



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Charulata Gaidhani (022) 67141446

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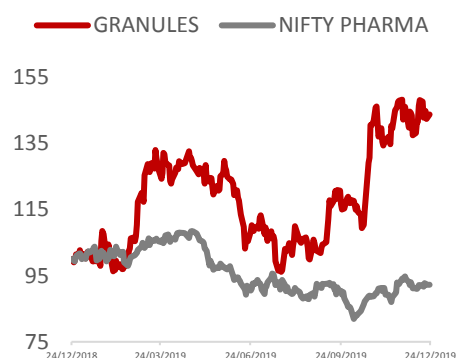
Not Rated

Current Price	128
52 Week Range	84/136

Key Share Data

Market Cap (Rs.bn)	32.54
Market Cap (US \$bn)	0.45
No of o/s shares (mn)	254
Face Value	1
Monthly Avg.vol (BSE+NSE) Nos'000	1647
BSE Code	532482
NSE Code	GRANULES
Bloomberg	GRAN:IN

Price performance



% Shareholding	Sep-19	Jun-19
Promoters	42.90	42.90
FII	14.44	13.88
DII	3.25	2.11
Others	39.41	41.11
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY17	14,352.5	0.3	2,988.4	20.8	1,645.2	38.9	7.2	17.8	18.2	14.3
FY18	16,918.7	17.9	2,784.4	16.5	1,326.1	(19.4)	5.2	24.5	10.2	8.7
FY19	22,792.0	34.7	3,840.4	16.8	2,364.1	78.3	9.3	13.8	15.5	11.3
FY 20E	27,511.5	20.7	5,637.5	20.5	3,304.8	39.8	13.0	9.8	17.9	16.3
FY21E	33,126.8	20.4	7,299.5	22.0	4,499.4	36.1	17.7	7.2	19.7	19.1

Granules India Limited is an Indian pharmaceutical manufacturing company based in Hyderabad. Granules manufactures several off-patent over the counter (OTC) as well as Rx drugs, including **Paracetamol (30% of Revenue), Ibuprofen, Metformin (20% of Revenue) and Guaifenesin**, on a large scale for customers in the regulated and semi-regulated markets.

Growth Guidance – The management retained guidance of *18-20% Topline growth and 25% bottom line growth over the next 2-3 years*. The major growth drivers will be 200 bps improvements in EBITDA margin due to change in molecules mix and higher contribution of FD's (Finished Dosages) and PFI's (Pharmaceutical Formulation Intermediary (Granules). Further, the increasing contribution of US to sales will also be margin accretive.

In Q2FY20, Income from operations grew 20.4% yoy to INR 7000 mn in as against INR 5810 mn in Q2FY19. The operating margin stood at 20.5%, rising 322bps yoy. In terms of bottom line, a 102.8% yoy rise in its PAT at INR 472 mn excluding joint venture profit. The share of the JV profit came in at INR 130 mn, hence, total PAT stood at INR 600 mn.

Geographic Sales (Q2FY20) – Geographically, US contributes 53% (v/s 46% in Q2FY19), Europe 20% (Flat YoY), India 14% (v/s 22% in Q2FY19), LATAM 8% (Flat YoY), and Rest of the world 4% (v/s 5% in Q2FY19) to the Topline. The management expects US to contribute heavily to the topline and would remain the key market for them. Currently in the US market, the company is currently commercializing 4 products (The management guides that, they have already acquired **50% market share individually** in all the 4 products) and has 20 products in the pipeline (Expects approval for the same in the 18-20 months). Out of the total US sales, 20% of the sales are via OTC sales. Further, out of the total US sales, 92% sales are from own ANDA's and 8% is CMO sales. The company plans to enter new markets like CSI and Russia and has already filed for methocarbamol, in CSI and Russia.

Financial Metrics – Granules will not take any additional debt for any sort of activity and any expansion etc., will be funded through internal accruals. As of Q2FY20, the Net Debt stood at INR 8265 mn (v/s 10084 mn in Q2FY19) and Net Debt/Ebitda stood at 1.6x (v/s 2.9x in Q2FY19). The company has incurred CAPEX of INR 12040 mn, FY16 - FY19, and going forward CAPEX run-rate of ~INR 2000 mn every year, would be maintained and no major CAPEX is planned. The cost of long term and short term debt (both in foreign currency) stands at 2-2.5% and 2.9-3%, respectively.

Promoter Pledge – The promoters reiterated that they would bring down their pledge down to ZERO by FY 21. In the recent past, the pledge has been reduced from a peak of 60% of Promoter Holdings to 30% currently.

Large Volume Drugs and Raw materials Sourcing – The Company manufactures Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol in large volumes. 65% of the API are used in house for manufacturing PFI and FD's. The company sources 65% of Raw Material for API manufacturing (31% contribution to sales), from China and partially from Germany.

Manufacturing Capacities – Granules has 6 manufacturing capacities, out of which 5 are in India and 1 is in US. Currently, Granules is having spare capacity of 35% in API, 30% in PFI and 10% in FD's. The facilities are running at optimum capacity utilization. The new Oncology API facility would trigger US FDA inspection in May and EU in the coming few months. The management expects Asset Turnover of 2x after 2 years. (Investment made of INR 2800mn).

Outlook and Valuation

The performance of the company has been remarkable in the last 2 quarters and the company has been performing better than guided. Lowering of CAPEX and utilizing capacities will improve ROE and ROCE. At CMP, Granules is trading at 9.8x FY20E and 7.2x FY21E at an EPS of Rs. 13 and Rs. 17.7 in FY20E and FY21E, respectively.



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Granules India Limited											
P&L (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY17	FY18	FY19	FY20E	FY21E
Raw materials	(7,043.2)	(9,035.5)	(12,555.6)	(13,687.0)	(16,480.6)	Add: Dep. & Amort.	715.1	762.0	1,054.8	1,238.6	1,411.8
Employee costs	(1,401.9)	(1,652.1)	(2,098.2)	(2,622.8)	(3,147.4)	Cash profits	2,360.3	2,088.2	3,418.9	4,543.4	5,911.1
Other Expenses	(2,919.1)	(3,446.7)	(4,297.7)	(5,564.2)	(6,199.4)	(Inc)/Dec in					
Cost of sales	(11,364.2)	(14,134.3)	(18,951.6)	(21,874.0)	(25,827.4)	-Sundry debtors	(423.5)	(1,993.8)	(564.7)	(877.4)	(1,553.8)
Operating Profit	2,988.4	2,784.4	3,840.4	5,637.5	7,299.5	-Inventories	(154.6)	(107.7)	(1,042.7)	(303.4)	(846.1)
Depreciation	(715.1)	(762.0)	(1,054.8)	(1,238.6)	(1,411.8)	-Loans/advances	23.7	(117.7)	(67.2)	(40.2)	(24.1)
PBIT	2,273.3	2,022.4	2,785.5	4,398.9	5,887.7	-Sundry creditors	348.8	362.1	712.9	(984.9)	685.0
Other income	99.3	108.4	266.8	333.5	416.9	-Others	(296.7)	(466.0)	1,099.6	220.3	18.1
Interest	(322.6)	(330.6)	(284.6)	(266.5)	(248.9)	Change in working capital	(502.4)	(2,323.0)	138.0	(1,985.5)	(1,721.0)
Profit before tax	2,049.9	1,800.2	2,767.8	4,465.9	6,055.7	CF from Oper. activities	1,857.9	(234.8)	3,556.9	2,557.9	4,190.2
Provision for tax	(652.0)	(634.0)	(891.1)	(1,161.1)	(1,556.3)	CF from Inv. activities	(3,789.6)	(5,040.1)	(3,083.0)	(459.2)	(2,158.6)
Reported PAT	1,397.9	1,166.3	1,876.7	3,304.8	4,499.4	CF from Fin. activities	1,126.8	5,933.3	(739.9)	(1,116.3)	(668.5)
Share of Profit	247.3	159.9	487.4	-	-	Cash generated/(utilised)	(804.9)	658.4	(266.0)	982.4	1,363.1
Adjusted PAT	1,645.2	1,326.1	2,364.1	3,304.8	4,499.4	Cash at start of the year	1,302.9	498.0	1,156.4	890.4	1,872.8
						Cash at end of the year	498.0	1,156.4	890.4	1,872.8	3,235.8
Balance Sheet	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY17	FY18	FY19	FY20E	FY21E
Equity capital	228.7	253.8	254.2	254.2	254.2	OPM	20.8	16.5	16.8	20.5	22.0
Reserves	8,807.3	12,787.9	15,040.5	18,218.1	22,590.4	NPM	11.4	7.8	10.3	11.9	13.4
Net worth	9,036.0	13,041.8	15,294.7	18,472.3	22,844.6	Tax rate	(31.8)	(35.2)	(32.2)	(26.0)	(25.7)
Other Non Current Liabilities	72.5	77.0	125.8	138.4	149.5	Growth Ratios (%)					
Deferred Tax Liabilities	565.0	543.1	654.9	687.7	722.1	Net Sales	0.3	17.9	34.7	20.7	20.4
Total debt	6,818.4	10,082.3	9,329.9	8,328.9	7,778.9	Operating Profit	7.4	(6.8)	37.9	46.8	29.5
CAPITAL EMPLOYED	16,491.8	23,744.2	25,405.3	27,627.3	31,495.0	PAT	38.9	(19.4)	78.3	39.8	36.1
Gross block	8,657.2	10,739.9	12,262.4	13,762.4	15,262.4	Per Share (Rs.)*					
Accumulated depreciation	(2,970.0)	(3,732.0)	(4,786.8)	(6,025.5)	(7,437.2)	Net Earnings (EPS)	7.19	5.2	9.3	13.0	17.7
Net block	5,687.3	7,007.9	7,475.6	7,736.9	7,825.2	Cash Earnings (CPS)	10.3	8.2	13.5	17.9	23.3
Capital WIP	1,302.6	2,900.7	3,235.0	3,558.5	3,843.2	Dividend	0.7	0.7	0.7	0.7	0.7
Total fixed assets	6,989.9	9,908.6	10,710.5	11,295.4	11,668.3	Book Value	39.5	51.4	60.3	72.8	90.0
Intangible Assets	2,127.8	3,003.8	3,691.4	4,036.3	4,450.2	Free Cash Flow	(8.4)	(20.8)	1.9	8.3	8.0
Investments	1,082.3	1,565.6	2,104.2	395.0	355.0	Valuation Ratios					
Other non current assets	258.9	224.4	276.2	303.8	334.2	P/E(x)	17.8	24.5	13.8	9.8	7.2
Inventories	2,691.8	2,799.5	3,842.1	4,145.6	4,991.7	P/B(x)	3.2	2.5	2.1	1.8	1.4
Sundry debtors	4,177.0	6,170.8	6,735.4	7,612.8	9,166.6	EV/EBIDTA(x)	11.5	14.3	10.1	6.8	5.0
Cash & bank	498.0	1,156.4	890.4	1,872.8	3,235.8	EV/SALES(x)	2.4	2.4	1.7	1.4	1.1
Loans & advances	15.9	133.6	200.8	241.0	265.1	Div. Yield(%)	0.5	0.5	0.5	0.5	0.5
Other current assets	899.0	1,402.2	1,317.8	1,449.5	1,739.4	FCF Yield(%)	(6.6)	(16.2)	1.5	6.5	6.3
Sundry creditors	(2,159.8)	(2,521.8)	(3,234.8)	(2,249.9)	(2,934.9)	Return Ratios (%)					
Other liabilities	(2,295.4)	(2,694.7)	(4,422.8)	(3,790.0)	(4,783.0)	ROE	18.2	10.2	15.5	17.9	19.7
Provisions	(16.0)	(26.7)	(43.4)	(52.1)	(62.5)	ROCE	14.3	8.7	11.3	16.3	19.1
Working capital	5,986.3	8,967.6	8,563.7	11,531.6	14,615.6						
Miscellaneous exp.	46.7	74.1	59.2	65.1	71.7						
CAPITAL DEPLOYED	16,491.9	23,744.2	25,405.3	27,627.3	31,495.1						

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



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