

# Granules India Ltd.



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**Strong growth slows down but should revive from H2FY22**

CMP <b>INR 372</b>	Target <b>INR 459</b>	Potential Upside <b>23.4%</b>	Market Cap (INR Mn) <b>INR 92,040</b>	Recommendation <b>BUY</b>	Sector <b>Pharmaceuticals</b>
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## Result Highlights of Q1FY22

- Granules India reported revenue growth of 15.5% YoY (+6.3% QoQ) to INR 84,985 Lakhs in Q1FY22 mainly on account of new launches and increase in market share of existing products.
- The company faced challenges in the quarter, such as shortage of raw materials, and lower utilization in capacities, especially in Paracetamol, and logistic disruption.
- Gross margin declined 300 bps QoQ and 530 bps YoY to 54.2% in Q1FY22.
- Consequently, EBITDA grew 9.7% YoY (-0.3% QoQ) to INR 20,143 Lakhs in Q1FY22; however, EBITDA margin contracted to 23.7% in Q1FY22 (-126 bps YoY / -157 bps QoQ).
- Net Profit grew 7.9% YoY; however, declined 5.8% QoQ to INR 12,020 Lakhs.

## MARKET DATA

Shares outs (Mn)	248.7
Equity Cap (INR Mn)	21,733
Mkt Cap (INR Mn)	92,040
52 Wk H/L (INR)	438/271
Volume Avg (3m K)	3,496
Face Value (INR)	1
Bloomberg Code	GRAN

## KEY FINANCIALS

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	22,792	25,986	32,375	36,791	44,908
EBITDA	3,840	5,253	8,552	8,302	10,354
PAT	2,364	3,354	5,495	5,685	7,129
Adj PAT	2,364	3,077	5,495	5,685	7,129
EPS (INR)	9.3	13.2	21.6	22.4	28.0
Adj. EPS (INR)	9.30	12.10	21.61	22.36	28.04
EBITDA Margin (%)	16.8%	20.2%	26.4%	22.6%	23.1%
NPM (%)	10.4%	12.9%	17.0%	15.5%	15.9%

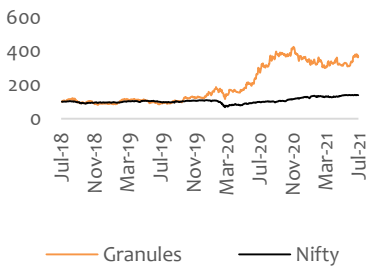
Source: Company, KRChoksey Research

**Revival in QoQ revenue growth visible in Q1FY22:** The company posted 15.5% YoY and 6.3% QoQ growth in Q1FY22, after two consecutive quarters of lower to mid single negative growth, sequentially. The YoY growth has slowed down on account of high base effect, apparently due to high growth in API in Q1FY21. The growth in revenue in Q1FY22 was driven by new launches and increase in market shares of existing products. The company continues to face supply challenges in sourcing their key starting material (KSM), such as para – aminophenol, leading to lower utilization of their API capacity. Nevertheless, the company ensures that the supply challenges are easing up to benefit from Q3FY22 onwards.

**GPM contracted due to Paracetamol related challenges and lower demand for few products and EBITDA declined due to higher other expenses:** Gross margin contracted 300 bps QoQ and 530 bps YoY to 54.2% in Q1FY22. This was largely due to reduction in margins of Paracetamol as its key raw material's prices increased. Similarly, EBITDA margins contracted 126 bps YoY and 157 bps QoQ to 23.7% in Q1FY22. This was due to lower GPMs due to lower profitability for Paracetamol, driven by shortage of raw materials. It was also caused by higher other expenses due to higher logistics costs. The company, consequently, posted a muted growth in net income by 7.9% YoY (-5.8% QoQ) to INR 12,020 lakhs. This was weak, as despite a 132.5% QoQ and 35.4% YoY rise in other income to INR 762 lakhs, and a flat interest expenses QoQ, the company posted subdued growth numbers.

**New product filings and launches:** The company filed 1 ANDA, 2 EU dossiers, and one South African dossier during Q1FY22 vs. 6 ANDA, 1 EU dossier and 1 Canadian dossier approved in Q4FY21. Also, the company received one ANDA approval and launched one ANDA in the US in Q1FY22. In total there remain 21 products pending approvals while 46 are approved including 2 tentatively approved products across US, Europe, Canada, South Africa and UK as of Q1FY22. R&D spend was INR 2.27 Cr in Q1FY22 vs. INR 20 Cr in FY21. The same is expected to be around INR 140-150 Cr by the end of FY22.

## SHARE PRICE PERFORMANCE

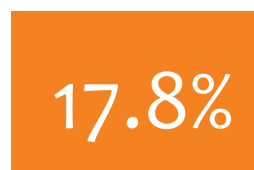


## MARKET INFO

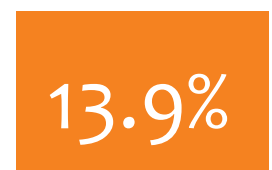
SENSEX	52,444
NIFTY	15,709

## SHARE HOLDING PATTERN (%)

Particulars	Jun-21 (%)	Mar-21 (%)	Dec-20 (%)
Promoters	42.0	42.0	42.0
FIIs	18.4	23.3	26.4
DIIs	2.9	1.3	0.3
Others	36.7	33.4	31.3
Total	100	100	100



Revenue CAGR between FY21 and FY23E



PAT CAGR between FY21 and FY23E

# Granules India Ltd.

**Key Concall Highlights:** (i) The company believes the shortage in supply of its key raw material for Paracetamol is easing up in Q2FY22 as domestic production has ensued with one supplier, another supplier is to start the production of it in a few months, and China is resuming supply, can help the company to return to normalcy by H2FY22 (ii) The company has been expanding its formulations segment sales by foraying into new geographies as the company has approvals for 2 of its existing products in Europe and that the company awaits approvals for filed products as well as continues to file more. (iv) The company is close to signing and out-licensing with a few companies in Europe for approved products. (v) The company bagged an approval for one product each in Latin America and Canada, which were launched through partners as it plans to anew expand in geographies such as Canada, Latin America, and South Africa, going forward. (vi) The company envisions that new products apart from their existing four molecules will contribute 40% of revenue by FY25 (vii) the company's US based unit, Granules Pharmaceuticals had a pre-approval inspection by USFDA recently and received the EIR within 25 days of completion of the inspections.

**Valuation and view:** Granules India is facing challenges owing to supply disruption in API segment, that we believe is likely to cause higher loss in profitability than in revenue over FY22-FY23. In the wake of likely margin headwinds to be faced in FY22, we downgrade our Revenue/EBITDA growth estimates over FY21E-FY23E to 18% and 10% CAGR, respectively, (vs. earlier forecast of 21.8% and 14.6% CAGR, respectively, during FY21 - FY23E). **Since our last update on the company, the shares have risen by ~14% though. The stock is trading at a forward P/E multiple of 16.6x/13.3x on FY22E/FY23E earnings. We apply a P/E multiple of 16.4x on FY23E EPS of INR 28.0 (earlier 16x on FY23E EPS of INR 28.4) and maintain our target price of INR 459/ share as we believe the company is facing temporary headwinds due to supply constraints and can revive its financials from H2FY22 onwards. As the Target Price gives an upside of 23.4% over the CMP of INR 372, we reiterate our "BUY" rating on the shares of Granules India.**

Geography Wise Results (INR Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Revenue from operations</b>	7,356	8,581	8,445	7,993	8,498
North America	3,814	4,719	4,359	4,556	4,513
Europe	1,405	1,536	1,572	1,159	1,428
India	842	1,183	1,420	1,079	1,173
Latin America	862	658	696	711	926
Rest of World	433	485	398	488	459
Geographic Mix (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Revenue from operations</b>	100%	100%	100%	100%	100%
North America	52%	55%	52%	57%	53%
Europe	19%	18%	19%	15%	17%
India	11%	14%	17%	14%	14%
Latin America	12%	8%	8%	9%	11%
Rest of World	6%	6%	5%	6%	5%
Geography Wise Performance (% YoY)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Revenue from operations</b>	23.6%	22.7%	20.0%	33.2%	15.5%
North America	26.8%	27.7%	17.0%	32.1%	18.3%
Europe	8.8%	9.0%	5.4%	34.1%	1.6%
India	10.5%	18.9%	37.3%	7.5%	39.3%
Latin America	70.7%	13.1%	36.7%	40.9%	7.5%
Rest of World	11.6%	54.5%	42.7%	178.6%	6.0%
Segment Result (INR Mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Revenue from operations</b>	7,356	8,581	8,445	7,990	8,500
Active Pharmaceutical Ingredients (API)	3,856	2,547	2,518	1,940	2,240
Pharmaceutical formulation ingredients (PFI)	1,379	1,733	1,706	1,440	1,720
Finished Dosage (FD)	2,121	4,301	4,221	4,610	4,540
Segment Mix (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Total Revenue</b>	100%	100%	100%	100%	100%
Active Pharmaceutical Ingredients (API)	52%	30%	30%	24%	26%
Pharmaceutical formulation ingredients (PFI)	19%	20%	20%	18%	20.2%
Finished Dosage (FD)	29%	50%	50%	58%	53%
Segment Performance (% YoY)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Total Revenue</b>	23.6%	22.7%	20.0%	33.2%	15.6%
Active Pharmaceutical Ingredients (API)	35.2%	17.2%	20.4%	9.2%	-41.9%
Pharmaceutical formulation ingredients (PFI)	42.0%	32.6%	47.7%	84.4%	24.7%
Finished Dosage (FD)	-0.4%	22.4%	11.3%	34.0%	114.0%

Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	22,792	25,986	32,375	36,791	44,908
COGS	13,610	14,179	15,427	18,265	22,075
<b>Gross profit</b>	9,182	11,808	16,948	18,525	22,833
Employee cost	2,098	3,007	4,082	4,597	5,612
Other expenses	4,298	4,917	5,829	7,098	8,664
<b>EBITDA</b>	3,840	5,253	8,552	8,302	10,354
<b>EBITDA Margin</b>	16.8%	20.2%	26.4%	22.6%	23.1%
Depreciation & amortization	1,055	1,370	1,515	1,472	1,796
<b>EBIT</b>	2,786	3,884	7,038	6,830	8,557
Interest expense	285	270	263	258	242
Other income	267	366	269	290	290
Share of Associates & JV	487	255	0	0	0
<b>PBT</b>	3,255	4,511	7,044	6,863	8,606
Tax	891	1,157	1,549	1,177	1,477
Exceptional items	0	-277	0	0	0
<b>PAT</b>	2,364	3,354	5,495	5,685	7,129
<b>Adj. PAT</b>	2,364	3,077	5,495	5,685	7,129
<b>EPS (INR)</b>	9.3	13.2	21.6	22.4	28.0

### Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22E	FY22E
Net Cash Generated From Operations	2,622	4,762	4,325	4,809	3,211
Net Cash Flow from/(used in) Investing Activities	-2,698	-1,606	-2,771	-2,881	-2,683
Net Cash Flow from Financing Activities	-174	-2,129	-2,993	-469	-640
Net Inc/Dec in cash equivalents	-250	1,027	-1,440	1,460	-112
Opening Balance	1,080	830	1,859	418	1,878
Closing Balance Cash and Cash Equivalents	830	1,859	418	1,878	1,766

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	16.8%	20.2%	26.4%	22.6%	23.1%
Tax rate (%)	27.4%	25.7%	22.0%	17.2%	17.2%
Net Profit Margin (%)	10.4%	12.9%	17.0%	15.5%	15.9%
RoE (%)	15.5%	18.2%	25.3%	21.0%	21.1%
RoCE (%)	11.3%	14.7%	24.1%	19.7%	20.6%
EPS (INR)	9.3	13.2	21.6	22.4	28.0

Source: Company, KRChoksey Research

# Granules India Ltd.

## Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22E	FY23E
<b>Non-current assets</b>					
Property, plant and equipment	7,476	9,888	10,712	13,288	14,410
Capital work-in-progress	3,235	1,481	2,391	2,391	2,391
Intangible assets	3,691	3,613	2,608	2,608	2,608
Financial assets					
Investments	2,104	193	190	190	190
Loans	169	166	131	131	131
Deferred Tax Assets	42	53	8	74	91
Income Tax Assets (Net)	17	5	57	8	9
Other non-current assets	271	597	1,068	846	1,033
<b>Total non-current assets</b>	<b>17,006</b>	<b>15,997</b>	<b>17,164</b>	<b>19,535</b>	<b>20,862</b>
<b>Current assets</b>					
Inventories	3,842	4,384	7,822	6,005	7,258
Financial assets					
Trade receivables	6,735	7,352	7,654	9,072	14,149
Cash and cash equivalents	830	1,859	418	1,878	1,766
Other Balances with Banks	60	980	2,292	2,292	2,292
Loans	32	79	100	100	100
Other financial assets	5	36	6	51	62
Other current assets	1,318	2,328	1,678	3,296	4,023
<b>Total current assets</b>	<b>12,822</b>	<b>17,018</b>	<b>19,970</b>	<b>22,694</b>	<b>29,650</b>
<b>TOTAL ASSETS</b>	<b>29,828</b>	<b>33,015</b>	<b>37,135</b>	<b>42,229</b>	<b>50,513</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	254	254	248	248	248
Other equity	15,040	18,183	21,485	26,853	33,584
<b>Total equity</b>	<b>15,295</b>	<b>18,437</b>	<b>21,733</b>	<b>27,101</b>	<b>33,832</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	4,788	4,215	3,411	4,300	4,300
Deferred tax liabilities, (net)	655	482	11	683	833
Provisions	126	215	248	248	248
<b>Total non-current liabilities</b>	<b>5,569</b>	<b>4,912</b>	<b>3,671</b>	<b>5,231</b>	<b>5,382</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	4,542	3,717	4,093	3,310	3,310
Trade payables	3,235	4,300	5,410	4,254	5,141
Other financial liabilities	1,019	1,360	1,806	1,926	2,351
Other current liabilities	117	171	202	242	296
Provisions	43	60	68	84	103
Income tax liabilities, (net)	9	57	152	81	99
<b>Total current liabilities</b>	<b>8,965</b>	<b>9,665</b>	<b>11,731</b>	<b>9,897</b>	<b>11,299</b>
<b>Total liabilities</b>	<b>14,533</b>	<b>14,578</b>	<b>15,402</b>	<b>15,128</b>	<b>16,681</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>29,828</b>	<b>33,015</b>	<b>37,135</b>	<b>42,229</b>	<b>50,513</b>

Source: Company, KRChoksey Research

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Granules India Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
29-Jul-21	372	459	BUY	Buy	More than 15%
30-Jun-21	325	459	BUY		
12-May-21	337	459	BUY	Accumulate	5% – 15%
17-Mar-21	331	459	BUY		
15-Dec-21	338	459	BUY	Hold	0 – 5%
21-Oct-20	386	459	BUY		
20-Jun-20	265	314	BUY	Reduce	-5% – 0
03-Jun-20	181	229	BUY		
22-Apr-20	159	199	BUY	Sell	Less than – 5%

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