

Retail Equity Research
Granules India Ltd.
Pharmaceuticals


BSE CODE : 532482
BLOOMBERG CODE: GRAN:IN

NSE CODE: GRANULES
SENSEX : 62,725

BUY

12 Months Investment Period
Rating as per Small Cap

CMP Rs. 279
TARGET Rs. 342
RETURN 23%



(Closing: 12-06-23)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Robust revenues across major markets

Granules India Ltd. (Inc.) is a vertically integrated, high growth pharmaceutical company headquartered in Hyderabad, India. The company manufactures Active Pharmaceutical Ingredients (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosages (FD).

- Driven by higher sales in the USA and Europe, FY23 revenue grew by 20% YoY to Rs. 4,512 cr, despite the continued price erosion in the US market.
- EBITDA climbed 27% YoY to Rs.914 cr, owing mostly to increased business across all major markets. EBITDA margin expanded by 110 bps to 20.3%.
- Resultantly, Adj PAT was recorded at Rs.517 cr (+25% YoY). Operating cash flow improved from Rs. 332 cr in FY22 to Rs. 739 cr in FY23.
- Growth was recorded across all segments, with FD (17%), APIs (38%) and PFIs (7%). The share of APIs in the revenue mix increased from 26% to 30% YoY.
- Going forward, softening raw material prices, expansion into new geographies, and strengthening of key molecules through backward integration are positives for the company.
- Hence, we upgrade our rating to BUY on the stock with a target price of Rs. 342 based on 12x FY25E EPS.

Growth across all segments

Revenue for FY23 grew by 20% YoY to Rs. 4,512 cr, led by increased sales in USA and European markets. The sales in the USA (53% of sales mix) grew by 30% YoY to Rs.2,378 cr and Europe (23% of sales mix) by 29% to Rs.1,021 cr. This was despite the continued price erosion in the US markets and the problems in distribution due to 3PL providers, which cause missed shipments, resulting in revenue loss and supply penalties. EBITDA was reported at Rs. 914cr, up 27% YoY, with EBITDA margin expanding by 110bps YoY to 20.3%. Adj PAT was reported at Rs.517 cr (+25% YoY). The molecules paracetamol (46% of sales mix) grew 44% YoY, Metformin (22% of mix) grew 6% YoY, while Ibuprofen (10% of sales) declined 8% YoY.

Share of APIs increased YoY

API grew 38% YoY to Rs. 1,341 cr to contribute 30% of revenue, while the FD (50% of revenue) grew by 17% to Rs. 2,268 cr and the PFI (20% of revenue) segment grew by 7% to Rs. 902 cr. During FY23, GIL filed 7 DMFs,6 ANDAs, 5 CEPs and other dossiers across Europe and the rest of the world. They also expand the market for paracetamol and metformin formulations to new European countries and endeavour to achieve a 50% market share in paracetamol.

Capacity expansion and green chemistry for growth

A new packaging facility in Virginia, USA, was partially commercialized and received FDA approval, and the management is expecting that this will help to improve working capital and reduce uncertainty in sales. GIL is partnering with Greenko to establish an integrated green pharmaceutical zone and has formed a fully owned subsidiary, Granules CZRO. The initial objective of this is to strengthen the key molecules Paracetamol and Metformin with a near-zero carbon footprint. The expected capex for this initiative is Rs 2,000 cr over the next 5 years. Construction of the new formulation facility at Genome Valley is progressing at a good pace, and we expect phase 1 to be completed by October 2023 and phase 2 by May 2024.

Outlook and valuation

We remain optimistic about the company's long-term profitability and growth prospects owing to new launches, a focus on backward integration, and increased market share in existing geographies. Hence, we upgrade our rating to BUY with a target price of Rs. 342 based on 12x FY25E EPS.

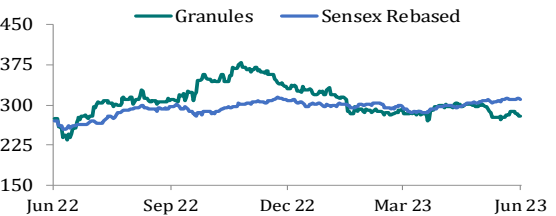
Company Data

Market Cap (Rs cr)	6,734
Enterprise Value (Rs cr)	7,479
Outstanding Shares (cr)	24.2
Free Float	58.0%
Dividend Yield	0.3%
52 week high (Rs)	381
52 week low (Rs)	227
6m average volume (cr)	0.10
Beta	0.94
Face value (Rs)	1

Shareholding (%)	Q2FY23	Q3FY23	Q4FY23
Promoters	42.0	42.0	42.0
FPI's	22.4	23.7	23.9
MFs/Institutions	4.3	4.8	5.0
Public	31.3	29.5	29.1
Total	100.0	100.0	100.0
Promoters pledge	10.5	4.0	4.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-2.0%	-15.6%	1.5%
Absolute Sensex	6.0%	0.8%	13.4%
Relative Return*	-8.0%	-16.5%	-11.9%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	4,512	5,194	5,854
Growth (%)	19.8	15.1	12.7
EBITDA	913.9	1,077.2	1,228.8
EBITDA Margin(%)	20.3	20.7	21.0
PAT Adj.	517	600	689
Growth (%)	25.4	16.2	14.8
Adj.EPS	21.4	24.8	28.5
Growth (%)	28.5	16.2	14.8
P/E	13.3	11.5	10.0
P/B	2.4	2.0	1.7
EV/EBITDA	8.8	7.5	6.5
ROE (%)	19.1	19.3	18.5
D/E	0.3	0.3	0.2

Yadhu Ramachandran
Research Analyst

Quarterly Financials (Consolidated)

Rs. cr	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)	FY23	FY22	YoY Growth (%)
Revenue	1,196	1,030	16.1	1,146	4.3	4,512	3,765	19.9
EBITDA	228	193	18.4	231	-1.4	914	719	27.1
EBITDA margins (%)	19.1	18.7	2.0	20.2		20.3	19.1	6.1
Depreciation	49	40	21.2	48	0.7	184	159	16.3
EBIT	179	153	17.6	183	-1.9	729	560	30.2
Interest	19	6	195.6	17	10.8	56	23	141.0
Other Income	3	4	-14.6	1	259.6	14	21	-33.8
Exceptional Items	-	0		-		-	-	
PBT	164	150	9.2	167	-1.7	687	558	23.2
Tax	44	39	13.4	43	4.2	171	145	17.5
Reported PAT	120	111	7.7	124	-3.8	517	413	25.2
Adjustments								
Adj. PAT	120	111	7.7	124	-3.8	517	413	25.2
No. of shares	24.8	24.2		24.8		24.2	24.8	
Adj. EPS (Rs.)	4.8	4.5	7.7	5.0	-3.8	21.3	16.6	28.3

Change in Estimates

Year / Rs Cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	5,010		4,512	5,854	-9.9	
EBITDA	1,042		914	1229	-12.3	
Margins (%)	20.8		20.3	21.0	-54 bps	
Adj. PAT	659		517	689	-21.6	
EPS	27.2		21.4	28.5	-21.5	

Segment-wise performance

(Rs cr)	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
Finished Dosages	612	525	16.5	522	17.1
Active Pharma Ingredients	366	248	47.6	411	-10.8
Pharma Formulation Intermediaries	217	256	-15.2	213	2.1
Total	1,196	1,030	16.1	1,146	4.3

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Sales	3,238	3,765	4,512	5,194	5,854
% change	24.6	16.3	19.8	15.1	12.7
EBITDA	855	722	914	1,077	1,229
% change	62.9	-15.6	26.7	17.9	14.1
Depreciation	152	159	184	233	280
EBIT	703.3	563.0	729.4	844.0	948.4
Interest	26	23	56	75	71
Other Income	26.9	17.6	13.8	31.2	41.0
PBT	704	557	687	800	919
% change	65.6	-20.8	23.3	16.5	14.8
Tax	155	145	171	200	230
Tax Rate (%)	22	26	25	25	25
Reported PAT	549	412	517	600	689
Adj.*	0	0	0	0	0
Adj. PAT	549	412	517	600	689
% change	79.0	-24.9	25	16	15
No. of shares (cr)	24.8	24.8	24.2	24.2	24.2
Adj EPS (Rs)	22.1	16.6	21.4	24.8	28.5
% change	64.2	-24.9	28.5	16.2	14.8
DPS (Rs)	1.0	1.5	1.5	1.5	1.5

BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	41	185	292	278	475
Account Receivable	765	925	949	1,067	1,203
Inventories	782	979	1,149	1,233	1,375
Other Cur. Assets	281	258	306	349	385
Investments	19	20	21	22	23
Gross Fixed Assets	1,732	1,991	2,462	3,162	3,662
Net Fixed Assets	1,071	1,271	1,558	2,036	2,267
CWIP	185	312	228	200	250
Intangible Assets	315	302	291	280	269
Def. Tax (Net)	0	-13	-6	-6	-6
Other Assets	0	0	0	0	0
Total Assets	3,712	4,499	4,897	5,571	6,355
Current Liabilities	757	754	882	956	1,051
Provisions	32	51	44	50	56
Debt Funds	341	242	219	239	259
Other Liabilities	541	639	782	852	943
Equity Capital	25	25	24	24	24
Reserves & Surplus	2,149	2,562	2,811	3,375	4,027
Shareholder's Fund	2,173	2,587	2,835	3,399	4,051
Total Liabilities	3,712	4,499	4,897	5,571	6,355
BVPS	89	104	117	140	167

CASH FLOW

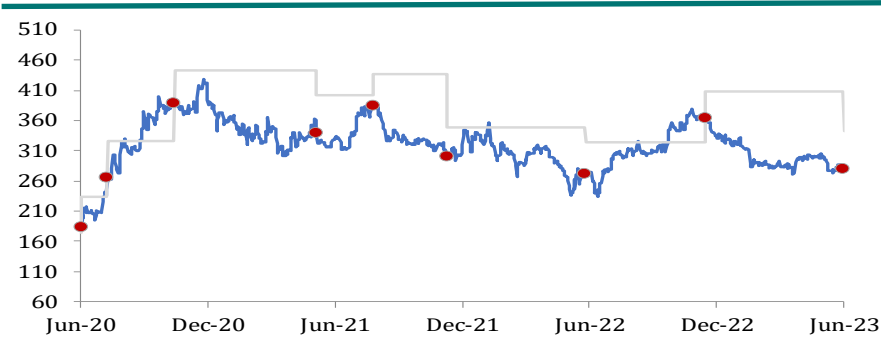
Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	856	717	872	1,033	1,199
Non-cash adj.	162	159	186	233	280
Changes in W.C	-276	-257	-10	-164	-214
C.F. Operation	432	333	739	669	756
Capital exp.	-271	-397	-410	-672	-550
Change in inv.	-6	17	203	-1	-1
Other invest.CF	125	12	203	0	0
C.F - Investment	-277	-380	-191	-676	-553
Issue of equity	0	0	-308	0	0
Issue/repay debt	-72	253	-60	30	30
Dividends paid	-25	-37	-19	-36	-36
Other finance.CF	4	4	0	0	0
C.F - Finance	-299	190	-440	-7	-7
Chg. in cash	-144	143	107	-13	196
Closing cash	41	185	292	278	475

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	26.4	19.2	20.3	20.7	21.0
EBIT margin (%)	21.7	15.0	16.2	16.3	16.2
Net profit mgn.(%)	17.0	10.9	11.5	11.6	11.8
ROE (%)	27.3	17.3	19.1	19.3	18.5
ROCE (%)	25.0	16.8	18.8	19.6	19.1
W.C & Liquidity					
Receivables (days)	80	82	76	71	71
Inventory (days)	69	85	86	84	81
Payables (days)	118	114	112	116	114
Current ratio (x)	1.6	1.9	1.6	1.6	1.7
Quick ratio (x)	1.0	1.2	1.0	1.0	1.1
Turnover &Leverage					
Gross asset T.O (x)	2.0	2.0	2.0	1.8	1.7
Total asset T.O (x)	0.9	0.9	1.0	1.0	1.0
Int. covge. ratio (x)	26.7	24.3	13.0	11.3	13.4
Adj. debt/equity (x)	0.3	0.4	0.3	0.3	0.2
Valuation					
EV/Sales (x)	2.4	2.1	1.8	1.6	1.4
EV/EBITDA (x)	9.0	11.0	8.8	7.5	6.5
P/E (x)	12.9	17.2	13.3	11.5	10.0
P/BV (x)	3.2	2.7	2.4	2.0	1.7



Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated /Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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