; PFI 22% and FD 24%. However, margins shrank primarily due to increase in raw material cost, reduced APIs supplies from China and geographic related issues and one time inventory write offs.

EBITDA margins to remain subsided despite higher turnover ...

EBITDA dropped by 29% (QoQ) & EBITDA margins are down by 3.8% (QoQ) on account of increase in material cost and lag in transfer of added costs. Consolidated other expenses had a 36crs write off specifically related to R&D expenses for the full year which also dragged the numbers. We therefore lower our FY18E and FY19E EBITDA margins by 390/350bps each respectively while factoring a 6% CAGR in PAT over FY19-20E. Stabilisation of crude prices will be the key factor to monitor.

Capacity additions and USFDA approvals gives positive signal...

Operationalization of expanded capacities for API's from Bonthapally and PFI's from Gagillapur were the major developments for the company. Better results came out from Granules Biocause due to higher Ibuprofen prices while Omnicem's performance was lackluster owing to customer off-take delays. AMEA region registered the highest year on year growth by geography wise. Granules has filed 10 ANDA's this year with six coming from Virginia, USA and 4 from India. They have also completed 4 USFDA audits in FY18 which will add momentum to their growth.

Valuations

We expect consolidated revenue to grow at 15% CAGR over CY19-20E led by increase in product releases. However, we lower our FY19E and FY20E PAT estimates by 22% & 23% respectively on lower projected revenue and EBITDA margins. On the pricing front, considering their increasing production capacity, lower valuations, expectation of stabilising oil prices we believe in the future prospects of the company and expect earnings to remain healthy in the long term. We believe that the recent dip will not sustain for longer periods, and retain the Buy rating with a revised target price of Rs 97 at 14x FY20E EPS.

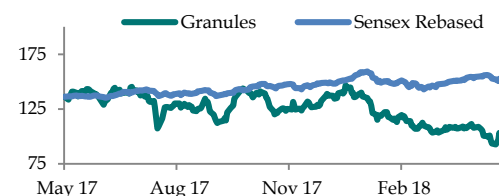
Company Data

Market Cap (cr)	Rs. 2,078
Enterprise Value (cr)	Rs. 2,926
Outstanding Shares (cr)	25.4
Free Float	55%
Dividend Yield	1.21%
52 week high	Rs 151
52 week low	Rs 78
6m average volume (cr)	0.03
Beta	1.34
Face value	Rs. 1

Shareholding (%)	Q2FY18	Q3FY18	Q4FY18
Promoters	48	45	45
FII's	19.8	14.24	10.6
MFs/Insti	1.63	4	6.95
Public	30	37	37.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1Year
Absolute Return	-33.5%	-36.4%	-41.6%
Absolute Sensex	-2.0%	0.1%	8.8%
Relative Return	-32.1%	-36.4%	-46.3%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY18A	FY19E	FY20E
Sales	1,685	1,884	2,213
Growth (%)	19	12	18
EBITDA	278	344	416
Margin (%)	16.5	18.2	18.8
PAT Adj	155	142	175
Growth (%)	-5.1	-8.6	23.1
Adj.EPS	6.1	5.6	6.9
Growth (%)	-14.5	-8.6	23.1
P/E	12.9	14.1	11.5
P/B	1.5	1.4	1.3
EV/EBITDA	10.3	8.8	7.6
ROE (%)	14.1	10.4	11.7
D/E	0.7	0.8	0.8

Dilish K Daniel
Analyst

Quarterly Financials

Profit & Loss Account

(Rs cr)	Q4FY18	Q4FY17	YoY Growth %	Q3FY18	QoQ Growth %
Sales	513.6	362	41.4	411.6	25
EBITDA	53.2	79	-32.2	74.9	-28.9
EBITDA margins	10.3	22	-12	18.2	3.8
Depreciation	20.4	18	13.3	19.6	-8
EBIT	32.8	60.6	-45.8	55.3	-41
Interest	6.2	7.7	-2.0	8.23	-6
Other Income	-	-	-	-	-
Exceptional Items	-	-	-	-	-
PBT	26.6	53	-50	47.0	-43
Tax	9.5	17	-44	16.9	-59
Share of profit from Associate	3.24	9	-64	4.85	-
Reported PAT	20.4	46	-55	35.0	-42
Adjustments	7.8	-	-	5	-
Adj PAT	28.2	46	-39	40.0	-30
No. of shares (cr)	25.4	22.9	-	25.4	-
EPS (Rs)	1.4	2.3	-40	2.0	-30

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	1,870	2,236	1,884	2,213	.74	-1.0
EBITDA	413	488	344	416	-17	-15
Margins (%)	22.1	22.3	18.2	18.8	-390bps	-350bps
Adj. PAT	184	226	142	175	-22	-23
EPS	7.2	8.9	5.6	6.9	-22	-22

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Sales	1357	1411	1,685	1,884	2,213
% change	4.9	3.9	19.4	11.8	17.5
EBITDA	276	299	278	344	416
% change	32.4	8.2	(7)	24	21
Depreciation	58	72	76	96	105
EBIT	218	227	202	248	311
Interest	37	32	33	43	53
Other Income	5	10	11	14	14
PBT	186	205	180	219	272
% change	45.7	10.2	(12.3)	21.9	24.4
Tax	61	66	63	77	96
Tax Rate (%)	32.9	32.1	35.3	35.1	35.3
Reported PAT	123	164	132	142	176
Adj*	-	-	23.4	-	-
Adj PAT	123	164	155	142	176
% change	35.6	33.4	(5.1)	(8.6)	24
No. of shares (crs)	21.7	22.9	25.4	25.4	25.4
Adj EPS (Rs)	5.7	7.2	6.1	5.6	6.9
% change	27.8	26.4	(14.5)	(8.6)	24
DPS (Rs)	.63	.98	1.0	1.0	1.0

Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Cash	142	50	115	19	45
Accounts Receivable	152	418	617	568	667
Inventories	307	276	280	408	518
Other Cur. Assets	13	28	139	155	182
Investments	0	108	157	207	307
Gross Fixed Assets	839	895	1,103	1,515	1,715
Net Fixed Assets	584	569	701	1,017	1,113
CWIP	77	261	290	225	215
Intangible Assets	84	76	300	402	377
Def. Tax (Net)	(58)	(57)	(47)	(45)	(43)
Other Assets	-	-	-	-	-
Total Assets	1396	1818	2,589	3,003	3,430
Current Liabilities	133	114	65	163	236
Provisions	12	7	10	20	23
Debt Funds	246	124	433	508	583
Other Liabilities	179	195	252	350	400
Equity Capital	22	23	25	25	25
Reserves & Surplus	644	881	1,279	1,392	1,538
Shareholder's Fund	666	904	1,304	1,417	1,564
Total Liabilities	1396	1818	2,589	3,003	3,430
BVPS(Rs)	31	40	51	56	62

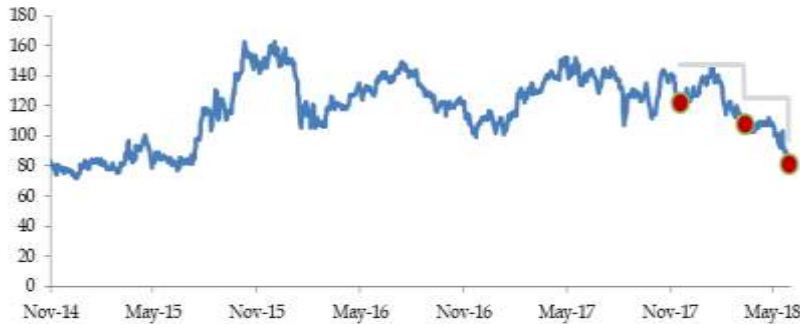
Cash flow

Y.E March (Rs cr)	FY16A	FY17A	FY18A	FY19E	FY20E
Net inc. + Depn.	19	24	21	24	28
Non-cash adj.	1.6	(0.8)	(23.4)	-	-
Changes in W.C	(9)	(6)	(31)	-	(17)
C.F.O	15	19	(10)	27	16
Capital exp.	(13)	(31)	(24)	(35)	(19)
Change in inv.	1	(1)	(27)	(15)	(7)
Other invest.CF		-	1.0	1.0	1.0
C.F - investing	(13)	(32)	(50)	(48)	(25)
Issue of equity	(8)	(32)	(33)	(43)	(53)
Issue/repay debt	4	(22)	(29)	(29)	(29)
Dividends paid					
Other finance.CF	65	98	669	95	155
C.F - Financing	6	(10)	-	-	-
Chg. in cash	81	(80)	51	(95)	26
Closing cash	145	64	115	19	45

Ratios

Y.E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	20.4	21.2	16.5	18.2	18.8
EBIT margin (%)	16.1	16.1	12.0	13.2	14.1
Net profit mgn.(%)	9.1	11.6	9.2	7.5	8.0
ROE (%)	22.4	20.9	14.1	10.4	11.8
ROCE (%)	11.9	10.3	6.3	5.0	5.6
W.C & Liquidity					
Receivables (days)	38.8	73.7	112.1	114.8	101.8
Inventory (days)	71.5	75.4	60.2	66.7	76.4
Payables (days)	92.4	100.5	91.0	110.6	119.4
Current ratio (x)	2.3	2.8	3.8	2.3	2.3
Quick ratio (x)	1.3	1.9	2.8	1.5	1.5
Turnover &Levg.					
Gross asset T.O (x)	1.7	1.6	1.7	1.4	1.3
Total asset T.O (x)	1.1	0.9	0.8	0.7	0.7
Int. covge. ratio (x)	5.9	7.1	6.1	5.7	5.8
Adj. debt/equity (x)	0.7	0.7	0.7	0.8	0.8
Valuation ratios					
EV/Sales (x)	2.2	2.4	1.7	1.6	1.4
EV/EBITDA (x)	11.0	11.2	10.3	8.8	7.6
P/E (x)	21.3	17	12.9	14.1	11.4
P/BV (x)	3.9	3.1	1.5	1.4	1.3

Recommendation Summary(last 3 years)



Dates	Rating	Target
17 th Nov 2017	Buy	147
12 th March 2018	Buy	125
30 th May 2018	Buy	97

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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