

Granules India

BSE SENSEX	S&P CNX
34,663	10,514
Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	32.5 / 0.5
52-Week Range (INR)	151 / 81
1, 6, 12 Rel. Per (%)	-25/-36/-53
Avg Val, INRm	269.0
Free float (%)	55.1

CMP: INR83 TP: INR130(+57%) Buy

Revenues exceed estimate...

...but one-off expenses and higher RM cost impact margin

- **Strong 4Q:** GRAN's 4QFY18 sales rose significantly by ~39% YoY to INR5b (est. of INR4.1b). Gross margin shrank to 38.5% from 57% in 4QFY17 and 49.1% in 3QFY18, primarily due to higher RM prices, one-time write-off related to obsolete inventory, and product mix change. EBITDA fell ~44% YoY to INR436m (est. of INR760m), with the margin down ~1,300bp YoY to 8.7% due to certain write-offs. Weak operating performance led to a decline in PAT by ~55% YoY to INR204m (est. of INR391m). For FY18, sales, EBITDA and PAT stood at INR16.9b (~18%), INR2.8b (-7%) and INR1.4b (-18%), respectively.
- **Margin improvement is key:** Margin was impacted by INR120m write-off related to obsolete inventory and INR240m related to R&D write-off. GRAN expects margin to normalize going forward due to passing on of RM price increase to customers, absence of one-offs and ramp-up of Methergine sales. GRAN also expects to launch 7-8 products in the US market in FY19. It filed 7-8 ANDAs in FY18, with 2-3 complex filings.
- **Con-call takeaways:** 1) Construction of Oncology facility is on track and is expected to be completed by 2HFY19. 2) GRAN has a total of 23 products in the pipeline, of which 60% are limited-competition products. It plans to file ~10 ANDAs in FY19. 3) GRAN has guided for mid-to-high teens growth for FY19 and expects EBITDA margin of 18-20%. 4) Debt is expected to come down by INR200m in FY19 and by EUR6m in FY20. 6) PAT contribution by Omnicem is expected to retreat to FY17 levels in FY19.
- **Negatives already factored in:** We believe that the capex cycle for GRAN is nearing an end. Margin contraction in 4Q was a key negative surprise; however, management expects a recovery in coming quarters led by ramp-up of new capacity utilization, passing on of high RM cost and key launches in the US. We expect EBITDA and PAT to grow at >25% CAGR over FY18-20. We cut our target multiple to 15x (from 18x) and reduce FY19/20E EPS by ~16/21% due to slower margin recovery and slower ramp-up in US sales. Maintain **Buy** with TP of INR130 @ 15x FY20E (v/s INR175 @ 18x 1HFY20E).

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	17.0	20.2	24.3
EBITDA	2.8	3.8	4.6
PAT	1.4	1.7	2.2
EPS (INR)	5.7	6.7	8.7
Gr. (%)	-21.8	17.8	30.8
BV/Sh (INR)	51.4	55.4	60.2
RoE (%)	12.2	12.5	15.1
RoCE (%)	11.3	11.9	13.8
P/E (x)	14.7	12.4	9.5
P/BV (x)	1.6	1.5	1.4

Estimate change

TP change

Rating change



Quarterly Performance

Y/E March (Consolidated)	FY17				FY18				FY17	FY18E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	vs Est	
Net Sales	3,498	3,638	3,595	3,634	3,860	3,926	4,107	5,038	14,353	16,918	4,142	21.6%
YoY Change (%)	8.4	3.1	4.2	-2.4	10.3	7.9	14.3	38.7	0.4	17.9	14.0	
Total Expenditure	2,813	2,896	2,832	2,848	3,090	3,156	3,367	4,602	11,364	14,134	3,382	
EBITDA	685	742	763	785	769	769	740	436	2,988	2,784	760	-42.6%
Margins (%)	19.6	20.4	21.2	21.6	19.9	19.6	18.0	8.7	20.8	16.5	18.3	
Depreciation	163	185	187	180	176	186	196	204	715	762	204	
Interest	79	83	84	77	82	104	82	62	323	331	90	
Other Income	30	39	43	0	4	68	9	97	99	108	59	
PBT before EO expense	472	513	535	529	515	547	471	267	2,050	1,800	525	-49.2%
Tax	154	156	176	166	177	193	169	95	652	634	181	
Rate (%)	32.5	30.4	32.9	31.4	34.4	35.2	35.9	35.6	31.8	35.2	34.5	
Minority Interest & Profit/Los	-71	-51	-31	-94	-30	-49	-49	-32	-247	-160	-48	
PAT (Ex associate income)	319	357	359	363	338	355	302	172	1,398	1,166	344	-50.0%
Reported PAT	390	408	390	457	368	403	350	204	1,645	1,326	391	-47.8%
YoY Change (%)	33.8	28.1	43.5	13.4	-5.5	-1.2	-10.1	-55.3	44.3	-19.4	-14.4	
Margins (%)	11.1	11.2	10.8	12.6	9.5	10.3	8.5	4.1	11.5	7.8	9.4	

E: MOSL Estimates

Kumar Saurabh –Research Analyst (Kumar.Saurabh@MotilalOswal.com); +91 22 6129 1519

Ankeet Pandya –Research Analyst (Ankeet.Pandya@MotilalOswal.com)

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Story in Charts

Exhibit 1: Revenues grew 39% YoY in 4QFY18

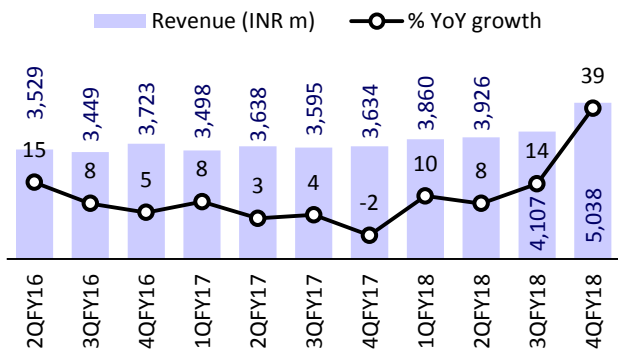


Exhibit 2: EBITDA margin shrank ~1,300bp YoY

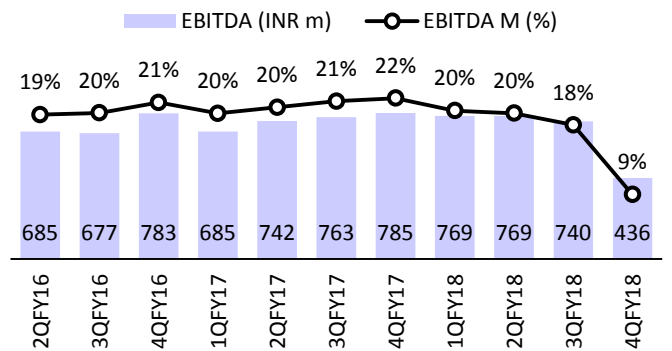


Exhibit 3: Revenues to exhibit 19% CAGR over FY18-20E

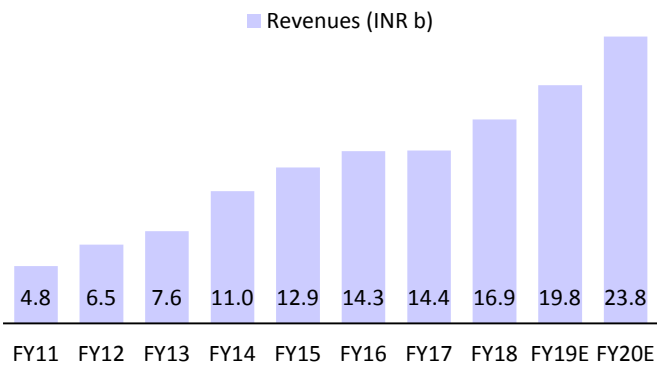


Exhibit 4: Formulation contribution to increase

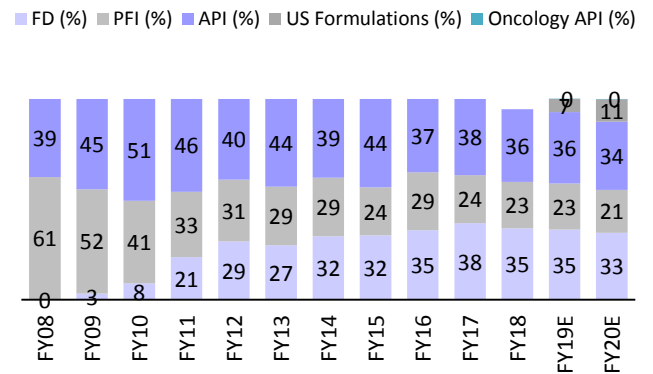


Exhibit 5: EBITDA margins to expand to 21% by FY20E

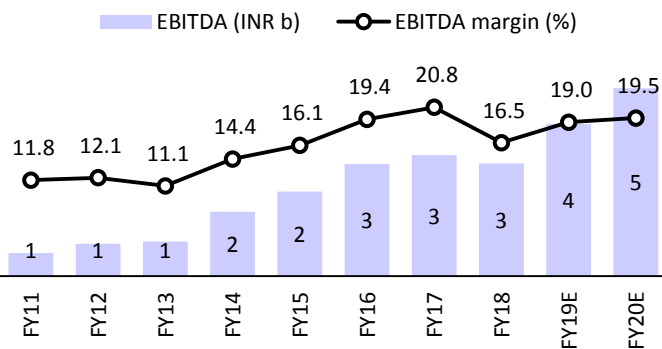


Exhibit 6: PAT to grow by ~28% CAGR from FY18-20E

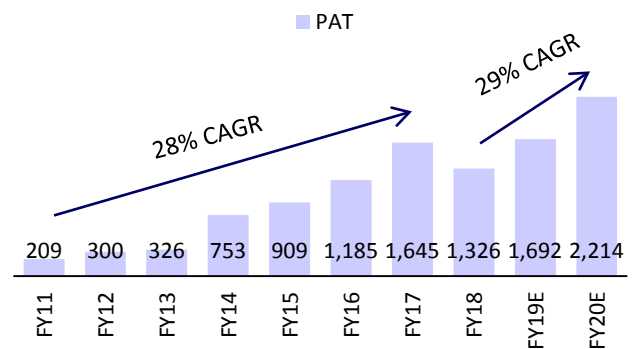


Exhibit 7: Capex to taper down FY19E onwards

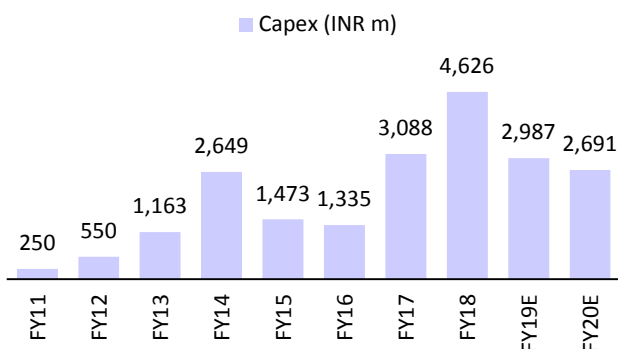
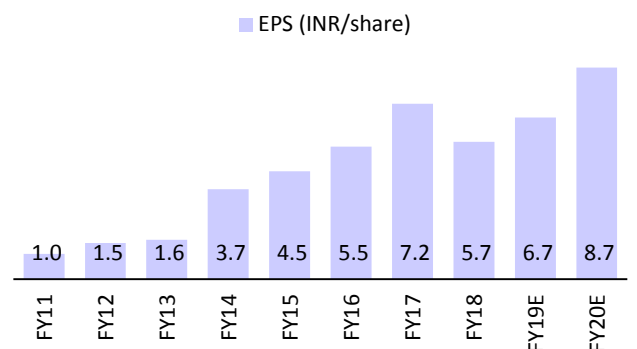


Exhibit 8: Earnings to exhibit 24% CAGR over FY18-20E



Source: Company, MOSL

Source: Company, MOSL

Valuation and view

Over the last six years, GRAN reported 39% earnings CAGR led by improved profitability, higher operating leverage and superior business mix. It grew the 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 expanded its EBITDA margin from 11.8% in FY11 to ~21% in FY17.

We believe that the capex cycle for GRAN is nearing an end. Margin contraction in 4Q was a key negative surprise; however, management expects a recovery in coming quarters led by ramp-up of new capacity utilization, passing on of high RM cost and key launches in the US. We expect EBITDA and PAT to grow at >25% CAGR over FY18-20. We cut our target multiple to 15x (from 18x) and reduce FY19/20E EPS by ~16/21% due to slower margin recovery and slower ramp-up in US sales. Maintain Buy with TP of INR130 @ 15x FY20E (v/s INR175 @ 18x 1HFY20E).

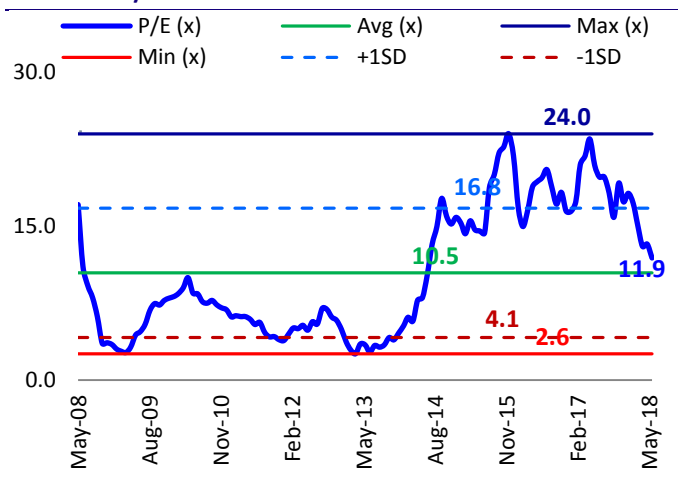
Key catalysts to drive stock’s performance over the medium term

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

Risks to our investment thesis

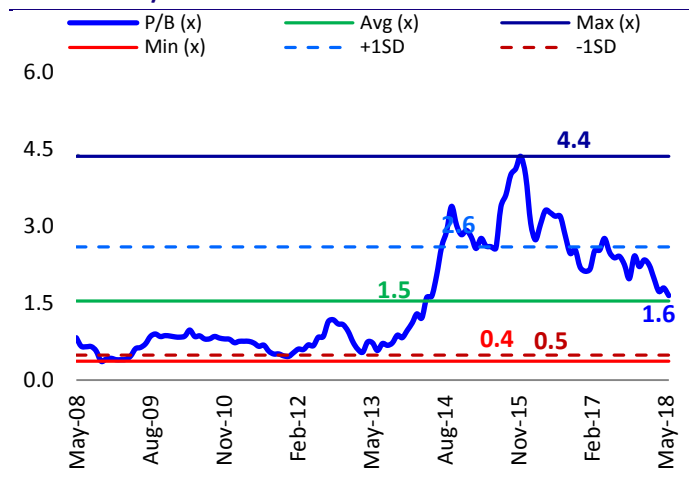
- Pricing pressure on existing products.
- Regulatory risks related to already approved manufacturing facilities.

Exhibit 9: P/E chart



Source: MOSL, Company

Exhibit 10: P/B chart



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement						(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	10,959	12,929	14,295	14,353	16,918	19,760	23,790
Change (%)	43.4	18.0	10.6	0.4	17.9	16.8	20.4
Total Expenditure	9,376	10,843	11,528	11,364	14,134	16,005	19,151
% of Sales	85.6	83.9	80.6	79.2	83.5	81.0	80.5
EBITDA	1,583	2,086	2,767	2,988	2,784	3,754	4,639
Margin (%)	14.4	16.1	19.4	20.8	16.5	19.0	19.5
Depreciation	298	527	643	715	762	1,098	1,345
EBIT	1,285	1,560	2,124	2,273	2,022	2,657	3,294
Int. and Finance Charges	204	323	399	323	331	590	612
Other Income	43	43	77	99	108	119	143
PBT bef. EO Exp.	1,124	1,280	1,802	2,050	1,800	2,185	2,825
PBT after EO Exp.	1,124	1,280	1,802	2,050	1,800	2,185	2,825
Current Tax	305	287	535	652	634	743	960
Deferred Tax	66	83	82	-9	-25	0	0
Tax Rate (%)	33.0	29.0	34.2	31.4	33.8	34.0	34.0
Add: Associate income	0	0	0	247	160	250	350
Reported PAT	753	909	1,185	1,654	1,351	1,692	2,214
Adjusted PAT	753	909	1,185	1,654	1,351	1,692	2,214
Change (%)	130.8	20.8	30.3	39.6	-18.3	25.2	30.8
Margin (%)	6.9	7.0	8.3	11.5	8.0	8.6	9.3

Consolidated - Balance Sheet						(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	203	204	217	229	254	254	254
Total Reserves	3,357	4,107	6,444	8,807	12,788	13,801	15,020
Net Worth	3,560	4,312	6,660	9,036	13,042	14,055	15,274
Deferred Liabilities	403	549	646	565	543	543	543
Total Loans	4,417	4,872	4,767	5,981	9,582	10,082	10,332
Capital Employed	8,380	9,732	12,074	15,582	23,167	24,680	26,149
Gross Block	6,539	8,438	9,622	10,099	14,430	16,930	18,930
Less: Accum. Deprn.	1,714	2,272	2,941	3,656	4,418	5,515	6,860
Net Fixed Assets	4,825	6,166	6,681	6,443	10,012	11,414	12,069
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	1,246	620	766	2,605	2,901	3,388	4,079
Total Investments	2	2	2	1,082	1,566	1,566	1,566
Curr. Assets, Loans&Adv.	3,848	5,184	7,080	8,633	11,891	12,273	13,233
Inventory	1,742	2,245	3,071	2,761	2,799	3,947	4,722
Account Receivables	1,109	1,326	1,526	4,177	6,171	5,143	5,866
Cash and Bank Balance	418	653	1,419	498	1,156	1,711	872
Loans and Advances	580	959	1,065	1,198	1,765	1,472	1,772
Curr. Liability & Prov.	1,640	2,295	2,521	3,183	3,272	3,302	4,139
Account Payables	1,355	1,887	1,791	2,160	2,522	1,754	2,099
Other Current Liabilities	162	233	608	934	646	840	1,012
Provisions	123	175	122	89	104	708	1,029
Net Current Assets	2,208	2,888	4,559	5,451	8,620	8,970	9,093
Appl. of Funds	8,379	9,732	12,074	15,582	23,098	25,338	26,807

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)							
EPS	3.7	4.5	5.5	7.2	5.7	6.7	8.7
Cash EPS	5.2	7.0	8.4	10.4	8.3	11.0	14.0
BV/Share	17.6	21.1	30.7	39.5	51.4	55.4	60.2
DPS	0.4	0.5	0.6	1.0	1.5	2.2	3.3
Payout (%)	11.0	13.6	13.9	16.2	34.0	40.2	44.9
Valuation (x)							
P/E	22.4	18.6	15.2	11.5	14.7	12.4	9.5
Cash P/E	16.0	11.8	9.8	8.0	10.0	7.6	5.9
P/BV	4.7	3.9	2.7	2.1	1.6	1.5	1.4
EV/Sales	3.2	2.7	2.4	2.5	2.3	2.0	1.7
EV/EBITDA	22.0	16.8	12.4	12.2	14.1	10.5	8.7
Dividend Yield (%)	0.4	0.6	0.8	1.2	1.8	2.7	3.9
Return Ratios (%)							
RoE	23.9	23.1	21.6	21.1	12.2	12.5	15.1
RoCE	19.8	18.7	21.4	17.9	11.3	11.9	13.8
RoIC	15.9	14.6	15.2	14.7	9.2	9.9	11.6
Working Capital Ratios							
Asset Turnover (x)	1.3	1.3	1.2	0.9	0.7	0.8	0.9
Inventory (Days)	58	63	78	70	60	73	72
Debtor (Days)	36	36	38	104	133	93	88
Creditor (Days)	77	92	86	116	103	66	66
Leverage Ratio (x)							
Current Ratio	2.3	2.3	2.8	2.7	3.6	3.7	3.2
Interest Cover Ratio	6	5	5	7	6	5	5
Debt/Equity	1.2	1.1	0.7	0.7	0.7	0.7	0.7

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	1,124	1,280	1,801	2,050	1,800	2,185	2,825
Depreciation	298	527	643	715	762	1,098	1,345
Interest & Finance Charges	190	309	347	278	222	471	470
Direct Taxes Paid	-238	-317	-490	-595	-634	-743	-960
(Inc)/Dec in WC	-310	-363	-915	-557	-2,348	407	-708
CF from Operations	1,064	1,435	1,387	1,891	-197	3,418	2,971
Others	16	18	51	43	-163	-203	-254
CF from Operating incl EO	1,080	1,453	1,438	1,934	-360	3,215	2,717
(inc)/dec in FA	-2,649	-1,473	-1,335	-3,088	-4,626	-2,987	-2,691
(Pur)/Sale of Investments	95	0	0	0	-483	0	0
Others	8	17	53	-90	108	119	143
CF from Investments	-2,546	-1,456	-1,281	-3,178	-5,001	-2,869	-2,548
Issue of Shares	11	11	1,059	829	3,775	0	0
(Inc)/Dec in Debt	1,709	628	191	151	3,602	500	250
Interest Paid	-205	-319	-406	-319	-331	-590	-612
Dividend Paid	-47	-83	-234	-223	-459	-680	-995
Others	0	0	0	0	160	250	350
CF from Fin. Activity	1,467	238	609	438	6,747	-520	-1,007
Inc/Dec of Cash	0	236	766	-805	1,386	-173	-839
Opening Balance	417	417	653	1,303	498	1,884	1,711
Closing Balance	417	653	1,419	498	1,884	1,711	872

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Granules India

Analyst ownership of the stock

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