

Granules India

Estimate change 

TP change 

Rating change 

CMP: INR302

TP: INR370 (+23%)

Buy

Ease of cost factors to drive a better outlook

Exploring biotechnology as a new area of growth

- GRAN delivered a better than expected 1QFY23 performance, led by better operating leverage. It intends to add biotechnology as a new lever of growth. Likewise, it has acquired a small biotech company, which adds fermentation-based capabilities.
- We raise our FY23/FY24 EPS estimate by 8% each, factoring in: a) reducing cost pressures in terms of raw materials as well as logistics cost, b) improvement in the availability of key raw materials for Paracetamol, and c) improving operational cost for the ANDA-related business. We continue to value GRAN 13x 12M forward earnings to arrive at our TP of INR370.
- We remain positive on GRAN on account of: a) its differentiated technologies for manufacturing, b) its robust ANDA pipeline, and c) easing of cost pressures in core molecules. We maintain our Buy rating.

Higher RM cost and other expenses drag profitability on a YoY basis

- Sales grew 20% YoY to INR10.2b (est. INR10.6b).
- Formulation (FDF) sales grew 21% YoY to INR5.5b (54% of sales). Intermediates (PFI) sales rose 38% YoY to INR2.4b (23% of sales). API sales grew 5% YoY to INR2.3b (23% of sales).
- Gross margin contracted by 460bp YoY to 49.6%, largely due to a change in the segmental mix.
- EBITDA margin contracted at a lower rate of 300bp YoY to 20.7% (est. 18.5%) due to better operating leverage. Employee cost/other expenses fell 60bp/110bp YoY as a percentage of sales.
- EBITDA rose 5% YoY to INR2.1b (est. INR2b) in 1QFY23.
- Adjusted PAT grew 6% YoY to INR1.3b (est. INR1.2b).

Highlights from the management commentary

- Prices of inputs and freight rate are softening. This downtrend is expected to continue, driving better profitability to some extent over coming quarters.
- The supply situation of a key raw material for Paracetamol has improved, with the Chinese manufacturer resuming operations. Also, a few Indian suppliers are being evaluated.
- The purchase of the biotechnology asset for INR200m will add fermentation to the company's capabilities. GRAN intends to spend INR750m over the next 12 months on this space.
- The management intends to launch two-to-three ANDAs in FY23.
- It has guided at a capex of INR3b for FY23.

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	74.9 / 0.9
52-Week Range (INR)	383 / 227
1, 6, 12 Rel. Per (%)	0/-4/-26
12M Avg Val (INR M)	542

Financials & Valuations (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	37.5	43.2	48.7
EBITDA	7.0	9.1	10.4
Adj. PAT	4.0	5.5	6.6
EBIT Margin (%)	14.6	16.9	17.4
Cons. Adj. EPS (INR)	16.1	22.3	26.5
EPS Gr. (%)	-27.6	37.9	19.0
BV/Sh. (INR)	104.3	125.4	150.7

Ratios

Net D:E	0.4	0.3	0.2
RoE (%)	16.8	19.4	19.2
RoCE (%)	12.6	14.8	15.5
Payout (%)	7.0	5.3	4.4

Valuations

P/E (x)	18.7	13.5	11.4
EV/EBITDA (x)	10.8	8.2	7.0
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	-0.9	2.3	2.5
EV/Sales (x)	2.0	1.7	1.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	42.0	42.0	42.0
DII	3.0	4.0	2.9
FII	23.1	23.2	18.4
Others	31.9	30.9	36.8

FII Includes depository receipts

Quarterly Performance

(INR m)

Y/E March (Consolidated)	FY22E				FY23E				FY22	FY23E	FY23E 1QE	Var. vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	8,498	8,883	9,795	10,300	10,196	10,922	10,750	11,305	37,477	43,172	10,580	-3.6%
YoY Change (%)	15.5	3.5	16.0	28.9	20.0	23.0	9.7	9.8	15.8	15.2	24.5	
EBITDA	2,014	1,512	1,565	1,927	2,115	2,239	2,279	2,476	7,050	9,109	1,957	8.1%
YoY Change (%)	1.4	-39.3	-29.3	-4.6	5.0	48.1	45.6	28.5	-19.1	29.2	-2.8	
Margins (%)	23.7	17.0	16.0	18.7	20.7	20.5	21.2	21.9	18.8	21.1	18.5	
Depreciation	394	398	392	402	434	440	465	460	1,586	1,799	415	
EBIT	1,620	1,113	1,173	1,525	1,682	1,799	1,814	2,016	5,464	7,310	1,542	9.0%
YoY Change (%)	-1.6	-47.7	-36.4	-3.2	3.8	61.6	54.7	32.2	-24.1	33.8	-4.8	
Margins (%)	19.1	12.5	12.0	14.8	16.5	16.5	16.9	17.8	14.6	16.9	14.6	
Interest	68	55	46	64	69	80	90	98	232	337	69	
Other Income	76	44	49	40	47	55	60	76	176	237	42	
PBT before EO expense	1,629	1,102	1,175	1,501	1,659	1,774	1,784	1,994	5,407	7,211	1,515	9.5%
Extra-Ord expense	0	0	-173	0	0	0	0	0	-173	0	0	
PBT	1,629	1,102	1,348	1,501	1,659	1,774	1,784	1,994	5,580	7,211	1,515	
Tax	427	296	339	391	383	417	419	477	1,452	1,695	356	
Rate (%)	26.2	26.8	25.2	26.1	23.1	23.5	23.5	23.9	26.0	23.5	23.5	
(Profit)/Loss of JV/Asso. Cos.	0	0	0	0	0	0	0	0	0	0	1	
Reported PAT	1,202	807	1,009	1,110	1,276	1,357	1,365	1,517	4,128	5,516	1,158	10.2%
Adjusted PAT	1,202	807	880	1,110	1,276	1,357	1,365	1,517	4,000	5,516	1,160	10.0%
YoY Change (%)	-2.1	-48.9	-38.9	-13.0	6.1	68.2	55.1	36.6	-27.6	37.9	-3.5	
Margins (%)	14.1	9.1	9.0	10.8	12.5	12.4	12.7	13.4	10.7	12.8	11.0	

Key performance Indicators (Consolidated)

Y/E March	FY22E				FY23E				FY22	FY23E	FY23E 1QE
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
FD	4,545	5,066	4,577	5,254	5,487	5,674	5,401	5,403	19,442	21,965	5,545
YoY Change (%)	17.9	17.8	8.4	14.0	20.7	12.0	18.0	2.8	14.4	13.0	9.5
PFI	1,716	1,912	2,259	2,568	2,368	2,581	2,530	2,668	8,456	10,147	2,574
YoY Change (%)	24.4	10.5	32.4	78.3	38.0	35.0	12.0	3.9	35.0	20.0	34.6
API	2,237	1,905	3,132	2,478	2,341	2,667	2,819	3,192	9,751	11,019	2,461
YoY Change (%)	5.5	-25.3	24.4	27.7	4.6	40.0	-10.0	28.8	7.3	13.0	29.2
Cost Break-up											
RM Cost (% of Sales)	45.8	49.1	54.3	51.1	50.4	50.2	49.8	48.9	49.7	50.2	50.5
Staff Cost (% of Sales)	11.2	10.4	10.8	10.5	10.7	10.5	10.0	10.8	10.7	10.5	10.6
Other Cost (% of Sales)	19.3	23.4	19.0	19.7	18.2	18.8	19.0	18.4	20.2	18.6	20.4
Gross Margins(%)	54.2	50.9	45.7	48.9	49.6	49.8	50.2	51.1	50.3	49.8	49.5
EBITDA Margins(%)	23.7	17.0	16.0	18.7	20.7	20.5	21.2	21.9	18.8	21.1	18.5
EBIT Margins(%)	19.1	12.5	12.0	14.8	16.5	16.5	16.9	17.8	14.6	16.9	14.6

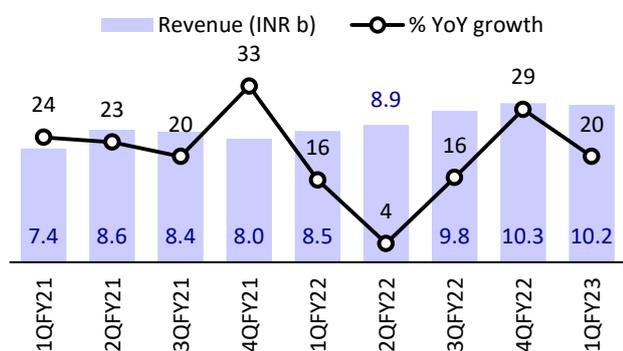


Conference call highlights

- GRAN net debt stands at INR6.1b at the end of 1QFY23.
- GRAN has participated in PLI scheme to secure the supply of DCDA (key raw material for Metformin). It would be spending INR1b as capex for this scheme
- The growth in EU market would be also driven by partnership model.
- The cash-to-cash cycle has increased by 6 days QoQ to 144, due to planned increase in inventory and restatement of trade receivables.
- GRAN generated free cash flow of INR980m in 1QFY23

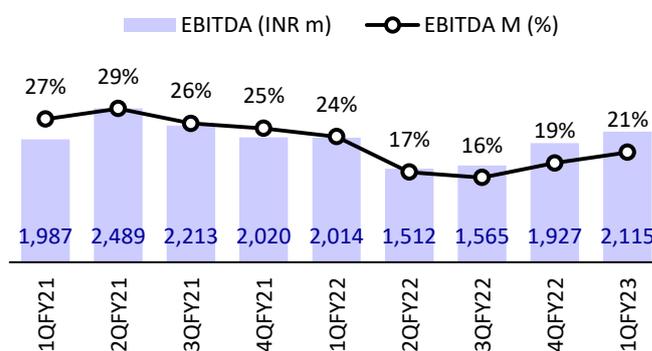
Key exhibits

Exhibit 1: Revenue grows 20% YoY in 1QFY23



Source: MOFSL, Company

Exhibit 2: EBITDA margin on an improvement trend



Source: MOFSL, Company

Margin pressures easing

Core molecules forms robust base and drive growth over medium term

- GRAN garnered 19% YoY growth in core molecules, with Paracetamol (47% of core molecules sales) growing by 27% YoY for the quarter. The ease of availability of raw material has led to revival of Paracetamol. Interestingly, there has been considerable ramp-up in Guaifenesin (~4x YoY).
- GRAN delivered 11%/16% YoY growth in sales of Metformin/Methocarbamol for the quarter.

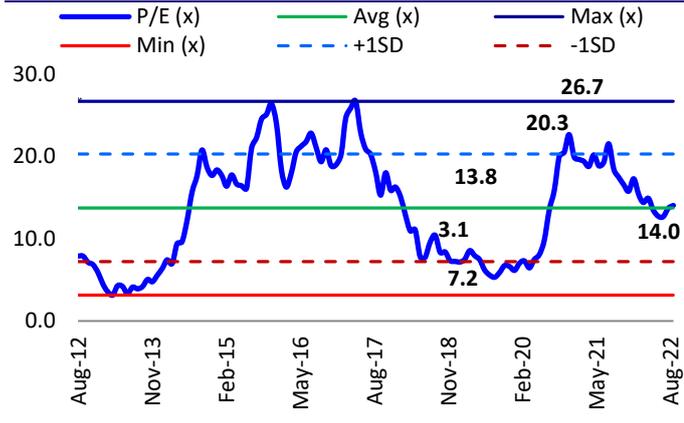
Work in progress for scaling ANDAs/Non-US business

- GRAN's finished dosage (formulations) business continues its strong growth trajectory growing 21% YoY contributing 54% share of the overall revenues for 1QFY23. The contribution of FD has improved from 40% to 54% in last 5 years.
- Going forward the oral solid formulation is expected to be the key growth driver. GRAN is targeting market share gains in core molecules, strong ANDA pipeline comprising differentiated manufacturing process and geographic expansion beyond US.

28% earnings CAGR and attractive valuation provides impetus for Buy

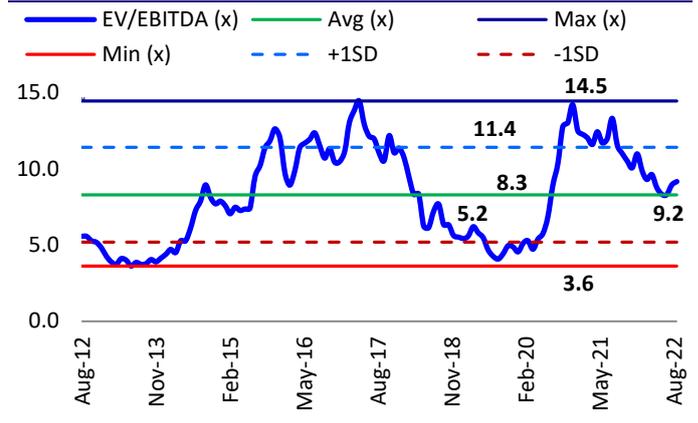
- We expect 28% earnings CAGR over FY22-24, driven by 17%/16%/13% sales CAGR in PFI/FDF/API segments. Also, the ease of cost pressures in terms of raw material as well as logistics cost would also support improvement in profitability over next 2-3 years.
- We raise our EPS estimate by 8% each for FY23/FY24 factoring a) reducing cost pressures in terms of raw materials as well as logistics cost, b) improvement in availability of Key raw materials for Paracetamol and c) improving operational cost of ANDA related business. We continue to value GRAN 13x 12M forward earnings to arrive at price target of INR370.
- We remain positive on GRAN on the back of addition of a) differentiated technologies for manufacturing, b) robust ANDA pipeline, and c) easing of cost pressures on the core molecules. Maintain BUY.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

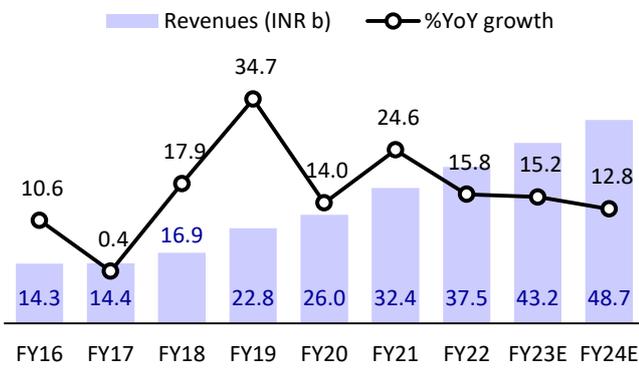
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

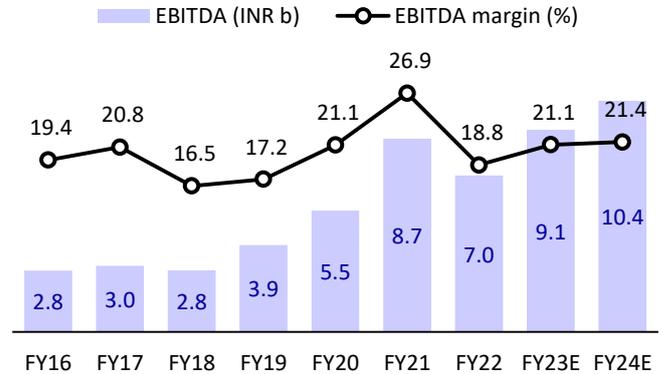
Story in charts

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



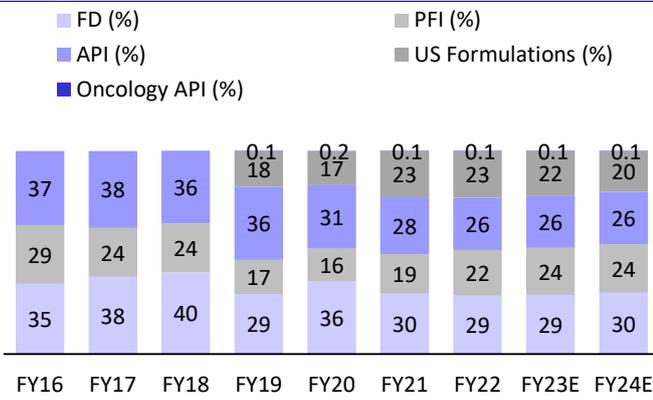
Source: MOFSL, Company

Exhibit 6: EBITDA margin to improve over FY22–24



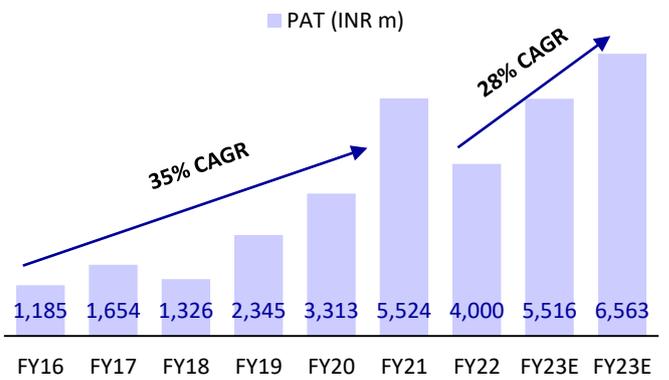
Source: MOFSL, Company

Exhibit 7: Formulations' contribution to remain the highest



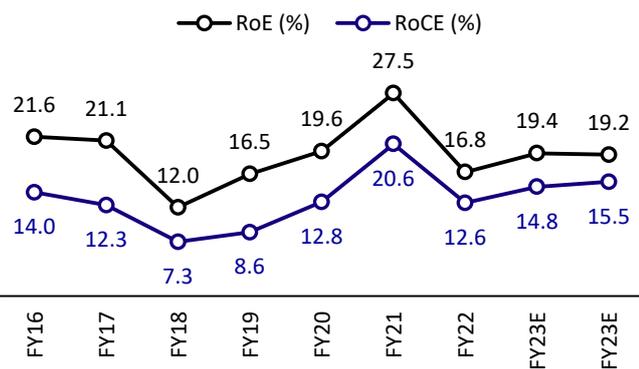
Source: MOFSL, Company

Exhibit 8: PAT to exhibit 28% CAGR over FY22–24



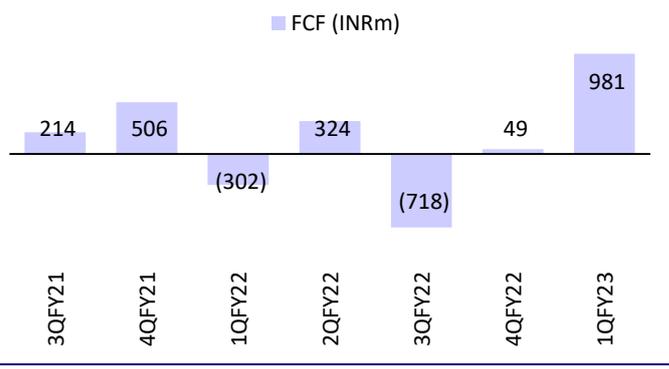
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 10: FCF at ~INR1b in 1QFY23



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	12,929	14,295	14,353	16,918	22,792	25,986	32,375	37,477	43,172	48,702
Change (%)	18.0	10.6	0.4	17.9	34.7	14.0	24.6	15.8	15.2	12.8
Total Expenditure	10,843	11,528	11,364	14,134	18,872	20,513	23,665	30,427	34,063	38,280
% of Sales	83.9	80.6	79.2	83.5	82.8	78.9	73.1	81.2	78.9	78.6
EBITDA	2,086	2,767	2,988	2,784	3,920	5,473	8,710	7,050	9,109	10,422
Margin (%)	16.1	19.4	20.8	16.5	17.2	21.1	26.9	18.8	21.1	21.4
Depreciation	527	643	715	762	1,055	1,370	1,515	1,586	1,799	1,934
EBIT	1,560	2,124	2,273	2,022	2,866	4,104	7,195	5,464	7,310	8,488
Int. and Finance Charges	323	399	323	331	285	270	263	232	337	311
Other Income	43	77	99	108	267	366	152	176	237	292
PBT bef. EO Exp.	1,280	1,802	2,050	1,800	2,848	4,199	7,085	5,407	7,211	8,469
EO Items	0	0	0	0	-80	57	-40	173	0	0
PBT after EO Exp.	1,280	1,802	2,050	1,800	2,768	4,257	7,045	5,580	7,211	8,469
Current Tax	287	535	652	659	891	1,257	1,954	1,382	1,695	1,906
Deferred Tax	83	82	-9	-25	72	-100	-405	70	0	0
Tax Rate (%)	29.0	34.2	31.4	35.2	34.8	27.2	22.0	26.0	23.5	22.5
Add: Associate income	0	0	247	160	487	255	0	0	0	0
Reported PAT	909	1,185	1,654	1,326	2,292	3,354	5,496	4,128	5,516	6,563
Adjusted PAT	909	1,185	1,654	1,326	2,345	3,313	5,524	4,000	5,516	6,563
Change (%)	20.8	30.3	39.6	-19.8	76.8	41.3	66.8	-27.6	37.9	19.0
Margin (%)	7.0	8.3	11.5	7.8	10.3	12.7	17.1	10.6	12.7	13.4

Consolidated - Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	204	217	229	254	254	254	248	248	248	248
Total Reserves	4,107	6,444	8,807	12,788	15,040	18,183	21,485	25,617	30,843	37,117
Net Worth	4,312	6,660	9,036	13,042	15,295	18,437	21,733	25,865	31,091	37,365
Minority Interest	0	0	0	0	0	0	0	6	6	6
Deferred Liabilities	549	646	565	543	655	482	11	139	139	139
Total Loans	4,872	4,767	5,981	9,582	9,330	7,932	7,504	10,928	10,130	9,333
Capital Employed	9,732	12,074	15,582	23,167	25,279	26,851	29,248	36,938	41,366	46,842
Gross Block	8,438	9,622	10,099	14,430	16,639	21,442	22,220	25,355	27,555	31,055
Less: Accum. Deprn.	2,272	2,941	3,656	4,418	5,473	6,842	8,357	9,943	11,742	13,676
Net Fixed Assets	6,166	6,681	6,443	10,012	11,167	14,600	13,863	15,412	15,813	17,379
Capital WIP	620	766	2,605	2,901	3,235	1,481	1,848	3,562	4,317	4,870
Total Investments	2	2	1,082	1,566	2,104	193	190	197	197	197
Curr. Assets, Loans&Adv.	5,184	7,080	8,633	11,891	13,279	15,957	21,226	25,945	28,465	32,404
Inventory	2,245	3,071	2,761	2,799	3,842	4,384	7,822	9,786	7,466	8,390
Account Receivables	1,326	1,526	4,177	6,171	6,735	6,620	7,654	9,250	13,247	15,211
Cash and Bank Balance	653	1,419	498	1,156	890	2,839	2,710	4,095	4,509	5,144
Loans and Advances	959	1,065	1,198	1,765	1,811	2,113	3,040	2,815	3,243	3,658
Curr. Liability & Prov.	2,295	2,521	3,183	3,272	4,548	5,432	7,887	8,191	7,439	8,020
Account Payables	1,887	1,791	2,160	2,522	3,235	3,569	5,410	6,386	5,599	5,978
Other Current Liabilities	233	608	934	646	1,144	1,589	2,160	1,294	1,490	1,681
Provisions	175	122	89	104	169	275	317	511	349	361
Net Current Assets	2,888	4,559	5,451	8,620	8,731	10,525	13,340	17,753	21,026	24,383
Appl. of Funds	9,732	12,074	15,582	23,167	25,279	26,852	29,247	36,938	41,366	46,842

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	3.7	4.8	6.7	5.4	9.5	13.4	22.3	16.1	22.3	26.5
Cash EPS	7.0	8.4	10.4	8.2	13.4	18.4	28.4	22.5	29.5	34.3
BV/Share	21.1	30.7	39.5	51.4	60.2	72.5	87.7	104.3	125.4	150.7
DPS	0.5	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	13.6	19.8	13.5	21.9	13.4	8.9	5.3	7.0	5.3	4.4
Valuation (x)										
P/E	82.2	63.1	45.2	56.3	31.9	22.6	13.5	18.7	13.5	11.4
Cash P/E	42.9	35.8	29.1	36.7	22.6	16.4	10.6	13.4	10.2	8.8
P/BV	14.3	9.8	7.6	5.9	5.0	4.2	3.4	2.9	2.4	2.0
EV/Sales	5.7	5.1	5.2	4.6	3.4	2.9	2.3	2.0	1.7	1.5
EV/EBITDA	35.1	26.1	24.9	27.8	19.7	13.5	8.5	10.8	8.2	7.0
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)										
RoE	23.1	21.6	21.1	12.0	16.5	19.6	27.5	16.8	19.4	19.2
RoCE	13.3	14.0	12.3	7.3	8.6	12.8	20.6	12.6	14.8	15.5
RoIC	14.6	15.2	14.7	9.1	10.2	14.4	24.0	15.1	18.2	19.1
Working Capital Ratios										
Asset Turnover (x)	1.3	1.2	0.9	0.7	0.9	1.0	1.1	1.0	1.0	1.0
Inventory (Days)	56	68	74	60	53	58	69	86	73	59
Debtor (Days)	33	36	71	111	103	94	80	82	95	107
Creditor (Days)	55	58	63	60	56	61	69	71	64	55
Leverage Ratio (x)										
Current Ratio	2.3	2.8	2.7	3.6	2.9	2.9	2.7	3.2	3.8	4.0
Interest Cover Ratio	5	5	7	6	10	15	27	24	22	27
Debt/Equity	1.1	0.7	0.7	0.7	0.6	0.4	0.3	0.4	0.3	0.2

Source: MOFSL, Company

Consolidated Cash flow statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,280	1,801	2,050	1,800	2,848	4,256	7,044	5,580	7,211	8,469
Depreciation	527	643	715	762	1,055	1,370	1,515	1,586	1,799	1,934
Interest & Finance Charges	309	347	278	222	18	207	139	232	99	19
Direct Taxes Paid	-317	-490	-595	-634	-891	-1,191	-1,914	-1,450	-1,695	-1,906
(Inc)/Dec in WC	-363	-915	-524	-2,511	-377	128	-2,749	-2,572	-2,858	-2,722
CF from Operations	1,435	1,387	1,925	-360	2,652	4,769	4,034	3,376	4,557	5,795
Others	18	51	-42	0	0	-7	291	-56	0	0
CF from Operating incl EO	1,453	1,438	1,882	-360	2,652	4,762	4,325	3,321	4,557	5,795
(inc)/dec in FA	-1,473	-1,335	-3,157	-4,626	-2,544	-1,843	-2,710	-3,967	-2,955	-4,053
(Pur)/Sale of Investments	0	0	0	-483	-539	0	-2	0	0	0
Others	17	53	-205	108	267	237	-59	166	237	292
CF from Investments	-1,456	-1,281	-3,362	-5,001	-2,816	-1,606	-2,771	-3,801	-2,717	-3,761
Issue of Shares	11	1,059	829	2,970	195	0	41	37	0	0
(Inc)/Dec in Debt	628	191	272	3,602	-252	-1,534	-719	2,530	-798	-797
Interest Paid	-319	-406	-319	-331	-285	-266	-263	-242	-337	-311
Dividend Paid	-83	-234	-223	-290	-306	-307	-247	-372	-290	-290
Others	0	0	0	68	547	-22	-1,805	-54	0	0
CF from Fin. Activity	238	609	559	6,019	-102	-2,129	-2,993	1,900	-1,425	-1,399
Inc/Dec of Cash	236	766	-921	658	-266	1,027	-1,440	1,419	414	635
Opening Balance	417	653	1,419	498	1,156	890	2,839	2,711	4,095	4,509
FX	0	0	0	0	-30	921	1,312	-35	0	0
Other than bank balance	0	0	0	0	0	0	0	0	0	0
Closing Balance	653	1,419	498	1,156	891	2,839	2,711	4,095	4,509	5,144

Source: MOFSL, Company

NOTES

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

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