

Retail Equity Research (South India Focus)

Granules India Ltd

Pharmaceuticals

BSE CODE : 532482

NSE CODE: GRANULES

BLOOMBERG CODE: GRAN:IN

SENSEX : 37,020

Buy

12M Investment Period

Rating as per Small Cap

CMP Rs.264 TARGET Rs.327 RETURN +24% ↑

(Closing: 17-07-2020)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Top line hits record levels...

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

- Granules achieved its highest ever quarterly revenue of Rs.736cr during Q1FY21 with a YoY growth of 24%.
- The Finished Dosages segment grew by 35% during the quarter as the company successfully launched Colchicine tablets and Butalbital APAP caffeine tablets in the U.S
- The company reduced its Promoter pledge percentage from 37.6% to 8.7% through the recent buyback process.
- We expect net profit to grow at a CAGR of 22% over FY20-FY22E on the back of new launches, entry into new geographies as well as its cost optimization measures.
- Hence we value Granules at 15x FY22E EPS and reiterate a "Buy" rating, with a target price of Rs.327

Finished dosages a key driver of revenue

Granules achieved its highest revenue of Rs.736cr during Q1FY21 with a YoY growth of 24%. The growth was led by the Pharmaceutical Formulation Intermediaries (PFI) and Finished osages (FD) verticals. PFI grew by 45% as the segment increased its market penetration in different geographies. On the other hand, the FD segment grew by 35% during the quarter as the company successfully launched Colchicine tablets and Butalbital APAP caffeine tablets in the U.S through Granules Pharma Inc (GPI) during the quarter, as well as increase the market share of its existing products. The company stated that it was able to pass on the increase in freight costs to the customers, which also contributed in the revenue growth. The share of Finished Dosages is now 52.4% vs 47.8% in Q1FY20.

Increased backward Integration expands margins

EBITDA margins grew by 500bps to 24.9% with EBITDA growing to 184cr during the quarter. Production of all the core molecules of Granules is fully backward integrated, which has enabled the company to lower its costs. R&D spending has also been managed prudently and the company has stated that it expects R&D expenses to decrease going forward. The company will focus its R&D spend on medium to high volume products in the future. 3 ANDAs were filed in different geographies and the company received 6 ANDAs from the USFDA during the quarter.

Buyback led to significant reduction in pledged shares

The company concluded its buyback proceedings last month with Rs.142cr spend on the buyback. A tax of Rs.32cr on the buyback will be paid during Q2FY21. As a result of the buyback, the percentage of the promoter's pledged shares declined to 8.6% from 37.6% last quarter. The company stated that it may look at conducting further buybacks in the future.

Valuations...

Granules stated that it plans to file and launch 7-8 ANDAs a year going forward, with a focus on developing differentiated and niche products. The company will spend Rs.150cr on a new plant that will produce API Intermediaries, which will enable further margin expansion. Granules will also increase its presence in the oncology space through contract development and manufacturing organization (CDMO) tie-ups with strategic partners. We expect net profit to grow at a CAGR of 22% over FY20-FY22E on the back of new launches, entry into new geographies as well as its cost optimization measures. Considering these factors, we value Granules at 15x FY22E EPS and reiterate a "Buy" rating, with a target price of Rs.327

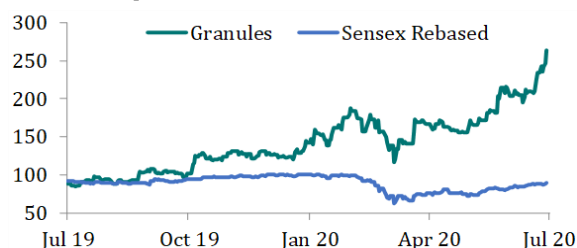
Company Data

Market Cap (cr)	Rs.6,713
Enterprise Value (cr)	Rs.7,556
Outstanding Shares (cr)	25.4
Free Float	57.9
Dividend Yield	0.38
52 week high	Rs.268
52 week low	Rs.84
6m average volume (cr)	0.3
Beta	1.0
Face value	Rs.1

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	43	44	42
FII's	17.7	21.7	23.0
MFs/Insti	3.2	3.0	3.2
Public	36.1	32.4	31.7
Total	100.0	100.0	100.0
Promoter Pledge (%)	30.3	37.6	8.7

Price Performance	3 month	6 Month	1 Year
Absolute Return	58.5%	86.0%	182.6%
Absolute Sensex	17.2%	-11.7%	-4.8%
Relative Return*	41.3%	97.7%	187.4%

over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	2,598	3,302	3,940
Growth (%)	14.0	27.1	19.3
EBITDA	525	741	885
EBITDA Margin(%)	20.2	22.4	22.5
PAT Adj.	362	408	535
Growth (%)	53.6	12.7	31.1
Adj.EPS	14.3	16.7	21.8
Growth (%)	53.8	22.1	31.1
P/E	19	16	13
P/B	3.6	3.1	2.5
EV/EBITDA	13.7	9.9	8.2
ROE (%)	21.7	20.9	23.0
D/E	0.3	0.4	0.2

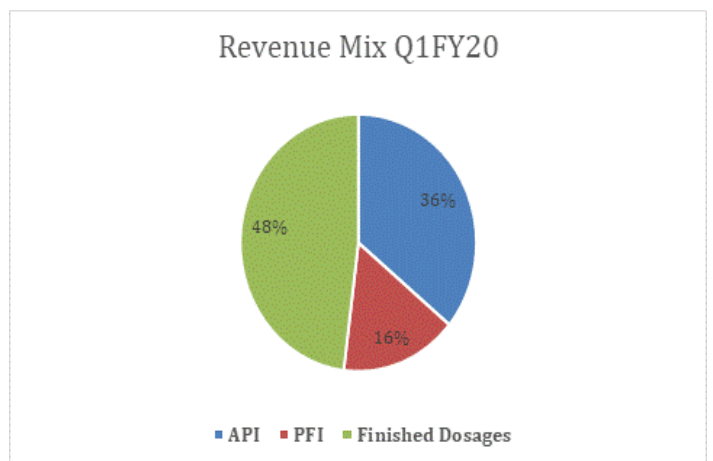
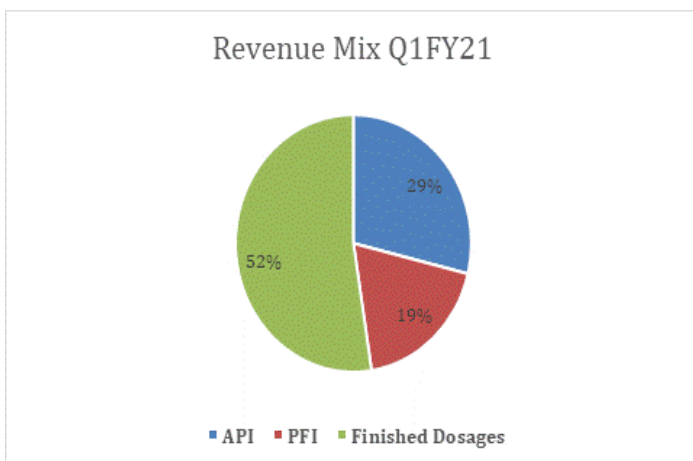
Joe V Samuel
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

(Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	736	595	23.6	600	22.6
EBITDA	184	119	54.6	100	83.6
EBITDA margins %	24.9	19.9	500bps	16.7	820bps
Depreciation	34	29	18.6	39	-12.8
EBIT	150	90	66.1	61	145.2
Interest	6	7	-14.1	7	-10.6
Other Income	6	2	202.7	23	-75.2
Exceptional Items	-	-	-	60	-
PBT	149	85	75.6	137	9.2
Tax	38	27	38.7	44	-14.9
Share of profit from Associate	0.0	0.0	-	0.0	-
Reported PAT	112	83	33.9	92	20.7
Adjustments	-	-	-	60	-
Adj PAT	112	83	33.9	32	242.3
No. of Shares	25	25	-	25	-
Adj EPS (Rs)	4.4	3.3	33.9	1.3	242.3

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,252	3,877	3,302	3,940	1.5	1.6
EBITDA	663	775	741	885	11.8	14.2
Margins (%)	20.4	20.0	22.4	22.5	200bps	250bps
Adj. PAT	394	475	408	535	3.6	12.6
EPS	16.1	19.4	16.7	21.4	3.7	12.6



Source: Company, Geojit Research

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	1,685	2,279	2,598	3,302	3,940
% change	19.4	35.3	14.0	27.1	19.3
EBITDA	278	383	525	741	885
% change	-6.9	38	36.9	41.2	19.5
Depreciation	76	105	137	131	140
EBIT	202	278	388	611	745
Interest	33	28	27	24	21
Other Income	11	27	37	25	30
PBT	179	276	425	611	753
% change	-12	54	54	44	23
Tax	63	89	116	203	218
Tax Rate (%)	35%	32%	26%	33%	29%
JV profit	-23	0	-28	0	0
Reported PAT	132	236	335	408	535
Adj.*	-23	0	-28	0	0
Adj. PAT	155	236	363	408	535
% change	-5	51.7	53.8	12.7	31.1
No. of shares (cr)	25.4	25.4	25.4	25.4	25.4
Adj EPS (Rs)	6.1	9.3	14.3	16.7	21.8
% change	-5	51.7	53.6	22.1	31.1
DPS (Rs)	1	1	1	1	1

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	21	34	56	54	68
Non-cash adj.	54	105	145	131	140
Changes in W.C	-230	-2	13	-20	-32
C.F. Operation	-24	364	476	338	360
Capital exp.	-446	-185	-183	-272	-210
Change in inv.	-16	-123	24	-29	0
Other invest.CF	-16	-69	116	-5	-5
C.F - Investment	-462	-281	-161	-301	-210
Issue of equity	293	0	0	-142	0
Issue/repay debt	250	-25	-154	-90	-90
Dividends paid	-29	-29	-31	-29	-28
Other finance.CF	0	0	-2	-7	-5
C.F - Finance	529	22	-211	-261	-118
Chg. in cash	43	105	105	-224	32
Closing cash	108	89	284	54	81

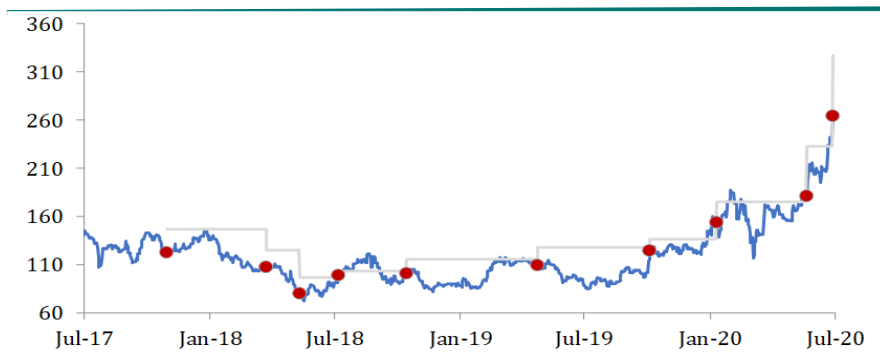
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	108	89	284	54	81
Account Receivable	617	674	735	859	1036
Inventories	280	384	438	459	558
Other Cur. Assets	148	132	236	226	270
Investments	157	210	19	19	19
Gross Fixed Assets	1103	1255	1632	1932	2182
Net Fixed Assets	701	748	988	1157	1267
CWIP	290	323	148	120	80
Intangible Assets	300	369	361	385	380
Def. Tax (Net)	-47	-61	-43	-43	-43
Other Assets	0	0	0	0	0
Total Assets	2590	2915	3247	3330	3750
Current Liabilities	317	437	583	510	507
Provisions	10	17	27	34	41
Debt Funds	433	479	422	372	322
Other Liabilities	252	324	430	510	507
Equity Capital	25	25	25	25	25
Reserves & Surplus	1273	1480	1813	2051	2558
Shareholder's Fund	1304	1530	1844	2081	2588
Total Liabilities	2590	2915	3247	3330	3750
BVPS	51	59	72	85	105

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	16.5	16.8	20.2	22.4	22.5
EBIT margin (%)	12	12.2	14.9	18.5	18.9
Net profit mgn.(%)	9.2	10.3	13.9	12.4	13.6
ROE (%)	14.1	16.8	21.7	20.9	23.0
ROCE (%)	10.7	11.7	15.1	22.3	24.6 %
W.C & Liquidity					
Receivables (days)	112	103	99	88	88
Inventory (days)	60	53	58	50	47
Payables (days)	91	84	107	111	100
Current ratio (x)	2.1	1.7	1.7	1.6	1.9
Quick ratio (x)	1.6	1.2	1.3	1.1	1.4
Turnover & Leverage					
Gross asset T.O (x)	1.7	1.9	1.8	1.9	1.9
Total asset T.O (x)	0.8	0.8	0.8	1.0	1.1
Int. covge. ratio (x)	6.1	9.8	14.4	25.2	34.9
Adj. debt/equity (x)	0.8	0.6	0.3	0.4	0.2
Valuation					
EV/Sales (x)	4	3	3	2	2
EV/EBITDA (x)	27	20	14	10	8
P/E (x)	43	28	19	16	13
P/BV (x)	5	4	4	3	3

Recommendation summary



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
3 rd February 2020	Buy	175
9 th June 2020	Buy	233
20 th July 2020	Buy	327

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.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

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

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