

Granules India

 Estimate change 

 TP change 

 Rating change 
CMP: INR245
TP: INR300 (+23%)
Upgrade to Buy

Profitability revives sequentially; upgrade to BUY

Multiple factors at play to improve business prospects going forward

- Granules India (GRAN) delivered better-than-expected 4QFY22 performance at operational level. Better realization from paracetamol supported by new launches resulted in improved profitability on a QoQ basis.
- We cut our EPS estimates by 3%/5% for FY23E/FY24E to factor in: a) increased price erosion in the base portfolio, b) opex towards MUPS/oncology block and c) higher freight cost. We value GRAN at 12x 12M forward earnings to arrive at our TP of INR300.
- We upgrade the stock to BUY** as we expect multiple levers such as: a) reducing impact of paracetamol's raw material (RM) prices, b) healthy launches in developed markets such as the US/EU, c) steady market share gain in core molecules across global markets and d) improving business prospects from MUPS/ Oncology blocks, to play out over the next 2-3 years. Further, the stock is attractively valued at 12x FY23E EPS of INR20.5 and 10x FY24E EPS of INR24.5.

RM cost and higher opex impair margins on a YoY basis

- GRAN's sales grew 29% YoY to INR10.3b (est. INR10.5b), driven by Intermediates (PFIs; up 78.3% YoY to INR2.6b) and APIs (up 27.7% YoY to INR2.5b). Formulation (FDF) sales grew 14% YoY INR5.3b for the quarter.
- Gross margin contracted ~830bp YoY to 48.9% due to higher RM prices, particularly related to paracetamol.
- EBITDA margin contracted at a slightly lower rate of 660bp YoY to 18.7% (est. 17.2%). Higher RM cost was partially offset by lower employee expenses (-200bp YoY as a percentage of sales).
- EBITDA decreased 4.6% YoY to INR1.9b (est. INR1.8b) in 4QFY22.
- PAT declined 13% YoY to INR1.1b (in line), due to a higher tax rate.
- In FY22, sales grew 15.8% YoY to INR37.4b, while EBITDA/PAT declined 19%/27.5% YoY to INR7b/INR4b, respectively.

Highlights from the management commentary

- The major Chinese supplier is expected to restart supply of key RM for paracetamol from Jun'22 onwards.
- GRAN has a target to launch 10-12 ANDAs in the US market and about five products in the EU market in FY23E.
- GRAN is also developing a process to manufacture Para-amino Phenol (PAP) in-house to reduce the external dependency.
- Management indicated about two launches from Oncology block in FY23E.
- GRAN is expected to maintain net debt of INR7b in FY23.
- Management guided for a capex of INR6b over the next two years.

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	60.7 / 0.8
52-Week Range (INR)	405 / 232
1, 6, 12 Rel. Per (%)	-10/-8/-31
12M Avg Val (INR M)	828

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	37.5	43.2	48.7
EBITDA	7.0	8.5	9.8
Adj. PAT	4.0	5.1	6.1
EBIT Margin (%)	14.6	15.5	16.1
Cons. Adj. EPS (INR)	16.1	20.5	24.5
EPS Gr. (%)	-27.6	27.2	19.4
BV/Sh. (INR)	104.3	123.6	147.0

Ratios

Net D:E	0.4	0.3	0.3
RoE (%)	16.8	18.0	18.1
RoCE (%)	12.6	13.8	14.6
Payout (%)	7.0	5.7	4.8

Valuations

P/E (x)	15.1	11.9	10.0
EV/EBITDA (x)	8.9	7.3	6.2
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	-1.2	2.0	2.2
EV/Sales (x)	1.7	1.4	1.3

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	42.0	42.0	42.0
DII	4.0	4.3	1.5
FII	23.2	21.4	23.1
Others	30.9	32.3	33.4

FII Includes depository receipts

Consolidated quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	7,356	8,581	8,445	7,993	8,498	8,883	9,795	10,300	32,375	37,477	10,501	-1.9%
YoY Change (%)	23.6	22.7	20.0	33.2	15.5	3.5	16.0	28.9	24.6	15.8	31.4	
EBITDA	1,987	2,489	2,213	2,020	2,014	1,512	1,565	1,927	8,710	7,050	1,804	6.8%
YoY Change (%)	67.5	73.3	35.6	65.7	1.4	-39.3	-29.3	-4.6	59.1	-19.1	-10.7	
Margin (%)	27.0	29.0	26.2	25.3	23.7	17.0	16.0	18.7	26.9	18.8	17.2	
Depreciation	341	361	368	445	394	398	392	402	1,515	1,586	441	
EBIT	1,647	2,128	1,845	1,575	1,620	1,113	1,173	1,525	7,195	5,464	1,363	11.9%
YoY Change (%)	83.1	87.8	48.6	89.9	-1.6	-47.7	-36.4	-3.2	75.3	-24.1	-13.5	
Margin (%)	22.4	24.8	21.8	19.7	19.1	12.5	12.0	14.8	22.2	14.6	13.0	
Interest	60	63	72	68	68	55	46	64	263	232	96	
Other Income	56	32	31	33	76	44	49	40	152	176	58	
PBT before EO expense	1,643	2,098	1,803	1,540	1,629	1,102	1,175	1,501	7,085	5,407	1,325	13.3%
Extra-Ord. expense	151	-75	-36	0	0	0	-173	0	40	-173	0	
PBT	1,492	2,173	1,839	1,540	1,629	1,102	1,348	1,501	7,045	5,580	1,325	
Tax	377	537	371	264	427	296	339	391	1,549	1,452	182	
Rate (%)	25.3	24.7	20.2	17.2	26.2	26.8	25.2	26.1	22.0	26.0	13.7	
Reported PAT	1,115	1,637	1,468	1,276	1,202	807	1,009	1,110	5,496	4,128	1,143	-2.9%
Adjusted PAT	1,228	1,580	1,439	1,276	1,202	807	880	1,110	5,524	4,000	1,143	-2.9%
YoY Change (%)	47.5	64.9	65.2	96.1	-2.1	-48.9	-38.9	-13.0	66.8	-27.6	-10.4	
Margin (%)	16.7	18.4	17.0	16.0	14.1	9.1	9.0	10.8	17.1	10.7	10.9	

Key performance indicators (Consolidated)

Y/E March	FY21				FY22				FY21E	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
FD	3,856	4,300	4,221	4,610	4,545	5,066	4,577	5,254	16,990	19,442	5,129
YoY Change (%)	35.0	22.9	11.3	34.0	17.9	17.8	8.4	14.0	24.9	14.4	11.3
PFI	1,379	1,730	1,706	1,440	1,716	1,912	2,259	2,568	6,265	8,456	2,258
YoY Change (%)	44.8	30.2	47.7	84.4	24.4	10.5	32.4	78.3	48.7	35.0	56.8
API	2,121	2,550	2,518	1,940	2,237	1,905	3,132	2,478	9,085	9,751	2,901
YoY Change (%)	-1.0	17.6	20.4	9.2	5.5	-25.3	24.4	27.7	11.2	7.3	49.5
Cost Break-up											
RM Cost (% of Sales)	39.7	42.1	45.1	42.7	45.8	49.1	54.3	51.1	57.5	49.7	46.3
Staff Cost (% of Sales)	11.4	9.3	9.8	12.5	11.2	10.4	10.8	10.5	12.6	10.7	10.5
Other Cost (% of Sales)	21.9	19.6	18.8	19.5	19.3	23.4	19.0	19.7	18.0	20.2	18.6
Gross Margin (%)	60.3	57.9	54.9	57.3	54.2	50.9	45.7	48.9	42.5	50.3	53.7
EBITDA Margin (%)	27.0	29.0	26.2	25.3	23.7	17.0	16.0	18.7	26.9	18.8	17.2
EBIT Margin (%)	22.4	24.8	21.8	19.7	19.1	12.5	12.0	14.8	22.2	14.6	13.0

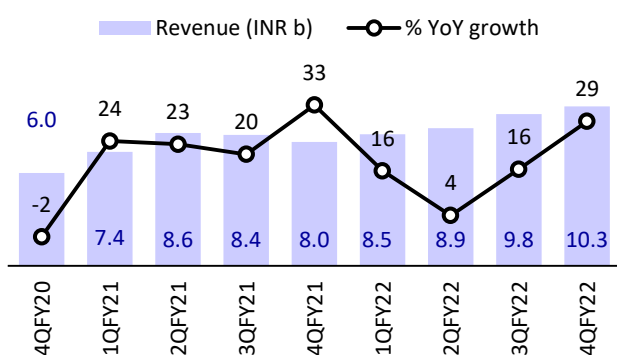


Conference call highlights

- To date, GRAN has commercialized 24 products in the US market in prescription category and ~10 products in OTC category.
- Price erosion has been in double digits in the US base portfolio for FY22.
- The Oncology block is primarily for the CDMO business. Two launches are expected from this block over the near to medium term.
- Management intends to spend ~INR1.6b towards R&D in FY23E.
- GRAN has two approvals from MUPS block and has filed six products so far. GRAN has launched two products and scale-up is on track for the same.

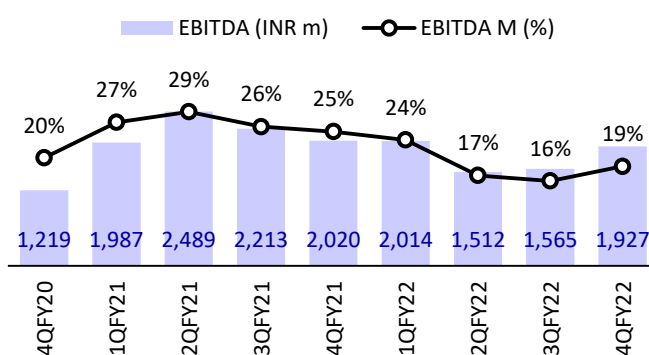
Key exhibits

Exhibit 1: Revenue growth zooms to 29% YoY (4QFY22)



Source: MOFSL, Company

Exhibit 2: EBITDA margin improves sequentially



Source: MOFSL, Company

Margin pressures easing; sales outlook also improving

Stable core molecules outlook and new launches to drive growth

- GRAN delivered 16% YoY growth in FY22. The increased realization for Paracetamol and new launches aided growth for GRAN in FY22. The other base molecules, namely Methocarbamol/Guaifenesin grew 16% YoY and contributed 6% of sales for FY22. The overall growth was offset to some extent by muted sales (down 16% YoY) of Ibuprofen. The reduced demand with lower number of COVID cases /addition of suppliers hurt the Ibuprofen business.
- The increased availability of Para-amino-Phenol (PAP), which is key raw material for Paracetamol, is expected to significantly improve the sales prospects for GRAN. Along with this, GRAN has healthy ANDA pipeline to be launched in US market over next 12-15M. Accordingly, we expect xx% sales CAGR over FY22-24 to INR49b.

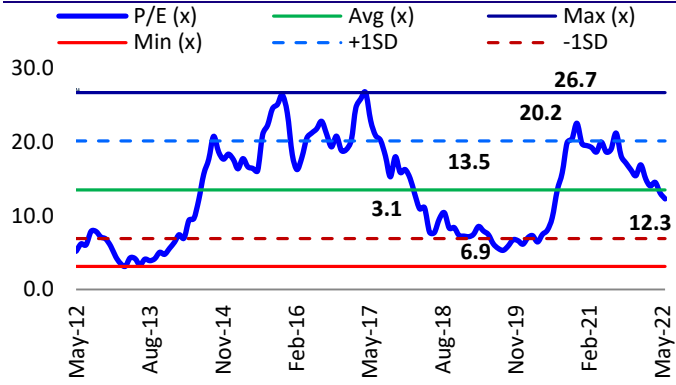
Cost pressures to abate over near term

- The gross margin had exhibited a sharp decline YoY owing to the continued disruption in supply of Para Amino Phenol (PAP), other input cost increase and the logistics challenges.
- The supply of PAP is expected to normalize by June as a key supplier from China is expected to regularize the supply. Considering the improving situation of PAP supply and moderation in other input costs we expect the EBITDA margin improve by 130bp over FY22-24.

Attractive valuation along with better prospects; Upgrade to Buy

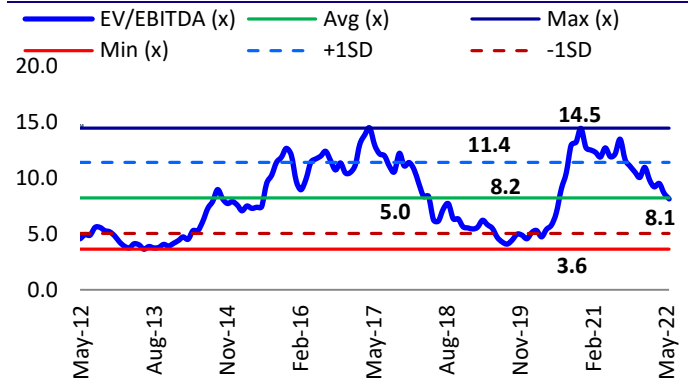
- We expect 23% earnings CAGR over FY22-24, driven by 17%/13%/12% sales CAGR in PFI/API/FDF segments.
- We cut our EPS estimates slightly for FY23/FY24 by 3%/5% factoring in: a) higher opex on account of the MUPS/Onco block, b) increased freight cost, and c) increased price erosion in base portfolio. We value GRAN at 12x 12M forward earnings to arrive at our TP of INR300, implying 23% potential upside.
- We expect multiple levers (reducing impact of paracetamol RM prices, healthy launches in developed markets like US/EU, steady market share gain in core molecules across global markets and improving business prospects from MUPS/Oncology blocks) to play out over next 2-3 years. Further, the stock is attractively valued at 12x FY23E EPS of INR20.5 and 10x FY24E EPS of INR24.5. Upgrade to BUY.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

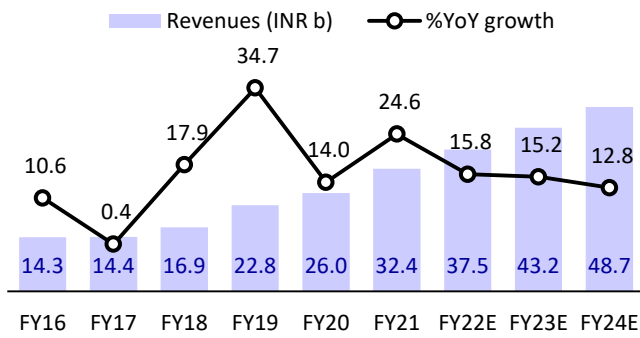
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

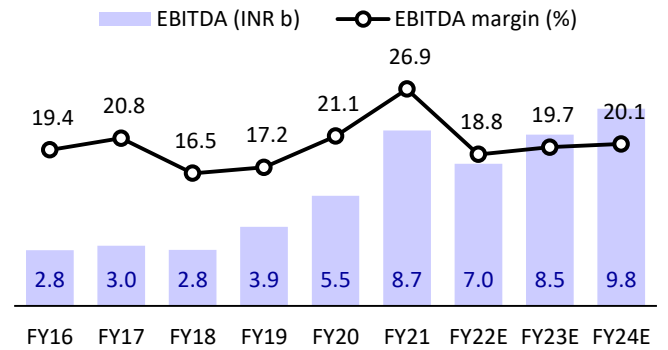
Story in charts

Exhibit 5: Expect revenue CAGR of 14% over FY22-24



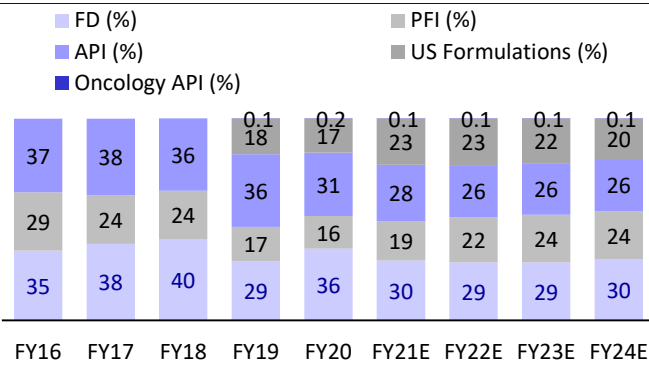
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand over FY22-24E



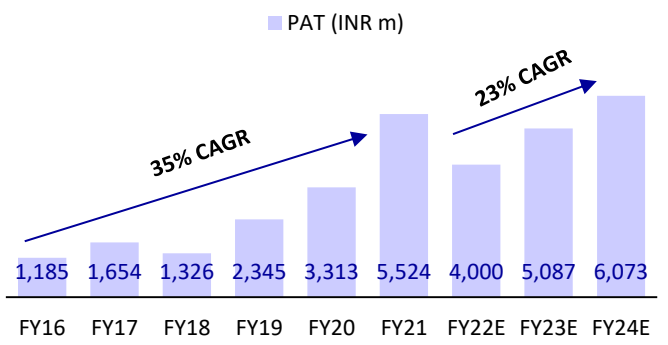
Source: MOFSL, Company

Exhibit 7: Formulations' contribution to remain the highest



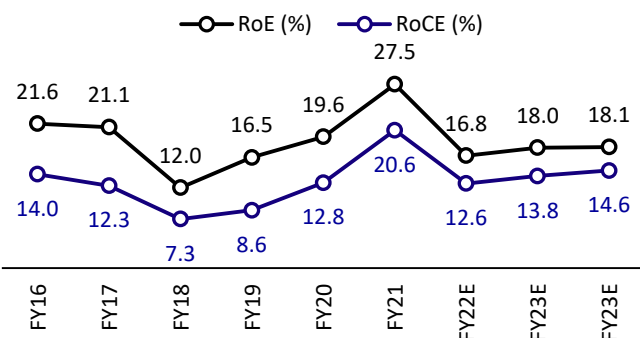
Source: MOFSL, Company

Exhibit 8: PAT to exhibit 23% CAGR over FY22-24



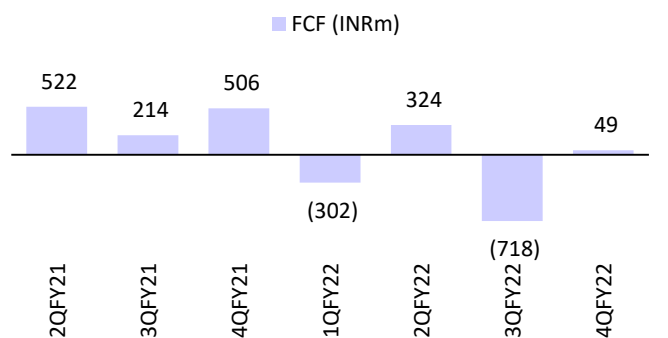
Source: MOFSL, Company

Exhibit 9: Return ratios to improve slightly over FY22-24



Source: MOFSL, Company

Exhibit 10: FCF turns positive in 4QFY22



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	14,353	16,918	22,792	25,986	32,375	37,477	43,172	48,702
Change (%)	0.4	17.9	34.7	14.0	24.6	15.8	15.2	12.8
Total Expenditure	11,364	14,134	18,872	20,513	23,665	30,427	34,667	38,913
% of Sales	79.2	83.5	82.8	78.9	73.1	81.2	80.3	79.9
EBITDA	2,988	2,784	3,920	5,473	8,710	7,050	8,505	9,789
Margin (%)	20.8	16.5	17.2	21.1	26.9	18.8	19.7	20.1
Depreciation	715	762	1,055	1,370	1,515	1,586	1,799	1,934
EBIT	2,273	2,022	2,866	4,104	7,195	5,464	6,706	7,855
Int. and Finance Charges	323	331	285	270	263	232	337	311
Other Income	99	108	267	366	152	176	281	292
PBT bef. EO Exp.	2,050	1,800	2,848	4,199	7,085	5,407	6,650	7,836
EO Items	0	0	-80	57	-40	173	0	0
PBT after EO Exp.	2,050	1,800	2,768	4,257	7,045	5,580	6,650	7,836
Current Tax	652	659	891	1,257	1,954	1,382	1,563	1,763
Deferred Tax	-9	-25	72	-100	-405	70	0	0
Tax Rate (%)	31.4	35.2	34.8	27.2	22.0	26.0	23.5	22.5
Add: Associate income	247	160	487	255	0	0	0	0
Reported PAT	1,654	1,326	2,292	3,354	5,496	4,128	5,087	6,073
Adjusted PAT	1,654	1,326	2,345	3,313	5,524	4,000	5,087	6,073
Change (%)	39.6	-19.8	76.8	41.3	66.8	-27.6	27.2	19.4
Margin (%)	11.4	7.8	10.2	12.6	17.0	10.6	11.7	12.4

Consolidated - Balance Sheet								INR m
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	229	254	254	254	248	248	248	248
Total Reserves	8,807	12,788	15,040	18,183	21,485	25,617	30,414	36,197
Net Worth	9,036	13,042	15,295	18,437	21,733	25,865	30,662	36,445
Minority Interest	0	0	0	0	0	6	6	6
Deferred Liabilities	565	543	655	482	11	139	139	139
Total Loans	5,981	9,582	9,330	7,932	7,504	10,928	10,130	9,333
Capital Employed	15,582	23,167	25,279	26,851	29,248	36,938	40,936	45,922
Gross Block	10,099	14,430	16,639	21,442	22,220	25,355	27,555	31,055
Less: Accum. Deprn.	3,656	4,418	5,473	6,842	8,357	9,943	11,742	13,676
Net Fixed Assets	6,443	10,012	11,167	14,600	13,863	15,412	15,813	17,379
Capital WIP	2,605	2,901	3,235	1,481	1,848	3,562	4,317	4,870
Total Investments	1,082	1,566	2,104	193	190	197	197	197
Curr. Assets, Loans&Adv.	8,633	11,891	13,279	15,957	21,226	25,945	28,135	31,583
Inventory	2,761	2,799	3,842	4,384	7,822	9,786	7,598	8,529
Account Receivables	4,177	6,171	6,735	6,620	7,654	9,250	13,247	15,211
Cash and Bank Balance	498	1,156	890	2,839	2,710	4,095	4,047	4,185
Loans and Advances	1,198	1,765	1,811	2,113	3,040	2,815	3,243	3,658
Curr. Liability & Prov.	3,183	3,272	4,548	5,432	7,887	8,191	7,538	8,119
Account Payables	2,160	2,522	3,235	3,569	5,410	6,386	5,699	6,077
Other Current Liabilities	934	646	1,144	1,589	2,160	1,294	1,490	1,681
Provisions	89	104	169	275	317	511	349	361
Net Current Assets	5,451	8,620	8,731	10,525	13,340	17,753	20,597	23,463
Appl. of Funds	15,582	23,167	25,279	26,852	29,248	36,938	40,936	45,922

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	6.7	5.4	9.5	13.4	22.3	16.1	20.5	24.5
Cash EPS	10.4	8.2	13.4	18.4	28.4	22.5	27.8	32.3
BV/Share	39.5	51.4	60.2	72.5	87.7	104.3	123.6	147.0
DPS	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	13.5	21.9	13.4	8.9	5.3	7.0	5.7	4.8
Valuation (x)								
P/E	36.5	45.6	25.8	18.2	10.9	15.1	11.9	10.0
Cash P/E	23.6	29.7	18.2	13.2	8.6	10.8	8.8	7.6
P/BV	6.2	4.7	4.1	3.4	2.8	2.3	2.0	1.7
EV/Sales	4.3	3.8	2.8	2.3	1.9	1.7	1.4	1.3
EV/EBITDA	20.5	23.1	16.4	11.1	7.0	8.9	7.3	6.2
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Return Ratios (%)								
RoE	21.1	12.0	16.5	19.6	27.5	16.8	18.0	18.1
RoCE	12.3	7.3	8.6	12.8	20.6	12.6	13.8	14.6
RoIC	14.7	9.1	10.2	14.4	24.0	15.1	16.7	17.6
Working Capital Ratios								
Asset Turnover (x)	0.9	0.7	0.9	1.0	1.1	1.0	1.1	1.1
Inventory (Days)	74	60	53	58	69	86	73	60
Debtor (Days)	71	111	103	94	80	82	95	107
Creditor (Days)	63	60	56	61	69	71	64	55
Leverage Ratio (x)								
Current Ratio	2.7	3.6	2.9	2.9	2.7	3.2	3.7	3.9
Interest Cover Ratio	7	6	10	15	27	24	20	25
Debt/Equity	0.7	0.7	0.6	0.4	0.3	0.4	0.3	0.3

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	INR m
OP/(Loss) before Tax	2,050	1,800	2,848	4,256	7,044	5,580	6,650	7,836	
Depreciation	715	762	1,055	1,370	1,515	1,586	1,799	1,934	
Interest & Finance Charges	278	222	18	207	139	232	56	19	
Direct Taxes Paid	-595	-634	-891	-1,191	-1,914	-1,450	-1,563	-1,763	
(Inc)/Dec in WC	-524	-2,511	-377	128	-2,749	-2,572	-2,891	-2,729	
CF from Operations	1,925	-360	2,652	4,769	4,034	3,376	4,051	5,297	
Others	-42	0	0	-7	291	-56	0	0	
CF from Operating incl EO	1,882	-360	2,652	4,762	4,325	3,321	4,051	5,297	
(inc)/dec in FA	-3,157	-4,626	-2,544	-1,843	-2,710	-3,967	-2,955	-4,053	
(Pur)/Sale of Investments	0	-483	-539	0	-2	0	0	0	
Others	-205	108	267	237	-59	166	281	292	
CF from Investments	-3,362	-5,001	-2,816	-1,606	-2,771	-3,801	-2,674	-3,761	
Issue of Shares	829	2,970	195	0	41	37	0	0	
(Inc)/Dec in Debt	272	3,602	-252	-1,534	-719	2,530	-798	-797	
Interest Paid	-319	-331	-285	-266	-263	-242	-337	-311	
Dividend Paid	-223	-290	-306	-307	-247	-372	-290	-290	
Others	0	68	547	-22	-1,805	-54	0	0	
CF from Fin. Activity	559	6,019	-102	-2,129	-2,993	1,900	-1,425	-1,399	
Inc/Dec of Cash	-921	658	-266	1,027	-1,440	1,419	-49	138	
Opening Balance	1,419	498	1,156	890	2,839	2,711	4,095	4,047	
FX	0	0	-30	921	1,312	-35	0	0	
Other than bank balance	0	0	0	0	0	0	0	0	
Closing Balance	498	1,156	891	2,839	2,711	4,095	4,047	4,185	

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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