

Granules India

Estimate change

TP change

Rating change


Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USD\$b)	35.5 / 0.5
52-Week Range (INR)	153 / 84
1, 6, 12 Rel. Per (%)	12/55/46
12M Avg Val (INR M)	128

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	27.1	31.0	33.7
EBITDA	5.8	6.7	7.5
Adj. PAT	3.7	4.1	4.7
EBIT Margin (%)	16.3	16.4	17.0
Cons. Adj. EPS (INR)	14.5	16.2	18.3
EPS Gr. (%)	57.8	11.4	13.0
BV/Sh. (INR)	69.6	81.6	95.7

Ratios

Net D:E	0.5	0.4	0.3
RoE (%)	22.4	21.5	20.7
RoCE (%)	14.2	15.8	16.2
Payout (%)	29.3	26.0	23.0

Valuations

P/E (x)	9.6	8.6	7.6
EV/EBITDA (x)	6.8	5.7	4.8
Div. Yield (%)	2.3	2.5	2.5
FCF Yield (%)	6.3	8.0	11.2
EV/Sales (x)	1.5	1.2	1.1

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	42.9	42.9	44.9
DII	3.2	3.3	3.0
FII	17.7	14.4	9.7
Others	36.1	39.4	42.4

FII Includes depository receipts

CMP: INR140
TP: INR165 (+18%)
Buy

Another quarter of record high revenue/EBITDA margin

Formulation – the backbone of strong earnings trajectory

- GRAN is on a sustained earnings growth trajectory, led by higher business from forward integration, expanding its portfolio and reach.
- We raise our EPS estimate by 6.5%/7.3%/2.2% for FY20/21/22 to factor in (a) increased formulation business on account of ANDA launches in the US and (b) improving profitability due to forward integration and addition of higher-margin API molecules in the portfolio. Reiterating **Buy**.

Seventh straight quarter of strong double-digit YoY PAT growth

- Sales increased 11% YoY to INR7b (our estimate: INR6.9b) in 3QFY20.
- Growth was mainly driven by strength in the formulation dosage (FD) segment (+23% YoY; 54% of total sales). Geographically, North America (+13% YoY; 53% of sales)/Europe (82% YoY; 21% of sales) performed well.
- Gross margin expanded 750bp YoY to 50.7%, led by the higher share of formulation revenue.
- Consequently, EBITDA margin improved 530bp YoY to 23.2% (our estimate: 20.2%), partly offset by higher other expenses (+160bp YoY) and staff cost (+70bp YoY). Strong EBITDA growth and a lower tax rate led to PAT growth of 56.4% YoY to INR944m (our estimate INR876m).
- GRAN reported one-time provision charge for impairment of INR320m related to the divestment of Granules Biocause Pharma, resulting in lower reported PAT of INR641m.

Highlights from management commentary

- GRAN has started expensing out entire R&D spend 3QFY20 onward.
- Net debt stood at INR7.9b (3QFY19: INR9.4b), which includes short-term debt of INR3.7b.
- FCF stood at INR590m for the quarter and INR1.6b for 9MFY20.
- The new API facility at Vizag would be commissioned soon. Incremental quarterly opex related to this facility would be INR65m. Also, the impact on depreciation EBITDA would be INR75m on a quarterly basis.
- GPI business reported revenue of INR887m (+11% YoY), EBITDA of INR193m and PAT of INR35m.

Valuation and view

- We expect earnings CAGR of 26% over FY19-22, led by 19% CAGR in formulation revenue and 490bp EBITDA margin expansion (with an increased share of better-margin products). We continue valuing GRAN at 9x 12M forward earnings to arrive at a TP of INR165 (prior: INR145). Maintain **Buy**.

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 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR Million)

Y/E March (Consolidated)	FY19				FY20E				FY19	FY20E	Est. 3QE	Var. vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	4,532	5,809	6,318	6,133	5,953	6,995	7,040	7,110	22,792	27,097	6,896	2.1%
YoY Change (%)	17.4	48.0	53.8	21.7	31.3	20.4	11.4	15.9	34.7	18.9	9.2	
EBITDA	726	1,005	1,133	1,056	1,186	1,436	1,632	1,545	3,920	5,799	1,393	17.1%
YoY Change (%)	-13.8	30.7	53.0	142.0	63.4	42.9	44.0	46.3	40.8	47.9	23	
Depreciation	245	265	270	274	287	303	390	394	1,055	1,374	315	
EBIT	481	740	863	782	900	1,133	1,242	1,151	2,866	4,425	1,078	0.2
YoY Change (%)	-27.8	26.9	58.5	236.7	87.1	53.1	43.9	47.1	41.7	54.4	25	
Interest	65	76	75	68	69	69	67	64	285	268	67	
Other Income	147	42	59	19	19	87	35	49	267	190	45	
PBT before EO expense	563	706	847	652	849	1,151	1,210	1,136	2,768	4,347	1,056	14.6%
Extra-Ord expense	0	0	0	80	0	0	320	0	0	320	0	
PBT	563	706	847	572	849	1,151	889	1,136	2,768	4,026	1,056	
Tax	191	234	265	202	272	193	249	172	891	886	180	
Rate (%)	34.0	33.1	31.2	27.5	32.0	16.8	28.0	15.1	34.8		17.0	
(Profit)/Loss of JV/Asso. Cos.	-146	-130	-21	-190	-255	0	0	0	-487	-255	0.0	
Reported PAT	518	603	603	569	832	958	641	964	2,292	3,396	876	-26.9%
Adjusted PAT	518	603	603	622	832	958	944	964	2,345	3,699	876	7.7%
YoY Change (%)	40.7	49.4	72.3	204.3	60.7	59.0	56.4	55.1	76.9	57.7	45	
Margins (%)	11.4	10.4	9.5	10.1	14.0	13.7	13.4	13.6	10.3	13.6	12.7	

Key performance Indicators (Consolidated)

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
FD	1,813	2,265	3,096	3,189	2,857	3,498	3,801	3,431	10,057	13,588
YoY Change (%)	20.4	37.4	88.4	58.3	57.6	54.4	22.8	7.6	85.8	35.1
PFI	906	929	1,074	981	952	1,329	1,126	1,454	3,953	4,862
YoY Change (%)	(2.1)	(1.4)	9.0	(18.8)	5.1	43.0	4.9	48.2	(13.5)	23.0
API	1,813	2,614	2,148	1,963	2,143	2,169	2,112	2,184	8,783	8,607
YoY Change (%)	27.0	95.8	45.3	8.2	18.2	(17.0)	(1.7)	11.3	26.6	(2.0)
Cost Break-up										
RM Cost (% of Sales)	54.5	54.7	56.8	54.1	49.6	51.4	49.3	49.6	44.9	50.0
Staff Cost (% of Sales)	11.1	9.4	8.5	8.4	9.6	9.1	9.2	9.8	9.2	9.4
Other Cost (% of Sales)	18.4	18.6	16.7	20.4	20.9	19.0	18.3	18.8	18.5	19.2
Gross Margins (%)	45.5	45.3	43.2	45.9	50.4	48.6	50.7	50.4	55.1	50.0
EBITDA Margins (%)	16.0	17.3	17.9	17.2	19.9	19.9	20.5	23.2	17.2	21.4
EBIT Margins (%)	10.6	12.7	13.7	12.7	15.1	16.2	17.6	16.2	12.6	16.3

Conference call highlights

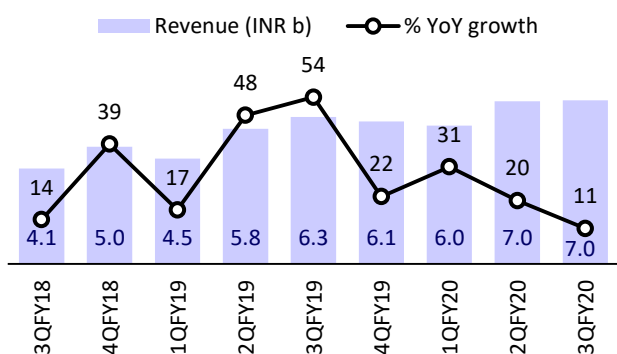
- R&D spend stood at INR227.9m (3.2% of sales) – it was expensed out from this quarter. In 2QFY20, INR190m was expensed out and INR110m was capitalized.
- ANDAs with low economic viability would be amortized going forward. In 3Q, one ANDA was amortized at USD1.2m.
- GRAN filed two ANDAs and received approval for three in 3QFY20. On a cumulative basis, 19 ANDAs await USFDA approval, of which 1-2 ANDA approvals are expected by end-FY20.
- Capex spend for 3QFY20 was INR420m. A total of INR1.3b was spent in 9MFY20 and the target capex for the year is guided at INR1.5b.
- Cash to cash cycle has come down to 103 days v/s 106 days in 3QFY19, but increased WC requirement for the GPI business would result in higher cash to cash cycle going forward.



- The company has announced buyback at INR200/share (INR2.5b net of tax) on the back of amount received from divestment of its JVs and internal accruals.
- Management has set out 2-3 year financial goals: 20% revenue CAGR, 21%+ EBITDA margin (steady state), ~25% PAT CAGR and 20%+ RoCE.

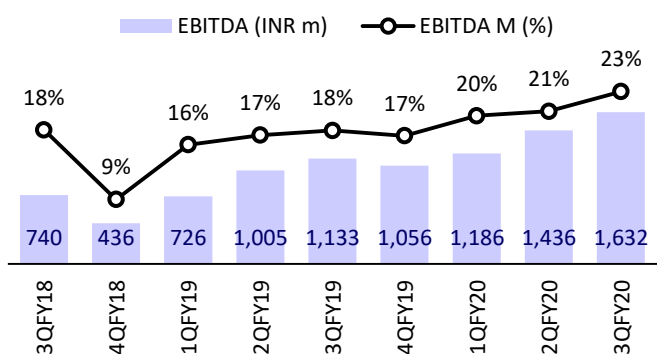
Key exhibits

Exhibit 1: 11% YoY growth in revenue (3QFY20)



Source: MOFSL, Company

Exhibit 2: EBITDA margins expand on account of better GM



Source: MOFSL, Company

Valuation view

Formulation business scaling up

In addition to the formulation business from its legacy molecules, GRAN commenced its own commercial operation in the US generics market in FY19. Accordingly, there has been significant ramp-up in the formulation business – it is the key driver for earnings growth as well. Notably, PAT grew 76% YoY in FY19, led by US formulation and partly due to a low base of past year. With formulation revenue forming 54% of revenue at end-9MFY20, we expect growth momentum to continue on the back of the robust ANDA pipeline pending for approval. It has filed 28 Rx ANDAs, received approval for 12 and has ~16 under review. Further, it has nine products under the development phase. Particularly, GRAN has about 8-9 launches planned in FY21 with a market size of USD2.5b. We expect 19% sales CAGR for the formulation segment.

Increased capacity of core molecules to improve margins due to reduced outsourcing; new capacity of onco-API to drive external sales

To cater to future demand, GRAN has already completed its capacity enhancement program for its core molecules. It has also set-up new capacity for onco-APIs, wherein commercialization would start from 4QFY20. We expect 6% sales CAGR for the API segment as increased capacity utilization would enable API availability for captive consumption.

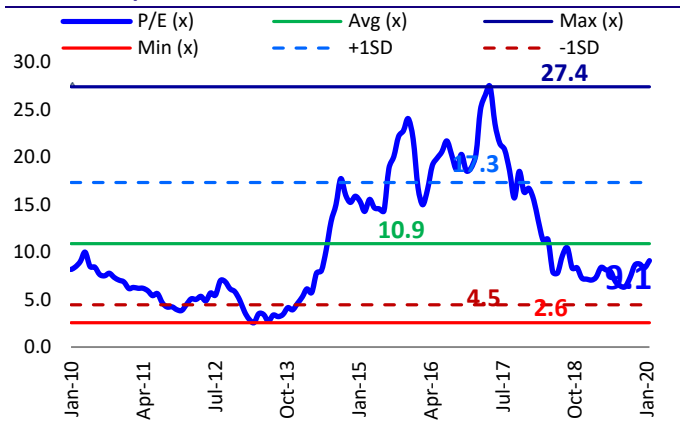
Return ratios in higher teens

New launches in the formulation segment, capacity ramp-up in the API segment and the better market share in existing molecules on superior execution are likely to drive 26% PAT CAGR to INR4.1b over FY19-22. Accordingly, we expect RoE to remain healthy at 21% over FY19-22.

Attractive valuation

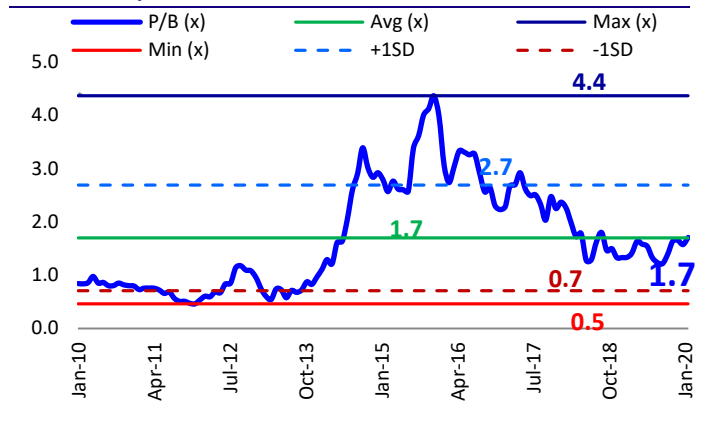
We value GRAN at 9x 12M forward earnings to arrive at a price target of INR165. At CMP of INR140, it is trading at an attractive valuation of 9.6x/8.6x/7.6x FY20/21/22E. Maintain **Buy**.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

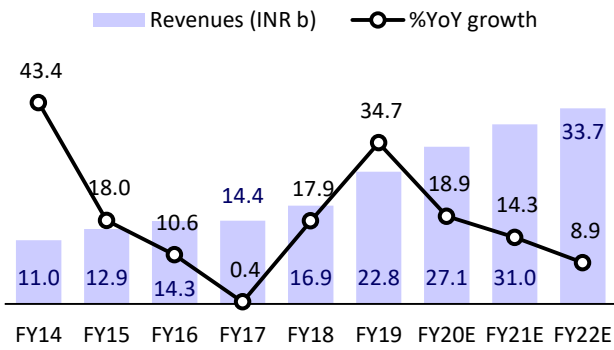
Exhibit 4: P/B chart



Source: MOFSL, Company, Bloomberg

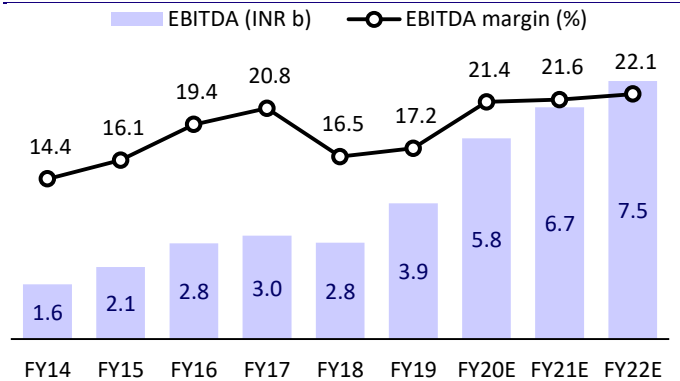
Story in charts

Exhibit 5: Expect revenue CAGR of 14% over FY19-22



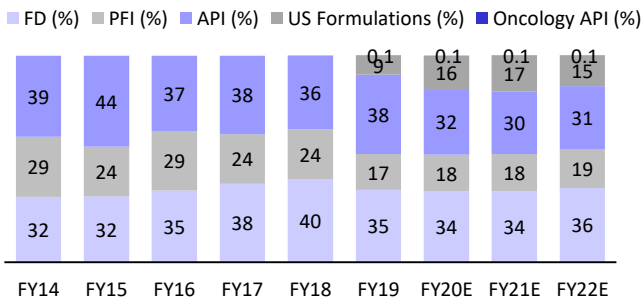
Source: MOFSL, Company

Exhibit 6: EBITDA margin of 21%+ sustainable



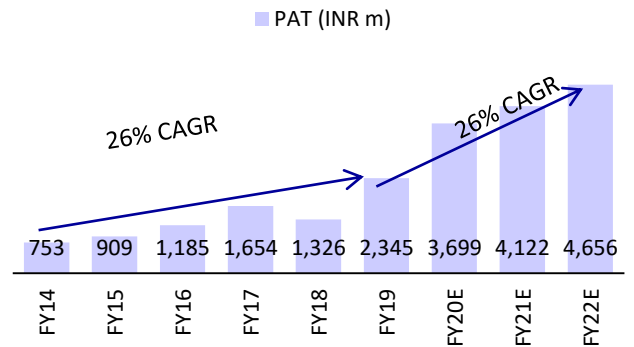
Source: MOFSL, Company

Exhibit 7: Formulation contribution to rise going ahead



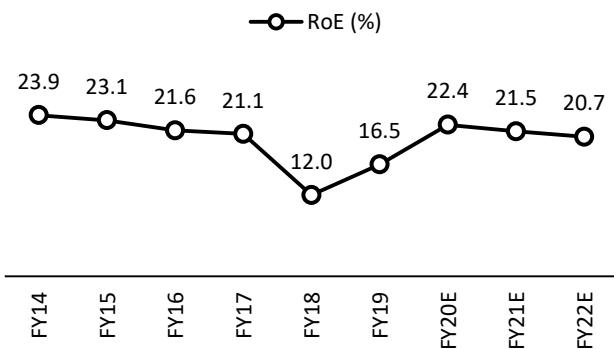
Source: MOFSL, Company

Exhibit 8: Expect PAT CAGR of ~26% over FY19-22



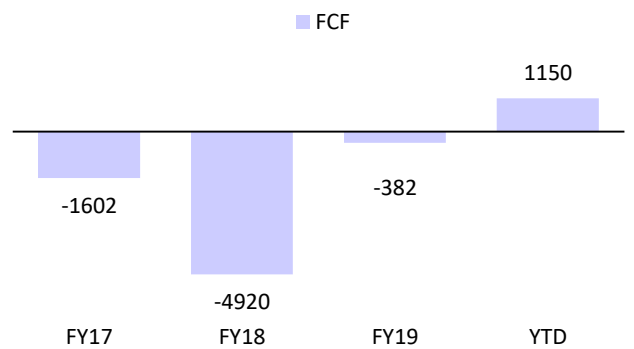
Source: MOFSL, Company

Exhibit 9: RoEs to pick up gradually on better asset turnover



Source: MOFSL, Company

Exhibit 10: Positive FCF for 9MY20



Source: MOFSL, Company

Financials and Valuations

Consolidated - Income Statement							(INR Million)		
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income from Operations	10,959	12,929	14,295	14,353	16,918	22,792	27,097	30,973	33,717
Change (%)	43.4	18.0	10.6	0.4	17.9	34.7	18.9	14.3	8.9
Total Expenditure	9,376	10,843	11,528	11,364	14,134	18,872	21,298	24,283	26,266
% of Sales	85.6	83.9	80.6	79.2	83.5	82.8	78.6	78.4	77.9
EBITDA	1,583	2,086	2,767	2,988	2,784	3,920	5,799	6,690	7,452
Margin (%)	14.4	16.1	19.4	20.8	16.5	17.2	21.4	21.6	22.1
Depreciation	298	527	643	715	762	1,055	1,374	1,606	1,722
EBIT	1,285	1,560	2,124	2,273	2,022	2,866	4,425	5,085	5,729
Int. and Finance Charges	204	323	399	323	331	285	268	243	219
Other Income	43	43	77	99	108	267	190	186	169
PBT bef. EO Exp.	1,124	1,280	1,802	2,050	1,800	2,848	4,347	5,027	5,678
EO Items	0	0	0	0	0	-80	-320	0	0
PBT after EO Exp.	1,124	1,280	1,802	2,050	1,800	2,768	4,026	5,027	5,678
Current Tax	305	287	535	652	659	891	886	905	1,022
Deferred Tax	66	83	82	-9	-25	72	0	0	0
Tax Rate (%)	33.0	29.0	34.2	31.4	35.2	34.8	22.0	18.0	18.0
Add: Associate income	0	0	0	247	160	487	255	0	0
Reported PAT	753	909	1,185	1,654	1,326	2,292	3,396	4,122	4,656
Adjusted PAT	753	909	1,185	1,654	1,326	2,345	3,699	4,122	4,656
Change (%)	130.8	20.8	30.3	39.6	-19.8	76.8	57.8	11.4	13.0
Margin (%)	6.9	7.0	8.3	11.5	7.8	10.3	13.7	13.3	13.8

Consolidated - Balance Sheet							(INR Million)		
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	203	204	217	229	254	254	254	254	254
Total Reserves	3,357	4,107	6,444	8,807	12,788	15,040	17,440	20,489	24,072
Net Worth	3,560	4,312	6,660	9,036	13,042	15,295	17,694	20,743	24,326
Minority Interest	0	0	0	0	0	0	0	0	0
Deferred Liabilities	403	549	646	565	543	655	655	655	655
Total Loans	4,417	4,872	4,767	5,981	9,582	9,330	8,480	7,680	6,881
Capital Employed	8,380	9,732	12,074	15,582	23,167	25,279	26,828	29,078	31,862
Gross Block	6,539	8,438	9,622	10,099	14,430	16,639	18,139	19,639	20,889
Less: Accum. Deprn.	1,714	2,272	2,941	3,656	4,418	5,473	6,846	8,452	10,174
Net Fixed Assets	4,825	6,166	6,681	6,443	10,012	11,167	11,293	11,188	10,715
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	1,246	620	766	2,605	2,901	3,235	3,252	3,097	3,372
Total Investments	2	2	2	1,082	1,566	2,104	2,104	2,104	2,104
Curr. Assets, Loans&Adv.	3,848	5,184	7,080	8,633	11,891	13,279	15,797	19,042	22,402
Inventory	1,742	2,245	3,071	2,761	2,799	3,842	4,551	5,256	5,757
Account Receivables	1,109	1,326	1,526	4,177	6,171	6,735	8,166	9,759	10,716
Cash and Bank Balance	418	653	1,419	498	1,156	890	925	1,566	3,250
Loans and Advances	580	959	1,065	1,198	1,765	1,811	2,154	2,462	2,680
Curr. Liability & Prov.	1,640	2,295	2,521	3,183	3,272	4,548	5,659	6,395	6,773
Account Payables	1,355	1,887	1,791	2,160	2,522	3,235	3,268	3,726	3,958
Other Current Liabilities	162	233	608	934	646	1,144	1,361	1,555	1,693
Provisions	123	175	122	89	104	169	1,031	1,114	1,122
Net Current Assets	2,208	2,888	4,559	5,451	8,620	8,731	10,138	12,647	15,629
Appl. of Funds	8,379	9,732	12,074	15,582	23,167	25,279	26,829	29,078	31,862

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
EPS	3.7	4.5	5.5	7.2	5.2	9.2	14.5	16.2	18.3
Cash EPS	5.2	7.0	8.4	10.4	8.2	13.4	20.0	22.5	25.1
BV/Share	17.6	21.1	30.7	39.5	51.4	60.2	69.6	81.6	95.7
DPS	0.4	0.5	0.6	1.0	1.0	1.0	3.3	3.5	3.5
Payout (%)	11.0	13.6	13.9	16.2	22.4	13.0	29.3	26.0	23.0
Valuation (x)									
P/E	37.7	31.5	25.6	19.4	26.8	15.2	9.6	8.6	7.6
Cash P/E	27.0	19.9	16.6	13.5	17.0	10.5	7.0	6.2	5.6
P/BV	8.0	6.6	4.6	3.5	2.7	2.3	2.0	1.7	1.5
EV/Sales	3.3	2.8	2.5	2.6	2.4	1.8	1.5	1.2	1.1
EV/EBITDA	22.8	17.4	12.8	12.6	14.6	10.3	6.8	5.7	4.8
Dividend Yield (%)	0.3	0.4	0.4	0.7	0.7	0.7	2.3	2.5	2.5
Return Ratios (%)									
RoE	23.9	23.1	21.6	21.1	12.0	16.5	22.4	21.5	20.7
RoCE	13.2	13.3	14.0	12.3	7.3	8.6	14.2	15.8	16.2
RoIC	15.9	14.6	15.2	14.7	9.1	10.2	17.4	19.5	20.7
Working Capital Ratios									
Asset Turnover (x)	1.3	1.3	1.2	0.9	0.7	0.9	1.0	1.1	1.1
Inventory (Days)	52	56	68	74	60	53	57	58	60
Debtor (Days)	30	33	36	71	111	103	100	106	111
Creditor (Days)	44	55	58	63	60	56	56	53	53
Leverage Ratio (x)									
Current Ratio	2.3	2.3	2.8	2.7	3.6	2.9	2.8	3.0	3.3
Interest Cover Ratio	6	5	5	7	6	10	17	21	26
Debt/Equity	1.2	1.1	0.7	0.7	0.7	0.6	0.5	0.4	0.3

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	1,124	1,280	1,801	2,050	1,800	2,848	4,347	5,027	5,678
Depreciation	298	527	643	715	762	1,055	1,374	1,606	1,722
Interest & Finance Charges	190	309	347	278	222	18	78	57	51
Direct Taxes Paid	-238	-317	-490	-595	-634	-891	-886	-905	-1,022
(Inc)/Dec in WC	-310	-363	-915	-557	-2,511	-377	-1,372	-1,869	-1,298
CF from Operations	1,064	1,435	1,387	1,891	-360	2,652	3,541	3,916	5,131
Others	16	18	51	43	0	0	0	0	0
CF from Operating incl EO	1,080	1,453	1,438	1,934	-360	2,652	3,541	3,916	5,131
(inc)/dec in FA	-2,649	-1,473	-1,335	-3,088	-4,626	-2,544	-1,517	-1,346	-1,524
(Pur)/Sale of Investments	95	0	0	0	-483	-539	0	0	0
Others	8	17	53	-90	108	267	190	186	169
CF from Investments	-2,546	-1,456	-1,281	-3,178	-5,001	-2,816	-1,327	-1,160	-1,356
Issue of Shares	11	11	1,059	829	2,977	186	0	0	0
(Inc)/Dec in Debt	1,709	628	191	151	3,602	-252	-850	-800	-799
Interest Paid	-205	-319	-406	-319	-331	-285	-268	-243	-219
Dividend Paid	-47	-83	-234	-223	-297	-297	-996	-1,073	-1,073
Others	0	0	0	0	68	547	-65	0	0
CF from Fin. Activity	1,467	238	609	438	6,019	-102	-2,180	-2,116	-2,091
Inc/Dec of Cash	0	236	766	-805	658	-266	35	640	1,684
Opening Balance	417	417	653	1,303	498	1,156	891	925	1,566
Closing Balance	417	653	1,419	498	1,156	890	925	1,566	3,250

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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