

Q1FY25 Granules India Ltd.



Granules India Ltd.

API decline to continue in FY25E

CMP INR 662*	Target INR 769	Potential Upside 16.2%	Market Cap (INR Mn) INR 1,60,921	Recommendation BUY	Sector Pharmaceuticals
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Result Highlights for Q1FY25:

- GRANULES is expected to continue to see strong growth in FDFs with growth in new products; partially offset by continued weakness in APIs with higher channel inventory for Paracetamol APIs in regulated markets.
- We expect the company to clock in 14.0% and 33.3% CAGR rise in revenue and net income, respectively, over FY24-FY26E (vs. 13.4% and 30.2% CAGR rise seen over FY24-FY26E earlier).
- We apply a higher PE multiple of 26.5x (earlier 16.0x) on FY26E EPS of INR 29.0 (earlier INR 27.7) and arrive at a TP of INR 769 (earlier INR 443) and upgrade it to BUY from ACCUMULATE as the upside potential is 16.2% from the CMP.

MARKET DATA

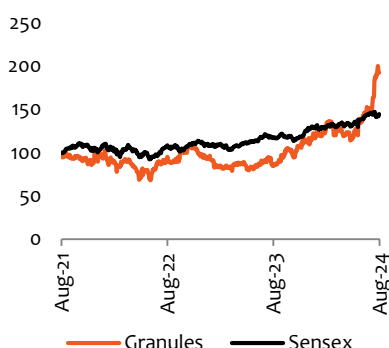
Shares outs (Mn)	242
Mkt Cap (INR Mn)	1,60,921
52 Wk H/L (INR)	698/ 288
Volume Avg (3m K)	2,266
Face Value (INR)	1
Bloomberg Code	GRAN IN

KEY FINANCIALS

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	32,375	37,649	45,119	45,064	50,763	58,558
EBITDA	8,552	7,222	9,138	8,560	10,546	12,929
PAT	5,495	4,128	5,166	4,053	5,615	7,200
EPS (INR)	22.1	16.7	21.1	16.7	22.6	29.0
EBITDA Margin (%)	26.4%	19.2%	20.3%	19.0%	20.8%	22.1%
NPM (%)	17.0%	11.0%	11.4%	9.0%	11.1%	12.3%
P/E	29.9	39.6	38.9	33.8	29.2	22.7

Source: Company, KRChokseyResearch

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,437
NIFTY	24,541

Revenue growth continues to be led by high value FDF segment:

- Revenue rose by a strong 19.7% Y-o-Y (+0.3% Q-o-Q) to Rs. 11,799 Mn (vs. estimated of Rs. 10,221 Mn, a strong beat of 15.4%) in Q1FY5. It was driven by stronger than anticipated growth witnessed in FDF segment.
- FDF grew at a higher pace of 65.9% Y-o-Y (+3.1% Q-o-Q, 75.5% of revenue, a beat of 23.0%) in Q1FY25. It was partially offset by PFI's sales declining 32.7% Y-o-Y (-32.7% Q-o-Q), 8.4% of revenue, a miss of 4.0%) and API sales declining 37.0% Y-o-Y (+15.7% Q-o-Q), 16.0% of revenue, a miss of 3.0%) in Q1FY25.
- North America, its most important market, continues to strengthen in terms of growth while Europe (18% of revenue) continues to remain weak over the last 4 quarters, as of Q1FY25.
- The company's investments in local manufacturing in the US with focus on CNS and ADHD therapies are key drivers. This is also driven by strong growth in new products beyond its 5 legacy products.
- North America market has 7 formulation products, which are ranked 1st as per MAT March 24. These contributes 70% of Granules Pharma Inc.'s (GPI) revenue.
- The company is also growing OTC business through partnership with brand owners and leading retailers in the US.
- North America's revenue is expected to continue to grow led by new launches, both in Rx and OTC, augmented by new dosage forms.
- India market resumed to growth in Q1FY25 with 12.9% Y-o-Y (+50.5% Q-o-Q) rise and Latin America and RoW grew at 11.2% Y-o-Y (-0.7% Q-o-Q) and 12.3% Y-o-Y

SHARE HOLDING PATTERN (%)

Particulars	Jun-24 (%)	Mar-24 (%)	Dec-23(%)
Promoters	38.9	42.0	42.0
FIIIs	20.4	19.6	18.8
DIIIs	14.1	10.7	10.2
Others	26.6	27.7	29.0
Total	100.0	100.0	100.0

*Based on previous closing

14.0%

Revenue CAGR between FY24 and FY26E

33.3%

PAT CAGR between FY24 and FY26E

Granules India Ltd.

- (-11.3%, Q-o-Q), respectively in Q1FY25.
- Decline in Paracetamol API and PFI volumes and price erosion were the reasons for weakness in API and PFI segments.
- Gross Profit Margins (GPMs) increased 756 bps Y-o-Y (-112 bps Q-o-Q) to 58.9% in Q1FY25 due to improved products mix towards FDFs and lower raw materials costs with new products (other than 5 legacy products) growing at an average 66.6% (Y-o-Y basis) over the last 5 quarters.
- EBITDA increased 89.5% Y-o-Y (+1.4% Q-o-Q) to Rs. 2,593 Mn (estimated: Rs. 2,760 Mn, a miss of 6.1%) and EBITDA margins expanded 809 bps Y-o-Y (+23 bps Q-o-Q) to 22.0% (estimated: 27.0%) in Q1FY25.
- PAT increased 181.1% Y-o-Y (+3.9% Q-o-Q) to INR 1,346 Mn (estimated: Rs. 1,506 Mn, a miss of 10.6%). This was post a 493.1% Y-o-Y (+10.3% Q-o-Q) rise in other income. It was partially offset by 166.2% Y-o-Y (+1.7% Q-o-Q) rise in Taxes in Q1FY25.

Key Concall Highlights:

Outlook:

- Since API and PFI will be consumed in house, the revenue mix may remain similar or increase more towards FDFs over a period of time.
- Gross Margins to be around 58%-59% in FY25E
- EBITDA margin to be in the range of 20%-22% over short – medium term.
- Paracetamol APIs is witnessing inventory build up in Europe and the US. Hence, Europe is weaker. Paracetamol to contribute from FY26E. Paracetamol FDF is doing well.
- Increased MS from existing products helped in the US' sales growth in Q1FY25.
- Europe FDFs to return to normalcy in the next couple of quarters and APIs to resume sales growth in FY26E.
- LATAM to see growth with shift away from PFIs to FDFs.
- Asset turn to improve ahead as the US (with some high value products) is performing leading to close to full capacity utilization for it. With increased utilization at Unit V at Vizag and MUPS being fully utilized asset turns are expected to rise.
- Increase in other expenses will be lower in FY25E while employee costs will be higher in FY25E and lower in FY26E.

Products pipeline and R&D:

- GRANULES is prioritizing investments in building R&D capabilities and its product pipeline, in oncology, anti-diabetic, large volume molecules, and select non-OSD dosage form.
- It has made significant progress on technology platforms such as biocatalysis and continuous manufacturing.
- The company is readying to install commercial scale capacity for FDFs at Unit V in Vizag. Oncology products is important for GRANULES. It has built capacity for APIs and formulations at Vizag for the same, to be completed by Q1FY26E. This is expected to enable it to become a significant player in Oncology segment.
- Its portfolio of filings includes Para IV FTFs, Para IV 181 and first to launch in the US, Europe, and RoW.
- To file a couple of products in the next few quarters. It includes near term launches, which is to start from FY26E.
- To be significant player in CNS/ADHD in the US and other parts of the world.
- R&D unit at Granules Pharma Inc. (US) along with its centers, is underway with developing ADHD products, which includes Para IV, Para IV 181, NCE-1 and Para III product filings, which will be launched over near – medium term.
- R&D unit at the US is already developed branded products, which are in the market, with no competitive intensity due to the amount of complexity involved.
- The construction and capacity ramp up of its new formulation facility at Genome Valley (part of Granules Life Sciences) that commenced operations in March 24, is progressing well. The plant has been commissioned for 2 Bn of 1st phase of capacity and validations.
- The company has 5 projects at advanced stages of optimization in the lab for enzymes. The company is to develop the manufacturing technology for the same in the next 2 quarters, and start validating at least 3 molecules, from Q3FY25E.
- Manufacturing capacity for Enzymes is being planned and the project execution for the same is to start from Q3FY25 and will be ready in the next 14-18 months.
- R&D costs is to increase in the subsequent quarters.
- R&D spend was at INR 620 Mn in Q1FY25 vs. INR 413 Mn in Q1FY24 and INR 609 Mn in Q4FY24.
- CZRO pilot plant has been commissioned in Q4FY24.

Financials:

- Net debt was at INR 7,941 Mn as of Q1FY25 vs. INR 8,421 Mn as of Q4FY24.
- Cash to cash cycle increased to 183 days as of Q1FY25 vs. 161 days as of Q4FY24. The lengthening was due to both higher inventory days and cash credit cycle.
- Operational cash flows stood at INR 2,161 Mn as of Q1FY25 vs. INR 350 Mn as of Q1FY24.
- Capex for Q1FY25 stood at INR 1,444 Mn, primarily towards Granules Life Sciences.
- ROCE stood at 19.6% in Q1FY25 vs. 16.5% in Q4FY24 and 9.4% in Q1FY24.

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GRANULES underperformed on net profits front by 10.6% in Q1FY25 despite stronger than anticipated rise in FDFs. The company expects to see the share of FDFs to rise in the short – medium term and aid in profitability despite APIs expected to continue to decline in FY25E. The favorable impact of improved products mix will be partially offset by increased employee expenses in FY25E. The company expects new product launches and OTC growing to drive profitability over FY25E-FY26E. **We expect the company to clock in 14.0% and 33.3% CAGR rise in revenue and net income, respectively, over FY24-FY26E (vs. 13.4% and 30.2% CAGR rise seen over FY24-FY26E earlier). We apply a higher PE multiple of 26.5x (earlier 16.0x) on FY26E EPS of INR 29.0 (earlier INR 27.7) and arrive at a TP of INR 769 (earlier INR 443) and upgrade it to BUY from ACCUMULATE as the upside potential is 16.2% from the CMP.**

Exhibit 1: Revenue Segments

Segment Result (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue from operations	9,855	11,895	11,556	11,757	11,799
Active Pharmaceutical Ingredients (API)	3,000	3,021	2,212	1,633	1,890
Pharmaceutical formulation ingredients (PFI)	1,482	1,457	1,686	1,482	997
Finished Dosage (FD)	5,373	7,417	7,658	8,642	8,912
Revenue Mix (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Active Pharmaceutical Ingredients (API)	30.4%	25.4%	19.1%	13.9%	16.0%
Pharmaceutical formulation ingredients (PFI)	15.0%	12.2%	14.6%	12.6%	8.4%
Finished Dosage (FD)	54.5%	62.4%	66.3%	73.5%	75.5%
Segment Performance (% YoY)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Total Revenue	-3.3%	3.4%	0.8%	-1.7%	19.7%
Active Pharmaceutical Ingredients (API)	28.2%	-8.5%	-46.1%	-55.4%	-37.0%
Pharmaceutical formulation ingredients (PFI)	-37.4%	-38.0%	-20.9%	-31.8%	-32.7%
Finished Dosage (FD)	-2.1%	26.7%	46.6%	41.3%	65.9%
Geography Wise Results (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue from operations	9,855	11,895	11,556	11,758	11,800
North America	6,017	7,989	7,601	8,260	8,700
Europe	2,405	2,128	2,279	2,013	1,493
India	504	673	701	378	569
Latin America	481	429	587	539	535
Rest of World	448	676	389	567	503
Geographic Mix (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue from operations	100.0%	100.0%	100.0%	100.0%	100.0%
North America	61.1%	67.2%	65.8%	70.3%	73.7%
Europe	24.4%	17.9%	19.7%	17.1%	12.7%
India	5.1%	5.7%	6.1%	3.2%	4.8%
Latin America	4.9%	3.6%	5.1%	4.6%	4.5%
Rest of World	4.5%	5.7%	3.4%	4.8%	4.3%
Geography Wise Performance (% YoY)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue from operations	-3.3%	3.4%	0.8%	-1.6%	19.7%
North America	9.7%	11.5%	21.2%	18.6%	44.6%
Europe	4.9%	-8.3%	-16.5%	-29.9%	-37.9%
India	-38.6%	6.7%	-8.7%	-44.4%	12.9%
Latin America	-48.4%	-47.8%	-39.0%	-25.1%	11.2%
Rest of World	-32.7%	19.0%	-47.0%	-21.5%	12.3%

Source: Company, KRChokseyResearch

Exhibit 2: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenues	32,375	37,649	45,119	45,064	50,763	58,558
COGS	13,913	18,836	23,073	20,213	21,516	24,080
Gross profit	18,463	18,813	22,046	24,851	29,246	34,478
Employee cost	4,082	4,014	4,722	5,979	6,896	7,905
Other expenses	4,827	6,153	7,022	8,327	9,119	10,540
Adj EBITDA	8,552	7,222	9,138	8,560	10,546	12,929
EBITDA Margin	26.4%	19.2%	20.3%	19.0%	20.8%	22.1%
Depreciation & amortization	1,515	1,586	1,845	2,073	2,115	2,923
EBIT	7,038	5,636	7,293	6,486	8,431	10,006
Interest expense	263	232	559	1,058	1,081	1,006
Other income	269	176	138	44	215	703
Share of Associates & JV	0	0	0	0	0	0
PBT	7,044	5,580	6,872	5,472	7,566	9,703
Tax	1,549	1,452	1,706	1,419	1,951	2,502
Exceptional items	0	0	0	0	0	0
PAT	5,495	4,128	5,166	4,053	5,615	7,200
EPS (INR)	22.1	16.7	21.1	16.7	22.6	29.0

Source: Company, KRChokseyResearch

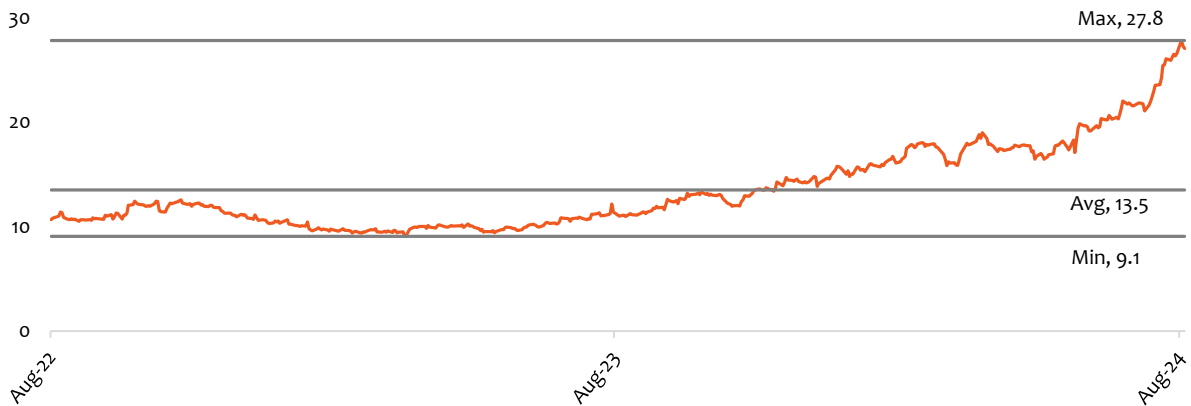
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Exhibit 3: Q1 FY25 Result

Particulars (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Sales	11,799	11,758	9,855	0.3%	19.7%
Total Expenditure	9,206	9,201	8,487	0.1%	8.5%
Cost of Raw Materials	4,830	5,465	5,887	-11.6%	-17.9%
Changes in Inventories	14	-769	-1,095	101.9%	101.3%
Employee Cost	1,636	1,517	1,403	7.9%	16.6%
Other Expenses	2,725	2,988	2,292	-8.8%	18.9%
EBITDA	2,593	2,557	1,368	1.4%	89.5%
EBITDA Margins (%)	22.0%	21.7%	13.9%	23 bps	809 bps
Depreciation	529	532	492	-0.6%	7.4%
EBIT	2,064	2,025	876	1.9%	135.7%
Other Income	21	19	3	10.3%	493.1%
Interest Expense	270	288	225	-6.0%	20.3%
Exceptional Items	0	0	0	NA	NA
PBT	1,814	1,756	655	3.3%	177.1%
Tax	468	460	176	1.7%	166.2%
Share of Associates	0	0	0	NA	NA
PAT	1,346	1,296	479	3.9%	181.1%
PAT Margin	11.4%	11.0%	4.9%	39 bps	655 bps
EPS (Reported)	5.56	5.35	1.98	3.9%	180.7%
APAT	1,346.5	1,296.5	479.0	3.9%	181.1%
EPS (Adjusted)	5.56	5.35	1.98	3.9%	180.7%

Source: Company, KRChokseyResearch

Granules 1-Year forward PE



Source: Bloomberg, KRChokseyResearch

Exhibit 4: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	26.4%	19.2%	20.3%	19.0%	20.8%	22.1%
Tax rate (%)	22.0%	26.0%	24.8%	25.9%	25.8%	25.8%
Net Profit Margin (%)	17.0%	11.0%	11.4%	9.0%	11.1%	12.3%
RoE (%)	25.3%	16.0%	18.2%	12.6%	14.9%	16.2%
RoCE (%)	23.3%	15.3%	18.4%	14.3%	16.9%	18.0%
EPS (INR)	22.1	16.7	17.0	19.5	22.6	29.0

Source: Company, KRChokseyResearch

Granules India Ltd.

Exhibit 5: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	4,325	3,321	7,387	4,394	7,378	7,914
Net Cash Flow from/(used in) Investing Activities	-2,771	-3,801	-1,914	-3,602	-6,021	-5,477
Net Cash Flow from Financing Activities	-2,993	1,900	-4,403	77	-2,339	-2,337
Net Inc/Dec in cash equivalents	-1,440	1,419	1,071	869	-982	100
Opening Balance	1,859	418	1,847	2,916	3,811	2,829
Adjustment	-1	9	-3	26	0	0
Closing Balance Cash and Cash Equivalents	418	1,847	2,916	3,811	2,829	2,929

Source: Company, KRChokseyResearch

Exhibit 6: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24	FY25E	FY26E
Non-current assets						
Property, plant and equipment (incl. ROU)	10,712	12,837	16,314	18,561	21,982	24,915
Capital work-in-progress	2,391	3,119	2,280	2,595	2,595	2,595
Intangible assets	2,608	3,018	2,909	2,517	2,517	2,517
Financial assets						
Investments	190	197	212	215	215	215
Loans	10	30	148	167	167	167
Deferred Tax Assets	8	14	14	371	418	482
Income Tax Assets (Net)	57	117	112	291	328	379
Other non-current assets	1,190	748	1,315	1,441	1,624	1,873
Total non-current assets	17,164	20,079	23,304	26,159	29,847	33,143
Current assets						
Inventories	7,822	9,786	11,494	13,005	13,844	15,494
Financial assets						
Trade receivables	7,654	9,250	9,485	9,858	11,105	12,810
Cash and cash equivalents	418	1,847	2,916	3,811	2,829	2,929
Other Balances with Banks	2,292	2,247	212	53	53	53
Loans	100	72	0	0	0	0
Other financial assets	6	30	32	29	33	38
Other current assets	1,678	1,818	1,602	2,294	2,584	2,981
Total current assets	19,970	25,050	25,741	29,050	30,447	34,305
TOTAL ASSETS	37,135	45,129	49,046	55,210	60,294	67,448
EQUITY AND LIABILITIES						
Equity						
Equity share capital	248	248	242	242	242	242
Other equity	21,485	25,623	28,107	32,013	37,370	44,239
Total equity	21,733	25,871	28,349	32,255	37,612	44,482
LIABILITIES						
Non-current liabilities						
Financial liabilities						
Borrowings	3,411	2,420	2,192	1,522	1,522	1,522
Deferred tax liabilities, (net)	11	139	77	231	260	300
Provisions	248	283	293	379	379	379
Total non-current liabilities	3,671	2,842	2,562	2,131	2,161	2,201
Current liabilities						
Financial liabilities						
Borrowings	5,081	8,643	9,170	11,629	10,629	9,629
Trade payables	5,410	6,386	7,821	7,495	7,979	8,929
Other financial liabilities	753	856	719	1,263	1,423	1,641
Other current liabilities	202	165	151	261	294	340
Provisions	133	228	146	118	133	154
Income tax liabilities, (net)	152	137	127	56	63	73
Total current liabilities	11,731	16,416	18,135	20,823	20,521	20,766
Total liabilities	15,402	19,258	20,697	22,954	22,682	22,966
TOTAL EQUITY AND LIABILITIES	37,135	45,129	49,046	55,210	60,294	67,448

Source: Company, KRChokseyResearch

Granules India Ltd.

Granules India Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-Aug-24	662	769	BUY	Buy	More than 15%
17-May-24	400	443	ACCUMULATE	Accumulate	5% – 15%
24-Jan-24	417	480	BUY	Hold	0 – 5%
22-Nov-23	367	437	BUY	Reduce	-5% – 0
03-Oct-23	355	437	BUY	Sell	Less than – 5%
28-Aug-23	298	358	BUY		

ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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