

# Granules India Ltd.



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**EBITDA margins inched up QoQ, amidst rising input costs**

CMP INR 245	Target INR 270	Potential Upside 10.0%	Market Cap (INR Mn) INR 60,860	Recommendation <b>ACCUMULATE</b>	Sector Pharmaceuticals
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## Result Highlights of Q4FY22

- Granules India reported 28.9% YoY (+ 3.3% QoQ) growth in revenue to INR 10.30 bn in Q4FY22.
- Gross margin declined 834 bps YoY (+229 bps QoQ) to 48.93% in Q4FY22. The gross margins were affected by increased costs of KSMs like Para Amino Phenol (PAP), other inputs' costs such as solvent's costs increase, and rise in the unrecovered freight costs YoY in Q4FY22.
- EBITDA margin contracted 656 bps YoY (+128 bps QoQ) to 18.7% in Q4FY22 and Net Profit declined 13.0% YoY (+10.0% QoQ) to INR 1.11 bn in Q4FY22
- The company is on a medium – long term transformation path to get more backward integrated as a fully integrated API, PFI and FD company, besides dwelling into CMO for specialty segment like Oncology

## MARKET DATA

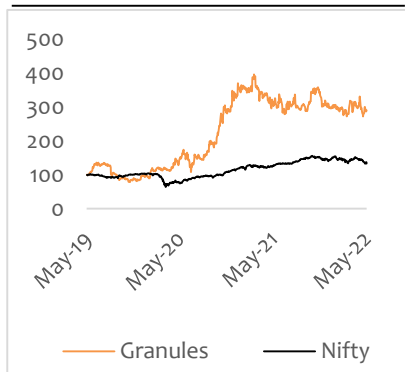
Shares outs (Mn)	248.0
Equity Cap (INR Mn)	30,115
Mkt Cap (INR Mn)	60,860
52 Wk H/L (INR)	405/232
Volume Avg (3m K)	1,019
Face Value (INR)	1
Bloomberg Code	GRAN IS Equity

## KEY FINANCIALS

INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	25,986	32,375	37,649	42,387	49,327
EBITDA	5,253	8,552	7,222	7,867	9,895
PAT	3,354	5,495	4,128	4,585	6,374
EPS (INR)	13.2	21.6	16.2	18.0	25.1
EBITDA Margin (%)	20.2%	26.4%	19.2%	18.6%	20.1%
NPM (%)	12.9%	17.0%	11.0%	10.8%	12.9%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



**Strong growth in PFI and others drive revenue growth YoY:** Granules India reported 28.9% YoY (+ 3.3% QoQ) growth in revenue to INR 10.30 bn in Q4FY22. The strong growth in revenue was driven by stronger growth in PFI sales (25% of revenue in Q4FY22 vs. 18% in Q4FY21), which was up 77.8% YoY (+13.6% QoQ) in Q4FY22. The revenue growth was also augmented by 13.9% YoY (+14.7% QoQ) rise in FD sales (51% of revenue) and a 27.9% YoY (-20.8% QoQ) rise in API revenue (24% of sales) in Q4FY22. The company attributes strong growth in revenue to higher selling price realization from Paracetamol and new launches in the US. The growth in revenue was across all geographies. The slower revenue growth QoQ can be attributed to supply constraints related to Para Amino Phenol (PAP) in Q4FY22, affecting API sales QoQ.

**Increased raw materials costs affected profitability YoY:** Gross margin declined 834 bps YoY (+229 bps QoQ) to 48.93% in Q4FY22. The gross margins were affected YoY due to increased costs of KSMs like Para Amino Phenol (PAP), other inputs' costs such as solvent's costs increase, and rise in the unrecovered freight costs YoY. The EBITDA declined 4.6% YoY (+10.9% QoQ) to INR 1.93 bn in Q4FY22 due to reduction in gross margins, pricing pressure in the US and increase in other expenses YoY and QoQ. At the same time, EBITDA margin contracted 656 bps YoY (+128 bps QoQ) to 18.7% in Q4FY22. Net Profit declined 13.0% YoY (+10.0% QoQ) to INR 1.11 bn due to fall in operating margins YoY (increased QoQ though); partially offset by rise in other income by 20.8% YoY (-18.6% QoQ) and a 6.7% YoY (+38.5% QoQ) decline in interest expenses in Q4FY22.

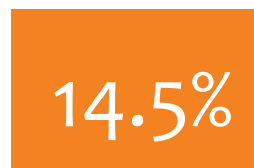
**The company's business transformation and focus on US, Europe and other geographies and CMO businesses to drive growth in medium – long term:** The company is amid business transformation. The company is to incur INR 6.00 bn of capex over the next 2 years to get backward integrated for some of its KSMs, sustainable operational systems and Formulations business. The company is also dwelling in Contract Manufacturing (CMO) in oncology space for some of its customers. Besides the US, the company intends to grow its revenue from Europe and other geographies, by gaining share of the existing customers and adding new customers and new geographies.

## MARKET INFO

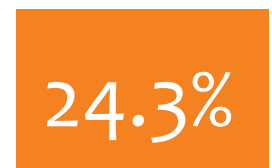
SENSEX	52,792
NIFTY	15,809

## SHARE HOLDING PATTERN (%)

Particulars	Mar-22 (%)	Dec-21 (%)	Sep-21 (%)
Promoters	42.0	42.0	42.0
FIIs	23.2	21.4	21.2
DIIs	4.0	4.3	2.8
Others	30.8	32.3	34.0
Total	100	100	100



Revenue CAGR between FY22 and FY24E



PAT CAGR between FY22 and FY24E

# Granules India Ltd.

**Key Concall Highlights:** (i) The logistics costs have been higher, and the company continues to face the pricing pressure in the US markets. The company can pass on increased logistics costs to B2B customers but is unable to do so for B2C customers, due to fixed nature of the contract (ii) One of the large Chinese suppliers of the company is in the process of starting and stabilizing its KSM's production in the next couple of weeks, which may streamline supply constraints being felt over the last couple of quarters. (iii) The company is underway with major business transformation by focusing on R&D to build strong pipeline of products in API, FDs and PFIs, drive growth from other geographies such as Europe and LatAm besides the US. (iv) The company is working as a Contract Manufacturing Organization (CMO) for several customers (v) The share of revenue from other molecules and geographies such as Europe has gone up, which is in line with its strategy (vi) R&D spend was at INR 3.40 bn in Q4FY22 and the management will be closely monitoring the R&D spend in FY23 (vii) The net debt was at INR 6.97 bn in FY22. It increased due to increased working capital needs. (viii) The operating cash flows declined to INR 750 mn in Q4FY22 (from INR 1.45 bn in Q4FY21) (ix) Capex will be INR 6.00 bn over the next 2 years, related to MUPS is INR 2.20 bn and remaining is related to Vizag block.

**Valuation and view:** Granules India has introduced Granules 2.0 to transform itself into more backward integrated formulation, PFI and API company besides specialty CMO business over the next 2-4 years, which can be margin accretive over long term. In the short term, however, it may continue to face increased input costs. We expect the company to clock in revenue and earnings growth of 14.5% and 24.3% over FY22A-FY24E (vs. 13.5% and 9.1% CAGR over FY21-FY24E). **Since our last earnings update on the company in Feb 22, the shares have declined by ~28%. The stock is trading at an attractive valuation of 13.6x/9.8x its FY23E/FY24E earnings. We apply a reduced 10.5x (vs. earlier: 12.3x) multiple on FY24E EPS of INR 25.1 (vs. earlier INR 28.1) and using the DCF method, arrive at an amalgamated revised target price of INR 270 (vs. INR 345 earlier). Accordingly, we maintain our "ACCUMULATE" rating on the company's shares, as TP indicates a 10.0% upside from CMP.**

Geography Wise Results (INR Mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue from operations</b>	8,445	7,993	8,498	8,883	9,968	10,300
North America	4,359	4,556	4,513	5,081	4,555	4,707
Europe	1,572	1,159	1,428	1,812	2,442	2,523
India	1,420	1,079	1,173	977	1,425	1,473
Latin America	696	711	926	631	1,017	1,051
Rest of World	398	488	459	382	528	546

Geographic Mix (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue from operations</b>	100%	100%	100%	100%	100%	100%
North America	52%	57%	53%	57%	46%	46%
Europe	19%	15%	17%	20%	25%	25%
India	17%	14%	14%	11%	14%	14%
Latin America	8%	9%	11%	7%	10%	10%
Rest of World	5%	6%	5%	4%	5%	5%

Geography Wise Performance (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue from operations</b>	20.0%	33.2%	15.5%	3.5%	18.0%	28.9%
North America	17.0%	32.1%	18.3%	7.7%	4.5%	3.3%
Europe	5.4%	34.1%	1.6%	18.0%	55.3%	117.7%
India	37.3%	7.5%	39.3%	-17.4%	0.4%	36.5%
Latin America	36.7%	40.9%	7.5%	-4.1%	46.1%	47.7%
Rest of World	42.7%	178.6%	6.0%	-21.2%	32.7%	12.0%

Segment Result (INR Mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Revenue from operations</b>	8,445	7,993	8,500	8,880	9,970	10,300
Active Pharmaceutical Ingredients (API)	2,518	1,938	2,240	1,900	3,130	2,478
Pharmaceutical formulation ingredients (PFI)	1,706	1,444	1,720	1,910	2,260	2,568
Finished Dosage (FD)	4,221	4,611	4,540	5,070	4,580	5,254

Segment Mix (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Total Revenue</b>	100%	100%	100%	100%	100%	100%
Active Pharmaceutical Ingredients (API)	30%	24%	26%	21%	31%	24%
Pharmaceutical formulation ingredients (PFI)	20%	18%	20%	21.5%	22.7%	24.9%
Finished Dosage (FD)	50%	58%	53%	57%	46%	51%

Segment Performance (% YoY)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
<b>Total Revenue</b>	20.0%	33.2%	15.6%	3.5%	18.1%	28.9%
Active Pharmaceutical Ingredients (API)	20.4%	9.1%	-41.9%	-25.4%	24.3%	27.9%
Pharmaceutical formulation ingredients (PFI)	47.7%	84.9%	24.7%	10.2%	32.5%	77.8%
Finished Dosage (FD)	11.3%	34.0%	114.0%	17.9%	8.5%	13.9%

Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	25,986	32,375	37,649	42,387	49,327
COGS	14,179	15,427	20,423	22,761	25,377
<b>Gross profit</b>	11,808	16,948	17,226	19,626	23,950
Employee cost	3,007	4,082	4,014	4,663	5,179
Other expenses	4,917	5,829	7,577	8,689	10,112
<b>EBITDA</b>	5,253	8,552	7,222	7,867	9,895
<b>EBITDA Margin</b>	20.2%	26.4%	19.2%	18.6%	20.1%
Depreciation & amortization	1,370	1,515	1,586	1,593	1,236
<b>EBIT</b>	3,884	7,038	5,636	6,274	8,659
Interest expense	270	263	232	277	277
Other income	366	269	176	198	231
Share of Associates & JV	255	0	0	0	0
<b>PBT</b>	4,511	7,044	5,580	6,196	8,613
Tax	1,157	1,549	1,452	1,611	2,239
Exceptional items	-277	0	0	0	0
<b>PAT</b>	3,354	5,495	4,128	4,585	6,374
<b>Adj. PAT</b>	3,077	5,495	4,128	4,585	6,374
<b>Adj. EPS (INR)</b>	13.2	21.6	16.2	18.0	25.1

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	4,762	4,325	3,321	4,645	5,431
Net Cash Flow from/(used in) Investing Activities	-1,606	-2,771	-3,801	-1,590	-4,345
Net Cash Flow from Financing Activities	-2,129	-2,993	1,900	-617	-750
Net Inc/Dec in cash equivalents	1,027	-1,440	1,419	2,438	336
Opening Balance	830	1,859	418	1,847	4,285
Adjustment	2	-1	9	0	0
Closing Balance Cash and Cash Equivalents	1,859	418	1,847	4,285	4,620

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	20.2%	26.4%	19.2%	18.6%	20.1%
Tax rate (%)	25.7%	22.0%	26.0%	26.0%	26.0%
Net Profit Margin (%)	12.9%	17.0%	11.0%	10.8%	12.9%
RoE (%)	18.2%	25.3%	16.0%	15.2%	17.7%
RoCE (%)	14.7%	24.1%	15.3%	15.2%	18.4%
EPS (INR)	13.2	21.6	16.2	18.0	25.1

Source: Company, KRChoksey Research

# Granules India Ltd.

## Exhibit 4: Balance Sheet

INR Mn	FY20	FY21	FY22	FY23E	FY24E
<b>Non-current assets</b>					
Property, plant and equipment	9,888	10,712	12,837	12,940	16,143
Capital work-in-progress	1,481	2,391	3,119	3,119	3,119
Intangible assets	3,613	2,608	3,018	3,018	3,018
Financial assets					
Investments	193	190	197	197	197
Loans	166	131	30	30	30
Deferred Tax Assets	53	8	14	15	18
Income Tax Assets (Net)	5	57	117	132	153
Other non-current assets	597	1,068	748	842	980
<b>Total non-current assets</b>	<b>15,997</b>	<b>17,164</b>	<b>20,079</b>	<b>20,293</b>	<b>23,658</b>
<b>Current assets</b>					
Inventories	4,384	7,822	9,786	10,906	12,159
Financial assets					
Trade receivables	7,352	7,654	9,250	10,414	12,119
Cash and cash equivalents	1,859	418	1,847	4,285	4,620
Other Balances with Banks	980	2,292	2,247	2,247	2,247
Loans	79	100	75	75	75
Other financial assets	36	6	27	30	35
Other current assets	2,328	1,678	1,818	2,047	2,382
<b>Total current assets</b>	<b>17,018</b>	<b>19,970</b>	<b>25,050</b>	<b>30,004</b>	<b>33,638</b>
<b>TOTAL ASSETS</b>	<b>33,015</b>	<b>37,135</b>	<b>45,129</b>	<b>50,297</b>	<b>57,296</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	254	248	248	248	248
Other equity	18,183	21,485	25,623	29,867	35,768
<b>Total equity</b>	<b>18,437</b>	<b>21,733</b>	<b>25,871</b>	<b>30,115</b>	<b>36,016</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	4,215	3,411	2,420	2,420	2,420
Deferred tax liabilities, (net)	482	11	139	157	182
Provisions	215	248	283	283	283
<b>Total non-current liabilities</b>	<b>4,912</b>	<b>3,671</b>	<b>2,842</b>	<b>2,860</b>	<b>2,885</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	3,717	4,093	8,643	8,643	8,643
Trade payables	4,300	5,410	6,386	7,117	7,935
Other financial liabilities	1,360	1,806	856	963	1,121
Other current liabilities	171	202	165	186	217
Provisions	60	68	228	257	299
Income tax liabilities, (net)	57	152	137	155	180
<b>Total current liabilities</b>	<b>9,665</b>	<b>11,731</b>	<b>16,416</b>	<b>17,322</b>	<b>18,395</b>
<b>Total liabilities</b>	<b>14,578</b>	<b>15,402</b>	<b>19,258</b>	<b>20,181</b>	<b>21,280</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>33,015</b>	<b>37,135</b>	<b>45,129</b>	<b>50,297</b>	<b>57,296</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
20-May-22	246	270	ACCUMULATE	<b>Buy</b>	More than 15%
09-Feb-22	312	345	ACCUMULATE		
16-Nov-21	303	322	ACCUMULATE	<b>Accumulate</b>	5% – 15%
29-Jul-21	371	459	BUY	<b>Hold</b>	0 – 5%
11-May-21	359	459	BUY	<b>Reduce</b>	-5% – 0
				<b>Sell</b>	Less than – 5%

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