

Granules India

Estimate change



TP change

Rating change



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Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	67.1 / 0.8
52-Week Range (INR)	268 / 84
1, 6, 12 Rel. Per (%)	13/98/185
12M Avg Val (INR M)	316

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	26.0	30.6	35.1
EBITDA	5.5	7.3	8.5
Adj. PAT	3.3	4.3	5.0
EBIT Margin (%)	15.8	18.7	18.9
Cons. Adj. EPS (INR)	13.0	16.7	19.8
EPS Gr. (%)	41.3	28.4	18.3
BV/Sh. (INR)	72.2	84.3	99.8

Ratios

Net D:E	0.5	0.4	0.3
RoE (%)	19.7	21.4	21.5
RoCE (%)	12.6	15.9	17.0
Payout (%)	8.9	25.9	21.3

Valuations

P/E (x)	20.2	15.8	13.3
EV/EBITDA (x)	12.3	9.3	7.8
Div. Yield (%)	0.4	1.3	1.3
FCF Yield (%)	2.1	1.4	4.2
EV/Sales (x)	2.6	2.2	1.9

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	42.1	42.9	42.9
DII	3.2	3.0	3.1
FII	23.0	21.7	13.9
Others	31.7	32.4	40.1

FII Includes depository receipts

CMP: INR264

TP: INR315 (+19%)

Buy

A quarter of record-high revenue/EBITDA/PAT

FD/PFI – the backbone of strong earnings trajectory

- Post delivering spectacular earnings growth (76% YoY) in FY20, Granules India's (GRAN) posted strong revenue/EBITDA/PAT in 1QFY21. This was led by new launches in formulations (FDs) and better market penetration for intermediates (PFIs).
- We have raised our EPS estimate by 12%/6% for FY21/22E to factor in (a) the increased FD business on account of ANDA launches in the US, (b) addition of new molecules in the API segment, (c) increased traction in existing products, and (d) improving profitability due to backward integration. We value GRAN at 14x 12M forward earnings to arrive at price target of INR315. Re-iterate **Buy**.

FDs/PFIs drive revenue growth as well as profitability

- GRAN's 1QFY21 sales were up 23.6% YoY to INR7.4b (v/s est. INR6.7b), led by 35% YoY growth in FDs (INR3.9b; 52% of sales) and 45% YoY growth in intermediates (INR1.4b; 19% of sales). API sales (29% of sales) declined moderately by 1% YoY, affecting overall growth to some extent.
- GRAN made provision of (a) INR54m for raw material consumed, and (b) INR97m for other expenses related to the voluntary recall of 12 batches of Metformin Hydrochloride due to detection of impurities above permissible limits.
- Adjusting for the same, Gross Margin (GM) for the company stood at 60.3% and expanded 990bp YoY, led by larger share of FDs and PFIs.
- EBITDA margin came in at 27% (v/s est. 21%) and expanded at lower rate of 710bp YoY. Improvement in GM was offset to some extent by higher employee cost/other expenses (+180bp/+100bp YoY as % of sales).
- EBITDA grew 67.5% YoY to INR2b (v/s est. INR1.4b).
- Adjusted PAT grew at a lower rate of 47.5% YoY due to profit from JV (INR255m) in 1QFY20. Adj. PAT came in at INR1.2b for the quarter.

Highlights from management commentary

- GRAN has guided for 23% EBITDA margin for FY21. It has also guided for 30%/25% YoY PAT growth for FY21/FY22E.
- Gross Debt stood at INR8.7b and capex is expected at INR3.5-4b for FY21. Capex would be funded internally and net debt should be steady in FY21.
- The recent recall in Metformin was related to the only 750mg ER version. The company does not expect Metformin sales to be impacted due to shift to other concentrations (Immediate Release and 500mg ER version).

Valuation and view

- We expect earnings CAGR of 23% over FY20-22E, led by 17%/20% sales CAGR in FDs/PFI revenue and 310bp EBITDA margin expansion (with an increased share of better-margin products and backward integration).
- GRAN has multiple growth levers such as (a) ANDA pipeline for US generics should drive increased share of formulation for developed markets, (b) enhanced reach for core molecules, and (c) reducing opex through backward integration. Accordingly, we ascribe 25% premium to its 5-year average of 11x P/E to factor in product/geographic diversification and backward integration. We value GRAN at 14x 12M forward earnings to arrive at a TP of INR315/share. Maintain **Buy**.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Quarterly Performance

(INR Million)

Y/E March	FY20				FY21E				FY20	FY21E	Est.	Var.
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	5,953	6,995	7,040	5,999	7,356	7,484	7,822	7,978	25,986	30,640	6,767	8.7%
YoY Change (%)	31.3	20.4	11.4	-2.2	23.6	7.0	11.1	33.0	14.0	17.9	13.7	
EBITDA	1,186	1,436	1,632	1,219	1,987	1,766	1,776	1,763	5,473	7,292	1,421	39.8%
YoY Change (%)	63.4	42.9	44.0	15.5	67.5	23.0	8.8	44.6	39.6	33.2	20	
Depreciation	287	303	390	390	341	360	380	471	1,370	1,551	395	
EBIT	900	1,133	1,242	830	1,647	1,406	1,396	1,293	4,104	5,741	1,026	0.6
YoY Change (%)	87.1	53.1	43.9	6.1	83.1	24.1	12.4	55.8	43.2	39.9	14	
Interest	69	69	67	66	60	63	60	63	270	245	65	
Other Income	19	87	35	225	56	50	52	56	366	214	40	
PBT before EO expense	849	1,151	1,210	989	1,643	1,393	1,388	1,286	4,199	5,710	1,001	64.2%
Extra-Ord expense	0	0	320	-378	151	0	0	0	-57	151	0	
PBT	849	1,151	889	1,367	1,492	1,393	1,388	1,286	4,257	5,559	1,001	
Tax	272	193	249	444	377	355	358	327	1,157	1,418	240	
Rate (%)	32.0	16.8	28.0	32.5	25.3	25.5	25.8	25.4	27.2	25.5	24.0	
(Profit)/Loss of JV/Asso. Cos.	-255	0	0	0	0	0	0	0	-255	0	0.0	
Reported PAT	832	958	641	923	1,115	1,038	1,030	959	3,354	4,141	761	46.5%
Adjusted PAT	832	958	871	651	1,228	1,038	1,030	959	3,313	4,254	761	61.4%
YoY Change (%)	60.7	59.0	44.4	4.6	47.5	8.3	18.2	47.3	41.3	28.4	-9	

Key performance Indicators (Consolidated)

(INR million)

Y/E March	FY20				FY21				FY20	FY21E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
FD	2,857	3,498	3,801	3,440	3,856	3,812	4,105	4,133	13,588	15,907
YoY Change (%)	57.6	54.4	22.8	7.8	35.0	9.0	8.0	20.2	35.1	17.1
PFI	952	1,329	1,126	781	1,379	1,329	1,352	1,337	4,862	5,397
YoY Change (%)	5.1	43.0	4.9	(18.5)	44.8	-	20.0	71.2	23.0	11.0
API	2,143	2,169	2,112	1,777	2,121	2,342	2,365	2,468	8,607	9,296
YoY Change (%)	18.2	(17.0)	(1.7)	(10.5)	(1.0)	8.0	12.0	38.9	(2.0)	8.0
Cost Break-up										
RM Cost (% of Sales)	49.6	51.4	49.3	46.5	39.7	46.2	45.8	45.3	50.7	55.7
Staff Cost (% of Sales)	9.6	9.1	9.2	12.3	11.4	11.2	11.2	11.8	10.0	11.4
Other Cost (% of Sales)	20.9	19.0	18.3	20.9	21.9	19.0	20.3	20.8	19.7	20.5
Gross Margins (%)	50.4	48.6	50.7	53.5	60.3	53.8	54.2	54.7	49.3	44.3
EBITDA Margins (%)	19.9	20.5	23.2	20.3	27.0	23.6	22.7	22.1	21.1	23.8
EBIT Margins (%)	15.1	16.2	17.6	13.8	22.4	18.8	17.8	16.2	15.8	18.7

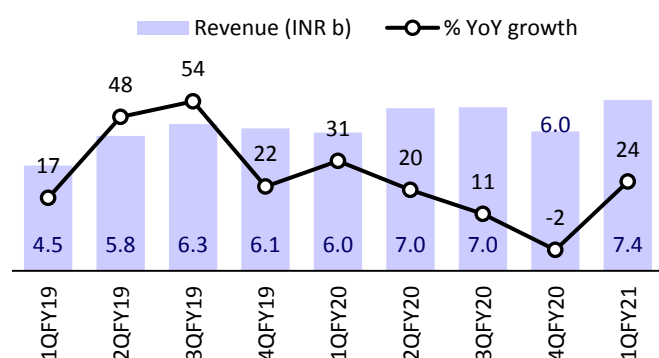
Conference call highlights



- GRAN has filed 3 ANDAs and received approval for 6 ANDAs in 1QFY21. The company has plans to launch 7-8 ANDAs/Dossiers in FY21.
- Top 5 key molecules contributed ~85% of revenues and would continue to account for 70-75% of the business over the next 3-4 years.
- Onco block is only a part of the new API block and accounted for ~INR800m of the INR2.8b capex spent in FY20. Onco block would be used for CDMO business.
- Capex would be used to build (a) complex product manufacturing facility, which would comprise using Multi-Particulate technology allowing GRAN to add new molecules like Omeprazole to its offerings, (b) building new blocks for API, and (c) backward integration.
- Oncology business would be the primary focus for Contract Development and Manufacturing (CDMO) with strategic partners.
- Granules spent INR150m on account of COVID at its manufacturing sites. It expects some amount to continue in the coming quarters.

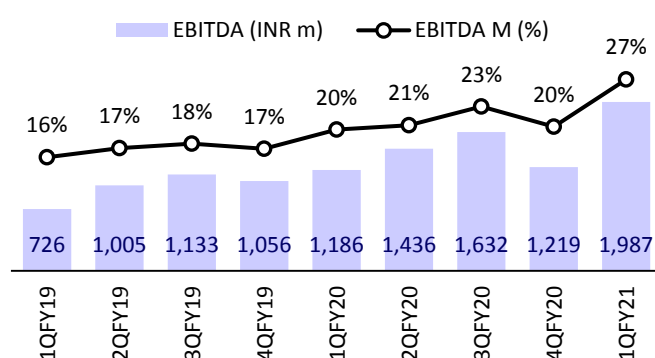
Key exhibits

Exhibit 1: 24% YoY growth in revenue (1QFY21)



Source: MOFSL, Company

Exhibit 2: EBITDA margins expand on account of better GM



Source: MOFSL, Company

Valuation view

FD sales on robust growth path

GRAN commenced commercial operations in the US generics market in FY19. Notably, the FD business (including legacy molecules) exhibited 24% CAGR over FY15-20 and formed 52% of the business in FY20, up from 33% in FY15. Particularly, in 1QFY21, GRAN improved sales momentum with 35% YoY growth in FD sales. GRAN has built robust pipeline of 48 ANDAs (filed till date) and intends to file 7-9 ANDAs/dossiers on an annualized basis. It has filed 3 ANDAs in 1QFY21 and received approval for 6 products. Considering the new launches and expanding the base business by entering into new geographies, we expect GRAN to exhibit 17% CAGR in FD sales to INR18.5b over FY20-22E.

Expanding capacity in API segment to meet internal need as well as to cater to external 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 has already started. The new API unit would also add substantial capacities for APIs other than Onco and can support growth for the next 3-4 years. This would enhance captive consumption and improve profitability. Accordingly, we expect moderate 10% sales CAGR for the API segment to INR10.5b over FY20-22E.

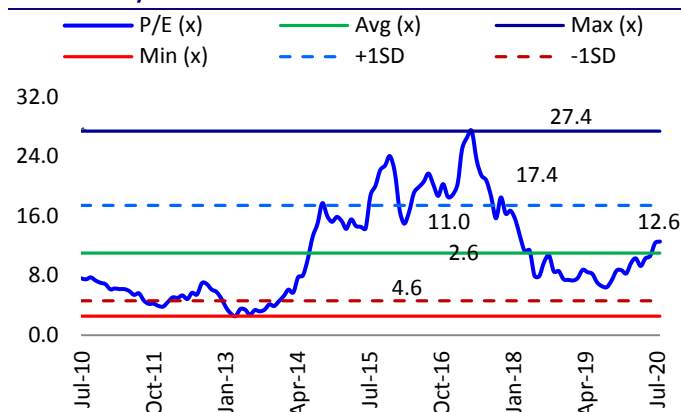
Return ratios in higher teens

New launches in the formulation segment, capacity ramp-up in the API segment and better market share in existing molecules on superior execution are likely to drive 23% PAT CAGR to INR5b over FY20-22. Accordingly, we expect RoE to remain healthy at 21+% over FY20-22E.

Positive stance on the stock

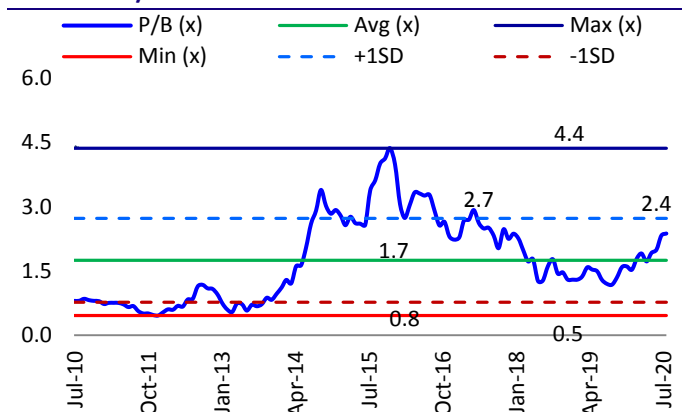
We value GRAN at 14x 12M forward earnings to arrive at a price target of INR315. Maintain **Buy**.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

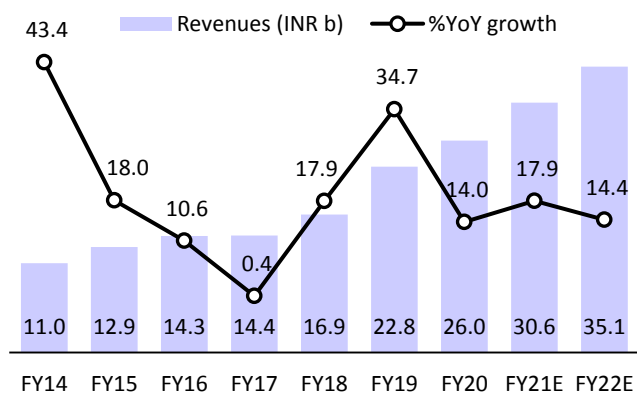
Exhibit 4: P/B chart



Source: MOFSL, Company, Bloomberg

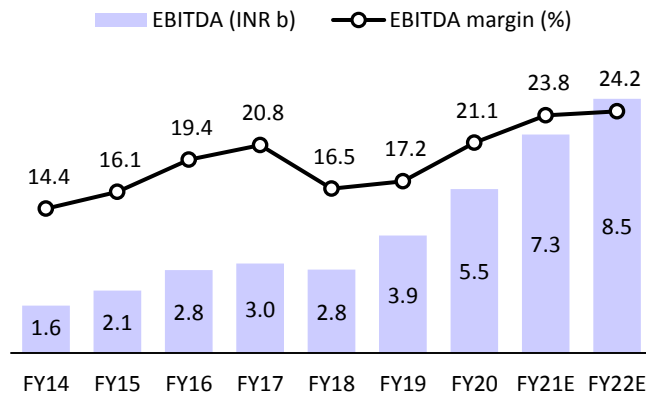
Story in charts

Exhibit 5: Expect revenue CAGR of 16% over FY20-22E



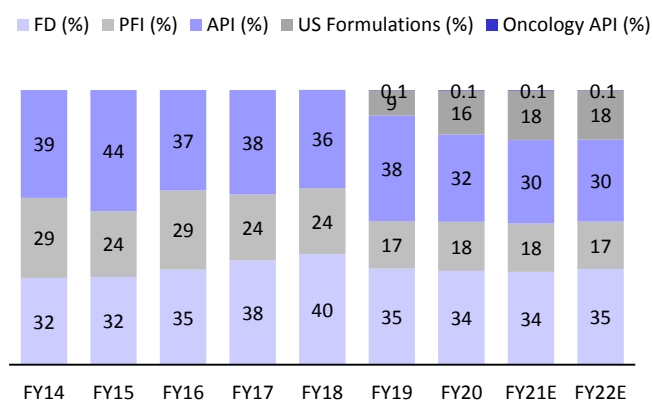
Source: MOFSL, Company

Exhibit 6: EBITDA margin on an uptrend



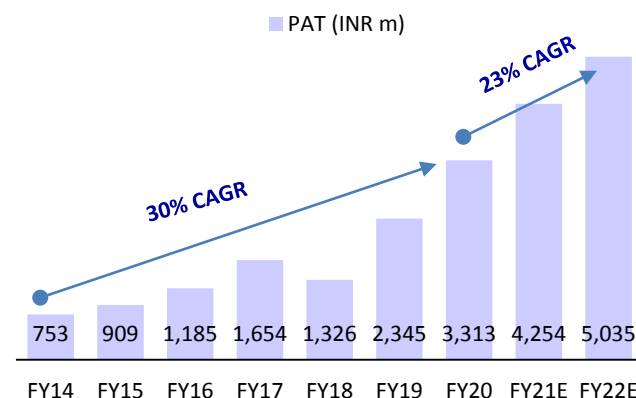
Source: MOFSL, Company

Exhibit 7: Formulation contribution continues to rise

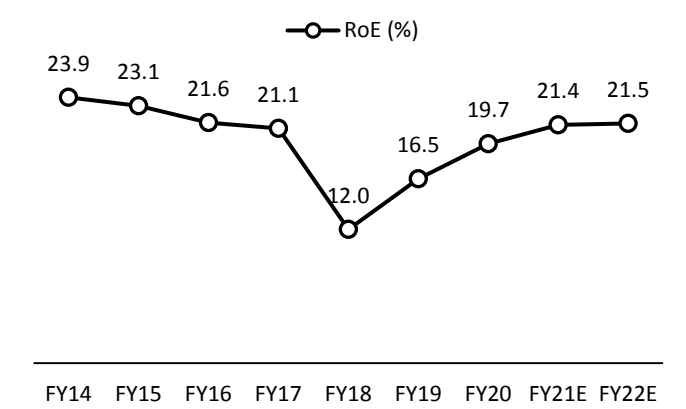


Source: MOFSL, Company

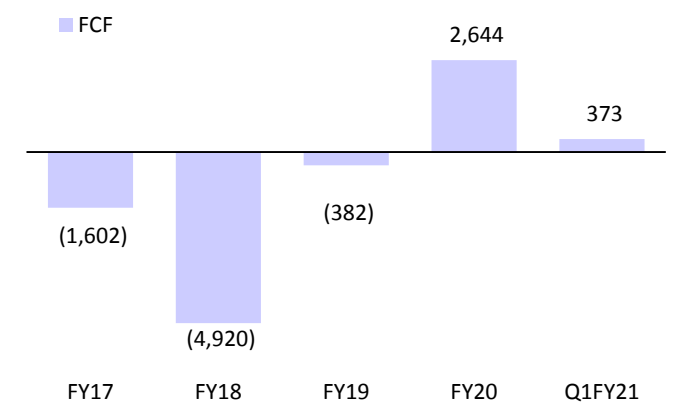
Exhibit 8: Expect PAT CAGR of ~23% over FY20-22E



Source: MOFSL, Company

Exhibit 9: RoEs 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	30,640	35,055
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	30,640	35,055
Change (%)	43.4	18.0	10.6	0.4	17.9	34.7	14.0	17.9	14.4
Total Expenditure	9,376	10,843	11,528	11,364	14,134	18,872	20,513	23,348	26,572
% of Sales	85.6	83.9	80.6	79.2	83.5	82.8	78.9	76.2	75.8
EBITDA	1,583	2,086	2,767	2,988	2,784	3,920	5,473	7,292	8,483
Margin (%)	14.4	16.1	19.4	20.8	16.5	17.2	21.1	23.8	24.2
Depreciation	298	527	643	715	762	1,055	1,370	1,551	1,856
EBIT	1,285	1,560	2,124	2,273	2,022	2,866	4,104	5,741	6,627
Int. and Finance Charges	204	323	399	323	331	285	270	245	221
Other Income	43	43	77	99	108	267	366	214	175
PBT bef. EO Exp.	1,124	1,280	1,802	2,050	1,800	2,848	4,199	5,710	6,581
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	5,559	6,581
Current Tax	305	287	535	652	659	891	1,257	1,418	1,547
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	25.5	23.5
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	4,141	5,035
Adjusted PAT	753	909	1,185	1,654	1,326	2,345	3,313	4,254	5,035
Change (%)	130.8	20.8	30.3	39.6	-19.8	76.8	41.3	28.4	18.3
Margin (%)	6.9	7.0	8.3	11.5	7.8	10.3	12.7	13.9	14.4

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	21,166	25,127
Net Worth	3,560	4,312	6,660	9,036	13,042	15,295	18,352	21,420	25,381
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	29,755	32,917
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	8,393	10,250
Net Fixed Assets	4,825	6,166	6,681	6,443	10,012	11,167	11,297	13,246	13,390
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	1,246	620	766	2,605	2,901	3,235	3,118	3,064	3,506
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	17,533	20,762
Inventory	1,742	2,245	3,071	2,761	2,799	3,842	4,384	5,053	5,824
Account Receivables	1,109	1,326	1,526	4,177	6,171	6,735	7,832	9,654	11,141
Cash and Bank Balance	418	653	1,419	498	1,156	890	1,427	391	1,011
Loans and Advances	580	959	1,065	1,198	1,765	1,811	2,065	2,435	2,786
Curr. Liability & Prov.	1,640	2,295	2,521	3,183	3,272	4,548	4,784	6,235	6,887
Account Payables	1,355	1,887	1,791	2,160	2,522	3,235	3,147	3,582	4,004
Other Current Liabilities	162	233	608	934	646	1,144	1,305	1,538	1,760
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	11,298	13,876
Appl. of Funds	8,379	9,732	12,074	15,582	23,167	25,279	27,486	29,755	32,917

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS	3.7	4.5	5.5	7.2	5.2	9.2	13.0	16.7	19.8
Cash EPS	5.2	7.0	8.4	10.4	8.2	13.4	18.4	22.8	27.1
BV/Share	17.6	21.1	30.7	39.5	51.4	60.2	72.2	84.3	99.8
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	25.9	21.3
Valuation (x)									
P/E	71.1	59.3	48.2	36.5	50.5	28.6	20.2	15.8	13.3
Cash P/E	50.9	37.5	31.3	25.5	32.1	19.7	14.3	11.6	9.7
P/BV	15.0	12.5	8.6	6.7	5.1	4.4	3.7	3.1	2.6
EV/Sales	5.9	5.0	4.5	4.6	4.1	3.0	2.6	2.2	1.9
EV/EBITDA	40.6	30.9	23.0	22.0	24.7	17.5	12.3	9.3	7.8
Dividend Yield (%)	0.1	0.2	0.3	0.3	0.4	0.4	0.4	1.3	1.3
Return Ratios (%)									
RoE	23.9	23.1	21.6	21.1	12.0	16.5	19.7	21.4	21.5
RoCE	13.2	13.3	14.0	12.3	7.3	8.6	12.6	15.9	17.0
RoIC	15.9	14.6	15.2	14.7	9.1	10.2	15.0	19.0	20.1
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	56	57
Debtor (Days)	30	33	36	71	111	103	102	104	108
Creditor (Days)	44	55	58	63	60	56	57	53	52
Leverage Ratio (x)									
Current Ratio	2.3	2.3	2.8	2.7	3.6	2.9	3.3	2.8	3.0
Interest Cover Ratio	6	5	5	7	6	10	15	23	30
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 M)

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	5,710	6,581
Depreciation	298	527	643	715	762	1,055	1,370	1,551	1,856
Interest & Finance Charges	190	309	347	278	222	18	-95	31	46
Direct Taxes Paid	-238	-317	-490	-595	-634	-891	-1,157	-1,418	-1,547
(Inc)/Dec in WC	-310	-363	-915	-557	-2,511	-377	-1,656	-1,411	-1,957
CF from Operations	1,064	1,435	1,387	1,891	-360	2,652	2,660	4,464	4,980
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	4,313	4,980
(inc)/dec in FA	-2,649	-1,473	-1,335	-3,088	-4,626	-2,544	-1,383	-3,446	-2,441
(Pur)/Sale of Investments	95	0	0	0	-483	-539	0	0	0
Others	8	17	53	-90	108	267	366	214	175
CF from Investments	-2,546	-1,456	-1,281	-3,178	-5,001	-2,816	-1,018	-3,231	-2,266
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	-1,036	621
Opening Balance	417	417	653	1,303	498	1,156	891	1,427	391
Closing Balance	417	653	1,419	498	1,156	890	1,427	391	1,011

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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