



Revenues growth amid persisting headwinds...

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.

- Revenue mix FY22: Formulations – 52%, API (API+PFI) – 48%
- Top five products (Paracetamol, Ibuprofen, Metformin, Methocarbamol, Guaifenesin) contributed 81% to FY22 revenues

Q4FY22 Results: Granules' revenue growth in this quarter was mainly on the back of higher selling price realisation from Paracetamol and new launches in the US.

- Sales were up 29% YoY to ₹ 1030 crore
- EBITDA was at ₹ 193 crore, down 5% YoY with margins at 18.7%
- Adjusted PAT was at ₹ 111 crore (down 13% YoY)

What should investors do? Granules' share price has grown by ~1.67x over the past five years (from ~₹ 148 in May 2017 to ~₹ 247 levels in May 2022).

- We maintain **BUY** on the back of 1) launches lined up across geographies along with incremental contribution from MUPS block, 2) focus on backward integration, 3) initiatives like passing on price hike to customers, and 4) compelling risk-reward matrix based on FY24E earnings

Target Price and Valuation: Valued at ₹ 345 i.e. 14x P/E on FY24E EPS of ₹ 24.6

Key triggers for future price performance:

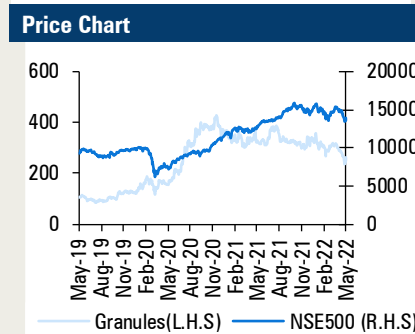
- Twelve launches lined up for US with market size of ~ US\$3.6 billion in FY23
- Ability to pass on input cost inflation and margins improvement through focus on cost management
- Extending its core products via additional strength/different forms in US, launching in other geographies may provide better operating leverage
- In the US, it also focuses on select small but high value launches where competition is less, which bodes well in a crowded generics market
- Timely completion of new block construction in Gagillapur and new initiatives for backward integration in key molecules like paracetamol and metformin, along with rationalising R&D portfolio

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 and incremental traction from custom synthesis
- BUY with a target price of ₹ 690

| Particulars | |
|-----------------------|--------------|
| Particular | Amount |
| Market Capitalisation | ₹ 6324 crore |
| Debt (FY22) | ₹ 1106 crore |
| Cash (FY22) | ₹ 409 crore |
| EV | ₹ 7021 crore |
| 52 week H/L | 405/232 |
| Equity capital | ₹ 24.8 crore |
| Face value | ₹ 1 |

| Shareholding pattern | | | | |
|----------------------|--------|--------|--------|--------|
| (in %) | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Promoter | 42.0 | 42.0 | 42.0 | 42.0 |
| Others | 58.0 | 58.0 | 58.0 | 58.0 |



- ### Recent Event & Key risks
- Two ANDA approvals in Q4FY22
 - Key Risk:** (i) Lower ramp-up in core molecules (ii) Continued challenges in KSM and logistics

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Key Financial Summary

| Key Financials (₹ Crore) | FY20 | FY21 | FY22 | 5 year CAGR (FY17-22) | FY23E | FY24E | 2 year CAGR (FY22-24E) |
|--------------------------|--------|--------|--------|-----------------------|--------|--------|------------------------|
| Revenues | 2598.6 | 3237.5 | 3764.9 | 21.7 | 4362.3 | 4953.3 | 14.7 |
| EBITDA | 525.3 | 853.6 | 722.2 | 19.5 | 863.2 | 1053.1 | 20.7 |
| EBITDA Margins (%) | 20.2 | 26.4 | 19.2 | | 19.8 | 21.3 | |
| Net Profit | 309.9 | 549.5 | 412.8 | 24.2 | 486.6 | 610.6 | 21.6 |
| EPS (Adjusted) | 12.4 | 22.2 | 16.6 | | 19.6 | 24.6 | |
| PE (x) | 18.9 | 11.5 | 15.3 | | 13.0 | 10.4 | |
| EV to EBITDA (x) | 13.2 | 8.1 | 9.7 | | 8.0 | 6.2 | |
| RoCE (%) | 15.2 | 24.0 | 15.6 | | 16.8 | 18.6 | |
| RoE (%) | 16.7 | 25.3 | 16.0 | | 16.0 | 16.9 | |

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Revenues grew amid margin pressure

- Revenues grew 29% YoY to ₹ 1030 crore, driven by YoY growth of 78% in PFI to ₹ 257 crore and 28% growth in API to ₹ 248 crore. Formulations grew 14% YoY to ₹ 525 crore. EBITDA margins fell 656 bps YoY to 18.7% due to lower gross margins (down 834 bps YoY) and higher other expenditure. EBITDA de-grew 5% YoY to ₹ 193 crore and adjusted PAT declined 13% YoY to ₹ 111 crore. Delta vis-à-vis EBITDA was mainly due to higher tax expense being partially offset by higher other income, lower interest and tax expense
- Granules' revenues growth in this quarter was mainly on the back of higher selling price realisation from Paracetamol and new launches in the US. EBITDA margin drop was on account of pricing pressure in the US and also increase in cost of KSMs, solvents and increase in logistic cost. Two positive takeaways being - 1) sequential improvement in margins despite adverse business condition arising out of supply constraints of Para Amino Phenol (PAP), other input price cost increase and logistic cost increase and 2) share of non-core molecules increased to 19% in FY22 from 16% last year. Granules 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

Q4FY22 Earnings Conference Call highlights

- FY22 was a challenging year for the company in the backdrop of inflation in raw material, solvents and catalysts; Global supply chain challenges; Geopolitical crisis and pricing challenge in US
- Other raw material supplies ex-PAP is smooth but prices have either gone up or remained elevated. Granules is able to pass on the price rise in B2B business while in B2C company can only pass the hike from Q2FY23 due to terms of contract agreements. The management guided for biggest PAP producer to resume operations in next couple of weeks
- Inflation: Raw material increased 60% YoY, solvents increased 40-70% YoY and freight cost increased 70% YoY
- US is experiencing high double digit price erosion (highest of last 10 years). Granules launched five products in FY22 and plans to launch 12 products in FY23 with addressable market size of ~ US\$3.6 billion. The management has guided for better growth from the US in FY23. In EU, Granules launched five products in FY22. EU will continue to operate in partnership model
- In the US, Granules has 24 Rx products and 10 OTC products. Majority of formulations growth in this quarter was driven by US. The company guided for 17 finished dossiers launch across geographies over next two years
- Going forward, Granules is looking to creating tech platform to bring innovation for 1) R&D in APIs and formulations, 2) Technical excellence in IPs, 3) B2B business in value added APIs and 4) commercial excellence in new product launches and core molecules
- Granules aspires to provide CMO services from oncology blocks, validation was done last quarter while commercial supplies would begin post regulatory approvals
- MUPS block will start contributing revenues from Q2FY23 onwards. Granules launched two MUPS products while six more are to be launched
- China supplier would account for 15-20% while rest would be ex-China suppliers. The management is looking for backward integration for paracetamol and metformin
- Capex: FY22: ₹ 397 crore while guidance for FY23 and FY24 at ₹ 600 crore
- R&D expense for FY22 at ₹ 143 crore, guidance for ₹ 160-165 crore in FY23

Exhibit 1: Variance Analysis

| | Q4FY22 | Q4FY21 | YoY (%) | Q3FY22 | QoQ (%) | Comments |
|----------------------------------|---------|--------|----------|--------|---------|---|
| Revenue | 1,030.0 | 799.3 | 28.9 | 996.8 | 3.3 | YoY growth on back of higher selling price realisation from Paracetamol and new launches in US |
| Raw Material Expenses | 526.0 | 341.6 | 54.0 | 531.9 | -1.1 | |
| Gross margins (%) | 48.9 | 57.3 | -834 bps | 46.6 | 229 bps | Gross margin was impacted due to inflation in KSMS and solvents along with high double digit price erosion in US |
| Employee Expenses | 108.2 | 99.9 | 8.3 | 105.3 | 2.7 | |
| Other Expenditure | 203.1 | 155.9 | 30.3 | 185.8 | 9.3 | |
| Total Operating Expenditure | 837.3 | 597.3 | 40.2 | 823.0 | 1.7 | |
| EBITDA | 192.7 | 202.0 | -4.6 | 173.7 | 10.9 | |
| EBITDA (%) | 18.7 | 25.3 | -656 bps | 17.4 | 128 bps | EBITDA margin declined YoY due to lower gross margins along with higher logistic cost (up 70% YoY) |
| Interest | 6.4 | 6.8 | -6.7 | 4.6 | 38.5 | |
| Depreciation | 40.2 | 44.5 | -9.7 | 39.2 | 2.4 | |
| Other income | 4.0 | 3.3 | 20.8 | 4.9 | -18.6 | |
| PBT before EO | 150.1 | 154.0 | -2.5 | 134.8 | 11.4 | |
| Less: Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| PBT | 150.1 | 154.0 | -2.5 | 134.8 | 11.4 | |
| Tax | 39.1 | 26.4 | 48.1 | 33.9 | 15.4 | |
| MI & Share of loss/ (gain) asso. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Adj. Net Profit | 111.0 | 127.6 | -13.0 | 100.9 | 10.0 | Delta vis-à-vis EBITDA was mainly due to higher tax expense being partially offset by higher other income, lower interest and tax expense |
| Key Metrics | | | | | | |
| API | 247.8 | 193.8 | 27.9 | 313.0 | -20.8 | |
| PFI | 256.8 | 144.4 | 77.8 | 226.0 | 13.6 | |
| Formulations | 525.4 | 461.1 | 13.9 | 458.0 | 14.7 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| ₹ Crore) | FY23E | | | FY24E | | | Comments |
|-------------------|---------|---------|----------|---------|---------|----------|--|
| | Old | New | % Change | Old | New | % Change | |
| Revenue | 4,193.2 | 4,362.3 | 4.0 | 4,765.7 | 4,953.3 | 3.9 | Changed due to good pipeline launches going forward |
| EBITDA | 838.8 | 863.2 | 2.9 | 1,072.3 | 1,053.1 | -1.8 | |
| EBITDA Margin (%) | 20.0 | 19.8 | -22 bps | 22.5 | 21.3 | -124 bps | Changed due to continued inflation in KSM prices and logistic cost |
| PAT | 481.3 | 486.6 | 1.1 | 639.3 | 610.6 | -4.5 | |
| EPS (₹) | 19.4 | 19.6 | 1.1 | 25.8 | 24.6 | -4.5 | |

Source: ICICI Direct Research

Exhibit 3: Assumptions

| ₹ crore) | Current | | | | Earlier | | | Comments |
|--------------|---------|---------|---------|---------|---------|---------|---------|----------|
| | FY20 | FY21 | FY22 | FY23E | FY24E | FY23E | FY24E | |
| API | 817.0 | 912.6 | 975.0 | 1,088.4 | 1,219.0 | 1,170.6 | 1,344.4 | |
| PFI | 421.4 | 626.6 | 845.6 | 1,020.1 | 1,142.6 | 896.8 | 976.6 | |
| Formulations | 1,360.1 | 1,698.8 | 1,944.5 | 2,253.7 | 2,591.7 | 2,125.9 | 2,444.8 | |

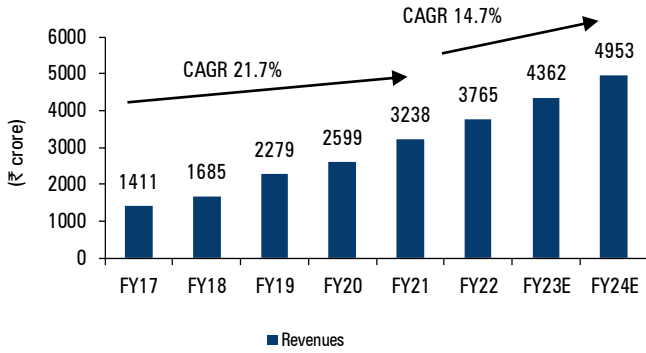
Source: ICICI Direct Research

Exhibit 4: Valuation

| | Revenues | Growth | EPS | Growth | P/E | EV/EBITDA | RoE | RoCE |
|-------|-----------|--------|------|--------|------|-----------|------|------|
| | (₹ crore) | (%) | (₹) | (%) | (x) | (X) | (%) | (%) |
| FY21 | 3238 | 24.6 | 22.2 | 77.3 | 11.5 | 8.1 | 25.3 | 24.0 |
| FY22 | 3765 | 16.3 | 16.6 | -24.9 | 15.3 | 9.7 | 16.0 | 15.6 |
| FY23E | 4362 | 15.9 | 19.6 | 17.9 | 13.0 | 8.0 | 16.0 | 16.8 |
| FY24E | 4953 | 13.5 | 24.6 | 25.5 | 10.4 | 6.2 | 16.9 | 18.6 |

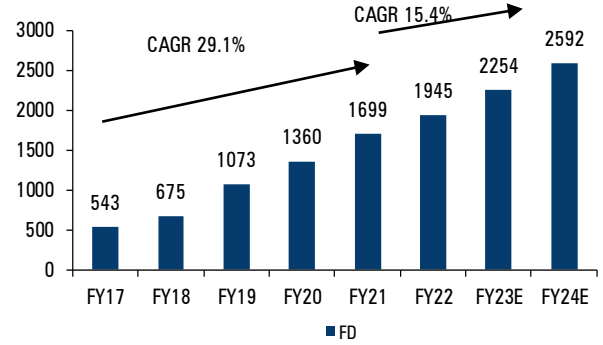
Source: ICICI Direct Research

Exhibit 5: Revenues to grow at CAGR of 14.7% in FY22-24E



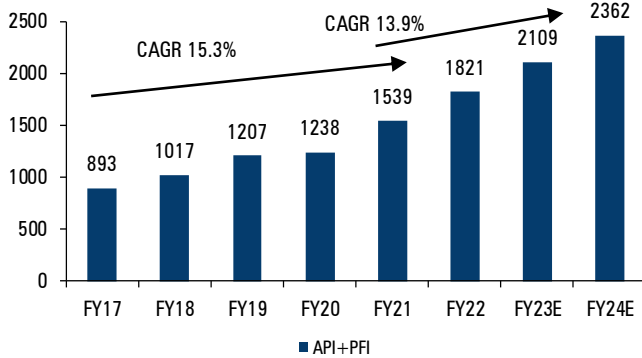
Source: ICICI Direct Research, Company

Exhibit 6: Formulations to grow at 15.4% CAGR in FY22-24E



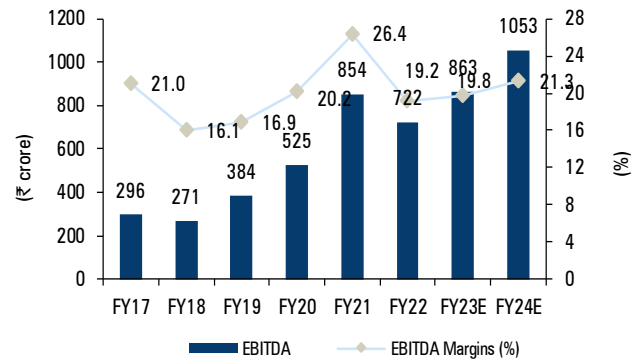
Source: ICICI Direct Research, Company

Exhibit 7: API+PFI to grow at CAGR of 13.9% over FY22-24E



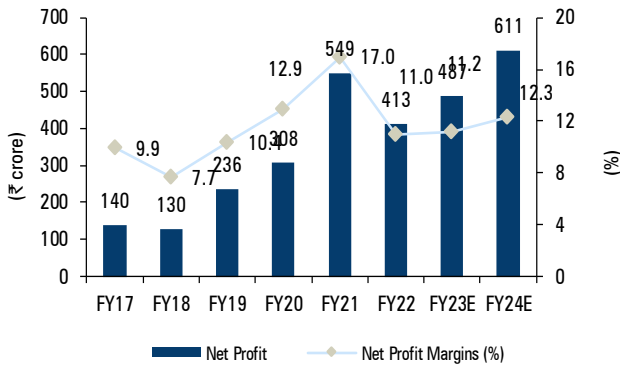
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA & EBITDA margins trend



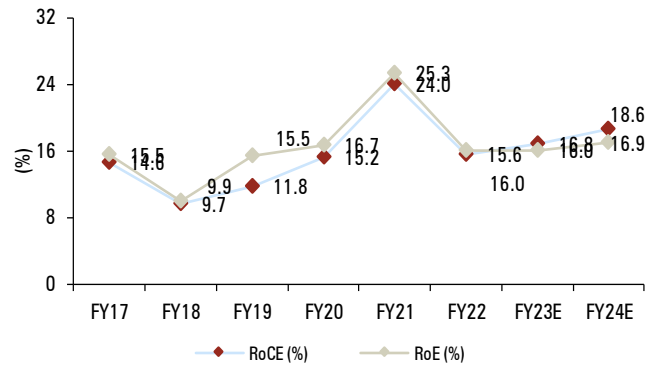
Source: ICICI Direct Research, Company

Exhibit 9: PAT & PAT margins trend



Source: ICICI Direct Research, Company

Exhibit 10: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 11: Trends in Quarterly Performance

| (₹ crore) | Q4FY19 | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | YoY (%) | QoQ (%) |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Net Sales | 613.3 | 595.3 | 699.5 | 704.0 | 599.9 | 735.6 | 858.1 | 844.5 | 799.3 | 849.8 | 888.3 | 996.8 | 1030.0 | 28.9 | 3.3 |
| Raw Material Expenses | 331.6 | 295.5 | 359.4 | 347.1 | 279.0 | 297.6 | 361.1 | 391.0 | 341.6 | 389.1 | 436.6 | 531.9 | 526.0 | 54.0 | -1.1 |
| % of Revenue | 54.1 | 49.6 | 51.4 | 49.3 | 46.5 | 40.5 | 42.1 | 46.3 | 42.7 | 45.8 | 49.1 | 53.4 | 51.1 | 834 bps | -229 bps |
| Gross Profit | 281.8 | 299.8 | 340.1 | 356.9 | 320.8 | 438.0 | 497.0 | 453.5 | 457.8 | 460.8 | 451.7 | 464.8 | 503.9 | 10.1 | 8.4 |
| Gross Profit Margin (%) | 45.9 | 50.4 | 48.6 | 50.7 | 53.5 | 59.5 | 57.9 | 53.7 | 57.3 | 54.2 | 50.9 | 46.6 | 48.9 | -834 bps | 229 bps |
| Employee Expenses | 51.3 | 57.0 | 63.4 | 64.8 | 73.8 | 83.7 | 79.7 | 83.1 | 99.9 | 95.4 | 92.5 | 105.3 | 108.2 | 8.3 | 2.7 |
| % of Revenue | 8.4 | 9.6 | 9.1 | 9.2 | 12.3 | 11.4 | 9.3 | 9.8 | 12.5 | 11.2 | 10.4 | 10.6 | 10.5 | -199 bps | -6 bps |
| Other Expenditure | 132.8 | 124.2 | 133.1 | 129.0 | 147.1 | 170.8 | 160.9 | 158.9 | 155.9 | 164.0 | 208.0 | 185.8 | 203.1 | 30.3 | 9.3 |
| % of Revenue | 21.7 | 20.9 | 19.0 | 18.3 | 24.5 | 23.2 | 18.7 | 18.8 | 19.5 | 19.3 | 23.4 | 18.6 | 19.7 | 22 bps | 108 bps |
| Total Expenditure | 515.7 | 476.7 | 555.9 | 540.8 | 499.9 | 552.0 | 601.7 | 633.0 | 597.3 | 648.4 | 737.2 | 823.0 | 837.3 | 40.2 | 1.7 |
| % of Revenue | 84.1 | 80.1 | 79.5 | 76.8 | 83.3 | 75.0 | 70.1 | 74.9 | 74.7 | 76.3 | 83.0 | 82.6 | 81.3 | 656 bps | -128 bps |
| EBITDA | 97.6 | 118.6 | 143.6 | 163.2 | 99.9 | 183.6 | 256.4 | 211.6 | 202.0 | 201.4 | 151.2 | 173.7 | 192.7 | -4.6 | 10.9 |
| EBITDA Margin (%) | 15.9 | 19.9 | 20.5 | 23.2 | 16.7 | 25.0 | 29.9 | 25.1 | 25.3 | 23.7 | 17.0 | 17.4 | 18.7 | -656 bps | 128 bps |
| Depreciation | 27.4 | 28.7 | 30.3 | 39.0 | 39.0 | 34.1 | 36.1 | 36.8 | 44.5 | 39.4 | 39.8 | 39.2 | 40.2 | -9.7 | 2.4 |
| Interest | 6.9 | 6.9 | 6.9 | 6.7 | 6.6 | 6.0 | 6.3 | 7.2 | 6.8 | 6.8 | 5.5 | 4.6 | 6.4 | -6.7 | 38.5 |
| Other Income | 20.9 | 27.4 | 8.7 | 3.5 | 82.3 | 5.6 | 3.2 | 16.4 | 3.3 | 7.6 | 4.4 | 4.9 | 4.0 | 20.8 | -18.6 |
| Less: Exceptional Items | 0.0 | 0.0 | 0.0 | 32.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| PBT | 84.2 | 110.4 | 115.1 | 88.9 | 136.7 | 149.2 | 217.3 | 183.9 | 154.0 | 162.9 | 110.2 | 134.8 | 150.1 | -2.5 | 11.4 |
| Total Tax | 20.2 | 27.2 | 19.3 | 24.9 | 44.4 | 37.7 | 53.7 | 37.1 | 26.4 | 42.7 | 29.6 | 33.9 | 39.1 | 48.1 | 15.4 |
| Tax rate (%) | 24.0 | 24.6 | 16.8 | 28.0 | 32.5 | 25.3 | 24.7 | 20.2 | 17.2 | 26.2 | 26.8 | 25.2 | 26.1 | 890 bps | 91 bps |
| PAT before MI | 64.0 | 83.2 | 95.8 | 64.0 | 92.3 | 111.5 | 163.6 | 146.8 | 127.6 | 120.2 | 80.7 | 100.9 | 111.0 | -13.0 | 10.0 |
| 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 | 64.0 | 83.2 | 95.8 | 96.1 | 92.3 | 111.5 | 163.6 | 146.8 | 127.6 | 120.2 | 80.7 | 100.9 | 111.0 | -13.0 | 10.0 |
| PAT Margin (%) | 10.4 | 14.0 | 13.7 | 13.6 | 15.4 | 15.2 | 19.1 | 17.4 | 16.0 | 14.1 | 9.1 | 10.1 | 10.8 | -518 bps | 66 bps |
| EPS (₹) | 2.6 | 3.4 | 3.9 | 3.9 | 3.7 | 4.5 | 6.6 | 5.9 | 5.1 | 4.8 | 3.3 | 4.1 | 4.5 | | |

Source: ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Healthcare)

| Company | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) | | | | PE(x) | | | | RoCE (%) | | | | RoE (%) | | | |
|-----------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|-------|-------|-------|-------|----------|-------|-------|-------|---------|-------|-------|-------|
| | | | | | | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E | FY21 | FY22E | FY23E | FY24E |
| Hospitals | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | APOHOS | 3630 | 5,480 | Buy | 52194 | 7.9 | 67.2 | 81.3 | 105.5 | 461.8 | 54.0 | 44.6 | 34.4 | 6.3 | 16.4 | 18.2 | 20.7 | 2.5 | 17.5 | 18.1 | 19.9 |
| Narayana Hrudalaya | NARHRU | 660 | 765 | Buy | 13492 | -0.7 | 17.5 | 20.1 | 22.8 | NA | 37.8 | 32.8 | 29.0 | 1.2 | 21.2 | 22.4 | 21.5 | -1.3 | 24.5 | 22.3 | 20.3 |
| Shalby | SHALIM | 106 | 170 | Buy | 1150 | 3.9 | 5.9 | 5.7 | 7.2 | 27.1 | 18.1 | 18.5 | 14.8 | 6.5 | 8.9 | 9.6 | 10.5 | 5.1 | 7.2 | 6.7 | 7.9 |
| Aster DM | ASTDM | 171 | 250 | Buy | 8547 | 3.0 | 10.6 | 17.6 | NA | 57.8 | 16.2 | 9.7 | NA | 5.4 | 9.2 | 12.9 | NA | 4.4 | 13.5 | 18.4 | NA |
| Healthcare Global | HEAGLO | 271 | 240 | Hold | 3391 | -21.7 | 6.0 | 3.5 | NA | NA | 45.1 | 76.7 | NA | -0.9 | 5.2 | 7.7 | NA | NA | NA | 3.4 | NA |
| MNC Pharma | | | | | | | | | | | | | | | | | | | | | |
| Abbott India | ABBIND | 18120 | 20,560 | Buy | 38504 | 325.0 | 375.9 | 439.8 | 514.0 | 55.7 | 48.2 | 41.2 | 35.3 | 33.8 | 36.6 | 37.9 | 39.4 | 26.5 | 28.3 | 29.5 | 30.6 |
| P&G Health | MERLIM | 4368 | 4,955 | Hold | 7251 | 106.5 | 121.5 | 130.5 | 141.6 | 41.0 | 35.9 | 33.5 | 30.9 | 32.2 | 37.3 | 34.7 | 32.8 | 25.1 | 29.3 | 27.0 | 25.4 |
| Sanofi India | SANOFI | 6574 | 7,740 | Hold | 15140 | 207.4 | 410.1 | 285.7 | 276.4 | 31.7 | 16.0 | 23.0 | 23.8 | 32.3 | 33.3 | 42.3 | 40.8 | 24.5 | 25.9 | 32.6 | 31.3 |
| Pfizer | PFIZER | 4276 | 5,350 | Buy | 19562 | 108.8 | 135.2 | 133.0 | 148.6 | 39.3 | 31.6 | 32.1 | 28.8 | 27.6 | 27.4 | 23.6 | 22.9 | 20.8 | 21.7 | 18.6 | 18.1 |
| Pharma | | | | | | | | | | | | | | | | | | | | | |
| Ajanta Pharma | AJAPHA | 1706 | 1,955 | Buy | 14572 | 74.0 | 83.4 | 83.3 | 97.8 | 23.1 | 20.4 | 20.5 | 17.4 | 29.0 | 27.0 | 22.9 | 22.9 | 21.8 | 21.8 | 18.4 | 18.3 |
| Alembic Pharma | ALEMPHA | 737 | 720 | Hold | 14487 | 62.8 | 27.8 | 29.7 | 35.9 | 11.7 | 26.5 | 24.8 | 20.5 | 25.1 | 10.6 | 11.2 | 13.8 | 24.1 | 10.4 | 10.3 | 11.3 |
| Aurobindo Pharma | AURPHA | 524 | 765 | Hold | 30730 | 55.0 | 44.3 | 53.4 | 61.2 | 9.5 | 11.8 | 9.8 | 8.6 | 16.9 | 12.5 | 14.3 | 15.2 | 14.7 | 10.7 | 11.5 | 11.7 |
| Biocon | BIOCON | 323 | 380 | Hold | 38743 | 6.3 | 5.7 | 6.1 | 11.7 | 51.5 | 56.7 | 53.3 | 27.6 | 7.7 | 7.5 | 5.0 | 6.9 | 9.9 | 8.1 | 3.2 | 5.9 |
| Zydus Lifesciences | CADHEA | 338 | 475 | Hold | 34602 | 21.5 | 21.1 | 22.4 | 25.4 | 15.7 | 16.0 | 15.1 | 13.3 | 12.6 | 13.5 | 13.7 | 14.6 | 16.9 | 14.8 | 14.0 | 14.1 |
| Cipla | CIPLA | 939 | 1,095 | Buy | 75792 | 29.9 | 32.9 | 36.2 | 42.5 | 31.4 | 28.5 | 25.9 | 22.1 | 16.3 | 16.7 | 16.7 | 17.7 | 13.1 | 12.7 | 12.6 | 13.3 |
| Dr Reddy's Labs | DRREDD | 3933 | 5,160 | Buy | 65454 | 117.3 | 156.5 | 190.9 | 236.0 | 33.5 | 25.1 | 20.6 | 16.7 | 13.1 | 15.4 | 18.6 | 22.7 | 11.1 | 13.1 | 14.0 | 15.1 |
| Glenmark Pharma | GLEPHA | 392 | 550 | Hold | 11058 | 32.9 | 44.2 | 44.2 | 49.1 | 11.9 | 8.9 | 8.9 | 8.0 | 13.9 | 15.5 | 15.2 | 15.4 | 13.1 | 13.1 | 11.7 | 11.6 |
| Ipca Laboratories | IPCLAB | 965 | 1,175 | Buy | 24475 | 44.9 | 36.6 | 42.4 | 48.2 | 21.5 | 26.4 | 22.8 | 20.0 | 27.1 | 19.8 | 19.1 | 18.5 | 24.2 | 16.6 | 16.1 | 15.6 |
| Jubilant Pharmova | JUBLIF | 401 | 490 | Hold | 6383 | 37.4 | 28.7 | 32.5 | 40.8 | 10.7 | 14.0 | 12.3 | 9.8 | 13.7 | 10.1 | 10.4 | 12.2 | 12.6 | 8.9 | 9.2 | 10.4 |
| Lupin | LUPIN | 635 | 960 | Hold | 28846 | 26.9 | 16.0 | 29.7 | 39.4 | 23.7 | 39.8 | 21.4 | 16.1 | 9.1 | 6.0 | 10.3 | 12.6 | 8.8 | 5.7 | 9.5 | 11.3 |
| Natco Pharma | NATPHA | 700 | 955 | Hold | 12761 | 24.2 | 15.1 | 19.6 | 23.1 | 28.9 | 46.3 | 35.8 | 30.3 | 13.1 | 7.3 | 9.7 | 10.7 | 10.7 | 6.4 | 7.8 | 8.5 |
| Sun Pharma | SUNPHA | 884 | 1,075 | Buy | 211981 | 30.0 | 33.5 | 33.8 | 38.6 | 29.4 | 26.4 | 26.1 | 22.9 | 14.2 | 18.3 | 17.8 | 17.8 | 15.5 | 16.4 | 14.4 | 14.3 |
| Torrent Pharma | TORPHA | 2589 | 3,235 | Hold | 43812 | 74.0 | 67.6 | 94.7 | 114.5 | 35.0 | 38.3 | 27.3 | 22.6 | 17.7 | 18.2 | 21.1 | 23.5 | 21.4 | 17.1 | 20.3 | 20.7 |
| Indoco Remedies | INDREM | 363 | 510 | Buy | 3345 | 10.1 | 16.8 | 21.8 | 28.4 | 35.9 | 21.6 | 16.6 | 12.8 | 11.7 | 17.5 | 18.8 | 24.9 | 12.1 | 17.1 | 18.7 | 20.2 |
| Caplin Point | CAPPOI | 813 | 895 | Buy | 6159 | 81.7 | 85.3 | 68.3 | 70.8 | 9.9 | 9.5 | 11.9 | 11.5 | 25.3 | 23.7 | 22.5 | 0.0 | 20.4 | 20.2 | 18.5 | 17.5 |
| Advanced Enzymes | ADVENZ | 284 | 380 | Buy | 3179 | 13.1 | 11.3 | 13.6 | 15.8 | 21.7 | 25.3 | 20.9 | 18.0 | 19.4 | 15.4 | 16.7 | 17.2 | 15.1 | 11.6 | 12.4 | 12.7 |
| Hester Biosciences | HESPHA | 2341 | 2,780 | Hold | 1991 | 44.4 | 47.2 | 52.0 | 71.4 | 52.8 | 49.6 | 45.0 | 32.8 | 16.2 | 12.8 | 14.3 | 17.3 | 16.5 | 15.5 | 15.1 | 17.8 |
| API/CRAMS | | | | | | | | | | | | | | | | | | | | | |
| Divi's Lab | DIVLAB | 4203 | 5,335 | Buy | 111587 | 74.7 | 107.8 | 108.4 | 126.4 | 56.2 | 39.0 | 38.8 | 33.2 | 27.6 | 30.1 | 27.7 | 27.5 | 21.3 | 25.4 | 21.7 | 21.6 |
| Hikal | HIKCHE | 383 | 500 | Buy | 4728 | 10.8 | 14.6 | 17.1 | 22.6 | 35.5 | 26.2 | 22.4 | 16.9 | 15.1 | 15.7 | 16.0 | 19.1 | 14.3 | 16.7 | 16.8 | 18.8 |
| Syngene Int. | SYNINT | 543 | 730 | Buy | 21753 | 10.1 | 9.9 | 11.4 | 15.5 | 53.6 | 55.0 | 47.7 | 35.1 | 11.5 | 11.7 | 12.2 | 15.7 | 13.5 | 12.9 | 12.3 | 14.4 |
| Granules India | GRANUL | 245 | 345 | Buy | 6064 | 22.2 | 16.6 | 19.6 | 24.6 | 11.0 | 14.7 | 12.5 | 9.9 | 24.0 | 15.6 | 16.8 | 18.6 | 25.3 | 16.0 | 16.0 | 16.9 |
| Laurus Labs | LAULAB | 561 | 690 | Buy | 30127 | 18.3 | 15.4 | 20.6 | 26.5 | 30.6 | 36.4 | 27.2 | 21.1 | 31.7 | 21.3 | 22.6 | 24.7 | 37.9 | 24.7 | 25.5 | 25.3 |
| Suven Pharmaceuticals | SUVPH | 520 | 555 | Hold | 13235 | 14.2 | 17.8 | 17.0 | 18.5 | 36.5 | 29.2 | 30.5 | 28.0 | 31.2 | 37.5 | 28.5 | 26.0 | 30.7 | 29.7 | 23.0 | 20.8 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 13: Profit and loss statement | | | | | ₹ crore |
|---------------------------------------|--------------|--------------|--------------|----------------|---------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E | |
| Total Operating Income | 3,237.5 | 3,764.9 | 4,362.3 | 4,953.3 | |
| Growth (%) | 24.6 | 16.3 | 15.9 | 13.5 | |
| Raw Material Expenses | 1,391.3 | 1,883.6 | 2,168.6 | 2,389.5 | |
| Gross Profit | 1,846.3 | 1,881.3 | 2,193.6 | 2,563.8 | |
| Gross Profit Margins (%) | 57.0 | 50.0 | 50.3 | 51.8 | |
| Employee Expenses | 346.3 | 401.4 | 468.9 | 532.5 | |
| Other Expenditure | 646.4 | 757.7 | 861.5 | 978.3 | |
| Total Operating Expenditure | 2,384.0 | 3,042.7 | 3,499.1 | 3,900.3 | |
| EBITDA | 853.6 | 722.2 | 863.2 | 1,053.1 | |
| Growth (%) | 62.5 | -15.4 | 19.5 | 22.0 | |
| Interest | 26.3 | 23.2 | 30.5 | 27.8 | |
| Depreciation | 151.5 | 158.6 | 196.9 | 224.9 | |
| Other Income | 28.5 | 17.6 | 21.8 | 24.8 | |
| PBT before Exceptional Items | 704.4 | 558.0 | 657.6 | 825.1 | |
| Less: Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 | |
| PBT after Exceptional Items | 704.4 | 558.0 | 657.6 | 825.1 | |
| Total Tax | 154.9 | 145.2 | 171.0 | 214.5 | |
| PAT before MI | 549.5 | 412.8 | 486.6 | 610.6 | |
| PAT | 549.5 | 412.8 | 486.6 | 610.6 | |
| Growth (%) | 77.3 | -24.9 | 17.9 | 25.5 | |
| EPS (Adjusted) | 22.2 | 16.6 | 19.6 | 24.6 | |

Source: Company, ICICI Direct Research

| Exhibit 14: Cash flow statement | | | | | ₹ crore |
|-------------------------------------|---------------|---------------|---------------|---------------|---------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E | |
| Profit/(Loss) after taxation | 513.0 | 412.9 | 486.6 | 610.6 | |
| Add: Depreciation & Amortization | 151.5 | 158.6 | 196.9 | 224.9 | |
| Net Increase in Current Assets | -427.8 | -331.2 | -298.6 | -263.9 | |
| Net Increase in Current Liabilities | 152.8 | 74.0 | 99.4 | 77.7 | |
| Others | 43.0 | 17.7 | 30.5 | 27.8 | |
| CF from Operating activities | 432.5 | 332.1 | 514.7 | 677.1 | |
| (Purchase)/Sale of Fixed Assets | -161.2 | -396.7 | -300.0 | -300.0 | |
| Investments | -131.4 | 4.5 | 0.0 | 0.0 | |
| Others | 146.5 | 8.6 | -1.0 | -1.0 | |
| CF from Investing activities | -146.0 | -383.6 | -301.0 | -301.0 | |
| (inc)/Dec in Loan | -75.3 | 247.6 | -90.0 | -90.0 | |
| Dividend & Dividend tax | -24.7 | -37.2 | -37.2 | -37.2 | |
| Other | -199.3 | -20.5 | -30.5 | -27.8 | |
| CF from Financing activities | -299.3 | 190.0 | -157.7 | -155.0 | |
| Net Cash Flow | -12.9 | 138.4 | 56.1 | 221.1 | |
| Cash and Cash Equivalent | 283.9 | 271.1 | 409.5 | 465.5 | |
| Cash | 271.1 | 409.5 | 465.5 | 686.7 | |
| Free Cash Flow | 271.3 | -64.7 | 214.7 | 377.1 | |

Source: Company, ICICI Direct Research

| Exhibit 15: Balance Sheet | | | | | ₹ crore |
|-------------------------------|----------------|----------------|----------------|----------------|---------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E | |
| Equity Capital | 24.8 | 24.8 | 24.8 | 24.8 | |
| Reserve and Surplus | 2,148.5 | 2,561.7 | 3,011.1 | 3,584.5 | |
| Total Shareholders funds | 2,173.3 | 2,586.5 | 3,035.9 | 3,609.3 | |
| Minority Interest | 0.0 | 0.6 | 0.6 | 0.6 | |
| Total Debt | 849.2 | 1,106.3 | 1,016.3 | 926.3 | |
| Net Deferred Tax Liability | 0.3 | 12.5 | 12.8 | 13.0 | |
| Long-Term Provisions | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other Non Current Liabilities | 24.8 | 28.3 | 28.9 | 29.5 | |
| Source of Funds | 3,047.6 | 3,734.3 | 4,094.5 | 4,578.7 | |
| Gross Block - Fixed Assets | 2,145.1 | 2,513.0 | 2,813.0 | 3,213.0 | |
| Accumulated Depreciation | 813.2 | 971.8 | 1,168.7 | 1,393.6 | |
| Net Block | 1,332.0 | 1,541.2 | 1,644.3 | 1,819.4 | |
| Capital WIP | 239.1 | 356.2 | 356.2 | 256.2 | |
| Fixed Assets | 1,571.1 | 1,897.4 | 2,000.5 | 2,075.6 | |
| Investments | 19.0 | 19.7 | 19.7 | 19.7 | |
| Other non-Current Assets | 125.6 | 89.5 | 91.3 | 93.1 | |
| Inventory | 782.2 | 978.6 | 1,126.6 | 1,241.4 | |
| Debtors | 765.4 | 925.0 | 1,071.7 | 1,216.9 | |
| Other Current Assets | 178.4 | 192.0 | 195.9 | 199.8 | |
| Cash | 271.1 | 409.5 | 465.5 | 686.7 | |
| Total Current Assets | 1,997.0 | 2,505.0 | 2,859.7 | 3,344.7 | |
| Creditors | 541.1 | 638.6 | 735.2 | 810.1 | |
| Provisions | 6.8 | 22.8 | 23.3 | 23.8 | |
| Other Current Liabilities | 117.2 | 115.8 | 118.1 | 120.5 | |
| Total Current Liabilities | 665.0 | 777.3 | 876.7 | 954.4 | |
| Net Current Assets | 1,332.0 | 1,727.7 | 1,983.0 | 2,390.4 | |
| Application of Funds | 3,047.6 | 3,734.3 | 4,094.5 | 4,578.7 | |

Source: Company, ICICI Direct Research

| Exhibit 16: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Per share data (₹) | | | | |
| Reported EPS | 22.2 | 16.6 | 19.6 | 24.6 |
| Cash EPS | 26.8 | 21.5 | 26.1 | 32.2 |
| BV per share | 87.6 | 104.3 | 122.4 | 145.5 |
| Cash per Share | 10.9 | 16.5 | 18.8 | 27.7 |
| Dividend per share | 1.5 | 1.5 | 1.5 | 1.5 |
| Operating Ratios (%) | | | | |
| Gross Profit Margins | 57.0 | 50.0 | 50.3 | 51.8 |
| EBITDA margins | 26.4 | 19.2 | 19.8 | 21.3 |
| PAT Margins | 17.0 | 11.0 | 11.2 | 12.3 |
| Cash Conversion Cycle | 149.6 | 155.5 | 155.5 | 155.5 |
| Asset Turnover | 1.5 | 1.5 | 1.6 | 1.5 |
| EBITDA conversion Rate | 50.7 | 46.0 | 59.6 | 64.3 |
| Return Ratios (%) | | | | |
| RoE | 25.3 | 16.0 | 16.0 | 16.9 |
| RoCE | 24.0 | 15.6 | 16.8 | 18.6 |
| RoIC | 27.7 | 19.0 | 20.4 | 22.8 |
| Valuation Ratios (x) | | | | |
| P/E | 11.5 | 15.3 | 13.0 | 10.4 |
| EV / EBITDA | 8.1 | 9.7 | 8.0 | 6.2 |
| EV / Net Sales | 2.1 | 1.9 | 1.6 | 1.3 |
| Market Cap / Sales | 2.0 | 1.7 | 1.4 | 1.3 |
| Price to Book Value | 2.9 | 2.4 | 2.1 | 1.8 |
| Solvency Ratios | | | | |
| Debt / EBITDA | 1.0 | 1.5 | 1.2 | 0.9 |
| Debt / Equity | 0.4 | 0.4 | 0.3 | 0.3 |
| Current Ratio | 2.6 | 2.7 | 2.7 | 2.8 |

Source: Company, ICICI Direct Research

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