

## Retail Equity Research (South India Focus)

# Granules India Ltd

### Pharmaceuticals

BSE CODE : 532482 NSE CODE: GRANULES  
BLOOMBERG CODE: GRAN:IN SENSEX : 39,872

**Buy**

12M Investment Period

Rating as per Small Cap

**CMP Rs.146 TARGET Rs.175 RETURN +20%** ↑  
(Closing: 03-02-2020)

**KEY CHANGES:**

**TARGET ↑**

**RATING ↑**

**EARNINGS ↑**

### Higher Formulation sales drove the numbers ...

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

- Q3FY20 revenue grew by 11% YoY driven by higher sales in Formulations (FD) (~23%YoY) segment and PFI (Pharmaceutical formulation Intermediaries) (~8%YoY).
- EBITDA registered a 44% growth YoY while margin improved by 300bps to 23% on account of better capacity utilisation which is also reflected in the PAT growth of 59% YoY.
- Recognized an impairment loss of Rs 32crs in Q3FY20 on sales of joint venture (JV) business Biocause (China) which will be offset in next quarter on sales of Omnicem JV.
- We expect EBITDA margin to remain in 19-20% range for FY20-22E with higher efficiency in realization rates and sales from regulated markets.
- We forecast a Rev/PAT CAGR of 19%/16% during FY20-22E and upgrade the rating to Buy with a revised TP of Rs175 at 9.5x FY22EPS.

### Revenue Growth aided by better numbers from FD...

On the revenue front, Q3FY20 sales grew by ~11% YoY on account of higher FD sales (YoY growth of 23%). Revenue contribution of the core molecules increased by 25% (namely Paracetamol, Metformin, Ibuprofen, Guaifenesin and Methocarbamol) are still driving the topline. However they have added Fexofenadine & Cetirizine to the existing core portfolio in FY20 which will improve the sales figures going forward. PAT has increased by 59% YoY due to better expense management while three ANDA's were approved in Q3 with 19 pending. The promoter pledge has come down to ~30% which is very welcoming. Granules is also widening their existing portfolio to other dosages like paracetamol 500mg, 650mg, Metformin XR etc.

### EBITDA margin remains stable on better realisations...

EBITDA improved by 44%(YoY) with better sales reported from the regulated markets while EBITDA margin also grew by 500bps (YoY) on account of higher margins due to better product mix. Revenue contribution was mainly on an account of new launches. Increasing contribution from higher-margin FDs, generics, while remaining backward integrated in APIs. Raw material price is seen stabilising while lower tax rates going forward will better the bottomline. We therefore adjust the numbers marginally for FY20/21E and project revenue/EBITDA to grow at 19%/20% for FY22. We also expect PAT to witness a growth of 24% in FY22 which is feasible.

### Recognised exceptional loss on exit of JV business...

A one time loss of Rs 32crs is recognised for impairment loss in Biocause sales. Net of this value, our PAT stood at INR 64 crores, a 6% growth year-on-year. Without this exceptional item, our PAT stood at INR 96 crores. However, management is expecting to realise a gain on sales of Ominchem which will be offsetting the exceptional loss they have in Q3FY20. The sale will be concluded once the required regulatory approvals are received (expected to receive ~100crs), pending which the investment is carried at the carrying value of the investment in Granules OmniChem, which is INR 50.08 crores

### Valuations...

We expect consolidated revenue/PAT to grow at a CAGR of 19%/16% over FY20-22E given their successful implementation of vertical integration. Management has indicated that they will be launching another 8-9 products in FY21. Considering the lower valuations and improving product profiles, we expect earnings to remain healthy in the long term and upgrade the rating to Buy with a revised target price of Rs175 at 9.5x FY22E EPS.

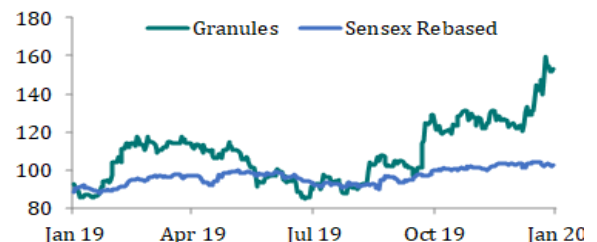
#### Company Data

Market Cap (cr)	Rs.3,513
Enterprise Value (cr)	Rs.4,380
Outstanding Shares (cr)	25.4
Free Float	57%
Dividend Yield	0.65%
52 week high	Rs.161
52 week low	Rs.84
6m average volume (cr)	0.14
Beta	.94
Face value	Rs1

Shareholding (%)	Q1FY20	Q2FY20	Q3FY20
Promoters	43	43	43
FII's	14	14.6	17.7
MFs/Insti	3.1	3.0	3.2
Public	40	39.4	36.1
Total	100.0	100.0	100.0
Promoter Pledge (%)	43.4	37.0	30.3

Price Performance	3 month	6 Month	1 Year
Absolute Return	22.4%	65.4%	73.3%
Absolute Sensex	2.7%	11.0%	15.8%
Relative Return*	19.7%	54.4%	57.5%

over or under performance to benchmark index



Consolidated (cr)	FY20E	FY21E	FY22E
Sales	2,773	3,277	3,898
Growth (%)	22	18	19
EBITDA	554	638	763
EBITDA Margin(%)	20.0	19.5	19.6
PAT Adj.	350	376	467
Growth (%)	48	7.0	24
Adj.EPS	9.3	14.8	18.4
Growth (%)	48	7.0	24
P/E	11	10	8
P/B	2.1	1.8	1.5
EV/EBITDA	8.2	7.0	5.7
ROE (%)	20.6	18.9	19.6
D/E	0.5	0.4	0.3

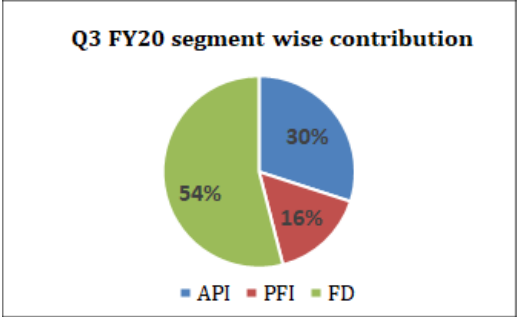
Dilish K Daniel, CFA  
Research Analyst

Quarterly Financials (Consolidated)

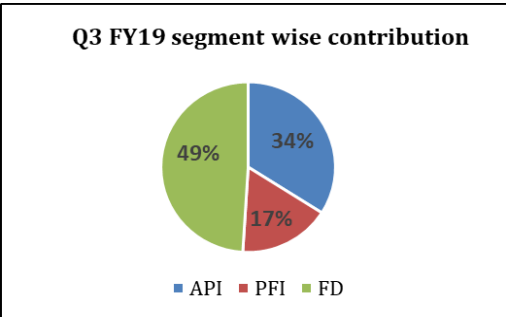
Profit & Loss

(Rs cr)	Q3FY20	Q3FY19	YoY Growth %	Q2FY19	QoQ Growth %	9MFY20	9MFY19	YoY Growth %
Sales	704.0	631.8	11%	699.5	1%	1,999	1,665.9	20%
EBITDA	163.2	113.3	44%	143.6	14%	425.4	294.3	45%
EBITDA margins	23%	18%	300bps	21%	300bps	21.3	17.7	360bps
Depreciation	39.0	27.0	44%	30.3	29%	98.0	78.1	26%
EBIT	124.2	86.3	44%	113.3	10%	327.5	216.3	51%
Interest	6.7	7.5	-10%	6.9	-2%	20.5	21.6	-5%
Other Income	3.5	5.9	-40%	8.7	-60%	14.0	24.8	-43%
Exceptional Items	-32.0	0.6	-	0.0	-	-32.0	-	-
PBT	88.9	84.7	5%	115.1	-23%	314.4	241.3	30%
Tax	24.9	26.5	-6%	19.3	29%	71.4	68.9	4%
Share of profit from Associate	0.0	2.1	-100%	0.0	-	25.5	29.8	-14%
Reported PAT	64.1	60.3	6%	95.8	-33%	243.1	172.4	41%
Adjustments	32.0	0.0	-	0.0	-	32.0	-	-
Adj PAT	96.1	60.3	59%	95.8	0%	275.0	172.4	60%
No. of Shares	25.4	25.4	-	25.4	-	25.4	25.4	-
EPS (Rs)	3.8	2.4	59%	3.8	0%	10.8	6.8	60%

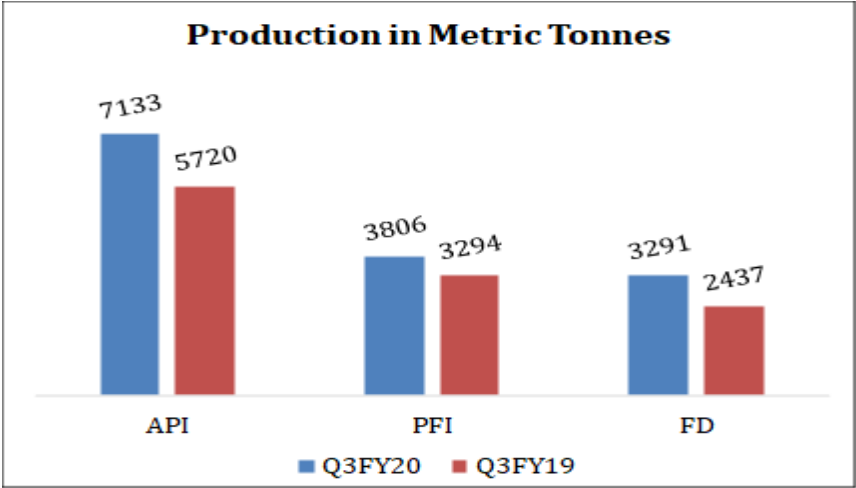
Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,323	-	3,277	3,898	-1.4	-
EBITDA	634	-	638	763	0.7	-
Margins (%)	19.5	-	19.5	19.6	-	-
Adj. PAT	388	-	376	467	-3.1	-
EPS	15.3	-	14.8	18.4	-3.2	-



Source: Company, Geojit Research



Source: Company, Geojit Research



Source: Company, Geojit Research

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	1,685	2,279	2,773	3,277	3,898
% change	19.4	35.3	21.7	18.2	19.0
EBITDA	278	383.3	553.8	638.3	763.4
% change	(6.9)	38.0	44.5	15.3	19.6
Depreciation	76	105.5	120.8	130.5	140.3
EBIT	202	277.9	433.1	507.8	623.1
Interest	33	28.5	26.1	24.2	21.4
Other Income	11	26.7	20.8	24.6	29.2
PBT	179	276.1	396.0	508.2	631.0
% change	(12.3)	53.9	43.3	28.5	24.2
Tax	63	89.1	103.0	132.1	164.1
Tax Rate (%)	35.3%	32.3	26%	26%	26%
JV profit	16.0	48.7	25.0	-	-
Reported PAT	132	235.7	318	376.1	466.9
Adj.*	(23.4)	0.0	32	0.0	0.0
Adj. PAT	155	235.7	350	376.1	466.9
% change	(5.0)	51.7	48.4	7.0	24.2
No. of shares (cr)	25.4	25.4	25.4	25.4	25.4
Adj EPS (Rs)	6.1	9.3	13.8	14.8	18.4
% change	(14.4)	51.7	48.4	7.0	24.2
DPS (Rs)	1.00	1.0	1.0	1.0	1.0

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	21	34	44	51	61
Non-cash adj.	53	105.5	89	131	140
Changes in W.C	(23)	(8.5)	(21)	(22)	(29)
C.F. Operation	(2)	28.2	20	32	31
Capital exp.	(45)	(18.5)	12	(17)	(11)
Change in inv.	(2)	(14.9)	(9)	(5)	(5)
Other invest.CF	(0)	2.7	2	2	3
C.F - Investment	(46)	(30.8)	6	(19)	(13)
Issue of equity	(31)	(28.5)	(26)	(24)	(21)
Issue/repay debt	(29)	(9.7)	(48)	(29)	(29)
Dividends paid	-	(28.7)	(29)	(29)	(29)
Other finance.CF	589	(26.0)	(50)	(90)	(90)
C.F - Finance	(462)	(308)	59	(190)	(126)
Chg. in cash	43	4.5	93	(4)	48
Closing cash	85	89.5	185	180	229

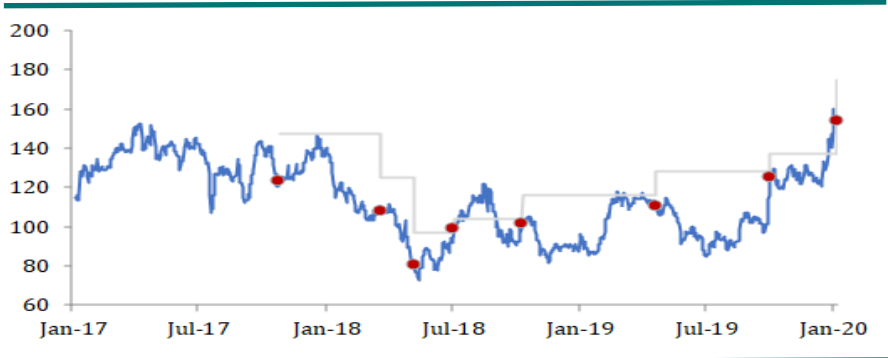
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	108	89.5	185	180	229
Account Receivable	617	673.5	820	970	1153
Inventories	280	384.2	444	526	624
Other Cur. Assets	148	131.6	190	224	267
Investments	157	237.1	370	425	475
Gross Fixed Assets	1,103	1,255	1354	1504	1654
Net Fixed Assets	701	747.8	726	745	755
CWIP	290	323.0	100	120	80
Intangible Assets	300	369.0	395	385	380
Def. Tax (Net)	(47)	(61)	(51)	(41)	(31)
Other Assets	-	-	0	0	0
Total Assets	2,590	2,914	3,243	3,610	4,022
Current Liabilities	65	101.8	174	228	271
Provisions	10	16.9	29	34	41
Debt Funds	433	478.1	454	404	354
Other Liabilities	252	333.0	325	375	390
Equity Capital	25	25.4	25	25	25
Reserves & Surplus	1,273	1,480	1,801	2,148	2,586
Shareholder's Fund	1,304	1,529	1,832	2,179	2,617
Total Liabilities	2,590	2,914	3,243	3,610	4,022
BVPS	51	59.3	72	86	102

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	16.5	16.8	20.0	19.5	19.6
EBIT margin (%)	12.0	12.2	15.6	15.5	16.0
Net profit mgn.(%)	9.2	10.3	12.6	11.5	12.0
ROE (%)	14.1	16.8	21.0	18.8	19.6
ROCE (%)	6.3	7.9	10.7	10.4	11.5
W.C & Liquidity					
Receivables (days)	112.1	103.3	98.3	99.7	99.4
Inventory (days)	60.2	53.2	54.5	54.0	53.8
Payables (days)	91.1	85.1	84.1	76.6	70.5
Current ratio (x)	3.8	3.0	3.5	3.4	3.7
Quick ratio (x)	2.9	2.1	2.6	2.5	2.8
Turnover &Leverage					
Gross asset T.O (x)	1.7	1.9	2.1	2.3	2.5
Total asset T.O (x)	0.8	0.8	0.9	1.0	1.0
Int. covge. ratio (x)	6.1	9.8	16.6	21.0	29.2
Adj. debt/equity (x)	0.8	0.6	0.5	0.4	0.3
Valuation					
EV/Sales (x)	2.0	1.5	1.4	1.1	0.9
EV/EBITDA (x)	12.0	8.9	8.2	7.0	5.7
P/E (x)	18.0	11.9	11.0	10.3	8.3
P/BV (x)	2.2	1.9	2.1	1.8	1.5

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
17 <sup>th</sup> Nov 2017	Buy	147
12 <sup>th</sup> March 2018	Buy	125
30 <sup>th</sup> May 2018	Buy	97
26 <sup>th</sup> July 2018	Accumulate	104
2 <sup>nd</sup> Nov 2018	Buy	116
13 <sup>th</sup> May 2019	Buy	127
25 <sup>th</sup> October 2019	Accumulate	137
3 <sup>rd</sup> February 2020	Buy	175

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

**Definition:**

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

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