

India

July 30, 2021 - 10:42 AM

ADD (no change)

Consensus ratings*: Buy 6 Hold 1 Sell 1

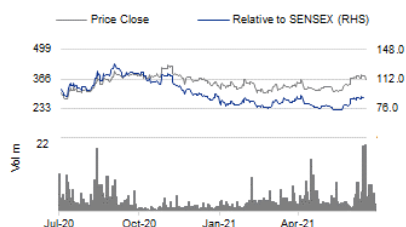
Current price:	Rs371
Target price:	Rs447
Previous target:	Rs447
Up/downside:	20.5%
InCred Research / Consensus:	5.4%

Reuters:	GRAN.NS
Bloomberg:	GRAN IN
Market cap:	US\$1,238m
	Rs91,937m
Average daily turnover:	US\$18.7m
	Rs1386.5m
Current shares o/s:	247.6m
Free float:	58.0%

*Source: Bloomberg

Key financial forecast

	Mar-21F	Mar-22F	Mar-23F
Net Profit (Rsm)	5,495	5,587	7,379
Core EPS (Rs)	21.89	22.56	29.79
Core EPS Growth	76.60%	3.00%	32.10%
FD Core P/E	16.97	16.48	12.47
Recurring ROE	27.40%	22.90%	24.20%
P/BV (x)	4.24	3.41	2.7
DPS (Rs)	1.25	1.25	1.25
Dividend Yield	0.34%	0.34%	0.34%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	14.3	12.0	31.3
Relative (%)	13.9	3.7	(5.9)

Major shareholders	% held
Promoter & Promoter Group	42.0
Government Pension Fund Global	3.2
Fidelity Funds	2.4

Analyst(s)

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Granules India Ltd

Earnings above estimates

- 1QFY22 revenue was in line with our estimates, while EBITDA and PAT were below our estimates. Revenue/EBITDA/PAT grew by 15.5%/9.7%/7.9% yoy.
- Gross margin at 54.2% contracted by 530bp yoy due to increase in KSM prices and reduction in margins on paracetamol products.
- We maintain our Add rating and TP of Rs447.

1QFY21 revenue in line; net earnings above estimates

- Total revenue of Rs8.5bn grew by 15.5% yoy/6.3% qoq in line with our expectations. Yoy growth was on account of new launches and increased market share for existing products, partially offset by loss of Merchandise Exports from India Scheme (MEIS) benefit. API business revenue grew by 5.6% yoy/15.6% qoq at Rs2.2bn, Pharmaceutical Formulation Intermediates (PFI) business grew by 24.7% yoy/19.1% qoq at Rs1.7bn and Finished Dosages business grew by 17.7% yoy/-1.5% qoq at Rs4.5bn.
- EBITDA at Rs2bn grew by 9.7% yoy, above our estimate of Rs1.8bn. EBITDA margin at 23.7% contracted by 130bp yoy on account of lower profitability in paracetamol products, higher logistic cost as well as lower gross margins.
- Reported PAT stood at Rs1.2bn, which was above our estimate of Rs1.1bn due to higher-than-expected operating performance.
- As of Jun 2021, the company has filed 69 ANDAs, out of which 46 are approved, two are temporary approvals and 21 are to be approved.

Key takeaways from the results conference call

- Management stated that availability of para-aminophenol was a great challenge in 1QFY22. However, it has started to ease from the current quarter.
- Management highlighted that gross margin contracted sequentially due to high KSM prices during the quarter. It also stocked up raw materials due to COVID-19 disruptions.
- Management stated that the capacity expansion on MUPS plant would be completed and commercialized from 4QFY22. It added that 15 MUPS products were under development for the US and EU regions.
- R&D spend in 1QFY22 was Rs270m. Management said that R&D would be high during the year. It guided for total R&D spend of Rs1.4-1.5bn in FY22.
- The PFI yoy growth was mainly due to expansion into new geographies. Among existing geographies, share of LATAM in PFIs has increased while new geographies such as Africa have also done well.
- The company launched one large volume product in the US in 1QFY22 whose market size is ~US\$100m. It also launched around 4-5 controlled substance products so far and the company has majority market share in all of them.
- Management guided for 8-10 new product launches in the US in FY22 whose market size could be ~US\$150m.

On recent speculation on sale of the business, management clarified that it has no intentions to exit the company and has plans in place for the growth of the company.

Figure 1: Granules' quarterly sales breakdown

Particulars	1QFY21	1QFY22	% yoy	4QFY21	% qoq	FY20	FY21	% yoy
API	2,121	2,240	5.6	1,938	15.6	8,171	9,124	11.7
% of sales	28.8	26.4		24.2		31.4	28.2	
PFI	1,379	1,720	24.7	1,444	19.1	4,214	6,262	48.6
% of sales	18.7	20.2		18.1		16.2	19.3	
Finished Dosages	3,856	4,540	17.7	4,611	-1.5	13,601	16,989	24.9
% of sales	52.4	53.4		57.7		52.3	52.5	
Total	7,356	8,500	15.6	7,993	6.3	25,986	32,375	24.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly consolidated summary

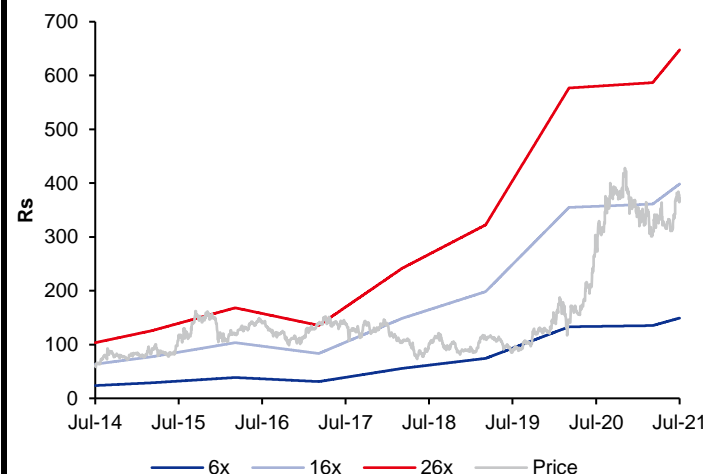
YE 31 March (Rsm)	1QFY21	1QFY22	% yoy	4QFY21	% qoq	FY20	FY21	% yoy
Sales (Rsm)	7,356	8,498	15.5	7,993	6.3	25,986	32,375	24.6
Gross Profit (Rsm)	4,380	4,608	5.2	4,578	0.7	8,137	9,910	21.8
Gross Margin (%)	59.5	54.2	-533bps	57.3	-305bps	31.3	30.6	-70bps
EBITDA (Rsm)	1,836	2,014	9.7	2,020	-0.3	5,040	8,552	69.7
EBITDA margin (%)	25.0	23.7	-126bps	25.3	-157bps	19.4	26.4	702bps
Finance expenses (Rsm)	60	68	14.1	68	-0.4	270	263	-2.7
Depreciation (Rsm)	341	394	15.6	445	-11.5	1,370	1,515	10.6
Other income (Rsm)	56	76	35.4	33	132.5	366	269	-26.5
PBT before exceptional items (Rsm)	1,492	1,629	9.2	1,540	5.8	4,043	7,044	74.2
Exceptional items (Rsm)	0	0	0.0	0	0.0	277	0	NM
PBT after exceptional items (Rsm)	1,492	1,629	9.2	1,540	5.8	4,043	7,044	74.2
Tax (Rsm)	377	427	13.1	264	61.5	1,157	1,549	33.9
Effective tax rate (%)	25.3	26.2	NM	17.2	NM	28.6	22.0	NM
Reported PAT (Rsm)	1,114	1,202	7.9	1,276	-5.8	3,354	5,495	63.8
Adjusted PAT (Rsm)	1,114	1,202	7.9	1,276	-5.8	3,152	5,495	74.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Annual revenue breakdown assumptions

Particulars (Rsm)	FY20	FY21F	FY22F	FY23F
Finished Dosages (FDs)	13,601	16,989	21,014	25,638
% yoy	26.4%	24.9%	23.7%	22.0%
% sales	52.3%	52.5%	54.7%	56.2%
Pharmaceutical Formulation Intermediates (PFIs)	4,214	6,262	6,888	7,921
% yoy	8.9%	48.6%	10.0%	15.0%
% sales	16.2%	19.3%	17.9%	17.4%
Active Pharmaceutical Ingredients (APIs)	8,171	9,124	10,493	12,066
% yoy	-0.4%	11.7%	15.0%	15.0%
% sales	31.4%	28.2%	27.3%	26.4%
Total	25,986	32,375	38,394	45,626
% yoy	13.8%	24.6%	18.6%	18.8%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: P/E band: One-year forward


SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 5: P/E standard deviation: One-year forward


SOURCES: INCRED RESEARCH, BLOOMBERG

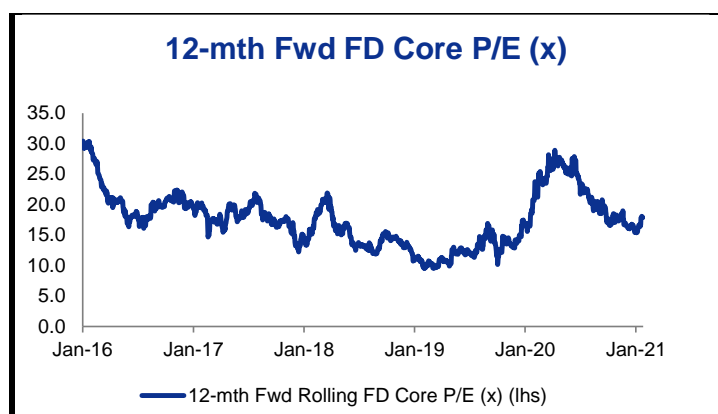
BY THE NUMBERS

Profit & Loss				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Net Revenues	25,986	32,375	38,394	45,626
Gross Profit	13,177	18,463	19,965	24,318
Operating EBITDA	5,253	8,552	9,016	11,512
Depreciation And Amortisation	(1,370)	(1,515)	(1,788)	(1,998)
Operating EBIT	3,884	7,038	7,228	9,514
Financial Income/(Expense)	(270)	(263)	(255)	(227)
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	366	269	282	296
Profit Before Tax (pre-EI)	3,979	7,044	7,256	9,584
Exceptional Items	277			
Pre-tax Profit	4,256	7,044	7,256	9,584
Taxation	(1,157)	(1,549)	(1,669)	(2,204)
Exceptional Income - post-tax				
Profit After Tax	3,099	5,495	5,587	7,379
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	255			
Net Profit	3,354	5,495	5,587	7,379
Recurring Net Profit	3,152	5,495	5,587	7,379
Fully Diluted Recurring Net Profit	3,152	5,495	5,587	7,379

Balance Sheet				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Cash And Equivalents	2,839	2,710	4,218	6,214
Total Debtors	7,352	7,654	8,941	10,625
Inventories	4,384	7,822	8,626	10,250
Total Other Current Assets	1,344	1,784	1,432	2,305
Total Current Assets	15,920	19,970	23,217	29,395
Fixed Assets	13,520	15,168	17,379	18,381
Total Investments	193	190	228	273
Intangible Assets	1,461	543	489	440
Total Other Non-Current Assets	1,920	1,264	1,264	1,264
Total Non-current Assets	17,095	17,164	19,360	20,358
Short-term Debt	3,717	4,093	4,293	4,493
Current Portion of Long-Term Debt				
Total Creditors	4,300	5,410	5,806	6,713
Other Current Liabilities	1,648	2,228	2,228	2,228
Total Current Liabilities	9,665	11,731	12,327	13,434
Total Long-term Debt	4,215	3,411	2,980	1,980
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
Total Non-current Liabilities	4,215	3,411	2,980	1,980
Total Provisions	697	259	259	259
Total Liabilities	14,578	15,402	15,566	15,673
Shareholders Equity	18,437	21,733	27,010	34,080
Minority Interests				
Total Equity	18,437	21,733	27,010	34,080

Cash Flow				
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F
EBITDA	5,253	8,552	9,016	11,512
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(944)	(1,845)	(1,343)	(3,275)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	277			
Net Interest (Paid)/Received	(270)	(263)	(255)	(227)
Tax Paid	(1,257)	(1,954)	(1,669)	(2,204)
Cashflow From Operations	3,059	4,491	5,750	5,806
Capex	(1,949)	(2,244)	(3,946)	(2,951)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	366	269	282	296
Cash Flow From Investing	(1,584)	(1,975)	(3,663)	(2,655)
Debt Raised/(repaid)	(1,398)	(428)	(231)	(800)
Proceeds From Issue Of Shares				
Shares Repurchased		(1,400)		
Dividends Paid	(307)	(310)	(310)	(310)
Preferred Dividends				
Other Financing Cashflow	2,178	(508)	(38)	(46)
Cash Flow From Financing	474	(2,645)	(579)	(1,155)
Total Cash Generated	1,949	(129)	1,507	1,996
Free Cashflow To Equity	78	2,088	1,855	2,352
Free Cashflow To Firm	1,746	2,779	2,341	3,378

Key Ratios				
	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue Growth	14.0%	24.6%	18.6%	18.8%
Operating EBITDA Growth	36.8%	62.8%	5.4%	27.7%
Operating EBITDA Margin	20.2%	26.4%	23.5%	25.2%
Net Cash Per Share (Rs)	(20.03)	(19.35)	(12.33)	(1.04)
BVPS (Rs)	72.52	87.75	109.05	137.60
Gross Interest Cover	14.37	26.78	28.40	41.99
Effective Tax Rate	27.2%	22.0%	23.0%	23.0%
Net Dividend Payout Ratio	6.0%	4.4%	4.3%	3.2%
Accounts Receivables Days	98.93	84.59	78.88	78.26
Inventory Days	117.21	160.11	162.87	161.67
Accounts Payables Days	107.35	127.38	111.08	107.23
ROIC (%)	17.3%	29.3%	27.2%	31.6%
ROCE (%)	14.9%	25.1%	22.8%	25.4%
Return On Average Assets	14.3%	20.8%	18.8%	21.3%



Key Drivers				
	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Unit sales grth (% main prod./serv.)	14.0%	24.6%	18.6%	18.8%
R&D Cost/sales(%)	3.0%	3.1%	3.5%	3.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.