

# Granules India Ltd.



# Granules India Ltd.

**Strong momentum across geographies; margin improvement continues**

CMP <b>INR 386</b>	Target <b>INR 459</b>	Potential Upside <b>18.9%</b>	Market Cap (INR Mn) <b>INR 95,676</b>	Recommendation <b>BUY</b>	Sector <b>Pharmaceuticals</b>
-----------------------	--------------------------	----------------------------------	--	------------------------------	----------------------------------

## Result Highlights of Q2FY21

- Granules India reported Revenue growth of 22.7% YoY (up 16.7% QoQ) to INR 85,812 Lakhs in Q2FY21.
- EBITDA grew 78.6% YoY (up 39.7% QoQ) to INR 25,641 Lakhs in Q2FY21. EBITDA margin expanded to 29.9% in Q2FY21 (+935bps YoY), and expanded 492bps on QoQ basis.
- Net Profit grew 70.8% on YoY and 46.8% on QoQ basis to INR 16,363 Lakhs.
- Company launched 1 product through Granules Pharmaceuticals Inc. during the quarter and received 4 ANDA/dossier approvals.
- The Company's Board of Directors have recommended a second interim dividend of INR 0.25/share.
- Granules' Net Debt decreased by 25.8% YoY and Net Debt/EBITDA stood at 0.7x at the end of H1FY21.
- Company reported ROCE of 33.2%, on account of higher capacity utilization.

## MARKET DATA

Shares outs (Mn)	247.6
Equity Cap (INR Mn)	18,437
Mkt Cap (INR Mn)	95,676
52 Wk H/L (INR)	407/102
Volume Avg (3m K)	4,884
Face Value (INR)	1
Bloomberg Code	GRAN

## KEY FINANCIALS

INR Mn	FY18	FY19	FY20	FY21E	FY22E
Revenue	16,918	22,792	25,987	31,807	36,467
EBITDA	2,784	3,840	5,253	8,874	9,700
PAT	1,326	2,364	3,354	5,468	5,987
Adj PAT	1,326	2,364	3,077	5,468	5,987
EPS (INR)	5.5	9.3	13.2	22.1	24.2
Adj. EPS (INR)	5.5	9.3	12.1	22.1	24.2
EBITDA Margin (%)	16.5%	16.8%	20.2%	27.9%	26.6%
NPM (%)	7.8%	10.4%	12.9%	17.2%	16.4%

Source: Company, KRChoksey Research

## Yet another excellent quarter; growth across geographies with market share gain:

Granules India beat our Q2FY21 estimates on all fronts with a beat of 12.1%/49.7%/57.6% on Revenue/EBITDA/PAT, respectively. Growth in the quarter was driven by new launches and increase in market share of existing products across the three verticals.

Contribution from FD in Q2FY21 (+22.4%/+11.5% YoY/QoQ) stood at 50%, same as that of Q2FY20. PFI (+32.6%/+25.7% YoY/QoQ) contribution increased to 20.2% from 19.0% in Q2FY20 & rest 29.7% was contributed by APIs (+17.2%/+20.1% YoY/QoQ) against 31.0% in Q2FY20.

Geography wise, North America grew 27.7% YoY (+23.7% QoQ, 55% of revenue), India business grew 18.9% YoY (+40.5% QoQ, 14% of revenue), ROW grew 54.5% YoY (+12.0% QoQ, 6% of revenue), Europe grew 9.0% YoY (+9.3% QoQ, 18% of revenue), Latin America grew 13.1% YoY (down 23.7% QoQ, 8% of revenue).

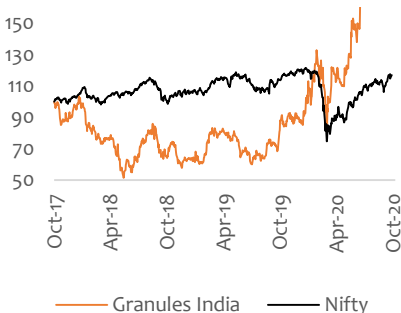
## Highest ever margins; to be sustained at current levels with aim to achieve 30%:

Company reported Gross profit margin improvement of 930bps to 57.9% for Q2FY21 with increasing share of FD & PFI. It recorded EBITDA margin of 29.9% (+935bps/+492bps YoY/QoQ), with improved operational efficiencies & higher capacity utilization. NPM improved 538bps/392bps YoY/QoQ to 19.1% in Q2FY21 despite higher effective tax rate & lower other income, though finance cost declined 8.5% YoY (+5.3% QoQ).

## Update on new facilities & pipeline:

Granules' new facility at Vizag hasn't been fully utilized yet. Management expects full utilization by FY22, till then current capacities to support the business. Company has a total 32 approved ANDAs, with 13 pending for USFDA approval. Out of approved products, six products are yet to be launched. During Q2FY21, company launched 1 product & received approval for 4 ANDAs.

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	40,707
NIFTY	11,938

## SHARE HOLDING PATTERN (%)

Particulars	Sep-20 (%)	Jun-20 (%)	Mar-20 (%)
Promoters	42.0	42.1	42.9
FIIIs	26.3	22.9	21.7
DIIIs	0.2	3.3	3.0
Others	31.5	31.7	32.4
Total	100	100	100

**18.5%**

Revenue CAGR between FY20 and FY22E

**33.6%**

PAT CAGR between FY20 and FY22E

# Granules India Ltd.

**Key Concall Highlights:** (i) Company has guided FY21 PAT growth to be in line with H1FY21. With FY21 as base, PAT to grow at 3-year CAGR of 30% (ii) Company plans to file 7-9 products/year of which at least five would be for the US market (iii) Granules' top five molecules contributed ~70% of revenues (iv) Company reduced gross debt from INR 870 Cr in the previous quarter to INR 861 Cr in the current quarter. Out of this, term debt is INR 480 Cr and short-term debt is INR 381 Cr. Short term borrowings went up by INR 33 Cr in Q2 to fund the increase in working capital requirements (v) Entire R&D spend of Q2FY21, INR 22 Cr (2.6% of revenue) has been completely written off (vi) For capex, company has guided for INR 3.5-4bn for FY21 and INR 3.5bn for FY22 (vii) To relaunch Metformin 750 mg in the US markets over the next 1-3 quarters (viii) Company expects to maintain EBITDA margin at around 27% while aiming for 30%.

**Valuation and view:** Granules India's long-term investments in backward and forward integration from APIs to FDs is bearing fruits now as demonstrated by extraordinary last two quarters. Management is optimistic of growing its PAT at a CAGR of 30% on the base of FY21 on the back of new product launches, increase in market share of existing products & improving product mix. Company was also able to achieve highest ever EBITDA margin during the quarter and aims to maintain it on the back of backward integration & improvement in product mix.

In the wake of continued good performance, we have upwardly revised our Revenue/EBITDA estimates for FY21E by 5.8%/29.5% and by 5.0%/17.4% for FY22E. We expect Granules India to post Revenue/PAT CAGR of 18.5%/33.6% over FY20-22. **The stock is currently trading at a P/E multiple of 17.5x/16.0x on FY21E/FY22E earnings. We continue to apply P/E multiple of 19.0x on FY22E EPS of INR 24.2/share (earlier INR 20.5/share) to arrive at a revised target price of INR 459/ share, an upside of 18.9% over the CMP. Accordingly, we upgrade our rating to a "BUY" on the shares of Granules India.**

Geography Wise Results (INR Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Revenue from operations</b>	6,995	7,040	5,999	7,356	8,581
North America	3,708	3,731	3,450	3,814	4,719
Europe	1,399	1,408	864	1,405	1,536
India	979	986	1,004	842	1,183
Latin America	560	563	505	862	658
Rest of World	350	352	175	433	485

Geographic Mix (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Revenue from operations</b>	100%	100%	100%	100%	100%
North America	53%	53%	58%	52%	55%
Europe	20%	20%	14%	19%	18%
India	14%	14%	17%	11%	14%
Latin America	8%	8%	8%	12%	8%
Rest of World	5%	5%	3%	6%	6%

Geography Wise Performance (% YoY)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Revenue from operations</b>	20.4%	11.4%	-2.2%	23.6%	22.7%
North America	41.8%	13.6%	4.9%	26.8%	27.7%
Europe	20.4%	71.4%	-27.2%	8.8%	9.0%
India	-23.4%	-25.7%	12.7%	10.5%	18.9%
Latin America	20.4%	-10.9%	0.8%	70.7%	13.1%
Rest of World	20.4%	39.3%	-33.7%	11.6%	54.5%

Segment Result (INR Mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Revenue from operations</b>	6,995	7,040	5,999	7,356	8,581
Active Pharmaceutical Ingredients (API)	2,169	2,112	1,777	2,121	2,547
Pharmaceutical formulation ingredients (PFI)	1,329	1,126	781	1,379	1,733
Finished Dosage (FD)	3,498	3,801	3,440	3,856	4,301

Segment Mix (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Total Revenue</b>	100%	100%	100%	100%	100%
Active Pharmaceutical Ingredients (API)	31%	30%	30%	29%	30%
Pharmaceutical formulation ingredients (PFI)	19%	16%	13%	19%	20%
Finished Dosage (FD)	50%	54%	57%	52%	50%

Segment Performance (% YoY)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Total Revenue</b>	20.4%	11.4%	-2.2%	23.6%	22.7%
Active Pharmaceutical Ingredients (API)	-4.3%	-1.7%	-10.5%	-0.4%	17.2%
Pharmaceutical formulation ingredients (PFI)	43.0%	4.9%	-18.5%	42.0%	32.6%
Finished Dosage (FD)	33.8%	22.8%	7.8%	35.2%	22.4%

Source: Company, KRChoksey Research

# Granules India Ltd.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	16,918	22,792	25,987	31,807	36,467
COGS	9,725	13,610	14,179	14,567	17,869
<b>Gross profit</b>	7,193	9,182	11,808	17,239	18,598
Employee cost	1,652	2,098	2,590	3,117	3,501
Other expenses	3,519	4,298	5,334	6,679	6,929
<b>EBITDA</b>	2,784	3,840	5,253	8,874	9,700
<b>EBITDA Margin</b>	16.5%	16.8%	20.2%	27.9%	26.6%
Depreciation & amortization	762	1,055	1,370	1,431	1,532
<b>EBIT</b>	2,022	2,786	3,884	7,443	8,169
Interest expense	331	285	270	259	254
Other income	108	267	366	106	68
Share of Associates & JV	160	487	255	0	0
<b>PBT</b>	1,960	3,255	4,511	7,290	7,982
Tax	634	891	1,157	1,823	1,996
Exceptional items	0	0	-277	0	0
<b>PAT</b>	1,326	2,364	3,354	5,468	5,987
<b>Adj. PAT</b>	1,326	2,364	3,077	5,468	5,987
<b>EPS (INR)</b>	5.5	9.3	13.2	22.1	24.2

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Mn	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	-7	2,622	4,762	5,886	5,312
Net Cash Flow from/(used in) Investing Activities	-4,623	-2,698	-1,606	-3,590	-3,245
Net Cash Flow from Financing Activities	5,286	-174	-2,129	-2,626	-1,851
Net Inc/Dec in cash equivalents	657	-250	1,027	-331	216
Opening Balance	424	1,080	830	1,859	1,529
Closing Balance Cash and Cash Equivalents	1,080	830	1,859	1,529	1,745

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	16.5%	16.8%	20.2%	27.9%	26.6%
Tax rate (%)	32.3%	27.4%	25.7%	25.0%	25.0%
Net Profit Margin (%)	7.8%	10.4%	12.9%	17.2%	16.4%
RoE (%)	10.2%	15.5%	18.2%	26.2%	22.8%
RoCE (%)	8.9%	11.3%	14.7%	25.3%	24.1%
EPS (INR)	5.5	9.3	13.2	22.1	24.2

Source: Company, KRChoksey Research

# Granules India Ltd.

## Exhibit 4: Balance Sheet

INR Mn	FY18	FY19	FY20	FY21E	FY22E
<b>Non-current assets</b>					
Property, plant and equipment	7,008	7,476	9,888	12,114	13,865
Capital work-in-progress	2,901	3,235	1,481	1,481	1,481
Intangible assets	3,004	3,691	3,613	3,613	3,613
Financial assets					
Investments	1,566	2,104	193	193	193
Loans	211	169	166	166	166
Deferred Tax Assets	70	42	53	64	74
Income Tax Assets (Net)	5	17	5	6	7
Other non-current assets	143	271	597	731	838
<b>Total non-current assets</b>	<b>14,907</b>	<b>17,006</b>	<b>15,997</b>	<b>18,370</b>	<b>20,238</b>
<b>Current assets</b>					
Inventories	2,799	3,842	4,384	3,991	5,875
Financial assets					
Trade receivables	6,283	6,735	7,352	7,843	8,992
Cash and cash equivalents	1,080	830	1,859	1,529	1,745
Other Balances with Banks	76	60	980	980	980
Loans	6	32	79	79	79
Other financial assets	12	5	36	44	51
Other current assets	1,610	1,318	2,328	2,849	3,267
<b>Total current assets</b>	<b>11,866</b>	<b>12,822</b>	<b>17,018</b>	<b>17,315</b>	<b>20,988</b>
<b>TOTAL ASSETS</b>	<b>26,772</b>	<b>29,828</b>	<b>33,015</b>	<b>35,685</b>	<b>41,226</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	254	254	254	242	242
Other equity	12,788	15,040	18,183	20,618	26,008
<b>Total equity</b>	<b>13,042</b>	<b>15,295</b>	<b>18,437</b>	<b>20,860</b>	<b>26,250</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	4,331	4,788	4,215	4,800	4,300
Deferred tax liabilities, (net)	543	655	482	590	677
Provisions	77	126	215	215	215
<b>Total non-current liabilities</b>	<b>4,951</b>	<b>5,569</b>	<b>4,912</b>	<b>5,605</b>	<b>5,192</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	5,251	4,542	3,717	3,810	3,310
Trade payables	2,743	3,235	4,300	3,392	4,161
Other financial liabilities	612	1,019	1,360	1,665	1,909
Other current liabilities	87	117	171	210	240
Provisions	27	43	60	73	84
Income tax liabilities, (net)	60	9	57	70	80
<b>Total current liabilities</b>	<b>8,779</b>	<b>8,965</b>	<b>9,665</b>	<b>9,220</b>	<b>9,784</b>
<b>Total liabilities</b>	<b>13,731</b>	<b>14,533</b>	<b>14,578</b>	<b>14,825</b>	<b>14,976</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>26,772</b>	<b>29,828</b>	<b>33,015</b>	<b>35,685</b>	<b>41,226</b>

Source: Company, KRChoksey Research

# Granules India Ltd.

Granules India Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-Oct-20	386	459	BUY	<b>Buy</b>	More than 15%
19-Oct-20	389	420	ACCUMULATE		
21-Jul-20	265	314	BUY	<b>Accumulate</b>	5% – 15%
03-Jun-20	181	229	BUY	<b>Hold</b>	0 – 5%
22-Apr-20	159	199	BUY	<b>Reduce</b>	-5% – 0
				<b>Sell</b>	Less than – 5%

#### ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

#### Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the KRC companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to [research.insti@krchoksey.com](mailto:research.insti@krchoksey.com)  
Visit us at [www.krchoksey.com](http://www.krchoksey.com)

**KRChoksey Shares and Securities Pvt. Ltd**

**Registered Office:**

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.  
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

**Corporate Office:**

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.  
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

#### ANALYST

Parvati Rai, [head-research@krchoksey.com](mailto:head-research@krchoksey.com), +91-22-6696 5413

#### KRChoksey Research

is also available on Bloomberg KRCS<GO>  
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576  
[www.krchoksey.com](http://www.krchoksey.com)