

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.

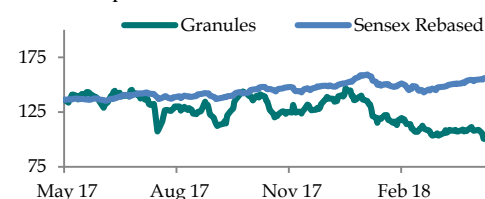
Company Data

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

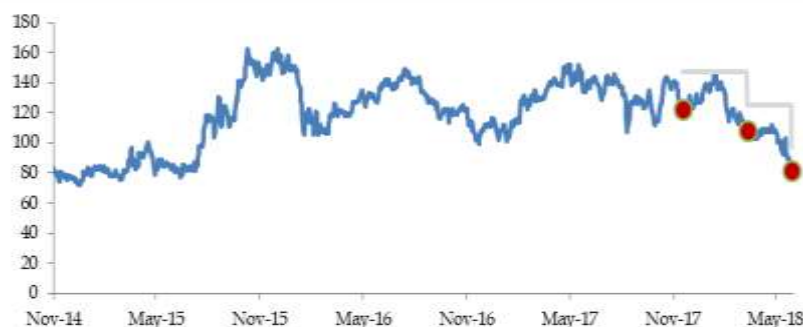
Cash flow

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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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

General Disclosures and Disclaimers

CERTIFICATION

I, Dilish K Daniel, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is

issued by Geojit without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports / research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

Geojit confirms that:

- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Dilish K Daniel, Research Analyst of Geojit have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity: Neither Geojit/its Analysts have engaged in market making activities for the subject company. Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

6. Disclosure regarding Directorship:

Mr. A P Kurian, Chairman of Geojit Financial Services Ltd is currently serving in the board of Granules India Ltd as an Independent Director. This report has been prepared independently by the equity research team of Geojit; the views expressed are solely the responsibility of the respective Analyst/Research Department

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226