



Strong topline amid pandemic challenges...

About the stock: Granules is a large-scale vertically integrated company that manufactures API, intermediates and finished dosages and has seven manufacturing facilities along with B2B & B2C marketing & distribution.

- Revenues: Formulations – 52%, API (API+PFI) – 48%
- Top five products (Paracetamol, Ibuprofen, Metformin, Methocarbamol, Guaifenesin) contributed 84% to FY21 revenues

Q1FY22 Results: Granules India reported robust Q1FY22 results.

- Sales were up 15.5% YoY to ₹ 849.8 crore
- EBITDA in Q1FY22 was at ₹ 201 crore, up 9.7% YoY with margins at 24.7%
- Consequent PAT was at ₹ 120.2 crore (up 7.8% YoY)

What should investors do? Granules' share price has grown by ~2.4x over the past five years (from ~₹ 138 in June 2016 to ~₹ 332 levels in June 2021).

- We change our rating from HOLD to BUY due to better clarity and visibility

Target Price and Valuation: We value Granules at ₹ 430 i.e. 15x P/E on FY23E EPS

Key triggers for future price performance:

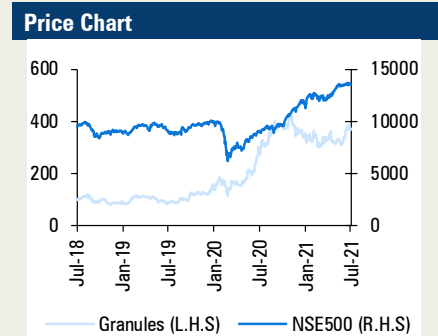
- Vertically integrated model, sustained market share in volume products
- Extending its core products via additional strength/different forms in US, launching in other geographies may provide better operating leverage
- In the US it also focuses on select small but high value launches where competition is less, boding well in a crowded generics market
- ANDA/dossier filing June 2021: filed-69, approved-46, tentative approved-two, pending-21

Alternate Stock Idea: Apart from Granules, in healthcare coverage we like Laurus

- Laurus is evolving as a strong vertically integrated player with strong order book visibility, improving margin profile, strengthening return ratios and healthy FCF generation

Particulars	
Particular	Amount
Market Capitalisation	₹ 9211 crore
Debt (FY21)	₹ 849 crore
Cash (FY21)	₹ 271 crore
EV	₹ 9789 crore
52 week H/L	438/271
Equity capital	₹ 24.8 crore
Face value	₹ 1

Shareholding pattern					
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	42.1	42.0	42.0	42.0	42.0
Others	57.9	58.0	58.0	58.0	58.0



- ### Recent Event & Key risks
- GIL acquired new site at Genome Valley
 - **Key Risk:** (i) Delay in commercialisation of new facility (ii) Continued challenges in KSM

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Key Financial Summary

Key Financials (₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	2279.2	2598.6	3237.5	18.7	3776.0	4359.9	16.0
EBITDA	384.1	525.3	853.6	25.4	937.3	1111.8	14.1
EBITDA Margins (%)	16.9	20.2	26.4		24.8	25.5	
Net Profit	187.7	309.9	549.5	34.5	583.8	711.4	13.8
EPS (Adjusted)	9.5	12.4	22.2		23.6	28.7	
PE (x)	39.0	27.5	16.8		15.8	12.9	
EV to EBITDA (x)	26.3	18.7	11.5		10.2	8.2	
RoCE (%)	11.8	15.2	24.0		23.4	24.2	
RoE (%)	15.5	16.7	25.3		21.5	21.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Robust performance continues

- Granules' Q1FY22 revenues grew 15.5% YoY to ₹ 849.8 crore, driven by new launches and higher market share of existing products. Formulations saw growth of 17.9% YoY to ₹ 454.5 crore and API (API+PFI) grew 12.9% YoY to ₹ 395.3 crore. EBITDA margins fell 126 bps YoY to 23.7% amid raw material inflation in paracetamol that was partially offset by lower other expenditure. EBITDA grew 9.7% YoY to ₹ 201.4 crore. PAT grew 7.8% YoY to ₹ 120.2 crore mainly due to an in line operational performance
- While Q1 revenues were in line with I-direct estimates, margins were better amid lower other expenditure. YoY revenue growth was driven by new launches and increased market share for existing products. As expected, gross margin contracted owing to sharp increase in KSM price of paracetamol price. Besides raw material volatility and quarterly gyrations, the company remains a decent player with clear vision to play on its strength of economies of scale and gradual expansion into more complex products/forms to improve margins

Q1FY22 Earnings Conference Call highlights

- Gross margin declined with a reduction in margins on paracetamol due to increase in KSM price
 - As indicated, it faced challenges for para-aminophenol (PAP) in Q1. The situation is expected to improve, going forward, as one domestic company has already started production and one more is likely to start supply in the near term
 - The company expects PAP realisation to normalise in H2FY22
- The company is not passing on increased shipping cost to defend business from competition
- Guided for 8-12% growth in core molecules and 15% growth in non-core molecules over the next three years
- Expects new launches and other products to be ~40-45% of total size by FY25
- The management expects good visibility in the next three years and gradually move into complex manufacturing along with high volume products in five-years
- Unit IV facility at Vizag: 16 APIs, four used, five more APIs to be launched
- Unit V facility at Vizag: DMF four high potent APIs, DMF for six general APIs (five for captive consumption), validating CMO opportunities
- Five controlled substances launched so far, with two more expected to be launched (based on Para API)
- Capex for MUPS products to be completed by Q4FY22. Two MUPS products ready
- Five MUPS approved, one launched and 15 under development for US, EU
- The management guided for maximum capacity utilisation by FY25. In anticipation, GIL acquired Genome Valley facility
- Ibuprofen volumes are down due to Covid and expected to improve
- Latin America remains key for PFIs while continuing expansion in Asian and North American markets
- US: Launched one large volume product with market size north of \$100 million and around eight to 10 US launches in FY22 valued at ~ \$150 million

- Capacity utilisation for Para at 60%, management guided for fully utilisation by Q4FY22
- Crisil rated 53 points on ESG parameters. The management is looking to improve with capex
- Net debt increased by ₹ 55 crore due to short term borrowing on count of increasing inventory and receivables; Net debt FY22 ~ ₹ 700-₹ 750 crore
- R&D cost for FY22: ₹ 140 - ₹ 150 crore; Q1FY22: ₹ 27 crore; Q1FY21: ₹ 20 crore
- Capex for FY22: ₹ 400 crore; Q1FY22: ₹ 163 crore
- Q1FY22 Geography mix:
 - North America: 53.1%
 - Europe: 16.8%
 - Latin America: 10.9%
 - India: 13.8%
 - RoW: 5.4%
- Q1FY22 Revenue Mix:
 - API: 26.3%
 - PFI: 20.2%
 - FD: 53.5%

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	849.8	735.6	15.5	799.3	6.3	YoY growth driven by new launches and increased market share for existing products, partially offset by loss of MEIS benefit
Raw Material Expenses	389.1	297.6	30.7	341.6	13.9	
Gross margins (%)	54.2	59.5	-533 bps	57.3	-305 bps	YoY decline was mainly due to higher base and reduction in margins on Paracetamol due to increase in KSM prices
Employee Expenses	95.4	83.7	14.0	99.9	-4.5	
Other Expenditure	164.0	170.8	-4.0	155.9	5.2	
Total Operating Expenditure	648.4	552.0	17.5	597.3	8.6	
EBITDA	201.4	183.6	9.7	202.0	-0.3	
EBITDA (%)	23.7	25.0	-126 bps	25.3	-157 bps	EBITDA margin impacted amid lower profitability in Paracetamol products and higher logistic cost
Interest	6.8	6.0	14.2	6.8	-0.4	
Depreciation	39.4	34.1	15.6	44.5	-11.5	
Other income	7.6	5.6	35.4	3.3	132.5	
PBT before EO	162.9	149.2	9.2	154.0	5.8	
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	
PBT	162.9	149.2	9.2	154.0	5.8	
Tax	42.7	37.7	13.1	26.4	61.5	
MI & Share of loss/ (gain) asso.	0.0	0.0	0.0	0.0	0.0	
Adj. Net Profit	120.2	111.5	7.8	127.6	-5.8	Growth was mainly in sync with operational performance
Key Metrics						
API	223.7	212.1	5.5	193.8	15.4	
PFI	171.6	137.9	24.4	144.4	18.8	Robust YoY growth amid increasing penetration
Formulations	454.5	385.6	17.9	461.1	-1.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
(₹ Crore)							
Revenue	3,782.0	3,776.0	-0.2	4,385.9	4,359.9	-0.6	
EBITDA	786.5	937.3	19.2	1,074.5	1,111.8	3.5	
EBITDA Margin (%)	20.8	24.8	403 bps	24.5	25.5	100 bps	Changed as per management guidance
PAT	451.6	583.8	29.3	663.9	711.4	7.2	
EPS (₹)	18.2	23.6	29.5	26.8	28.7	7.1	Changed mainly in sync with EBITDA

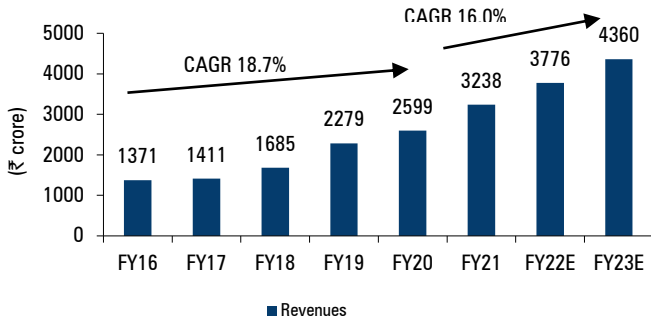
Source: ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current			Earlier		
	FY20	FY21	FY22E	FY23E	FY22E	FY23E
API	817.0	912.6	1,013.6	1,126.2	1,002.0	1,112.8
PFI	421.4	626.6	724.9	788.9	705.0	783.1
Formulations	1,360.1	1,698.8	2,037.4	2,444.9	2,075.0	2,490.0

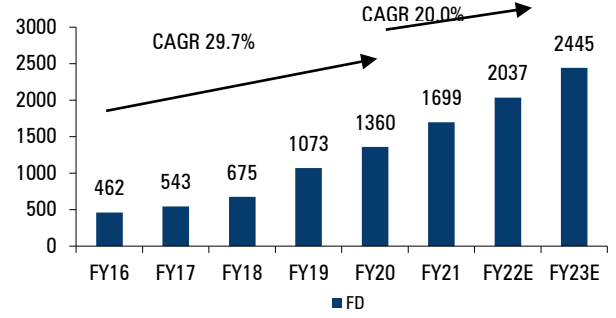
Source: ICICI Direct Research

Exhibit 4: Revenues to grow at CAGR of 16% in FY21-23E



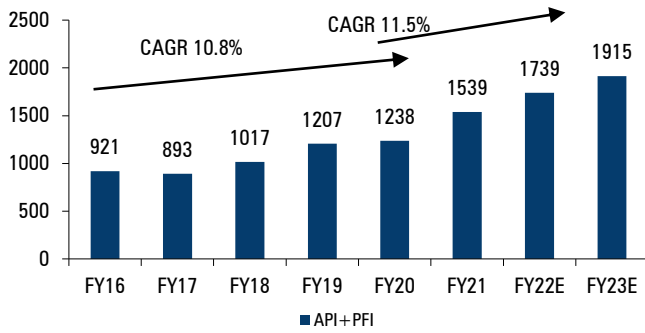
Source: ICICI Direct Research, Company

Exhibit 5: Formulations to grow at 20% CAGR in FY21-23E



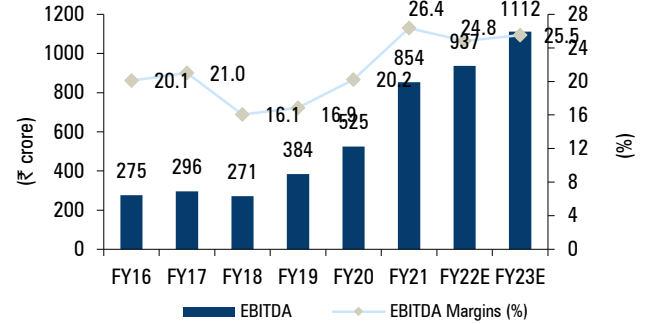
Source: ICICI Direct Research, Company

Exhibit 6: API+PFI to grow at CAGR of 11% over FY21-23E



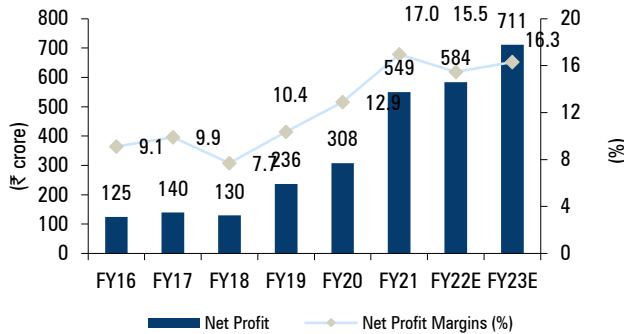
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA & EBITDA margins trend



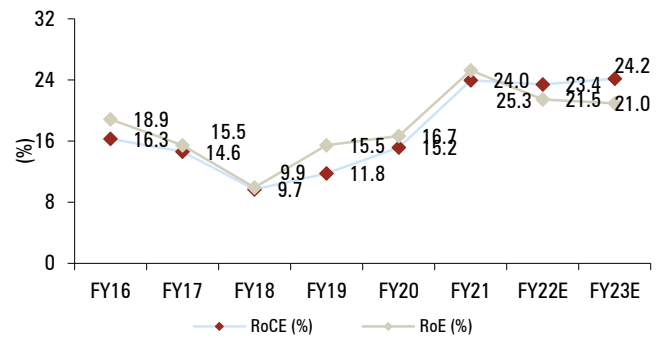
Source: ICICI Direct Research, Company

Exhibit 8: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 9: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 10: Trends in Quarterly Performance

(₹ crore)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net Sales	453.2	580.9	631.8	613.3	595.3	699.5	704.0	599.9	735.6	858.1	844.5	799.3	849.8	15.5	6.3
Raw Material Expense	247.1	317.7	359.2	331.6	295.5	359.4	347.1	279.0	297.6	361.1	391.0	341.6	389.1	30.7	13.9
% of Revenue	54.5	54.7	56.8	54.1	49.6	51.4	49.3	46.5	40.5	42.1	46.3	42.7	45.8	533 bps	305 bps
Gross Profit	206.1	263.2	272.6	281.8	299.8	340.1	356.9	320.8	438.0	497.0	453.5	457.8	460.8	5.2	0.7
Gross Profit Margin (%)	45.5	45.3	43.2	45.9	50.4	48.6	50.7	53.5	59.5	57.9	53.7	57.3	54.2	-533 bps	-305 bps
Employee Expenses	50.3	54.6	53.6	51.3	57.0	63.4	64.8	73.8	83.7	79.7	83.1	99.9	95.4	14.0	-4.5
% of Revenue	11.1	9.4	8.5	8.4	9.6	9.1	9.2	12.3	11.4	9.3	9.8	12.5	11.2	-15 bps	-127 bps
Other Expenditure	83.3	108.0	105.7	132.8	124.2	133.1	129.0	147.1	170.8	160.9	158.9	155.9	164.0	-4.0	5.2
% of Revenue	18.4	18.6	16.7	21.7	20.9	19.0	18.3	24.5	23.2	18.7	18.8	19.5	19.3	-392 bps	-21 bps
Total Expenditure	380.6	480.3	518.5	515.7	476.7	555.9	540.8	499.9	552.0	601.7	633.0	597.3	648.4	17.5	8.6
% of Revenue	84.0	82.7	82.1	84.1	80.1	79.5	76.8	83.3	75.0	70.1	74.9	74.7	76.3	126 bps	157 bps
EBITDA	72.6	100.5	113.3	97.6	118.6	143.6	163.2	99.9	183.6	256.4	211.6	202.0	201.4	9.7	-0.3
EBITDA Margin (%)	16.0	17.3	17.9	15.9	19.9	20.5	23.2	16.7	25.0	29.9	25.1	25.3	23.7	-126 bps	-157 bps
Depreciation	24.5	26.5	27.0	27.4	28.7	30.3	39.0	39.0	34.1	36.1	36.8	44.5	39.4	15.6	-11.5
Interest	6.5	7.6	7.5	6.9	6.9	6.9	6.7	6.6	6.0	6.3	7.2	6.8	6.8	14.2	-0.4
Other Income	29.4	17.2	8.0	20.9	27.4	8.7	3.5	82.3	5.6	3.2	16.4	3.3	7.6	35.4	132.5
Less: Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0	32.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	70.9	83.6	86.8	84.2	110.4	115.1	88.9	136.7	149.2	217.3	183.9	154.0	162.9	9.2	5.8
Total Tax	19.1	23.4	26.5	20.2	27.2	19.3	24.9	44.4	37.7	53.7	37.1	26.4	42.7	13.1	61.5
Tax rate (%)	26.9	27.9	30.5	24.0	24.6	16.8	28.0	32.5	25.3	24.7	20.2	17.2	26.2	90 bps	904 bps
PAT before MI	51.8	60.3	60.3	64.0	83.2	95.8	64.0	92.3	111.5	163.6	146.8	127.6	120.2	7.8	-5.8
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Adjusted PAT	51.8	60.3	60.3	64.0	83.2	95.8	96.1	92.3	111.5	163.6	146.8	127.6	120.2	7.8	-5.8
PAT Margin (%)	11.4	10.4	9.5	10.4	14.0	13.7	13.6	15.4	15.2	19.1	17.4	16.0	14.1	-101 bps	-182 bps
EPS (₹)	2.1	2.4	2.4	2.6	3.4	3.9	3.9	3.7	4.5	6.6	5.9	5.2	4.9		

Source: ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	2,598.6	3,237.5	3,776.0	4,359.9
Growth (%)	14.0	24.6	16.6	15.5
Raw Material Expenses	1,280.9	1,391.3	1,686.4	1,918.4
Gross Profit	1,317.7	1,846.3	2,089.6	2,441.6
Gross Profit Margins (%)	50.7	57.0	55.3	56.0
Employee Expenses	259.0	346.3	423.8	457.8
Other Expenditure	533.4	646.4	728.5	872.0
Total Operating Expenditure	2,073.3	2,384.0	2,838.8	3,248.2
EBITDA	525.3	853.6	937.3	1,111.8
Growth (%)	36.8	62.5	9.8	18.6
Interest	27.0	26.3	22.3	17.6
Depreciation	137.0	151.5	157.5	182.3
Other Income	36.6	28.5	25.2	39.2
PBT before Exceptional Items	397.9	704.4	782.6	951.1
Less: Exceptional Items	-27.7	0.0	0.0	0.0
PBT after Exceptional Items	425.6	704.4	782.6	951.1
Total Tax	115.7	154.9	198.9	239.7
PAT before MI	309.9	549.5	583.8	711.4
PAT	309.9	549.5	583.8	711.4
Growth (%)	65.2	77.3	6.2	21.9
EPS (Adjusted)	12.4	22.2	23.6	28.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	306.6	513.0	583.8	711.4
Add: Depreciation & Amortization	137.0	151.5	157.5	182.3
Net Increase in Current Assets	-88.9	-427.8	-142.3	-264.4
Net Increase in Current Liabilities	101.6	152.8	82.1	98.5
Others	19.9	43.0	22.3	17.6
CF from Operating activities	476.2	432.5	703.5	745.5
(Purchase)/Sale of Fixed Assets	-72.0	-161.2	-400.0	-300.0
Investments	0.0	-131.4	0.0	-300.0
Others	3.5	146.5	-2.0	-2.0
CF from Investing activities	-68.4	-146.0	-402.0	-602.0
(inc)/Dec in Loan	-155.6	-75.3	-161.3	-100.0
Dividend & Dividend tax	-30.7	-24.7	-37.2	-37.2
Other	-26.6	-199.3	-22.3	-17.6
CF from Financing activities	-212.9	-299.3	-220.7	-154.8
Net Cash Flow	194.9	-12.9	80.8	-11.4
Cash and Cash Equivalent	89.0	283.9	271.1	351.8
Cash	283.9	271.1	351.8	340.5
Free Cash Flow	404.2	271.3	303.5	445.5

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	25.4	24.8	24.8	24.8
Reserve and Surplus	1,818.3	2,148.5	2,695.2	3,369.4
Total Shareholders funds	1,843.7	2,173.3	2,719.9	3,394.2
Total Debt	892.1	849.2	687.9	587.9
Net Deferred Tax Liability	43.0	0.3	0.3	0.3
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	21.5	24.8	25.3	25.8
Source of Funds	2,800.3	3,047.6	3,433.5	4,008.3
Gross Block - Fixed Assets	1,875.2	2,145.1	2,545.1	2,945.1
Accumulated Depreciation	671.3	813.2	970.7	1,153.0
Net Block	1,204.0	1,332.0	1,574.5	1,792.2
Capital WIP	294.2	239.1	239.1	139.1
Fixed Assets	1,498.2	1,571.1	1,813.5	1,931.3
Investments	19.3	19.0	19.0	319.0
Other non-Current Assets	76.9	125.6	128.1	130.7
Inventory	438.4	782.2	631.1	728.6
Debtors	735.2	765.4	1,055.2	1,218.4
Other Current Assets	244.3	178.4	181.9	185.6
Cash	283.9	271.1	351.8	340.5
Total Current Assets	1,701.8	1,997.0	2,220.0	2,473.1
Creditors	430.0	541.1	620.7	716.7
Provisions	11.7	6.8	7.0	7.1
Other Current Liabilities	54.3	117.2	119.5	121.9
Total Current Liabilities	496.0	665.0	747.2	845.7
Net Current Assets	1,205.9	1,332.0	1,472.9	1,627.4
Application of Funds	2,800.3	3,047.6	3,433.5	4,008.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	13.5	22.2	23.6	28.7
Cash EPS	16.7	26.8	28.4	34.6
BV per share	74.4	87.7	109.8	137.0
Cash per Share	11.5	10.9	14.2	13.7
Dividend per share	1.2	1.5	1.5	1.5
Operating Ratios (%)				
Gross Profit Margins	50.7	57.0	55.3	56.0
EBITDA margins	20.2	26.4	24.8	25.5
PAT Margins	11.8	17.0	15.5	16.3
Cash Conversion Cycle	104.4	113.5	103.0	103.0
Asset Turnover	1.4	1.5	1.5	1.5
EBITDA conversion Rate	90.6	50.7	75.1	67.1
Return Ratios (%)				
RoE	16.7	25.3	21.5	21.0
RoCE	15.2	24.0	23.4	24.2
RoIC	17.5	27.7	27.4	28.8
Valuation Ratios (x)				
P/E	27.5	16.8	15.8	12.9
EV / EBITDA	18.7	11.5	10.2	8.2
EV / Net Sales	3.8	3.0	2.5	2.1
Market Cap / Sales	3.5	2.8	2.4	2.1
Price to Book Value	5.0	4.2	3.4	2.7
Solvency Ratios				
Debt / EBITDA	1.7	1.0	0.7	0.5
Debt / Equity	0.5	0.4	0.3	0.2
Current Ratio	2.9	2.6	2.5	2.5
Quick Ratio				
	2.0	1.4	1.7	1.7
Inventory days	61.6	88.2	61.0	61.0
Debtor days	103.3	86.3	102.0	102.0
Creditor days	60.4	61.0	60.0	60.0
Long term debt/Equity	0.3	0.2	0.1	0.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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