

Retail Equity Research (South India Focus)

Granules India Ltd

Pharmaceuticals

BSE CODE : 532482 NSE CODE: GRANULES
 BLOOMBERG CODE: GRAN:IN SENSEX : 39,058

Accumulate

12M Investment Period

Rating as per Small Cap

CMP Rs.124 TARGET Rs.137 RETURN +11% 
 (Closing: 25-10-19)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Higher FD & PFI sales drove the numbers ...

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

- Q2FY20 revenue grew by 20% YoY driven by higher sales in Formulations (FD) (~34%YoY) segment and PFI (Pharmaceutical formulation Intermediaries) (~37%YoY).
- Granules to exit the JV business in Omnicem (India) and Biocause (China) citing lower capacity utilization and issues related to environment compliances in China.
- EBITDA registered a 37% growth YoY while margin improved by 260bps to 19.7% on account of better capacity utilisation while PAT is up by 56% YoY due to lower taxation.
- We expect EBITDA margin to remain in 18-20% range for FY20-21E with higher efficiency in realization rates and sales from regulated markets.
- We forecast a Rev/PAT growth of 19%/11% YoY for FY20/21E and change the rating to Accumulate from BUY with a revised TP of Rs137 at 9x FY21EPS.

Revenue Growth aided by better numbers FD and PFI's...

On the revenue front, Q2FY20 sales grew by ~20% YoY due to on account of PFI sales growth of 37% and FD sales growth of 34%. However, on a YoY basis sales API registered a de- growth of 17%. PAT has increased (56% YoY) due to an increase in overall sales volumes and a reduction in tax rate. Regulated markets' sales increased by 34% while the core 5 molecules namely Paracetamol, Metformin, Ibuprofen, Guaifenesin and Methocarbamol are still driving the topline. Two ANDA's were filed in Q2 (1 each from GPI and GIL) while one got approved while there are 22 pending ANDA's as of now. The promoter pledge has come below 40% in last quarter and the management has given clear guidance on their plan to reduce it to zero levels by March 2021.

Granules to exit joint venture business...

Share of profits from JV in Q2FY19 stands at Rs26cr vs Rs13cr on a YoY basis. However the management has decided to exit both the JV business citing specific reasons. Share in Omnicem sold to the JV partner for Rs109.8cr citing lower capacity utilization and lower return on capital which does not fit the company's evolving business model. While Biocause will also be sold to the JV partner in China due to large investment requirement for Chinese environmental compliances as well as improved availability of Ibuprofen API in domestic and international markets. The investments are held as assets held for sale in the Balance sheet. Any cash from this will be kept in the treasury for the time being.

EBITDA margin remains stable on better realisations...

EBITDA improved by 37%(YoY) with better sales reported from the regulated markets while EBITDA margin also grew by 260bps (YoY) on account of higher margins from increasing FD sales. Other income was higher on account of a one time litigation settlement in favour of the company. Raw material price is seen stabilising while lower tax rates going forward will better the bottomline. We increase our FY20/21E EBITDA by 22% and 19% resp on account of improving utilization rates. We also increase our PAT estimates by 33%/22% for FY20/21E due to lower future taxation.

Valuations...

Given the success of Granules to integrate its production vertically whereby enabling sales of high margin finished products at a greater quantity, we expect consolidated revenue/PAT to grow at 19%/11% Cover FY20/21E. Considering the lower valuations and improving product profiles, we expect earnings to remain healthy in the long term and change the rating to Accumulate from Buy with a revised target price of Rs137 at 9x FY21E EPS.

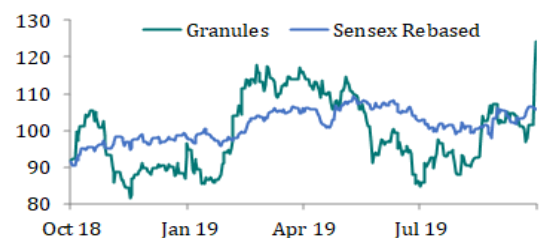
Company Data

Market Cap (cr)	Rs.3,175
Enterprise Value (cr)	Rs.4,025
Outstanding Shares (cr)	25.4
Free Float	57%
Dividend Yield	0.8%
52 week high	Rs.129
52 week low	Rs.79
6m average volume (cr)	0.08
Beta	1.04
Face value	Rs1

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	43	43	43
FII's	13	14	14.6
MFs/Insti	3.0	3.1	3.0
Public	41	40	39.4
Total	100.0	100.0	100.0
Promoter Pledge (%)	43.4	43.4	37.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	45.0%	9.3%	34.7%
Absolute Sensex	3.0%	-0.1%	14.7%
Relative Return*	42.0%	9.4%	20.1%

over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	2,279	2,804	3,323
Growth (%)	35.3	23.0	18.5
EBITDA	383.3	552	647
EBITDA Margin(%)	16.8	19.7	19.5
PAT Adj.	236	350	388
Growth (%)	52	48.6	10.7
Adj.EPS	9.3	13.8	15.3
Growth (%)	52	48.6	10.7
P/E	13.4	9.0	8.1
P/B	2.1	1.7	1.4
EV/EBITDA	10.4	6.9	5.7
ROE (%)	16.8	21.0	19.3
D/E	0.6	0.5	0.4

Dilish K Daniel
 Research Analyst

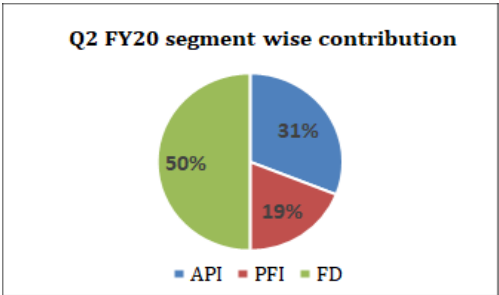
Quarterly Financials (Consolidated)

Profit & Loss

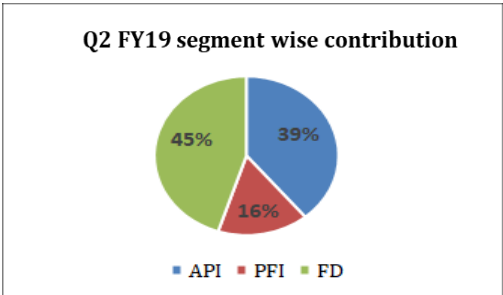
(Rs cr)	Q2FY20	Q2FY19	YoY Growth %	Q1FY19	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Sales	699.5	580.9	20	595.3	18	1,295	1,049	24
EBITDA	143.6	104.9	37	118.7	21	262.3	181.0	45
EBITDA margins	21%	18%	300bps	20%	100bps	20.0%	17.30%	270bps
Depreciation	30.3	26.5	14	28.7	6	59.0	51.0	16
EBIT	113.3	78.4	45	90.0	26	203.3	130.0	56
Interest	6.9	7.6	(10)	6.9	0	13.7	14.1	(3)
Other Income	8.7	0.9	904	1.9	369	10.5	18.9	(44)
Exceptional Items	0.0	0.2	(100)	0.7	(100)	0.0	0.0	
PBT	115.1	71.7	61%	85.0	35%	200.1	154.0	30
Tax	19.3	23.4	(17)	27.2	(29)	46.5	42.5	9
Share of profit from Associate	0.0	13.0	(100)	25.5	(100)	25.5	27.7	(8)
Reported PAT	95.8	61.3	56%	83.3	15%	179.1	112.0	60
Adjustments	0.0	0.0	-	0.0	-	0.0	0.0	-
Adj PAT	95.8	61.3	56%	83.3	15%	179.1	112.9	59
No. of Shares	25.4	25.4		0.0		25.4	25.4	
EPS (Rs)	3.8	2.4	56%	3.3	15%	7.1	4.4	60

Change in Estimates

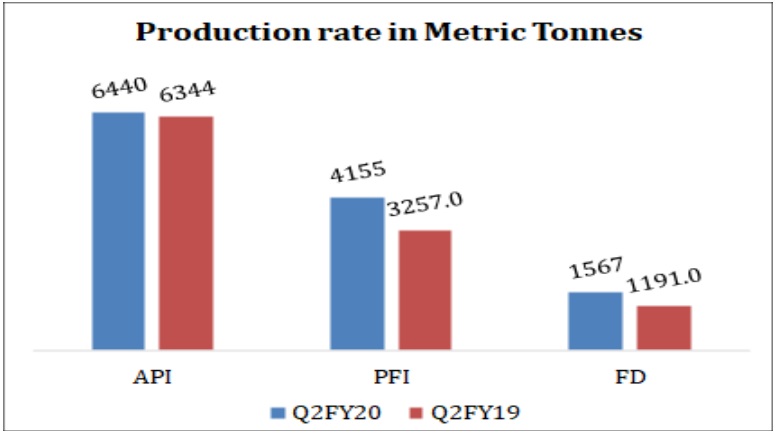
Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	2,708	3,290	2,804	3,323	3.5	1.0
EBITDA	452	544	552	634	22.0	16.5
Margins (%)	16.7	16.5	19.7	19.5	300bps	300bps
Adj. PAT	264	319	350	388	32.7	21.5
EPS	10.4	12.6	13.8	15.3	32.6	21.1



Source: Company, Geojit Research



Source: Company, Geojit Research



Source: Company, Geojit Research

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	1,411	1,685	2,279	2,804	3,323
% change	3.9	19.4	35.3	23.0	18.5
EBITDA	298	278	383.3	551.6	647.3
% change	8.2	(6.9)	38.0	43.9	17.4
Depreciation	72	76	105.5	116.0	127.7
EBIT	227	202	277.9	435.6	519.6
Interest	32	33	28.5	24.2	22.4
Other Income	10	11	26.7	28.0	26.6
PBT	205	179	276.1	439.5	523.8
% change	10.2	(12.3)	53.9	59.2	19.2
Tax	66	63	89.1	114.3	136.2
Tax Rate (%)	32.1%	35.3%	32.3	26%	26%
JV profit	24.7	16.0	48.7	25.5	-
Reported PAT	164	132	235.7	350.2	387.6
Adj.*	-	(23.4)	0.0	0.0	0.0
Adj. PAT	164	155	235.7	350.2	387.6
% change	33.5	(5.0)	51.7	48.6	10.7
No. of shares (cr)	22.9	25.4	25.4	25.4	25.4
Adj EPS (Rs)	7.2	6.1	9.3	13.8	15.3
% change	26.5	(14.4)	51.7	48.6	10.7
DPS (Rs)	0.98	1.00	1.0	1.0	1.0

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	24	21	34	47	52
Non-cash adj.	71	53	105.5	116	128
Changes in W.C	(6)	(23)	(8.5)	(22)	(22)
C.F. Operation	19	(2)	28.2	24	29
Capital exp.	(31)	(45)	(18.5)	12	(17)
Change in inv.	(1)	(2)	(14.9)	(12)	(8)
Other invest.CF	-	(0)	2.7	3	3
C.F - Investment	(32)	(46)	(30.8)	4	(22)
Issue of equity	(32)	(31)	(28.5)	(24)	(22)
Issue/repay debt	(22)	(29)	(9.7)	(48)	(29)
Dividends paid	-	-	(28.7)	(29)	(29)
Other finance.CF	98	589	(26.0)	(50)	(90)
C.F - Finance	(318)	(462)	(308)	37	(218)
Chg. in cash	(80)	43	4.5	144	(5)
Closing cash	63	85	89.5	236	231

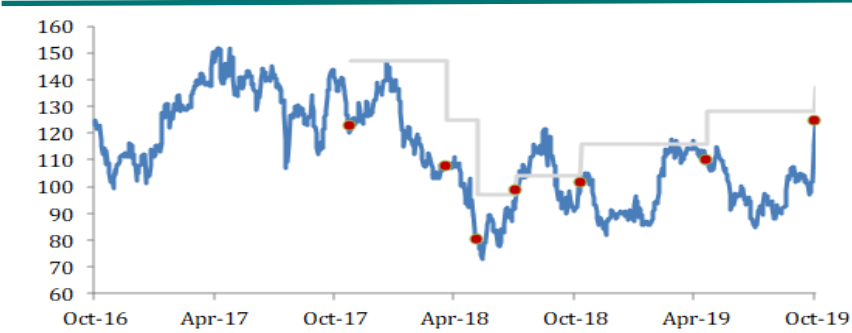
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	50	108	89.5	235.6	231.0
Account Receivable	418	617	673.5	829.7	983.3
Inventories	276	280	384.2	448.8	527.7
Other Cur. Assets	28	148	131.6	192.0	227.6
Investments	108	157	237.1	270.0	325.0
Gross Fixed Assets	895	1,103	1,255	1,354	1,504
Net Fixed Assets	569	701	747.8	730.5	752.8
CWIP	261	290	323.0	100.0	120.0
Intangible Assets	76	300	369.0	425.0	445.0
Def. Tax (Net)	(57)	(47)	(61)	(51)	(41)
Other Assets	-	-	-	0.0	0.0
Total Assets	1,818	2,590	2,914	3,246	3,649
Current Liabilities	114	65	101.8	175.6	229.4
Provisions	7	10	16.9	29.2	34.6
Debt Funds	124	433	478.1	453.8	403.8
Other Liabilities	195	252	333.0	325.0	400.0
Equity Capital	23	25	25.4	25.4	25.4
Reserves & Surplus	881	1,273	1,480	1,801	2,160
Shareholder's Fund	904	1,304	1529	1832	2192
Total Liabilities	1,818	2,590	2,914	3,246	3,649
BVPS	40	51	59.3	71.9	86.0

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	21.2	16.5	16.8	19.7	19.5
EBIT margin (%)	16.1	12.0	12.2	15.5	15.6
Net profit mgn.(%)	11.6	9.2	10.3	12.5	11.7
ROE (%)	20.8	14.1	16.8	21.0	19.3
ROCE (%)	10.3	6.3	7.9	10.7	10.6
W.C & Liquidity					
Receivables (days)	73.7	112.1	103.3	97.8	99.6
Inventory (days)	75.4	60.2	53.2	54.2	53.6
Payables (days)	100.5	91.1	85.1	83.2	79.0
Current ratio (x)	2.8	3.8	3.0	3.5	3.3
Quick ratio (x)	1.9	2.9	2.1	2.6	2.4
Turnover &Leverage					
Gross asset T.O (x)	1.6	1.7	1.9	2.1	2.3
Total asset T.O (x)	0.9	0.8	0.8	0.9	1.0
Int. covge. ratio (x)	7.0	6.1	9.8	18.0	23.2
Adj. debt/equity (x)	0.7	0.8	0.6	0.5	0.4
Valuation					
EV/Sales (x)	2.2	2.0	1.5	1.4	1.1
EV/EBITDA (x)	10.2	12.0	8.9	6.9	5.7
P/E (x)	15.4	18.0	11.9	9.0	8.1
P/BV (x)	2.8	2.2	1.9	1.7	1.4

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
17 th Nov 2017	Buy	147
12 th March 2018	Buy	125
30 th May 2018	Buy	97
26 th July 2018	Accumulate	104
2 nd Nov 2018	Buy	116
13 th May 2019	Buy	127
25 th October 2019	Accumulate	137

Investment 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

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