

Granules India

BSE SENSEX
38,129

S&P CNX
11,194



Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USD\$b)	85.4 / 1.2
52-Week Range (INR)	384 / 93
1, 6, 12 Rel. Per (%)	8/92/244
12M Avg Val (INR M)	530

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	26.0	31.5	37.7
EBITDA	5.5	8.2	9.5
Adj. PAT	3.3	5.0	5.7
EBIT Margin (%)	15.8	21.4	20.3
Cons. Adj. EPS (INR)	13.0	19.5	22.5
EPS Gr. (%)	41.3	50.0	14.9
BV/Sh. (INR)	72.2	87.1	105.3

Ratios

Net D:E	0.5	0.3	0.3
RoE (%)	19.7	24.5	23.4
RoCE (%)	12.6	18.2	18.5
Payout (%)	8.9	22.1	18.8

Valuations

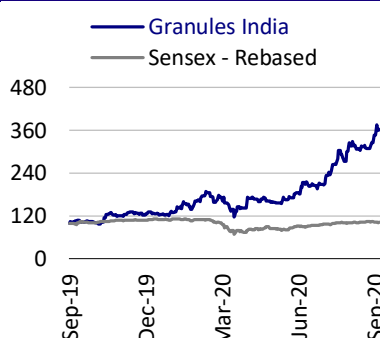
P/E (x)	26.7	17.8	15.5
EV/EBITDA (x)	15.8	10.5	9.0
Div. Yield (%)	0.3	1.0	1.0
FCF Yield (%)	1.6	1.4	2.9
EV/Sales (x)	3.3	2.7	2.3

Shareholding pattern (%)

As On	Sep-19	Jun-19	Sep-18
Promoter	26.8	26.8	26.8
DII	15.0	13.8	17.8
FII	30.3	31.0	26.8
Others	28.0	28.5	28.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR345

TP: INR410 (+19%)

Buy

Commercial benefits from complex products underway

- Granules India's (GRAN) efforts of building complex products should transform into money-making opportunities for the company over the next 12-18 months. GRAN has received 7 ANDA approvals over the past 12 months, which has less than 5 competitors.
- Specifically, the recent ANDA approval for GRAN's g-Focalin XR (market size of USD556m and considering 5 peers), we expect the company to garner USD35m on an annualized basis post launch of the product.
- We remain positive on GRAN due to better growth prospects in the Formulations (FD) business, new product additions in the API segment, and reduced costs owing to backward integration.
- We have raised our EPS estimate by 16%/13% for FY21/FY22E to factor in the upside from limited-competition products. We have also raised P/E multiple to 15x (from 14x earlier) to factor in the increasing capabilities of GRAN's niche launches. Accordingly, we arrive at a TP of INR410 on 12-month forward earnings basis. Re-iterate Buy.

7 approvals with less than 6 competitors over past 12 months

- With the generic version of Focalin XR being approved, GRAN now has 30 ANDA approvals (28 final and 2 tentative).
- Some of the other limited-competition products approved over the past 12 months are Colchicine, Tropicium Chloride, Valganciclovir HCl, Acetaminophen, and Methylphenidate HCl (each of which has less than 5 competitors).
- GRAN has filed for 15 ANDAs YTD FY21. GRAN intends to launch 7-8 ANDAs/Dossiers in FY21.

g-Focalin XR – Another limited competition opportunity

- The USFDA has approved GRAN's Dexmethylphenidate HCl (5mg/10mg/15mg/20mg/25mg/30mg/35mg/40mg) extended release capsule, a generic version of Focalin XR. It is used for the treatment of Attention Deficit Hyperactivity Disorder (ADHD).
- Focalin XR and its generic equivalent had US sales of USD556m for 12-month ending Jul'20.
- There are 5 companies having final approval for this product, other than GRAN. However, the active companies are only 3 (excl. GRAN).
- Accordingly, we expect price erosion of 7-10% with market share gradually building up to 10% over 12 months post the launch of the product. Likewise, we expect annualized sales of USD35m from this opportunity. This could provide meaningful upside to GRAN's ANDA-led Formulations business.

Valuation and view

- GRAN has multiple growth levers, such as (a) the ANDA pipeline for US generics (with some products having limited competition opportunity),

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which should drive an increase in the share of formulations for developed markets, (b) enhanced reach for core molecules, and (c) reduced opex through backward integration. Accordingly, we expect earnings CAGR of 31% over FY20-22E. We value GRAN at 15x 12-month forward earnings to arrive at a TP of INR410/share. Maintain **Buy**.

Other highlight: Compliance in place for all plants

- All GRAN's plants (4 API plants / 2 intermediate plants / 2 formulations plants) are under successful compliance.
- Particularly, of the 2 formulation plants, the Gagillapur plant was inspected in Feb'20 and received the VAI (Voluntary Action Indicated) classification from the USFDA.
- The Virginia plant was inspected in Aug'19, when it received Form 482 with 2 observations. GRAN had successfully responded to the queries within the stipulated time and received an EIR (Establishment Inspection Report).

Exhibit 1: G-Focalin competitive snapshot

Product name	Company	Approval date
Focalin (RLD)	Novartis	Aug-06
	Adare Pharma	Oct-18
	Impax Lab	Aug-15
Dexmethylphenidate HCl	Mylan Pharma	Aug-15
	Par Pharma	Nov-16
	Teva Pharma	Nov-13
	Granuls India	Sep-20

Source: MOFSL, Company

Exhibit 2: G-Rozerem competitive snapshot

Product name	Company	Approval date
Rozerem (RLD)	Takeda Pharmaceuticals USA Inc*	Jul-05
	Dr Reddy's Laboratories	Jul-13
	Actavis Laboratories	Aug-15
Ramelteon	Zydus Pharmaceuticals USA Inc	Jul-19
	I3 Pharmaceuticals LLC	Apr-20
	Granules Inc	Aug-20

Source: MOFSL, Company

Exhibit 3: Approvals over the past 12 months with competitive landscape

Active Ingredient	Brand	Dosage Form	Approval Date	Competitors
Dexmethylphenidate HCl	Focalin	Capsule ER	Sep'20	5
Guaifenesin	Mucinex	Tablet – ER	Feb'20	5
Acetaminophen; Butalbital	Acetaminophen; Butalbital	Tablet	Nov'19	4
Valganciclovir Hydrochloride	Valcyte	Solution	Jan'20	3
Tropium Chloride	Sanctura XR Capsules	Capsule ER – 60 MG	Apr'20	2
Methylphenidate Hydrochloride	Ritalin – La	Capsule – ER	May'19	2
Colchicine	Mitigare	Capsule – 0.6MG	Feb'20	1
Butalbital, Acetaminophen and Caffeine	Butalbital, Acetaminophen and Caffeine	Capsule	Apr'20	9
Potassium Chloride	Klor – Con	Tablet – ER	Mar'20	8
Loratadine	Claritin	Tablet – 10 MG	Dec'19	8
Amphetamine Sulfate	Evekeo	Tablet – 5, 10 MG	Aug'19	8
Colchicine	Colcrys	Tablet – 0.6MG	Feb'20	7
Vigabatrin	Sabril	Solution	Apr'20	7
Acetaminophen	Tylenol	Tablet – ER	Apr'19	6

Source: MOFSL, Company

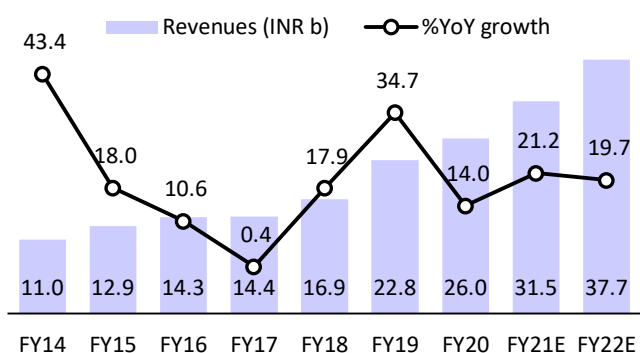
Exhibit 4: USFDA inspection update

Value Chain	Locations	Installed capacity	Inspection date
API	Bonthapally	34,560	Jul'19
	Jeedimetla	4,800	Mar'18
	Vizag (Unit IV)	290KL	Dec'15
	Vizag (Unit V)		
PFI	Gagillapur	23,200	Feb'20
	Jeedimetla	1,440	Mar'18
Formulation	Gagillapur	21.8b	Feb'20
	Virginia, USA	1.5b	Aug'19

Source: MOFSL, Company

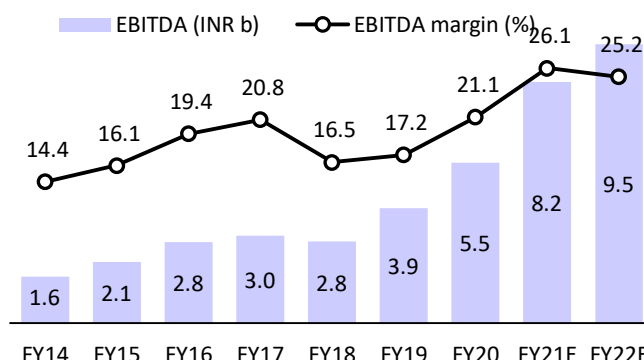
Story in charts

Exhibit 5: Expect revenue CAGR of 20% over FY20-22E



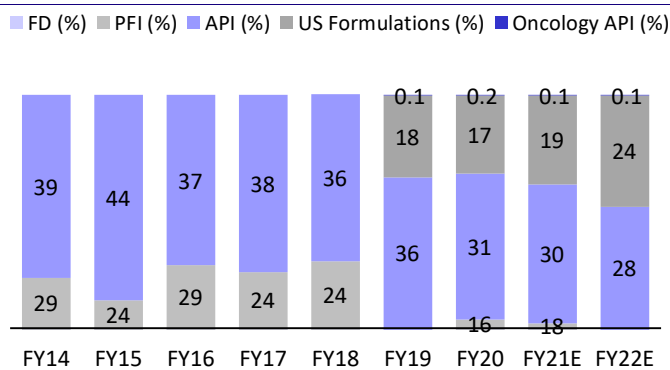
Source: MOFSL, Company

Exhibit 6: EBITDA margin on an uptrend



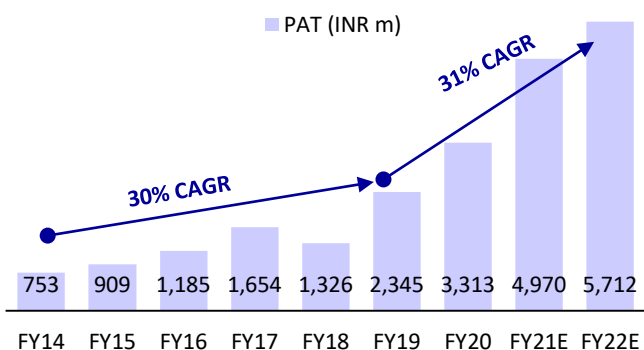
Source: MOFSL, Company

Exhibit 7: Formulations contribution continues to rise



Source: MOFSL, Company

Exhibit 8: Expect PAT CAGR of ~31% over FY20-22E



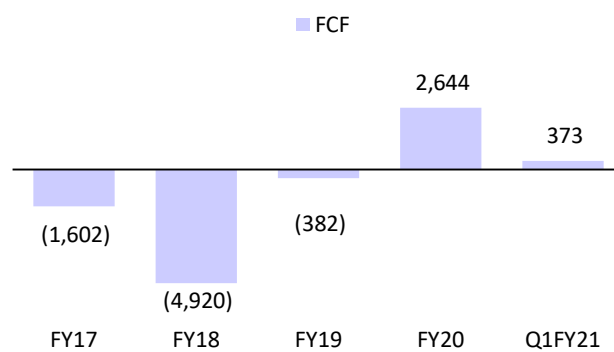
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 10: Positive FCF for FY20 and 1QFY21



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INR M)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Income from Operations	11,167	13,279	14,603	14,599	16,991	22,792	25,986	31,507	37,715
Less: Excise Duty	209	350	308	247	72	0	0	0	0
Total Income from Operations	10,959	12,929	14,295	14,353	16,918	22,792	25,986	31,507	37,715
Change (%)	43.4	18.0	10.6	0.4	17.9	34.7	14.0	21.2	19.7
Total Expenditure	9,376	10,843	11,528	11,364	14,134	18,872	20,513	23,283	28,211
% of Sales	85.6	83.9	80.6	79.2	83.5	82.8	78.9	73.9	74.8
EBITDA	1,583	2,086	2,767	2,988	2,784	3,920	5,473	8,223	9,504
Margin (%)	14.4	16.1	19.4	20.8	16.5	17.2	21.1	26.1	25.2
Depreciation	298	527	643	715	762	1,055	1,370	1,492	1,856
EBIT	1,285	1,560	2,124	2,273	2,022	2,866	4,104	6,731	7,648
Int. and Finance Charges	204	323	399	323	331	285	270	245	221
Other Income	43	43	77	99	108	267	366	221	189
PBT bef. EO Exp.	1,124	1,280	1,802	2,050	1,800	2,848	4,199	6,707	7,615
EO Items	0	0	0	0	0	-80	57	-151	0
PBT after EO Exp.	1,124	1,280	1,802	2,050	1,800	2,768	4,257	6,555	7,615
Current Tax	305	287	535	652	659	891	1,257	1,698	1,904
Deferred Tax	66	83	82	-9	-25	72	-100	0	0
Tax Rate (%)	33.0	29.0	34.2	31.4	35.2	34.8	27.2	25.9	25.0
Add: Associate income	0	0	0	247	160	487	255	0	0
Reported PAT	753	909	1,185	1,654	1,326	2,292	3,354	4,858	5,712
Adjusted PAT	753	909	1,185	1,654	1,326	2,345	3,313	4,970	5,712
Change (%)	130.8	20.8	30.3	39.6	-19.8	76.8	41.3	50.0	14.9
Margin (%)	6.9	7.0	8.3	11.5	7.8	10.3	12.7	15.8	15.1

Consolidated - Balance Sheet								(INR M)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	18,097	21,882	26,520
Net Worth	3,560	4,312	6,660	9,036	13,042	15,295	18,352	22,136	26,774
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	27,486	30,471	34,310
Gross Block	6,539	8,438	9,622	10,099	14,430	16,639	18,139	21,639	23,639
Less: Accum. Deprn.	1,714	2,272	2,941	3,656	4,418	5,473	6,842	8,334	10,190
Net Fixed Assets	4,825	6,166	6,681	6,443	10,012	11,167	11,297	13,306	13,449
Capital WIP	1,246	620	766	2,605	2,901	3,235	3,118	3,151	3,772
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	15,707	18,137	22,210
Inventory	1,742	2,245	3,071	2,761	2,799	3,842	4,384	5,039	6,183
Account Receivables	1,109	1,326	1,526	4,177	6,171	6,735	7,832	9,927	11,986
Cash and Bank Balance	418	653	1,419	498	1,156	890	1,427	666	1,043
Loans and Advances	580	959	1,065	1,198	1,765	1,811	2,065	2,504	2,997
Curr. Liability & Prov.	1,640	2,295	2,521	3,183	3,272	4,548	4,784	6,268	7,267
Account Payables	1,355	1,887	1,791	2,160	2,522	3,235	3,147	3,572	4,251
Other Current Liabilities	162	233	608	934	646	1,144	1,305	1,582	1,894
Provisions	123	175	122	89	104	169	332	1,114	1,122
Net Current Assets	2,208	2,888	4,559	5,451	8,620	8,731	10,924	11,868	14,943
Appl. of Funds	8,379	9,732	12,074	15,582	23,167	25,279	27,486	30,471	34,310

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	3.7	4.5	5.5	7.2	5.2	9.2	13.0	19.5	22.5
Cash EPS	5.2	7.0	8.4	10.4	8.2	13.4	18.4	25.4	29.8
BV/Share	17.6	21.1	30.7	39.5	51.4	60.2	72.2	87.1	105.3
DPS	0.4	0.5	0.9	0.8	1.0	1.0	1.0	3.5	3.5
Payout (%)	11.0	13.6	19.8	13.5	21.9	13.4	8.9	22.1	18.8
Valuation (x)									
P/E	93.6	78.1	63.5	48.0	66.5	37.7	26.7	17.8	15.5
Cash P/E	67.1	49.4	41.2	33.5	42.2	26.0	18.9	13.7	11.7
P/BV	19.8	16.5	11.3	8.8	6.8	5.8	4.8	4.0	3.3
EV/Sales	7.6	6.5	5.8	5.9	5.2	3.9	3.3	2.7	2.3
EV/EBITDA	52.7	40.1	29.9	28.4	31.6	22.4	15.8	10.5	9.0
Dividend Yield (%)	0.1	0.1	0.3	0.2	0.3	0.3	0.3	1.0	1.0
Return Ratios (%)									
RoE	23.9	23.1	21.6	21.1	12.0	16.5	19.7	24.5	23.4
RoCE	13.2	13.3	14.0	12.3	7.3	8.6	12.6	18.2	18.5
RoIC	15.9	14.6	15.2	14.7	9.1	10.2	15.0	22.0	22.1
Working Capital Ratios									
Asset Turnover (x)	1.3	1.3	1.2	0.9	0.7	0.9	0.9	1.0	1.1
Inventory (Days)	52	56	68	74	60	53	58	55	54
Debtor (Days)	30	33	36	71	111	103	102	103	106
Creditor (Days)	44	55	58	63	60	56	57	53	51
Leverage Ratio (x)									
Current Ratio	2.3	2.3	2.8	2.7	3.6	2.9	3.3	2.9	3.1
Interest Cover Ratio	6	5	5	7	6	10	15	27	35
Debt/Equity	1.2	1.1	0.7	0.7	0.7	0.6	0.5	0.3	0.3

Consolidated - Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	1,124	1,280	1,801	2,050	1,800	2,848	4,199	6,707	7,615
Depreciation	298	527	643	715	762	1,055	1,370	1,492	1,856
Interest & Finance Charges	190	309	347	278	222	18	-95	25	32
Direct Taxes Paid	-238	-317	-490	-595	-634	-891	-1,157	-1,698	-1,904
(Inc)/Dec in WC	-310	-363	-915	-557	-2,511	-377	-1,656	-1,705	-2,698
CF from Operations	1,064	1,435	1,387	1,891	-360	2,652	2,660	4,820	4,902
Others	16	18	51	43	0	0	0	-151	0
CF from Operating incl EO	1,080	1,453	1,438	1,934	-360	2,652	2,660	4,669	4,902
(inc)/dec in FA	-2,649	-1,473	-1,335	-3,088	-4,626	-2,544	-1,383	-3,532	-2,621
(Pur)/Sale of Investments	95	0	0	0	-483	-539	0	0	0
Others	8	17	53	-90	108	267	366	221	189
CF from Investments	-2,546	-1,456	-1,281	-3,178	-5,001	-2,816	-1,018	-3,312	-2,432
Issue of Shares	11	11	1,059	829	2,970	195	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	-270	-245	-221
Dividend Paid	-47	-83	-234	-223	-290	-306	-297	-1,073	-1,073
Others	0	0	0	0	68	547	312	0	0
CF from Fin. Activity	1,467	238	609	438	6,019	-102	-1,106	-2,118	-2,093
Inc/Dec of Cash	0	236	766	-805	658	-266	537	-761	377
Opening Balance	417	417	653	1,303	498	1,156	891	1,427	666
Closing Balance	417	653	1,419	498	1,156	890	1,427	666	1,043

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

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