

Better product-mix driving margins

Granules India continue to deliver strong earnings. Revenue growth was marginally below our expectation while continuous improvement on EBITDA was seen. Revenue for the quarter stood at Rs 7.04bn, growth of 11% YoY driven by increased contribution from regulated markets along with higher contribution from Pharmaceutical formulation Intermediates and Finished Dosage. Gross margins witnessed improvement by 700 bps sequentially which was primarily driven by improving product mix and operating efficiencies. Reported PAT grew by 6% YoY to Rs641mn. There is an impairment charged of Rs320mn pertaining to the divestment of JV Biocause (expected to close in Q4FY20). The impairment charge taken during the quarter would be set-off against the investment gain from the JV Biochem in Q4FY20. The net cash inflow from both the china JV is expected around Rs 2.0 bn.

The management has guided for revenue CAGR at 20% and earnings CAGR at 25% over the next 3 years. Along with 1% increment in EBITDA margin every year.

Revenue growth dominated by top brands, which contribute 85% sales

GIL reported 11% YoY revenue growth in Q3FY20, led by finished dosage, which grew by 23% YoY. The key 5 products contribute 85% of the total revenue. US markets contributes 53% of the total revenue of the company. During the period, the company filed 2 ANDA and received approval for 3 ANDA. The management is certain to sustain revenue growth of 20% led by higher volume growth and launch of new products.

EBITDA margin expanded by 525bps YoY

GIL's EBITDA margin improved 525bps YoY to 23.2% from 17.9% mainly due to the decline in material costs – down 700bps YoY to 56.9% from 49.3% due to higher volume sales in the formulations segment, in the developed markets. GIL has 19 pending ANDA approvals and expects 5-6 filings during the fiscal. The company will focus its efforts on inventory control and cash-to-cash cycle to sustain EBITDA margins at 20% over the coming quarters.

Buyback of shares

The company has announced buyback of shares at Rs 200 per share totalling to pre Tax outflow of Rs2.5bn. The company plans to utilise Rs 2bn which it will receive through divestment of its JV Biocause and Biochem which is expected to close by Q4FY20. Further, free cash flow from operations as on 31st Dec'19 is Rs1.6bn and incremental estimated cash flow from Q4 is Rs0.6bn totalling to Rs2.2bn as on 31st March'20. The management has guided for Rs1.5bn capex for FY20 and has already done Rs 1.2bn, considering Rs 0.3bn incremental Capex, net free cash flow at the end of the fiscal year would be Rs 1.90bn, which will support the buyback funding.

Valuation and risks

The management is delivering the guidance as of now in 9M with consistent revenue and earnings growth. Promoter have announced that the recent Buyback would lead to meaningful reduction of the pledge share post the closure of buyback (expect less than 5% pledge share from current 37% pledge). EBITDA margins have seen the benefit from improving product mix and operating efficiencies with better capacity utilisations. Also, the launch of own label products in US, new facility commenced at Vizag and Metformin capacity will contribute to the margins. Considering the above consistent improvements, we have increased our earnings by 15% in FY21E and introduce our FY22E along with rolling over to FY22E for valuations. Valuing the stock at 10x FY22E EPS, maintaining BUY rating with revised target price of Rs 205. At CMP of Rs140., GIL is trading at 8.6x FY21E EPS of Rs16.3 and 6.8x FY22E EPS of 20.5.

Financial and valuation summary

YE Mar (Rs mn)	Q3FY20	Q3FY19	YoY(%)	Q2FY20	QoQ(%)	FY20E	FY21E	FY22E
Revenue	7,040	6,318.0	11.4	6,995	0.6	27,099	31,977	37,733
EBITDA	1,632	1,133.0	44.0	1,420	14.9	5,582	6,715	8,150
EBITDA margin (%)	23.2	17.9	525bps	20.3	288bps	20.6%	21.0%	21.6%
Adj. net profit	961	604.0	59.1	942	2.0	3,381	4,151	5,199
Diluted EPS Rs.	3.78	2.38	59.1	3.71	2.0	13.3	16.3	20.5
P/E (x)						10.5	8.6	6.8
EV/EBITDA (x)						7.8	6.4	5.3
RoE (%)						20.3	22.0	25.1

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Result Update

India I Pharmaceuticals

21 January 2020

Buy

Target Price: Rs205

Price: Rs140

Forecast return: 46%

Institutional Research

Market Data

Bloomberg:	GRAN IN
52 week H/L:	Rs153/84
Market cap:	Rs36bn
Shares outstanding:	254mn
Free float:	89%
Avg. daily vol. 3mth:	1759462

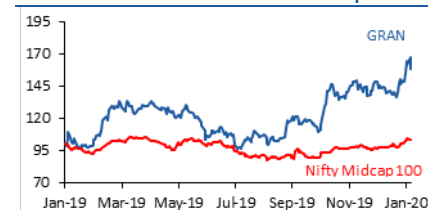
Source: Bloomberg

Changes in the report

Rating:	Unchanged to Buy
Target Price:	205 from 135
EPS:	16.3 FY21E, 20.5 FY22E

Source: Bloomberg

Granules India relative to NIFTY Midcap 100



Source: Bloomberg

Shareholding pattern

	Dec-19	Sep-19	Jun-19	Mar-19
Promoter	42.9	42.9	42.9	42.9
FIIs	17.7	14.4	13.9	12.8
DIIs	3.2	3.3	3.1	3.0
Public/oth	36.2	39.4	40.1	41.3

Source: BSE

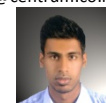


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Pharmaceuticals

Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
Sales	27,099	26,200	3.4	31,977	29,955	6.8
EBITDA	5,582	4,563	22.3	6,715	5,542	21.2
EBITDA margin (%)	20.6	17.4	320bps	21.0	18.5	250bps
Net profit	3,381	3,019	12.0	4,151	3,510	18.3

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q3FY20	Centrum Q3FY20	Variance (%)
Revenue	7,040	7,266	-3.1
EBITDA	1,632	1,468	11.2
EBITDA margin (%)	23.2	20.2	2.98
Tax rate (%)	20.6	23.0	-2.43
Adj. net profit	961	873	10.1

Source: BloombergCentrum Research estimates

Granules India versus NIFTY Midcap 100

	1m	6m	1 year
GRAN IN	11.1	59.0	58.9
NIFTY Midcap 100	6.2	9.3	3.3

Source: Bloomberg, NSE

We value GIL at 10x FY22E EPS of Rs20.5 with a target price of Rs205. We recommend a Buy rating on the stock. At Rs140, GIL is trading at 8.6x FY21E and 6.8x FY22E EPS. The company derives 80% of its revenues from exports and 66% from the regulated markets of US, Europe and Canada.

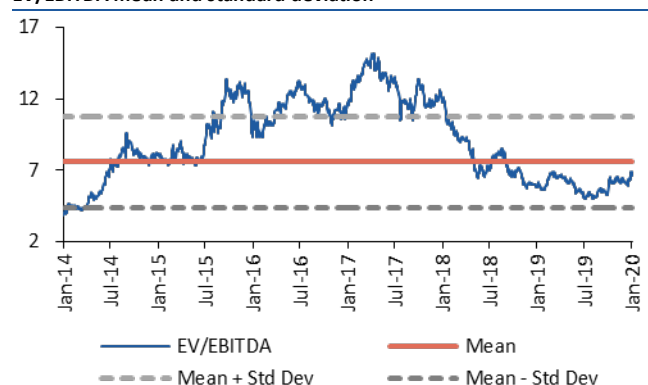
Valuations

EPS FY21E	Rs16.3
PER FY21E	8.6
EPS FY22E	Rs 20.5
PER FY22E	6.8

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs mn	CAGR (%)			PE (x)			EV/EBITDA (x)			RoE (%)		
		Sales	EBIDTA	PAT	FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Granules India	35,506	19.0	18.0	24.0	10.5	8.6	6.8	7.8	6.4	5.3	20.3	22.0	25.1
Laurus Labs *	35,752	14.9	36.6	72.9	60.6	20.0	12.6	18.6	9.0	6.9	5.7	12.1	15.3
StridesPharma *	34,517	4.7	19.7	57.5	77.7	15.2	10.4	21.2	11.1	9.2	4.6	7.8	10.5
Aarti Drugs	14,226	19.9	20.7	27.4	16.0	10.0	8.2	8.7	6.2	5.2	16.4	17.8	18.6

Source: Company, Centrum Research, *March ending

Fig 1: Key Con-call Metrics

Metric	Q2 2020	Q3 2020
Formulations	Contributed to 50% of revenues at Rs 3.5bn. The top 8 molecules account for 83% of its revenues.	Contributed to 54% of revenues at Rs 3.79bn. The top 8 molecules account for 83% of its revenues.
API's	Contributed to 31% of revenues at Rs. 2.2 bn.	Contributed to 30% of revenues at Rs. 2.09 bn.
PFI	Contributed to 19% of revenues at Rs 1.3 bn.	Contributed to 16% of revenues at Rs 1.15 bn.
North America	53% of revenues at Rs 3.7 bn Key driver for growth	53% of revenues at Rs 3.7 bn Key driver for growth
Europe	20% of revenues at Rs 1.4 bn	21% of revenues at Rs 1.49 bn
India	14% of revenues at Rs 978 mn	15% of revenues at Rs 1.03 mn
Capex and R&D	The capex guidance for FY20 remains unchanged at Rs1.50bn. Capex spent will only be for maintenance of facilities. Spent Rs 390 mn in capex Spent Rs 300 mn in R&D	The capex guidance for FY20 remains unchanged at Rs1.50bn. Capex spent will only be for maintenance of facilities. Spent Rs 189 mn in capex Spent Rs 227 mn in R&D
JV's	Company plans to divest its entire stake from JV Omnichem and Biocause . The PAT was Rs 130mn from them which was not included and held as investments for sale	Company will receive Net of TDS Rs2 bn from JV, which is expected to be complete by Q4FY20.
Pledged shares	Reduction in pledged shares from 43% to 37% in Q2FY20.	Reduction in pledged shares to 5-6% post buyback after participation in buyback

Source: Centrum Research

Quarterly Con-call Takeaways

- The geography wise sales composition for Q2FY20 was as follows: N. America 53% Europe 21%, India 15%, Latam 7% and RoW 4%.
- The product wise sales composition was API 30%, PFI 16% and finished formulations 54% in Q3FY20.
- GIL has commenced front-end marketing in the US, which will drive higher margins.
- The company received 3 ANDA approvals and awaiting 19 approval. Expect 5-6 more approvals during the year.
- Management has mentioned that all the R&D expense forward going forward will be expense out in the books. In Q3FY20 total R&D spend which is expense out is Rs 220mn
- The top 5 products contribute for 85% of its revenues.
- The management has mentioned that the two JV divestment will be completed by Q4FY20 and proceeds net of TDS will be Rs2bn
- The impairment loss of Rs 320mn will be set off against the Investment gain from JV Biochem which will be Rs 500mn and expected to close by Q4FY20
- Management has guided revenue growth of 20% and net profit growth of 25% for FY20. Additionally The capex guidance for FY20 is Rs1.50bn.
- Capex spent during the quarter was Rs.189 mn.
- The pledged shares of the management reduced from 42% to 36.9% in Q2 FY20 and will be reduced to 5-6 % post promoter participation in the buyback
- Management will focus on inventory control and cash to cash cycle to drive margins up. Cash to cash cycle is now 103 days as compared to 106 in Q2FY20
- Management has mentioned that R&D expensed going forward will expensed out in the books and will not be capitalised.
- Unit IV vizag has started yield returns and the new metformin capacity has received the USFDA approval, due to which the company has stopped buying from outside which has contributed to the margins.

Fig 2: Quarterly Financials

(Rs mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2 FY20	Q3FY20	9MFY20	9MFY19
Revenues	4,532	5,809	6,318	6,133	5,953	6,995	7,040	19,988	16,659
Materials cost	2,471	3,177	3,592	3,316	2,954	3,594	3,470	10,019	9,240
% of revenues	54.5	54.7	56.9	54.1	49.6	51.4	49.3	50.1	55.5
Employee cost	502	546	536	513	570	634	647	1,852	1,584
% of revenues	11.1	9.4	8.5	8.4	9.6	9.1	9.2	9.3	9.5
Others	832	1080	1057	1,328	1,242	1,331	1,290	3,863	2,969
% of revenues	18.4	18.6	16.7	21.7	20.9	19.0	18.3	19.3	17.8
EBITDA	727	1,006	1,133	976	1,173	1,420	1,632	4,224	2,866
EBITDA margin (%)	16.0	17.3	17.9	15.9	19.7	20.3	23.2	21.1	17.2
Depreciation & amortisation	245	265	270	274	287	303	390	980	780
Interest expenses	65	76	75	68	69	69	67	204	216
Other income	147	42	59	19	19	87	35	140	248
Exceptional items	-	-	-	-	-	-	-	-	-
PBT	564	707	847	652	836	1,135	1,210	3,180	2,118
Taxes	191	234	264	202	272	193	249	714	689
Effective tax rate (%)	33.9	33.1	31.2	30.9	32.5	17.0	20.6	22.4	32.5
PAT	373	473	583	640	819	942	961	2,721	1,429
Minority/Associates	146	130	21	0	0	0	0	-	297
Reported PAT	519	603	604	640	819	942	961	2,721	1,726

Source: Company, Centrum Research

P&L					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	16,893	22,792	27,099	31,977	37,733
Materials cost	8,962	12,556	14,065	16,596	19,583
% of revenues	53.1%	55.1%	52%	52%	52%
Employee cost	1,652	2,098	2,439	2,814	3,207
% of revenues	9.8%	9.2%	9.0%	8.8%	8.5%
Others	3,519	4,298	5,013	5,852	6,792
% of revenues	20.8%	18.9%	18.5%	18.3%	18.0%
EBITDA	2,760	3,840	5,582	6,715	8,150
EBITDA margin (%)	16.3%	16.8%	20.6%	21.0%	21.6%
Depreciation & amortisation	762	1,055	1,112	1,202	1,278
EBIT	1,998	2,785	4,470	5,513	6,872
Interest expenses	331	285	272	227	192
Other income	108	267	280	294	309
Exceptional items	0	0	0	0	0
PBT	1,935	3,255	4,478	5,580	6,988
Taxes	634	891	1,097	1,428	1,789
Effective tax rate (%)	32.8%	27.4%	24.5%	25.6%	25.6%
PAT	1,301	2,364	3,381	4,151	5,199
Minority/Associates	0	0	0	0	0
Reported PAT	1,301	2,364	3,381	4,151	5,199
Adjusted PAT	1,301	2,364	3,381	4,151	5,199
Ratios					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Revenue	17.8	34.9	18.9	18.0	18
EBITDA	-7.4	39.1	45.4	20.3	21.4
Adjusted PAT	-20.5	81.7	43.0	22.8	25.2
Margin (%)					
EBITDA	16.3	16.8	20.6	21.0	21.6
PBT from Operations	11.5	14.3	16.5	17.4	18.5
Adjusted PAT	7.7	10.4	12.5	13.0	13.8
Return (%)					
RoE	11.8	16.7	20.3	22.0	25.1
RoIC	8.2	10.3	14.6	15.9	18.6
RoCE	10.8	12.5	18.3	21.6	26.0
Turnover (days)					
Gross block turnover ratio (x)	0.7	0.8	0.9	1.0	1.1
Debtors	133.3	107.9	119.0	115.0	115.0
Inventory	60.5	61.5	58.0	56.8	56.7
Creditors	65.1	62.3	63.8	64.3	64.8
Solvency (x)					
Net debt-equity	0.6	0.6	0.5	0.4	0.3
Debt-equity	0.7	0.6	0.4	0.3	0.3
Interest coverage ratio	6.4	10.7	17.4	25.6	37.3
Gross debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current ratio	1.4	1.4	1.7	1.9	2.0
Per share (Rs)					
Adjusted EPS	5.1	9.3	13.3	16.3	20.5
BVPS	51.3	60.2	70.7	77.6	85.7
CEPS	8.1	13.5	17.7	21.1	25.5
DPS	1.0	1.0	1.0	1.0	1.0
Dividend payout (%)	23.4	12.9	9.0	7.3	5.9
Valuation (x)(Avg Mkt Cap)					
P/E (adjusted)	27.3	15.0	10.5	8.6	6.8
P/BV	2.7	2.3	2.0	1.8	1.6
EV/EBITDA	15.9	11.5	7.8	6.4	5.3
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2

Source: Company, Centrum Research estimates

Balance sheet					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Equity share capital	254	254	254	254	254
Reserves & surplus	12,788	15,041	17,694	19,464	21,512
Shareholders' fund	13,042	15,295	17,948	19,718	21,766
Total debt	4,408	4,914	4,436	3,963	3,495
Def tax liab. (net)	543	655	655	655	655
Minority Interest	0	0	0	0	0
Total liabilities	17,993	20,863	23,039	24,336	25,915
Gross block	10,774	12,222	14,132	13,960	13,760
Less: acc. depreciation	762	1,055	1,112	1,202	1,278
Net block	10,012	11,167	13,020	12,758	12,482
Capital WIP	2,900	3,235	3,235	3,235	3,235
Net fixed assets	12,912	14,402	16,255	15,993	15,716
Investments	1,580	2,109	393	393	393
Inventories	2,800	3,842	4,308	4,977	5,859
Sundry debtors	6,171	6,735	8,835	10,075	11,889
Cash	1,156	891	-432	-1,064	-1,810
Loans & advances	219	218	462	543	637
Other current assets	1,601	1,631	1,856	2,190	2,584
Total current asset	11,946	13,317	15,029	16,721	19,160
Trade payables	2,522	3,235	3,760	4,452	5,251
Other current liab.	5,838	5,678	4,804	4,231	3,999
Provisions	86	52	74	88	103
Net current assets	3,501	4,352	6,391	7,950	9,806
Total assets	17,993	20,863	23,039	24,336	25,915

Cash flow					
YE March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Op profit bef WC changes	3,028	4,594	5,863	7,009	8,459
Trade and other receivables	2,561	1,577	3,147	2,256	3,106
Trade payables	(62)	(1,228)	(673)	(933)	(1,083)
Net change – WC	2,499	349	2,473	1,324	2,023
Direct taxes	656	780	1,097	1,428	1,789
Net cash from operations	(127)	3,466	2,292	4,257	4,647
Capital expenditure	4,557	2,544	2,965	941	1,002
Acquisitions, net	638	588	(1,828)	67	79
Others	0	0	0	0	0
Net cash from investing	5,195	3,133	1,137	1,007	1,081
FCF	(5,321)	333	1,155	3,250	3,566
Issue of share capital	(2,087)	(601)	0	0	0
Increase/(decrease) in debt	(4,197)	895	2,173	3,577	4,007
Dividend paid	305	305	305	305	305
Net cash from financing	5,980	(599)	(2,478)	(3,881)	(4,312)
Net change in cash	658	(266)	(1,323)	(631)	(746)

Source: Company, Centrum Research estimates

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Source: Bloomberg

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