



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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BUY

Current Price	125
Target Price	156
Upside/Downside	24.6%
52 Week Range	157/91

Key Share Data

Market Cap (Rs.bn)	28.6
Market Cap (US\$ mn)	450.2
No of o/s shares (mn)	228.7
Face Value	1.0
Monthly Avg.vol (BSE+NSE) Nos'000	1854
BSE Code	532482
NSE Code	GRANULES
Bloomberg	GRAN IN Equity

Price performance



% Shareholding

	Jun-17	Mar-17
Promoters	53.43	53.45
FII	12.15	9.98
DII	1.44	1.5
Others	32.98	35.07
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY15*	12,929.2	18.0	2,086.1	16.1	909.1	22.9	4.5	28.1	17.0	17.0
FY16	14,311.8	10.7	2,783.7	19.5	1,184.7	30.3	5.5	22.9	17.8	17.2
FY17	14,352.5	0.3	2,988.4	20.8	1,645.2	38.9	7.2	17.4	18.6	15.3
FY18E	16,135.2	12.4	3,420.2	21.2	1,889.4	14.8	8.3	15.1	17.8	14.2
FY19E	18,637.0	15.5	4,238.0	22.7	2,243.3	18.7	9.8	12.7	17.7	15.9

* Change in Face value from Rs 10 to Rs 1 from FY15.

We met the management of Granules India.

Key takeaways from our meeting are as follows:

1. Granules India is expanding its capacity of Paracetamol from 18000 TPA to 24000 TPA. The company is the largest integrated player in Paracetamol.
2. The company is also expanding its capacity of Metformin from 2000 to 9000 tonnes in order to meet the increase in demand. The demand for Metformin has been on the rise in view of newer applications of the drug.
3. Granules is also expanding its PFI capacity by 6000 tonnes, also expected to be commissioned by Q3FY18.
4. The company's expansion is on track and is expected to be commissioned by Q3FY18.
5. The increased capacities will enable higher sales of PFIs and Finished dosages, leading to a better product mix and profitability.
6. The company expects to file 10-12 ANDAs every year.
7. The company has received a target action date of January'18 and March'18 for two ANDAs.
8. Regarding two USFDA observations to its joint venture Omnicem, the company has responded to the USFDA and awaits an Establishment Inspection Report (EIR).

Outlook & Valuation

We are positive on the developments at Granules. We believe Granules India is well positioned as a vertically integrated low cost manufacturer of matured generics. The company expects to benefit from its expanded capacity and its filings in the US. The timely completion of its expansion of facilities and USFDA approval to its ANDA'S holds the key to near term growth. At Rs 125, Granules trades at 13x FY19E EPS of Rs 9.8. We recommend investors to BUY Granules India with a target price of Rs 156, indicating an upside of 25%.



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Granules India Limited											
P&L (Rs mn)	FY15A*	FY16	FY17	FY18E	FY19E	Cash Flow St. (Rs. mn)	FY15A*	FY16	FY17	FY18E	FY19E
Net Sales	12,929.2	14,311.8	14,352.5	16,135.2	18,637.0	Net Profit	909.1	1,184.7	1,645.2	1,889.4	2,243.3
Raw materials	(7,469.5)	(7,584.8)	(7,043.2)	(7,827.7)	(8,855.0)	Add: Dep. & Amort.	526.5	643.3	715.1	821.5	1,158.3
Employee costs	(1,069.6)	(1,253.3)	(1,401.9)	(1,612.2)	(1,854.0)	Cash profits	1,435.6	1,828.0	2,360.3	2,710.9	3,401.6
Other Expenses	(2,304.0)	(2,690.1)	(2,919.1)	(3,275.1)	(3,690.1)	(Inc)/Dec in					
Cost of sales	(10,843.1)	(11,528.2)	(11,364.2)	(12,715.0)	(14,399.0)	-Sundry debtors	(217.2)	(3,115.4)	(241.5)	(328.6)	(704.3)
Operating Profit	2,086.1	2,783.7	2,988.4	3,420.2	4,238.0	-Inventories	(503.5)	143.9	(274.6)	(130.0)	(352.1)
Depreciation	(526.5)	(643.3)	(715.1)	(821.5)	(1,158.3)	-Loans/advances	(92.2)	(366.5)	(1,191.4)	(181.2)	(199.4)
PBIT	1,559.6	2,140.4	2,273.3	2,598.7	3,079.7	-Sundry creditors	531.8	(115.7)	327.4	(63.1)	239.7
Other income	43.4	60.3	99.3	109.2	120.1	-Others	(164.0)	498.0	(230.7)	(2.9)	(3.2)
Interest	(323.5)	(399.2)	(322.6)	(372.3)	(388.8)	Change in working capital	(445.1)	(2,955.7)	(1,610.7)	(705.8)	(1,019.3)
Profit before tax	1,279.6	1,801.5	2,049.9	2,335.6	2,811.0	CF from Oper. activities	990.5	(1,127.7)	749.6	2,005.1	2,382.3
Provision for tax	(370.5)	(616.8)	(652.0)	(742.9)	(894.1)	CF from Inv. activities	(1,242.1)	497.6	(2,448.2)	(3,425.8)	(1,000.0)
Reported PAT	909.1	1,184.7	1,397.9	1,592.7	1,916.9	CF from Fin. activities	487.1	2,185.2	1,020.6	1,762.9	(807.4)
Share of Profit	-	-	247.3	296.7	326.4	Cash generated/(utilised)	235.6	1,555.1	(678.0)	342.2	574.9
Adjusted PAT	909.1	1,184.7	1,645.2	1,889.4	2,243.3	Cash at start of the year	417.5	653.1	1,105.9	393.7	350.3
						Cash at end of the year	653.1	1,105.9	393.7	350.3	501.0
Balance Sheet	FY15A*	FY16	FY17	FY18E	FY19E	Ratios	FY15A*	FY16	FY17	FY18E	FY19E
Equity capital	204.3	216.7	228.7	228.7	228.7	OPM	16.1	19.5	20.8	21.2	22.7
Reserves	4,107.4	6,428.2	8,614.9	10,370.5	12,480.0	NPM	7.0	8.2	11.4	11.6	12.0
Net worth	4,311.6	6,644.9	8,843.6	10,599.2	12,708.7	Tax rate	(29.0)	(34.2)	(31.8)	(31.8)	(31.8)
Other non curr. Liab	-	55.8	72.5	79.7	87.7	Growth Ratios (%)					
Def. Tax Liab.+Minority Int.	492.8	631.4	640.3	640.3	640.3	Net Sales	18.0	10.7	0.3	12.4	15.5
Total debt	4,871.7	5,769.7	5,980.8	7,580.8	6,580.8	Operating Profit	32.5	33.4	7.4	14.4	23.9
CAPITAL EMPLOYED	9,676.2	13,101.8	15,537.1	18,900.0	20,017.5	PAT	22.9	30.3	38.9	14.8	18.7
Gross block	8,437.6	7,320.0	8,936.2	13,436.2	14,936.2	Per Share (Rs.) *					
Accumulated depreciation	(2,272.1)	(2,915.4)	(3,630.5)	(4,452.0)	(5,610.3)	Net Earnings (EPS)	4.5	5.5	7.19	8.3	9.8
Net block	6,165.5	4,404.7	5,305.7	8,984.2	9,325.9	Cash Earnings (CPS)	7.0	8.4	10.3	11.9	14.9
Capital WIP	620.3	352.8	1,323.1	1,000.0	500.0	Dividend	0.5	0.7	0.7	0.7	0.7
Total fixed assets	6,785.8	4,757.4	6,628.8	9,984.2	9,825.9	Book Value	21.1	30.7	38.7	46.3	55.6
Intangible Assets	-	828.2	750.1	825.1	907.6	Free Cash Flow	(1.2)	(2.9)	(7.4)	(6.2)	6.0
Investments	1.9	889.5	751.2	0.0	0.0	Valuation Ratios					
Other non current assets	0	329.8	211.6	232.8	256.1	P/E(x)	28.1	22.9	17.4	15.1	12.7
Inventories	2,245.2	2,101.3	2,375.9	2,505.8	2,858.0	P/B(x)	5.9	4.1	3.2	2.7	2.2
Sundry debtors	1,326.3	4,441.6	4,683.1	5,011.7	5,716.0	EV/EBIDTA(x)	14.3	11.1	11.2	10.5	8.2
Cash & bank	653.1	1,105.9	393.7	350.3	501.0	EV/SALES(x)	2.3	2.2	2.3	2.2	1.9
Loans & advances	254.5	621.1	1,812.5	1,993.7	2,193.1	Div. Yield(%)	0.4	0.5	0.5	0.5	0.5
Other current assets	704.6	603.1	942.9	1,037.2	1,141.0	FCF Yield(%)	(1.0)	(2.3)	(5.9)	(5.0)	4.8
Sundry creditors	(1,887.2)	(1,771.5)	(2,099.0)	(2,035.8)	(2,275.5)	Return Ratios (%)					
Other liabilities	(233.2)	(788.7)	(897.6)	(987.4)	(1,086.1)	ROE	21.1	17.8	18.6	17.8	17.7
Provisions	(174.8)	(15.8)	(16.0)	(17.6)	(19.4)	ROCE	17.0	17.2	15.3	14.2	15.9
Working capital	2,888.4	6,296.9	7,195.4	7,857.8	9,027.9						
Miscellaneous exp.	-	-	-	-	-						
CAPITAL DEPLOYED	9,676.2	13,101.8	15,537.1	18,900.0	20,017.5						

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