CGSCIMB | InCred Equities

Company Note

Pharmaceuticals | India | May 28, 2021

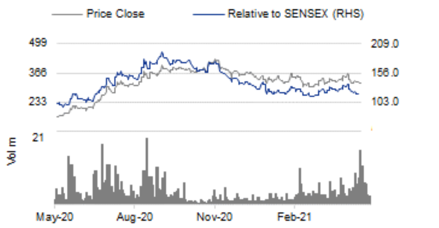
India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 8	Hold 2	Sell 1

Current price:	Rs316
Target price:	Rs447
Previous target:	NA
Up/downside:	41.5%
InCred Research / Consensus:	8.4%
Reuters:	GRAN.NS
Bloomberg:	GRAN IN
Market cap:	US$1,078m
	Rs78,240m
Average daily turnover:	US$13.7m
	Rs994.8m
Current shares o/s:	247.6m
Free float:	58.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.5)	(2.4)	81.7
Relative (%)	(6.1)	(6.2)	14.4

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

Granules India Ltd

Scaling up in size and value

- Granules is focusing on expanding its core business to new geographies by ramping up existing capacities and portfolios.
- We expect the finished dosages (FDs) segment to be the next growth driver, led by MUPS products and the launch of low-competition products in the US.
- We initiate coverage on Granules India with an Add rating and a TP of Rs447, valuing the company at 15x FY23F P/E.

Capacity expansion plans to steer API business growth

Granules India's Active Pharmaceutical Ingredients (API) business contributed 28% of total revenues in FY21 and grew by 11% CAGR over FY16-20, driven by capacity expansion of its API facilities for Paracetamol, Metformin and Guaifenesin. The company is undergoing major capex which will further expand the existing API facilities, thus adding new APIs and foraying into newer geographies. Hence, we believe Granules can register 15% revenue CAGR in its API business over FY21-23F.

Finished dosages to be the next growth driver

The FD business rose to 52% of Granules India's total revenue in FY21, from 32% in FY15, mainly driven by new launches. We expect this business to grow at 23% CAGR over FY21-23F, driven by launches of low-competition products using multiple units pellet system (MUPS) technology, ramp up of products in the US and entry into new geographies.

Gross margin pressure to ease by H2FY22F.

We expect gross margins to contract by 500bp to 52% in FY22F from 57% in FY21 due to shortage and price increase of PAP (para-aminophenol), acetic anhydride which are the key raw materials for product paracetamol, which is largest contributor to total revenues. Lower gross margins and higher R&D cost offset by low competition launches in US could lead to contraction in EBITDA margin by 290bps in FY22F. With PAP manufacturing capacities ramping up from end of 1QFY22 in India, we believe pressure on raw material prices to ease in H2FY22 and gross margins to gradually improve by 130bp in FY23, thereby expecting EBITDA margin to improve by 170bp in FY23F to 25%.

Valuation and risks

We initiate coverage on Granules India with an Add rating and a TP of Rs447, valuing the company at 15x FY23 P/E which is at a 7% premium to its historical eight-year mean. We believe this valuation is justified given: i) the company's expansion into new geographies, ii) traction in the US generics business due to low-competition product launches, and iii) improving cash flows and decline in debt. **Key catalysts**: Faster-than-expected launches in the US. **Key risks**: Disruption in sourcing of key starting materials (KSMs) from China and increase in prices of raw materials, and supply chain disruptions due to the second wave of COVID-19 infections, and market share erosion in core molecules.

Analyst(s)

Rashmi SANCHETI
T (91) 22 4161 1549
E rashmi.sancheti@incredcapital.com

Suraj UNADKAT
T 22 4161 1552
E suraj.unadkat@incredcapital.com

Financial Summary	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue (Rsm)	22,792	25,986	32,375	38,394	45,626
Operating EBITDA (Rsm)	3,840	5,253	8,552	9,016	11,512
Net Profit (Rsm)	2,364	3,354	5,495	5,587	7,379
Core EPS (Rs)	9.3	12.4	21.9	22.6	29.8
Core EPS Growth	69.3%	33.2%	76.6%	3.0%	32.1%
FD Core P/E (x)	33.95	23.95	14.43	14.00	10.60
DPS (Rs)	1.0	1.0	1.3	1.3	1.3
Dividend Yield	0.32%	0.32%	0.40%	0.40%	0.40%
EV/EBITDA (x)	22.56	15.86	9.71	9.01	6.82
P/FCFE (x)	(469.64)	1,033.79	37.96	42.18	33.27
Net Gearing	55.2%	27.6%	22.1%	11.3%	0.8%
P/BV (x)	5.25	4.36	3.60	2.90	2.30
ROE	16.7%	18.7%	27.4%	22.9%	24.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)				1.10	1.11

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 27 MAY 2021

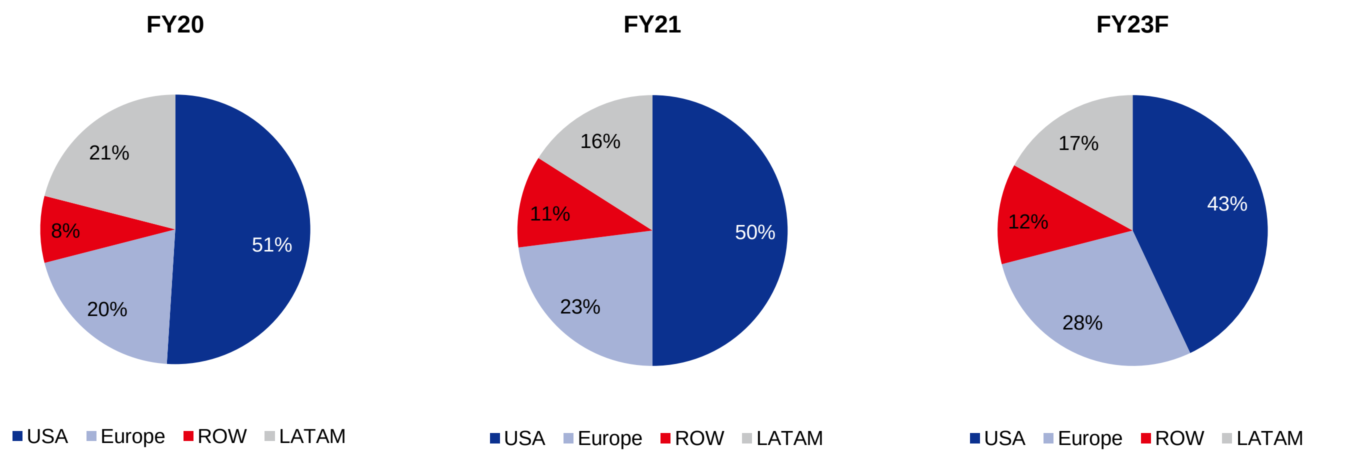
Scaling up in size and value

Large-scale manufacturing ensures sustained competitive advantage

Granules' core business comprises the entire pharmaceuticals manufacturing value chain, ranging from Active Pharmaceutical Ingredients (API) to finished dosages (FD). It comprises high volume and low value-based products such as Paracetamol, Metformin Hydrochloride, Ibuprofen, Guaifenesin, and Methocarbamol. In FY20, Granules added three more molecules – Losartan, Fexofenadine and Cetirizine, expanding its core portfolio to eight molecules.

The core molecules contributed 80-85% of the company's total revenue as on FY21. Core business growth will be driven by a) expanded capacities in high-volume products (API + FD) of Paracetamol, Metformin, Ibuprofen, Guaifenesin, Methocarbamol, b) ramp-up of utilisation at new capacities to expand global market shares in these APIs and forward integrated from API to FD, c) widening the existing portfolio into several dosage forms, and d) expanding the market to other regions by extending product filings for core molecules to the UK, Europe and Canada.

Figure 1: Contribution of core business of Paracetamol, Ibuprofen and Metformin in non-US markets to increase



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Active Pharmaceutical Ingredients (APIs)

Capacity expansions to steer growth

Granules' API business was 28% of total revenues in FY21. The company's focused API portfolio has made it one of the most cost-effective and efficient manufacturers of APIs globally. Its API facilities are located at Bonthapally, Jeedimetla and Vizag. The Bonthapally unit manufactures Paracetamol API, while the Jeedimetla unit manufactures Metformin, Guaifenesin, and Methocarbamol APIs. Granules is one of the largest suppliers of Paracetamol API and it contributes around 40-50% of the company's total revenues.

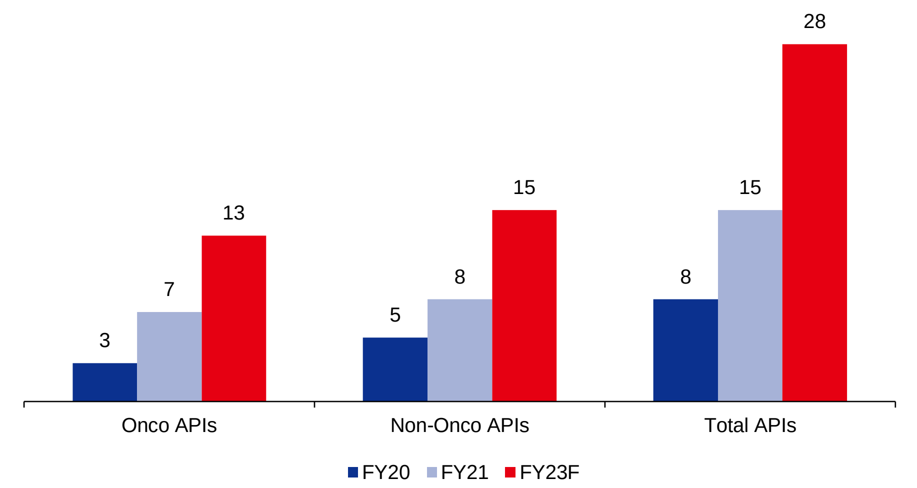
In 2014, Granules acquired Auctus Pharmaceuticals to strengthen its API portfolio. As of FY21, the company has ~15 API products in FY21 and expects it to increase to 28 in FY23, according to company reports. The company has also set up two newly commercialised multi-product and multi-stage API-to-FD manufacturing facilities at Vizag (Unit-IV and Unit-V). Unit-IV relates to Granules' core business and has received approvals from the United States Food and Drug Administration (USFDA), Korea Food and Drug Administration (KFDA), European Union Good Manufacturing Practice (EU GMP), World Health Organization Good Manufacturing Practice (WHO GMP) and European Directorate for the Quality of

Medicines (EDQM). Unit-V is a multi-API facility with capabilities of a) APIs and FDs in oncology therapeutics and b) development of new APIs, mainly niche and large volumes for backward integration. It has received EU GMP approval and is currently undergoing API expansion plans at this unit, for which the company has already invested Rs960m over the last two years and expects to commercialise by 4QFY22. As of Dec 2020, capacity utilisation of all the API facilities was 85%, whereas the Vizag unit, which has multi-API and Onco plants, was running at 20% capacity.

Most of the APIs manufactured by Granules are used for internal consumption. However, the company procures APIs or key starting materials (KSMs) from China and other countries. To derisk itself from China, the company has tied up with a few domestic companies to manufacture and supply some KSMs.

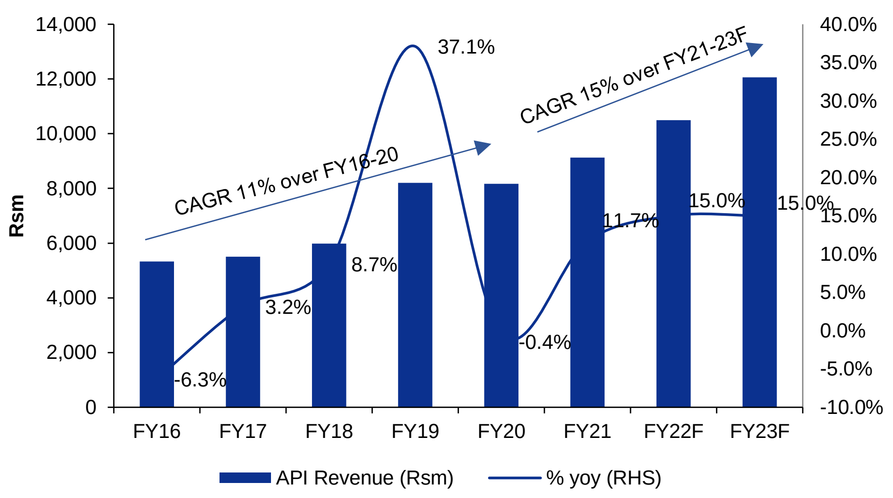
From FY16-20, Granules' API business grew at 11% CAGR, driven by capacity expansion of its API facilities for Paracetamol, Metformin and Guaifenesin. With further capacity expansion plans in place, along with the addition of new APIs and entry into new geographies, we expect the API business to grow by 15% CAGR over FY21-23F.

Figure 2: Total APIs could increase to 28 in FY23F with capacity expansions



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: We expect API revenue to grow at 15% CAGR over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Pharmaceutical Formulation Intermediates (PFIs)

Addition of new PFIs to ensure sustained business

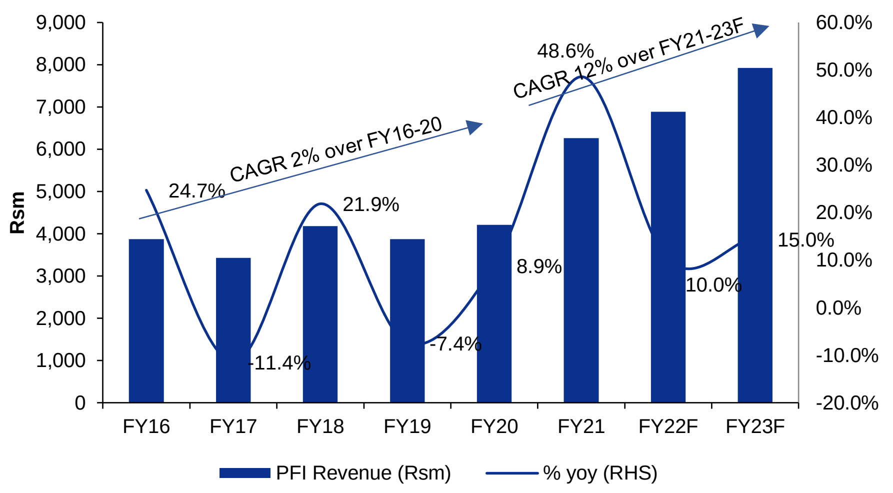
Granules' PFI business contributed 19% of total revenues in FY21. Granules is one of the largest PFI producers in India and has the world's largest PFI facility at Gagillapur, with installed capacity of 23,200tpa. Over the years, the company has pioneered the concept of commercialising PFIs for large volume molecules. What makes the PFIs produced by Granules unique is that they can be taken from drums to hopper and compressed into tablets directly. The company has two PFI facilities at Gagillapur and Jeedimatla where it processes these intermediates into finished dosages.

Some of the benefits that accrue to Granules from these PFIs are reduced vendor development cost, simplified supply chain management, lower testing costs, and reduction of capital expenditure.

In 3QFY21, Granules acquired land in Genome Valley for the construction of a PFI and FD manufacturing facility for about 10bn units of solid orals, other finished dosage forms and additional capacity for PFIs with expected capex of Rs4bn over the next three years. The facility will be operational in early FY24, according to the company. The company is also planning to add new PFIs with expanded capacities that will be launched in Latin America and rest of the world markets.

The PFI business grew at a mere 2% CAGR over FY16-20 as many of its customers shifted to FDs for large volume products. In FY21, it registered strong growth due to increasing market penetration with ramp up of orders from existing customers and more new customers. We expect revenue growth to remain steady at 10%/15% in FY22F/FY23F in PFIs with the continuation of orders from existing customers and addition of new PFIs.

Figure 4: We expect PFI segment to grow at CAGR 12% over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

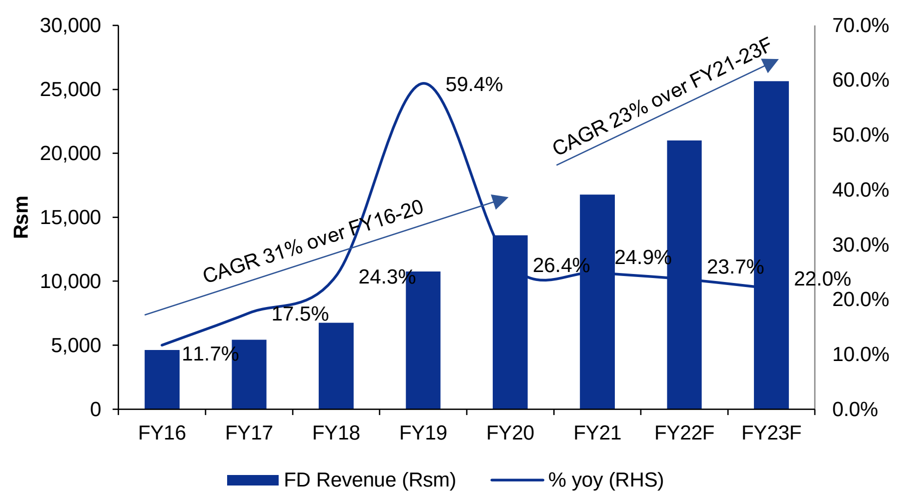
Finished dosages

Focus is on moving from low- to high-value products

The FD business contributed 52% of total revenues in FY21. The company gradually increased its FD share from 32% of revenues in FY15 backed by new launches. The company offers multiple finished dosage forms such as tablets, caplets and press-fit capsules in bulk, blister packs and bottles.

Granules' FD business grew at 31% CAGR over FY16-20 mainly led by new launches in the US. Going ahead, we expect this business to grow at 23% CAGR over FY21-23F driven by low-competition product launches from MUPS technology, ramp up of products in the US and entry into new geographies.

Figure 5: We project 23% revenue CAGR for FD segment over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

MUPS technology

Granules is investing in a multi-unit pellet system (MUPS) technology to make sustained release tablets, capsules and other dosage forms. MUPS is a complex technology compared to the normal manufacturing and the scale at which it will manufacture is large. According to Granules India, it will invest Rs2.4bn over FY21- FY22F in this technology, which will be funded entirely by internal accruals.

The products manufactured in this MUPS block will be integrated with APIs from the Multi API block from Unit-V in Vizag. The company expects the block to have a manufacturing capacity of 2.5bn-5bn FDs p.a. and will be operational by 4QFY22.

US generics

The US contributed 50-52% of the total FD revenue as on FY21. In 2014, the company incorporated Granules Pharmaceuticals Inc (GPI), a 100% subsidiary focused on developing controlled substances and niche products, with a manufacturing setup at Virginia, US, to file its own ANDAs in the US market. It operates as an R&D, manufacturing and front-end division for marketing Rx products in the US. GPI commenced commercial operations in FY19. Granules USA (GUSA), incorporated in 2003, operates as a B2B Marketing & Distribution arm for APIs, PFIs and FDs (Rx & OTC).

Cumulatively, Granules has 49 ANDA filings, 38 ANDA approvals (including one tentative), of which GPI has 17 approvals with total products launched in US stands at 31 (8-9 launches from GPI). Company has 23 ANDAs under development and 7 acquired ANDAs awaiting tech transfer which are yet to be filed with USFDA. Management is targeting to launch remaining 7 approved products by H1FY22.

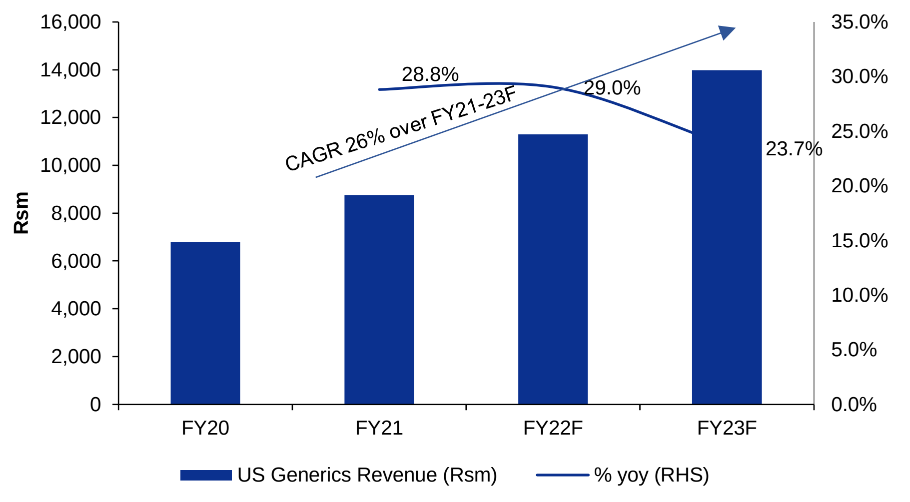
In early FY21, Granules suffered a setback as there was a recall of Metformin Extended Release (ER) 750mg in the US market, due to slightly higher levels of nitrosamine impurity N-nitrosodimethylamine (NDMA) found in one batch. Thereafter, the product was relaunched in 4QFY21. The company continued to supply 500mg, 850mg and 1,000mg of Metformin Immediate Release (IR) tablets as they remained unaffected by the recall. Recently, the company received USFDA approval for Metformin ER 500mg and 1000mg tablets. We believe Metformin remains a top priority product and contributes significantly to US FD sales.

The company is moving up from low- to high-value products and focusing on low-competition launches to drive growth in FD sales in the US. It has launched Colchicine tablets, with a market size of about US$491m as on March 2020, as per IQVIA Health. We believe Granules can generate US$9.8m from the product in FY22F and US$7.8m in FY23F assuming 40% market share.

In Oct 2020, Granules received approval for Potassium Chloride ER tablets, which is the first product manufactured via the MUPS technology. We believe it is a low-competition product with four to five players and expect revenues of US$11.8m in FY22F and US$15.5m in FY23F from this product. Management highlighted in the 3QFY21 earnings call that another MUPS technology-based product, which has a generic market size of $60m with four other competitors, will be launched in late FY22.

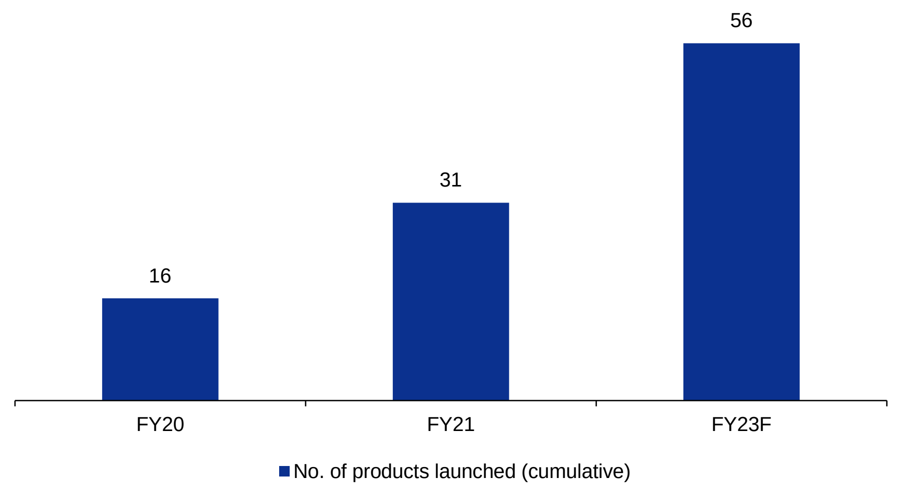
We believe the US generics business will continue to gain traction, led by 9-10 product launches per year, mainly focusing on high-value low-volume products. We expect US FD sales to grow by 26% CAGR over FY21-23F.

Figure 6: New product launches to support strong growth in the US



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: Expect traction in new product launches to continue

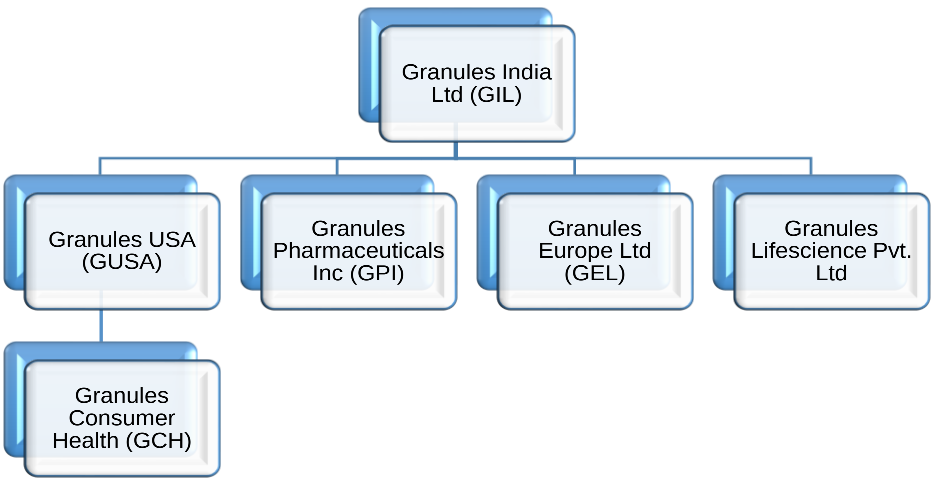


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Business overview

Granules India is a growing pharmaceuticals manufacturing company with best-in-class facilities and is committed to operational excellence, quality and customer service. The company produces finished dosages, pharmaceutical formulation intermediates and APIs which give customers flexibility and choice. Granules supports customers with unique value, extensive product range, and proactive solutions. The company's global presence extends to over 250 customers in 60 countries through offices in India, the US, and the UK. The company has six manufacturing facilities out of which five are in India and one in the US as of March 2021.

Figure 8: Current business structure



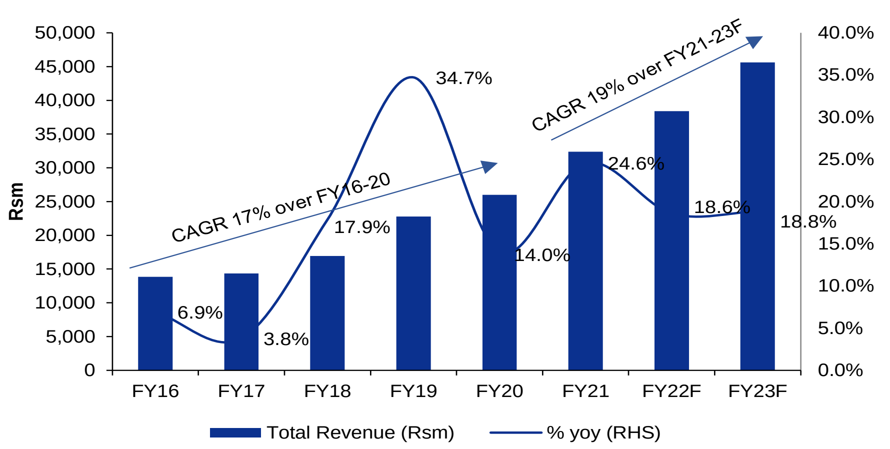
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key financials

Expect 19% revenue CAGR over FY21-23F

Granules delivered 17% revenue CAGR over FY16-20, mainly driven by strong growth in the FD sales and API segment backed by product launches and capacity enhancements. Further, with the ramp up of low competition product launches, expanding core molecule footprints into newer geographies and adding new API and PFI products, we project revenue CAGR of 19% over FY21-23F.

Figure 9: We expect total revenue CAGR of 19% over FY21-23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Annual revenue breakdown assumptions

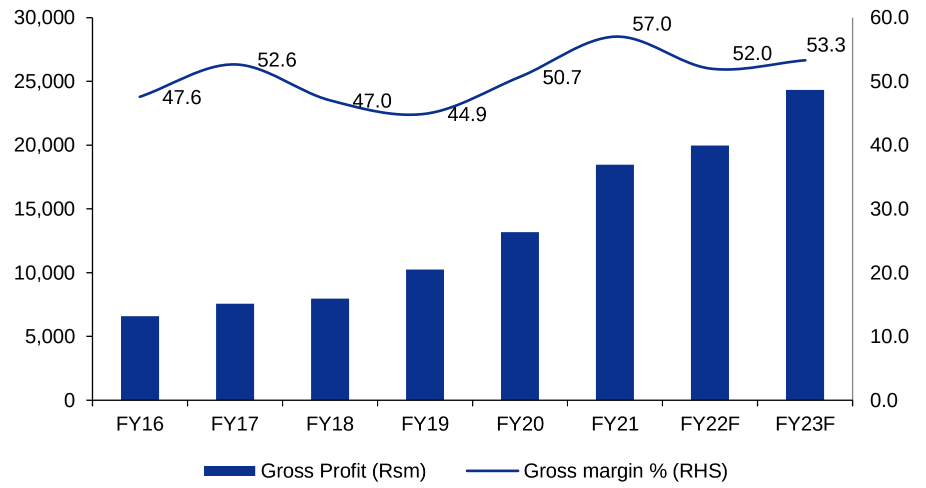
Particulars (Rsm)	FY20	FY21	FY22F	FY23F
Finished Dosages (FDs)	**13,601**	**16,989**	**21,014**	**25,638**
% yoy	*26.4%*	*24.9%*	*23.7%*	*22.0%*
% sales	*52.3%*	*52.5%*	*54.7%*	*56.2%*
US	6,801	8,760	11,303	13,985
% yoy		*28.8%*	*29.0%*	*23.7%*
% of FD sales	*50.0%*	*51.6%*	*53.8%*	*54.5%*
Non-US	6,801	8,229	9,710	11,652
% yoy		*21.0%*	*18.0%*	*20.0%*
% of FD sales	*50.0%*	*48.4%*	*46.2%*	*45.5%*
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

Gross margin pressure to ease in H2FY22

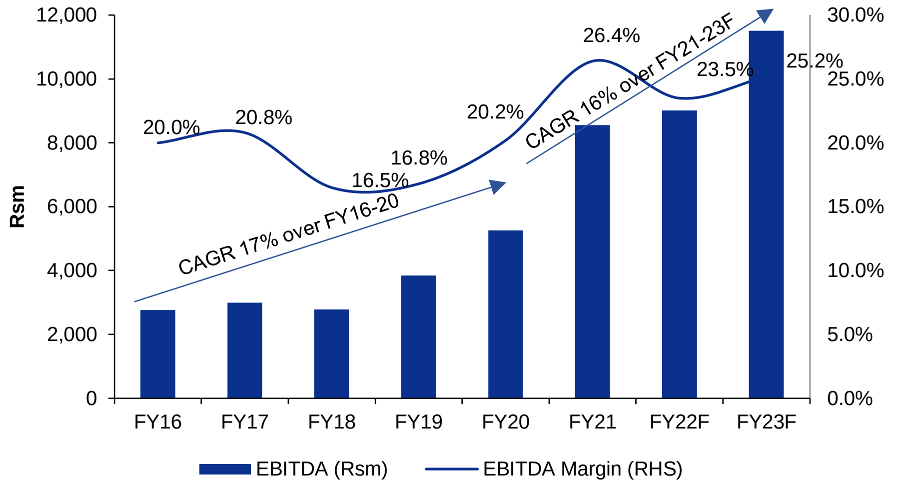
We expect gross margins to contract by 500bp to 52% in FY22F from 57% in FY21 due to shortage and price increase of PAP (para-aminophenol), acetic anhydride which are key raw materials for product paracetamol which is largest contributor to total revenues. PAP prices are increasing due to shutdown of largest manufacturer's plant due to pollution. Similarly acetic anhydride shortage is also due to plant shutdown in China. Lower gross margins and higher R&D cost offset by low competition launches in US will lead to contraction in EBITDA margin by 290bps in FY22F. With PAP manufacturing capacities ramping up in India by Sadana Nitrochem, Aarti Industries and Kutch Chemicals from end of 1QFY22 in India, we believe pressure on raw material prices to ease in H2FY22 and gross margins to gradually improve by 130bp in FY23, thereby expecting EBITDA margin to improve by 170bp in FY23F to 25% from 23.5% in FY22F.

Figure 11: Higher raw materials prices leading to contraction in gross margins



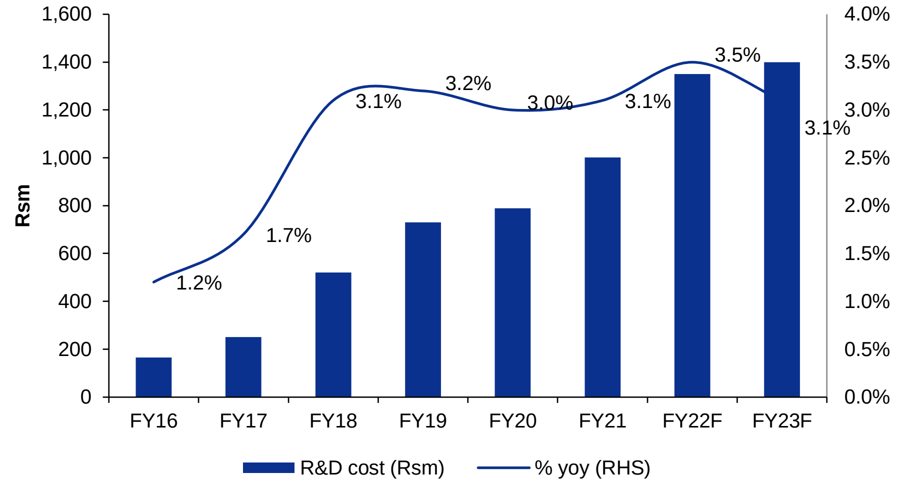
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Easing of gross margin pressure to lead EBITDA margin improvement in FY23



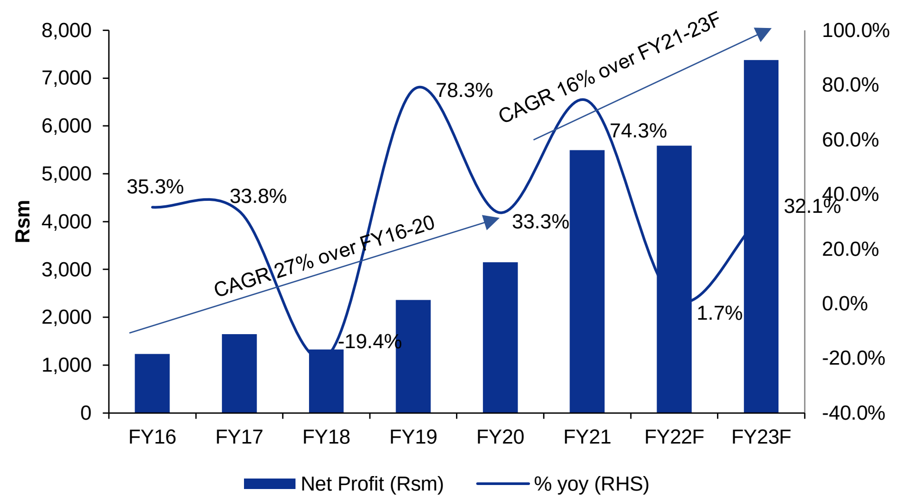
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: R&D cost to increase in absolute terms, but remain steady at 3-3.5% of sales



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: With better topline growth and improving operating performance, we expect net profit CAGR of 16% over FY21-23F

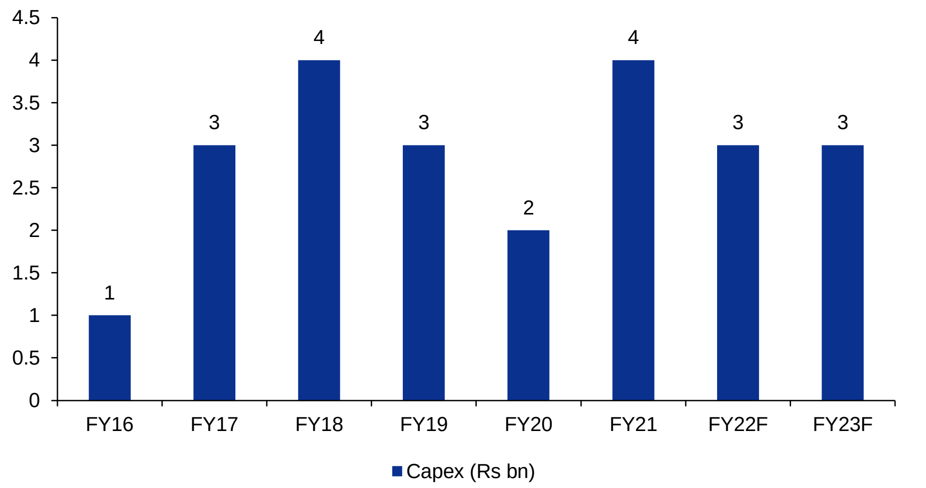


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Facility expansion plans to raise capex spend over FY21-23F

Granules is currently in an aggressive capex spree. It is undergoing expansion of its multi-API facility, MUPS block in Vizag and recently acquired land in Genome Valley for the construction of a PFI and FD manufacturing facility. Management guided for capex of Rs4bn to be spent in FY22 and Rs6bn spread over FY23 and FY24, which it plans to fund mainly through internal accruals.

Figure 15: Capex spends to rise on the back of facilities expansion plans

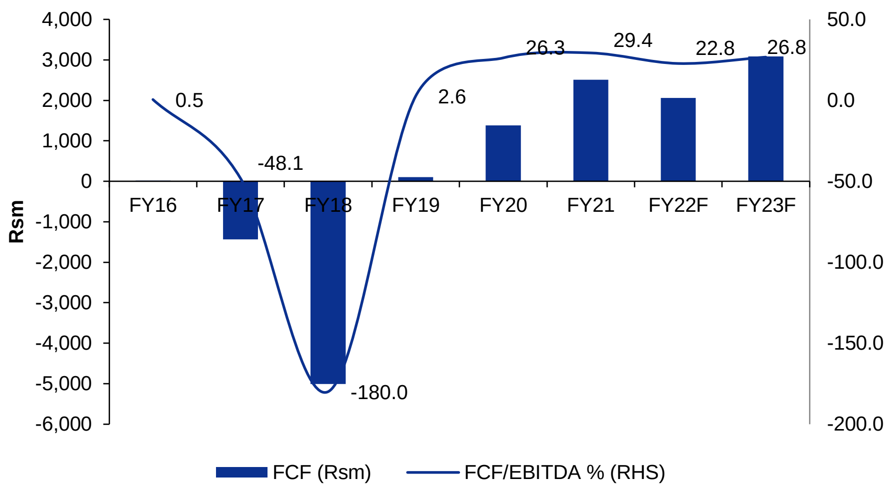


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Expect FCFs to remain positive despite near term earnings pressure

We believe the cash generation could be weaker in FY22F versus FY21 due to flattish earnings growth on back of gross margin pressure. However, with the ease of raw material prices FY23F net profit earnings growth should be back on track leading to improving FCFs and FCF/EBITDA.

Figure 16: FCFs to increase with improving profitability

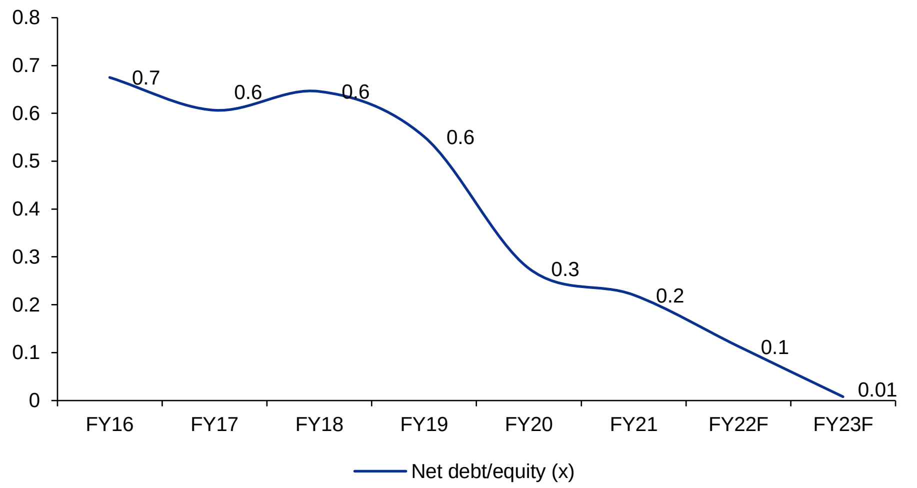


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Expect net debt/equity ratio to decline further

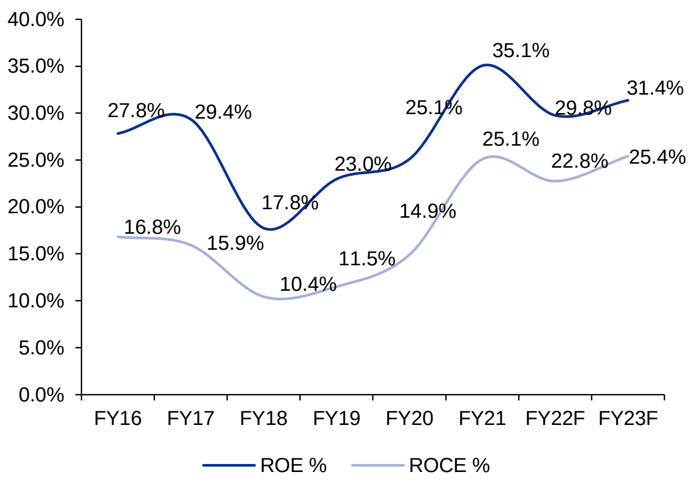
With improvement in free cash flows and capex to be funded through internal accruals, we believe Granules' long-term borrowings will decline due to annual repayments. However, short-term borrowings may increase due to working capital requirements. Hence, overall, we expect net debt/equity ratio to decline from 0.3x in FY20 to 0.01x in FY23F.

Figure 17: Expect net debt/equity ratio to decline to 0.01x by FY23F



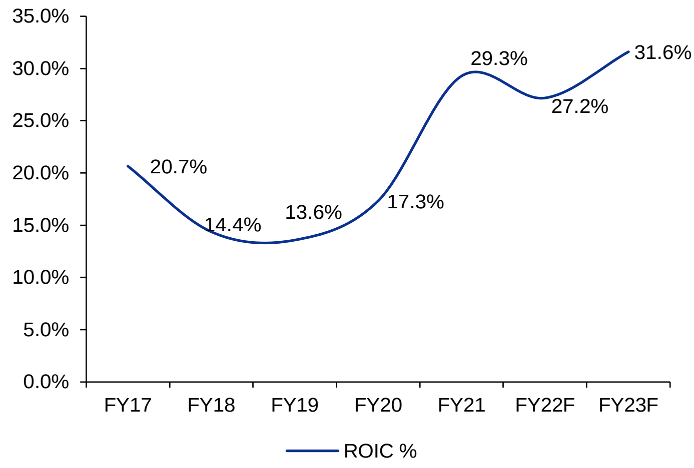
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 18: ROE and ROCE to remain strong



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: We expect ROIC to expand by FY23F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Buyback of shares

In June 2020, Granules had undergone a buyback worth Rs2.5bn comprising of 12.5m equity shares at a price of Rs200 per share. Out of these, 7.1m equity shares were bought back by the company and the paid-up share capital post buy back now stands at Rs247.14m from Rs254.25m pre buy-back.

Valuation and recommendation

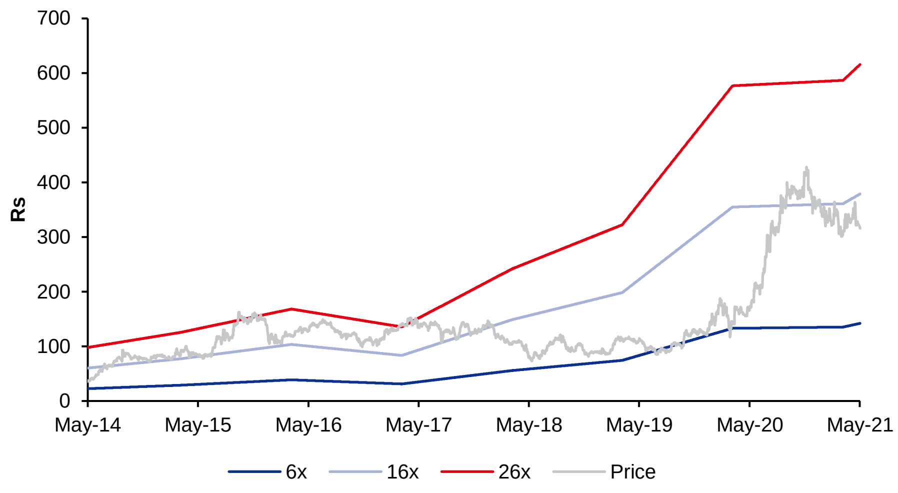
The stock re-rated and peaked at 28x P/E in FY15 from 5x in FY13 as the company successfully moved up the value chain by increasing its share of business from API (low-margin business) to FDs (high-margin business). It traded in a P/E band of 15-27x in FY15-17, on the back of strong contribution of core molecules in FDs and improving profitability and return ratios. However, in FY18-20, valuations corrected, and the stock traded below its historical eight-year mean of 14x due to: a) lower operating margin impacted by higher raw material prices, b) increased capex, as the company planned to expand capacities, c) debt increasing 2x as capex was funded through debt, d) negative cashflows, and e) higher level of promoters-pledged shares.

However, post FY20, the stock re-rated with reducing debt, improving profitability and return ratios, coupled with increasing free cash flows as the company is focusing on increasing its share of low-competition products with better operating margins, and the addition of new products in APIs and PFIs to contribute to the next level of growth. Also, promoter-pledged shares reduced to 8.6% of the total promoters holding as on Mar 2021.

We initiate coverage on Granules India with an Add rating and a target price of Rs447, based on a P/E of 15x on FY23F EPS, a 7% premium to its historical eight-year mean. We believe the premium is justified given: i) the company's expansion into new geographies, ii) traction in the US generics business with low competition launches, and iii) improving cashflows and decline in debt. As there are no exact peers for the Granules India business model, we have compared companies with similar market caps. Granules India trades lower on valuation compared to its peers as most of these companies have high contributions from domestic formulations which are high margin high cashflow generating businesses.

We prefer the P/E methodology valuation for Granules due to its favorable debt-equity ratio and primarily net profit gives a fair outlook on the strength of the company.

Figure 20: P/E band: One-year forward



SOURCES: INCRED RESEARCH, BLOOMBERG

Figure 21: Standard deviation: One-year forward

SOURCES: INCRED RESEARCH, BLOOMBERG

Key catalysts

- Faster-than-expected launches in the US.
- Any price increase in the US generics business will be an upside catalyst to our earnings estimates as the US business contributes 25-30% of total revenues.

Key downside risks

- Any disruption in sourcing KSMs as Granules depends on China for some of its products and any increase in prices of raw materials could weigh on net profit earnings estimates.
- Supply chain disruption due to second wave of COVID-19 infection and lockdowns.
- Higher-than-expected price erosion in the US.
- Adverse currency movements in its international markets would impact its profitability as Granules is present in 60 countries.

Figure 22: Peer comparison

Company Name	Bloomberg Ticker	Closing Price (Rs)	Target Price (Rs)	Rating	Mkt Cap (US$ bn)	Revenue CAGR FY21-23F	EPS CAGR FY21-23F	P/E (x) FY22F	P/E (x) FY23F	EV/EBITDA (x) FY22F	EV/EBITDA (x) FY23F	ROE FY22F	ROE FY23F	Net Debt FY21 (US$m)
Granules India	**GRAN IN**	**316**	**447**	**Add**	**1.1**	**18.7%**	**15.9%**	**14.0**	**10.6**	**9.0**	**6.8**	**29.8%**	**31.4%**	**65**
Ajanta Pharma	AJP IN	1,991	2,284	Add	2.3	11.9%	10.5%	25.3	21.7	16.3	14.1	28.2%	27.2%	-28
Indoco Remedies	INDR IN	389	410	Add	0.5	20.9%	41.3%	25.6	19.3	12.8	10.2	24.2%	27.6%	27
Laurus Labs*	LAURUS IN	520	NA	NA	3.8	18.9%	17.5%	24.6	20.6	15.9	13.6	35.6%	31.5%	175
Suven Pharma*	SUVENPHA IN	516	NA	NA	1.7	19.1%	20.5%	29.6	24.7	24.3	20.1	21.4%	29.3%	19
Aarti Drugs*	ARTD IN	731	NA	NA	0.9	22.1%	29.5%	19.0	14.5	13.1	10.2	33.3%	32.2%	40
Neuland Laboratories*	NLL IN	2248	NA	NA	0.4	15.3%	23.3%	29.9	23.3	16.8	13.8	11.5%	13.1%	18
Dishman Carbogen*	DCAL IN	213	NA	NA	0.4	13.8%	NM	21.4	13.8	8.8	7	2.1%	3.5%	141
Coverage universe average								**21.6**	**17.2**	**12.7**	**10.4**	**27.4%**	**28.7%**	

*DATA FOR THESE COMPANIES IS BLOOMBERG CONSENSUS ESTIMATES
NM: NOT MEASURABLE AS THERE WAS A LOSS PER SHARE IN FY21
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG, PRICED AS AT 27 MAY 2021

Figure 23: Current key management personnel

Name	Designation	Background
Mr. Krishna Prasad Chigurupati	Chairman and Managing Director	Mr. Krishna Prasad Chigurupati is the Promoter of Granules and has over 30 years of experience in the pharmaceuticals industry. Mr. Prasad pioneered and popularised the concept of Pharmaceutical Formulations Intermediates as a cost-efficient product for global formulations manufacturers.
Ms. Priyanka Chigurupati	Executive Director	Ms. Priyanka Chigurupati is Executive Director of Granules Pharmaceuticals, Inc., and responsible for the US Generics business and Investor Relations. Ms. Chigurupati has a Bachelor of Science degree in Business Management from Case Western Reserve University.
Mr. Sandeep Neogi	CFO	Mr. Sandip Neogi is a Chartered Accountant and Cost Accountant. He has 28 years of experience in strategic financial planning and analysis, business valuations, risk management, SEC expertise, mergers and acquisitions, treasury, USGAAP, IFRS, Indian GAAP and internal controls.

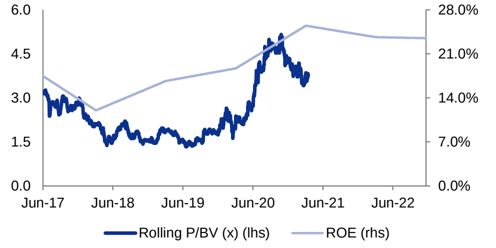
SOURCES: INCRED RESEARCH, COMPANY REPORTS

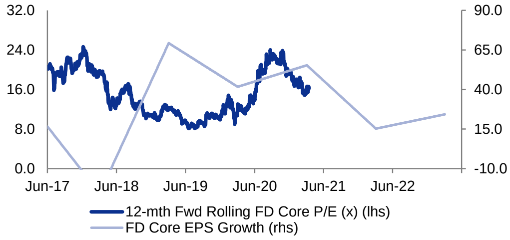
Figure 24: SWOT Analysis

Strengths	Opportunities
Large-scale manufacturing in core molecules ensures sustained volume share globally.	Focus on launch of low-competition products from new MUPS facility would boost the company's earnings.
Weaknesses	**Threats**
Higher contribution of business coming from international markets which are prone to currency volatility and economic risks. Company is majorly dependent on core molecules as its contribution to the overall business is very high.	Disruptions due to the company's dependence on China for KSMs and increase in key raw material prices could impact margins.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Net Revenues	**22,792**	**25,986**	**32,375**	**38,394**	**45,626**
Gross Profit	**10,236**	**13,177**	**18,463**	**19,965**	**24,318**
Operating EBITDA	**3,840**	**5,253**	**8,552**	**9,016**	**11,512**
Depreciation And Amortisation	(1,055)	(1,370)	(1,515)	(1,788)	(1,998)
Operating EBIT	**2,786**	**3,884**	**7,038**	**7,228**	**9,514**
Financial Income/(Expense)	(285)	(270)	(263)	(255)	(227)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	267	366	269	282	296
Profit Before Tax (pre-EI)	**2,768**	**3,979**	**7,044**	**7,256**	**9,584**
Exceptional Items		277			
Pre-tax Profit	**2,768**	**4,256**	**7,044**	**7,256**	**9,584**
Taxation	(891)	(1,157)	(1,549)	(1,669)	(2,204)
Exceptional Income - post-tax					
Profit After Tax	**1,877**	**3,099**	**5,495**	**5,587**	**7,379**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	487	255			
Net Profit	**2,364**	**3,354**	**5,495**	**5,587**	**7,379**
Recurring Net Profit	2,364	3,152	5,495	5,587	7,379
Fully Diluted Recurring Net Profit	**2,364**	**3,152**	**5,495**	**5,587**	**7,379**

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
EBITDA	3,840	5,253	8,552	9,016	11,512
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(377)	(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	(285)	(270)	(263)	(255)	(227)
Tax Paid	(819)	(1,257)	(1,954)	(1,669)	(2,204)
Cashflow From Operations	**2,359**	**3,059**	**4,491**	**5,750**	**5,806**
Capex	(2,544)	(1,949)	(2,244)	(3,946)	(2,951)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	267	366	269	282	296
Cash Flow From Investing	**(2,278)**	**(1,584)**	**(1,975)**	**(3,663)**	**(2,655)**
Debt Raised/(repaid)	(252)	(1,398)	(428)	(231)	(800)
Proceeds From Issue Of Shares					
Shares Repurchased			(1,400)		
Dividends Paid	(306)	(307)	(310)	(310)	(310)
Preferred Dividends					
Other Financing Cashflow	211	2,178	(508)	(38)	(46)
Cash Flow From Financing	**(347)**	**474**	**(2,645)**	**(579)**	**(1,155)**
Total Cash Generated	(266)	1,949	(129)	1,507	1,996
Free Cashflow To Equity	**(171)**	**78**	**2,088**	**1,855**	**2,352**
Free Cashflow To Firm	**366**	**1,746**	**2,779**	**2,341**	**3,378**

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Total Cash And Equivalents	890	2,839	2,710	4,218	6,214
Total Debtors	6,735	7,352	7,654	8,941	10,625
Inventories	3,842	4,384	7,822	8,626	10,250
Total Other Current Assets	1,354	1,344	1,784	1,432	2,305
Total Current Assets	**12,822**	**15,920**	**19,970**	**23,217**	**29,395**
Fixed Assets	12,677	13,520	15,168	17,379	18,381
Total Investments	2,104	193	190	228	273
Intangible Assets	1,725	1,461	543	489	440
Total Other Non-Current Assets	500	1,920	1,264	1,264	1,264
Total Non-current Assets	**17,006**	**17,095**	**17,164**	**19,360**	**20,358**
Short-term Debt	4,542	3,717	4,093	4,293	4,493
Current Portion of Long-Term Debt					
Total Creditors	3,235	4,300	5,410	5,806	6,713
Other Current Liabilities	1,188	1,648	2,228	2,228	2,228
Total Current Liabilities	**8,965**	**9,665**	**11,731**	**12,327**	**13,434**
Total Long-term Debt	4,788	4,215	3,411	2,980	1,980
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**4,788**	**4,215**	**3,411**	**2,980**	**1,980**
Total Provisions	781	697	259	259	259
Total Liabilities	**14,533**	**14,578**	**15,402**	**15,566**	**15,673**
Shareholders Equity	15,295	18,437	21,733	27,010	34,080
Minority Interests					
Total Equity	**15,295**	**18,437**	**21,733**	**27,010**	**34,080**

Key Ratios

	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue Growth	34.7%	14.0%	24.6%	18.6%	18.8%
Operating EBITDA Growth	37.9%	36.8%	62.8%	5.4%	27.7%
Operating EBITDA Margin	16.8%	20.2%	26.4%	23.5%	25.2%
Net Cash Per Share (Rs)	(33.19)	(20.03)	(19.35)	(12.33)	(1.04)
BVPS (Rs)	60.16	72.52	87.75	109.05	137.60
Gross Interest Cover	9.79	14.37	26.78	28.40	41.99
Effective Tax Rate	32.2%	27.2%	22.0%	23.0%	23.0%
Net Dividend Payout Ratio	7.8%	6.0%	4.4%	4.3%	3.2%
Accounts Receivables Days	104.24	98.93	84.59	78.88	78.26
Inventory Days	96.54	117.21	160.11	162.87	161.67
Accounts Payables Days	86.90	107.35	127.38	111.08	107.23
ROIC (%)	13.6%	17.3%	29.3%	27.2%	31.6%
ROCE (%)	11.5%	14.9%	25.1%	22.8%	25.4%
Return On Average Assets	12.5%	14.3%	20.8%	18.8%	21.3%

Key Drivers

	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Unit sales grth (%, main prod./serv.)	34.7%	14.0%	24.6%	18.6%	18.8%
R&D Cost/sales(%)	3.2%	3.0%	3.1%	3.5%	3.1%

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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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:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
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.

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Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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.