

Pick of the Week

- In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP	Target Price *	Potential Upside (%)	Reco
Granules India	2,370	93	107	15%	Buy

* Note: Investment horizon Approx. 6-9 months., CMP as on 21st June, 2019.

CMP	Target
93	107

MARKET DATA

No. of Shares	: 25.4 cr
Market Cap	: Rs 2,370 Cr
52-week High / Low	: Rs 123/77
BSE Code	: 532482
NSE Code	: GRANULES

Investment Rationale

- Q4FY19 performance:** Granules (GRAN) reported revenue at Rs 613Cr (vs. our estimates of Rs591Cr), with a growth of 22% YoY, aided by healthy performance in API and Finished dosage segment. GRAN witnessed improvement in gross margin by ~280bps sequentially, which implies raw material inflation easing off and better product mix. EBITDA margins stood at 15.9% (vs estimates of 18%), as there is an element of incremental costs in other expenses (towards R&D). APAT came at Rs64Cr, with a growth of ~6% QoQ, primarily supported by higher income from JV profits and lower tax regime during the quarter.
- Ramp-up in the US generic business:** GRAN remained focus to build the US generic business by filing new ANDAs with USFDA. Company has filed 17 ANDAs (9 products in FY19) from GPI and received approval for two products. Management expects 4-5 approvals and launches in FY20. We expect ramp-up in formulation business on the back of new launches and market share gain in existing portfolio.
- Strong top-line and bottom-line growth guidance:** Company has guided for 20% topline and 25% bottom-line growth for the next three years, primarily driven by ramp-up of utilization levels across the expanded capacities for various key molecules, and new launches in the US market. Overall margins are expected to improve on the back of better product mix.
- Near-term catalyst:** Approval of filed ANDAs, any further reduction in pledge shares, and approval of API plants from key regulators.
- Key risk:** Higher-than-expected pricing pressure, raw material cost inflation and adverse currency movement.
- We maintain a **BUY** with a target of Rs. 107

Financial Summary

Y/E	Revenue (Rs Cr)	PAT (Rs Cr)	EPS (Rs.cr)	PE (X)	RoE (%)	RoCE (%)
March						
FY19	2,279	236	9.3	12.3	16.7	7.4
FY20E	2,661	273	10.8	8.7	16.3	13.2
FY21E	3,086	329	12.9	7.3	17.0	14.7

Source: Axis Securities

No of Stocks Matrix

No of Stocks	9m	15m
Met Target	16	29
Not Met Target	22	35

Performance Matrix

% Return	9m	15m
Met Target	11.55	11.57
Not Met Target	(10.16)	(16.02)

Benchmark Performance Matrix

% Return	9m	15m
Met Target	3.65	3.09
Not Met Target	7.26	8.1

Note : Performance of the pick of the week is calculated for stocks recommended from Sep-18 to May-19 for 9 Months and from Mar-17 to May-19 for 15 Months.

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DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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