

Granules India

Estimate change 

TP change

Rating change 

CMP: INR582

TP: INR665 (+14%)

Buy

Finished dosages remain the key earnings driver

CAPA at Gagillapur to be completed by Mar'25E

Bloomberg	GRAN IN
Equity Shares (m)	242
M.Cap.(INRb)/(USDb)	141.1 / 1.6
52-Week Range (INR)	725 / 382
1, 6, 12 Rel. Per (%)	0/14/32
12M Avg Val (INR M)	1364

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	44.2	50.5	58.6
EBITDA	9.5	11.3	13.5
Adj. PAT	4.7	6.4	8.1
EBIT Margin (%)	16.4	17.8	18.9
Cons. Adj. EPS (INR)	19.5	26.5	33.4
EPS Gr. (%)	12.5	35.7	26.0
BV/Sh. (INR)	151.4	176.8	209.0

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	13.7	16.2	17.3
RoCE (%)	11.6	13.5	14.9
Payout (%)	6.0	4.4	3.5

Valuations

P/E (x)	29.7	21.9	17.4
EV/EBITDA (x)	18.3	15.4	12.6
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.0	0.5	2.1
EV/Sales (x)	3.9	3.4	2.9

Shareholding Pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	38.8	38.9	42.0
DII	19.6	14.9	10.2
FII	15.9	19.5	18.8
Others	25.7	26.8	29.1

FII includes depository receipts

■ Granules India (GRAN) delivered better-than-expected revenue, while EBITDA/PAT stood in line for the quarter. The traction in finished dosage (FDF) remained robust for six quarters now. However, reduced off-take of intermediates (PFI)/API impacted the overall growth for 3QFY25. GRAN has taken comprehensive initiatives to address issues highlighted by the USFDA at its Gagillapur site. Further, it continues to develop products in CNS/ADHD and oncology segments.

■ We cut our earnings estimates by 8%/6%/6% for FY25/26/27 factoring in: 1) ongoing remediation measures that resulted in calibrated production from the Gagillapur site, 2) marginal addition in costs related to the failure to supply and higher air freight, and 3) additional opex related to the Genome Valley. We value GRAN at 19x 12M forward earnings to arrive at our TP of INR665.

■ While regulatory issues at Gagillapur have lowered the growth prospects over the near term, GRAN continues to build a product pipeline to not only enhance diversification but also increase the product offering in the developed market. Further, it is also building the manufacturing capacity to meet future requirements. **Reiterate BUY.**

Product mix benefits more than offset by lower operating leverage

- GRAN's sales declined 1.5% YoY to INR11.4b (our est. of INR10.4b) due to a voluntary pause at the Gagillapur facility led by the USFDA inspection. FDF sales grew 13.7% YoY to INR8.7b (76% of sales). PFI sales dipped 24% YoY to INR1.3b (12% of sales). API sales declined 36.6% YoY to INR1.4b (12% of sales).
- Gross margin (GM) expanded 470bp to 62% due to a change in segmental mix and lower RM cost.
- However, the EBITDA margin dipped 140bp YoY to 20.2% (our est: 22.5%), due to higher employee/other expenses (up 120bp/500bp as a % of sales).
- EBITDA declined 8.1% YoY to INR2.3b (our est INR2.4b) for the quarter.
- Adjusted PAT declined 6.4% YoY to INR1.2b (our estimate: INR1.2b).
- In 9MFY25, GRAN's revenue declined 1.4% to INR32.8b, while EBITDA/PAT grew 11.5%/20.1% YoY to INR6.9b/INR3.5b.

Highlights from the management commentary

- GRAN indicated complete implementation of CAPAs at the Gagillapur site by Mar'25. GRAN is applying systemic changes from a regulatory perspective.
- The production at Gagillapur has started in a staggered manner from Oct'24.
- The near-term growth would be driven by new launches from the GPI site, which includes products under the CNS/ADHD segment.
- The company is working on 7-8 products under the oncology segment.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR m)

Y/E March (Consolidated)	FY24				FY25				FY24	FY25E	FY25E	Var. vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	9,855	11,895	11,556	11,758	11,799	9,666	11,377	11,322	45,063	44,163	10,445	8.9
YoY Change (%)	-3.3	3.4	0.8	-1.6	19.7	-18.7	-1.5	-3.7	-0.1	-2.0	-9.6	
Total Expenditure	8,276	9,765	9,051	9,201	9,206	7,633	9,074	8,799	36,293	34,712	8,095	
EBITDA	1,579	2,130	2,505	2,557	2,593	2,033	2,303	2,523	8,770	9,451	2,350	-2.0
YoY Change (%)	-25.4	-12.3	8.3	8.3	64.2	-4.5	-8.1	-1.3	-4.9	7.8	-6.2	
Margins (%)	16.0	17.9	21.7	21.7	22.0	21.0	20.2	22.3	19.5	21.4	22.5	
Depreciation	492	525	524	532	529	525	566	567	2,073	2,187	535	
EBIT	1,086	1,605	1,981	2,025	2,064	1,508	1,737	1,956	6,697	7,264	1,815	-4.3
YoY Change (%)	-35.4	-19.3	8.3	8.1	90.0	-6.0	-12.3	-3.4	-9.2	8.5	-8.4	
Margins (%)	11.0	13.5	17.1	17.2	17.5	15.6	15.3	17.3	14.9	16.4	17.4	
Interest	225	260	286	288	270	257	266	228	1,058	1,020	260	
Other Income	3	15	7	19	21	32	57	1	44	110	25	
PBT before EO expense	865	1,360	1,701	1,756	1,814	1,284	1,528	1,729	5,683	6,354	1,580	-3.3
Extra-Ord expense	211	0	0	0	0	0	0	0	211	0	0	
PBT	654	1,360	1,701	1,756	1,814	1,284	1,528	1,729	5,472	6,354	1,580	
Tax	176	339	444	460	468	311	352	489	1,419	1,620	356	
Rate (%)	26.9	24.9	26.1	26.2	25.8	24.3	23.0	28.3	25.9	25.5	22.5	
Reported PAT	479	1,021	1,257	1,296	1,346	972	1,176	1,240	4,052	4,734	1,225	-4.0
Adjusted PAT	633	1,021	1,257	1,296	1,346	972	1,176	1,240	4,207	4,734	1,225	-4.0
YoY Change (%)	-50.4	-29.6	1.1	3.4	112.7	-4.8	-6.4	-4.4	-19.5	12.5	-2.5	
Margins (%)	6.4	8.6	10.9	11.0	11.4	10.1	10.3	11.0	9.3	10.7	11.7	
EPS	3	4	5	5	6	4	5	5	17	20	5	-4.0

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
FD	5,420	7,375	7,627	8,642	8,912	7,490	8,674	8,678	29,090	33,754	7,932
YoY Change (%)	-1.2	25.9	45.9	41.3	64.4	1.6	13.7	0.4	28.2	16.0	4.0
PFI	1,478	1,427	1,733	1,482	997	756	1,309	1,213	6,107	4,275	867
YoY Change (%)	-37.6	-39.2	-18.7	-31.8	-32.6	-47.0	-24.5	-18.2	-32.3	-30.0	-50.0
API	2,957	2,974	2,196	1,633	1,890	1,420	1,393	1,431	9,823	6,134	1,647
YoY Change (%)	26.3	-10.0	-46.5	-55.5	-36.1	-52.2	-36.6	-12.4	-26.8	-37.6	-25.0
Cost Break-up											
RM Cost (% of Sales)	48.6	48.3	43.0	39.9	41.1	38.0	38.3	38.4	55.1	61.0	38.4
Staff Cost (% of Sales)	14.2	12.5	13.6	12.9	13.9	16.5	14.7	14.4	13.3	14.8	15.4
Other Cost (% of Sales)	21.1	21.2	21.7	25.4	23.1	24.5	26.7	24.9	22.4	24.8	23.7
Gross Margin (%)	51.4	51.7	57.0	60.1	58.9	62.0	61.7	61.6	44.9	39.0	61.6
EBITDA Margin (%)	16.0	17.9	21.7	21.7	22.0	21.0	20.2	22.3	19.5	21.4	22.5
EBIT Margin (%)	11.0	13.5	17.1	17.2	17.5	15.6	15.3	17.3	14.9	16.4	17.4

E: MOFSL Estimates

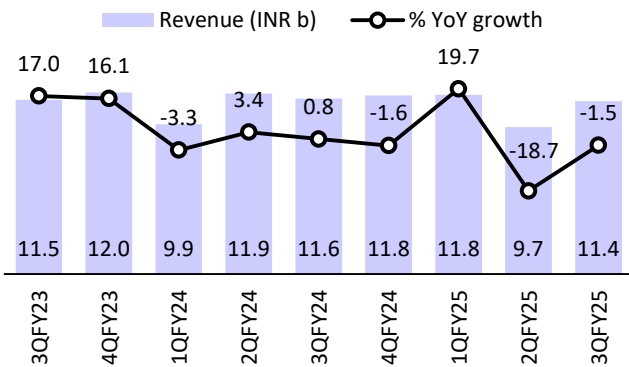


Conference call highlights

- GRAN has commissioned phase 1 of Genome Valley (2.5b dosage capacity). Phase II would be completed by 4QFY25 and validation activities would begin in 1QFY26.
- Freight, FTS, and professional expenses have gone up on account of the recent USFDA inspection, which has slightly affected the EBITDA margin.
- API prices have risen and stabilized at a new base, with further increases expected. However, high paracetamol inventory stocking is likely to result in flat API growth for 4QFY25.
- Gross borrowing at the end of 3QFY25 stands at INR10.2b.
- The increase in receivables is primarily led by increased sales for the quarter.
- R&D spending was INR568m in 3QFY25 (vs INR486m in 3QFY24).

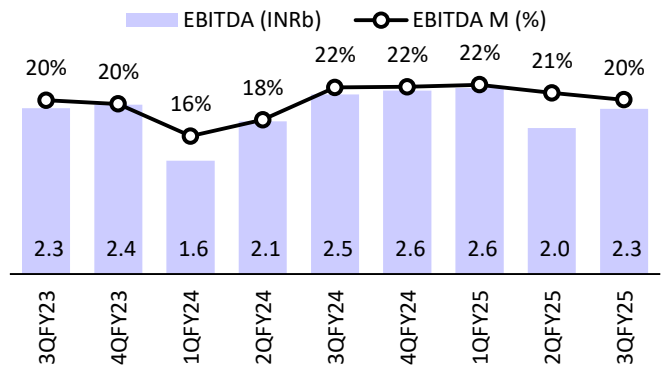
Key exhibits

Exhibit 1: Revenue declined 2% YoY in 3QFY25



Source: MOFSL, Company

Exhibit 2: EBITDA margin contracted 140bp YoY in 3QFY25



Source: MOFSL, Company

Work in progress for remediation measures & product pipeline

Adding capability to enhance business prospects over the long term

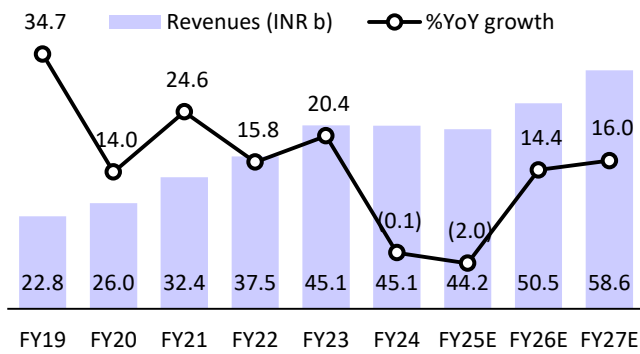
- In 9MFY25, overall sales declined 1.4% YoY at INR32.8b, as the USFDA inspection led to a temporary shutdown of the Gagillapur facility, offset by strong growth in the FDF segment.
- GRAN commercialized Phase 1 of the new formulation facility at Genome Valley with a 2.5b capacity. Further, the company expects to commence an additional line of 7.5b dosage by the 4QFY25. This will lead to new launches of complex products in the EU and other markets.
- Additionally, GRAN is investing in R&D to expand into new segments, such as oncology, innovative products, and new dosage forms, including non-solid forms, liquids, and nasal sprays.
- For this, GRAN is building the capacity for Oncology in API and FDF dosage form, which is expected to start operations in FY26.

Working on a differentiated product pipeline for the regulated market

- In 9MFY25, GRAN reported 16.3% YoY growth in the US to INR25b, largely due to new launches in the Rx and OTC businesses. This was partly offset by the

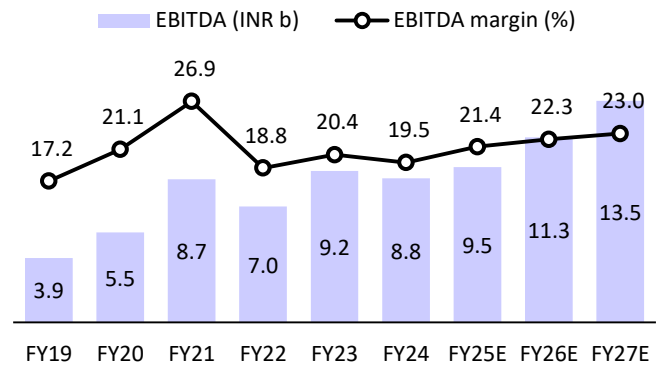
Story in charts

Exhibit 5: Expect a revenue CAGR of 15% over FY25-27



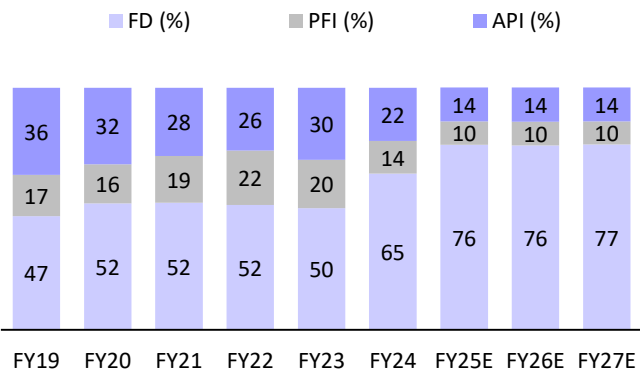
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 160bp over FY25-27



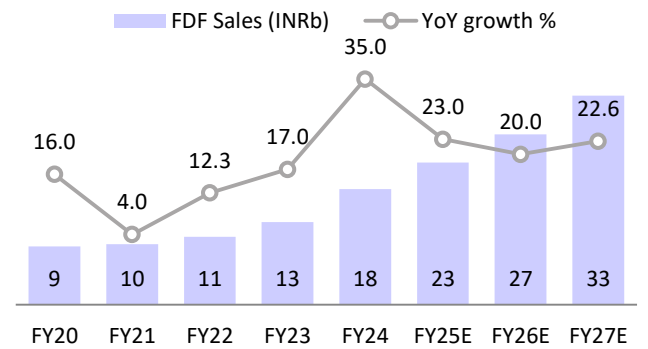
Source: MOFSL, Company

Exhibit 7: FD to further increase to 77% in FY26



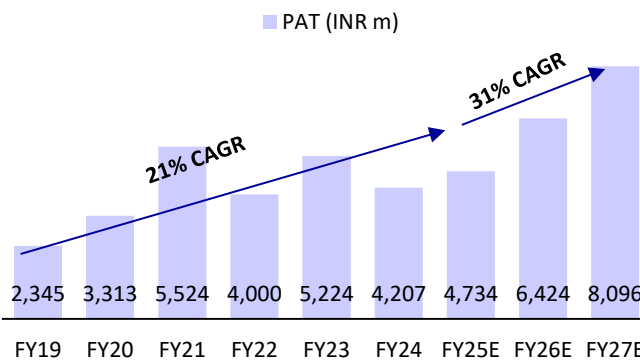
Source: MOFSL, Company

Exhibit 8: FDF sales to clock 21% CAGR over FY25-27



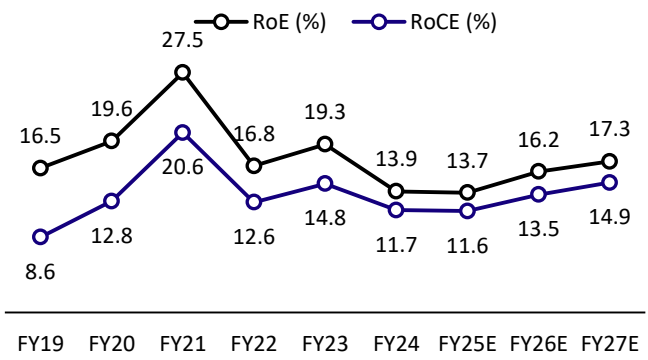
Source: MOFSL, Company

Exhibit 9: PAT to exhibit 29% CAGR over FY25-27



Source: MOFSL, Company

Exhibit 10: Return ratios rising steadily over FY24-26



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement									INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	22,792	25,986	32,375	37,477	45,119	45,063	44,163	50,522	58,620
Change (%)	34.7	14.0	24.6	15.8	20.4	-0.1	-2.0	14.4	16.0
Total Expenditure	18,872	20,513	23,665	30,427	35,901	36,293	34,712	39,256	45,137
% of Sales	82.8	78.9	73.1	81.2	79.6	80.5	78.6	77.7	77.0
EBITDA	3,920	5,473	8,710	7,050	9,218	8,770	9,451	11,266	13,482
Margin (%)	17.2	21.1	26.9	18.8	20.4	19.5	21.4	22.3	23.0
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,187	2,286	2,407
EBIT	2,866	4,104	7,195	5,464	7,373	6,697	7,264	8,980	11,075
Int. and Finance Charges	285	270	263	232	559	1,058	1,020	741	680
Other Income	267	366	152	176	138	44	110	126	147
PBT bef. EO Exp.	2,848	4,199	7,085	5,407	6,952	5,683	6,354	8,365	10,542
EO Items	-80	57	-40	173	-80	-211	0	0	0
PBT after EO Exp.	2,768	4,257	7,045	5,580	6,872	5,472	6,354	8,365	10,542
Current Tax	891	1,257	1,954	1,382	1,772	1,652	1,620	1,941	2,446
Deferred Tax	72	-100	-405	70	-66	-233	0	0	0
Tax Rate (%)	34.8	27.2	22.0	26.0	24.8	25.9	25.5	23.2	23.2
Add: Associate income	487	255	0	0	0	0	0	0	0
Reported PAT	2,292	3,354	5,496	4,128	5,166	4,052	4,734	6,424	8,096
Adjusted PAT	2,345	3,313	5,524	4,000	5,224	4,207	4,734	6,424	8,096
Change (%)	76.8	41.3	66.8	-27.6	30.6	-19.5	12.5	35.7	26.0
Margin (%)	10.2	12.6	17.0	10.6	11.5	9.3	10.7	12.7	13.8

Consolidated - Balance Sheet									INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	254	254	248	248	242	242	242	242	242
Total Reserves	15,040	18,183	21,485	25,617	28,107	32,013	36,463	42,604	50,417
Net Worth	15,295	18,437	21,733	25,865	28,349	32,255	36,706	42,847	50,659
Minority Interest	0	0	0	6	0	0	0	0	0
Deferred Liabilities	655	482	11	139	77	231	231	231	231
Total Loans	9,330	7,932	7,504	10,928	11,362	13,151	12,355	11,559	10,729
Capital Employed	25,279	26,851	29,248	36,938	39,788	45,637	49,291	54,636	61,619
Gross Block	16,639	21,442	22,220	25,355	30,897	34,817	39,317	43,817	47,017
Less: Accum. Deprn.	5,473	6,842	8,357	9,943	11,788	13,861	16,048	18,334	20,742
Net Fixed Assets	11,167	14,600	13,863	15,412	19,109	20,956	23,269	25,483	26,276
Capital WIP	3,235	1,481	1,848	3,562	2,394	2,717	4,416	5,052	4,690
Total Investments	2,104	193	190	197	361	382	382	382	382
Curr. Assets, Loans&Adv.	13,279	15,957	21,226	25,945	27,168	30,783	29,902	34,109	41,710
Inventory	3,842	4,384	7,822	9,786	11,494	13,005	10,937	12,798	15,334
Account Receivables	6,735	6,620	7,654	9,250	9,485	9,858	9,801	12,457	14,454
Cash and Bank Balance	890	2,839	2,710	4,095	3,128	3,864	5,190	4,306	6,060
Loans and Advances	1,811	2,113	3,040	2,815	3,060	4,056	3,975	4,547	5,862
Curr. Liability & Prov.	4,548	5,432	7,887	8,191	9,258	9,573	9,050	10,761	11,810
Account Payables	3,235	3,569	5,410	6,386	7,821	7,495	7,133	8,604	9,646
Other Current Liabilities	1,144	1,589	2,160	1,294	998	1,580	1,549	1,772	1,759
Provisions	169	275	317	511	439	497	369	386	406
Net Current Assets	8,731	10,525	13,340	17,753	17,910	21,211	20,852	23,347	29,900
Appl. of Funds	25,279	26,852	29,248	36,938	39,788	45,637	49,291	54,636	61,619

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	9.7	13.7	22.8	16.5	21.6	17.4	19.5	26.5	33.4
Cash EPS	13.4	18.4	28.4	22.5	29.2	25.9	28.6	35.9	43.3
BV/Share	60.2	72.5	87.7	104.3	117.1	133.1	151.4	176.8	209.0
DPS	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	13.4	8.9	5.3	7.0	5.5	7.0	6.0	4.4	3.5
Valuation (x)									
P/E	60.0	42.4	25.4	35.1	26.9	33.4	29.7	21.9	17.4
Cash P/E	43.4	31.5	20.4	25.7	19.9	22.4	20.3	16.1	13.4
P/BV	9.6	8.0	6.6	5.6	5.0	4.4	3.8	3.3	2.8
EV/Sales	7.6	6.6	5.3	4.6	3.9	3.9	3.9	3.4	2.9
EV/EBITDA	44.4	31.2	19.6	24.5	18.9	20.0	18.3	15.4	12.6
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)									
RoE	16.5	19.6	27.5	16.8	19.3	13.9	13.7	16.2	17.3
RoCE	8.6	12.8	20.6	12.6	14.8	11.7	11.6	13.5	14.9
RoIC	10.2	14.4	24.0	15.1	17.6	13.7	13.9	16.4	17.8
Working Capital Ratios									
Asset Turnover (x)	0.9	1.0	1.1	1.0	1.1	1.0	0.9	0.9	1.0
Inventory (Days)	53	58	69	86	86	99	99	86	88
Debtor (Days)	103	94	80	82	76	78	81	80	84
Creditor (Days)	56	61	69	71	72	77	77	73	74
Leverage Ratio (x)									
Current Ratio	2.9	2.9	2.7	3.2	2.9	3.2	3.3	3.2	3.5
Interest Cover Ratio	10	15	27	24	13	6	7	12	16
Debt/Equity	0.6	0.4	0.3	0.4	0.4	0.4	0.3	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	2,848	4,256	7,044	5,580	6,952	5,472	6,354	8,365	10,542
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,187	2,286	2,407
Interest & Finance Charges	18	207	139	232	559	1,058	910	615	533
Direct Taxes Paid	-891	-1,191	-1,914	-1,450	-1,758	-1,903	-1,620	-1,941	-2,446
(Inc)/Dec in WC	-377	128	-2,749	-2,572	-103	-2,463	1,685	-3,380	-4,798
CF from Operations	2,652	4,769	4,034	3,376	7,495	4,238	9,515	5,946	6,238
Others	0	-7	291	-56	-27	156	0	0	0
CF from Operating incl EO	2,652	4,762	4,325	3,321	7,467	4,394	9,515	5,946	6,238
(inc)/dec in FA	-2,544	-1,843	-2,710	-3,967	-4,107	-3,788	-6,199	-5,136	-2,837
(Pur)/Sale of Investments	-539	0	-2	0	2,035	159	0	0	0
Others	267	237	-59	166	158	28	110	126	147
CF from Investments	-2,816	-1,606	-2,771	-3,801	-1,914	-3,602	-6,089	-5,010	-2,691
Issue of Shares	195	0	41	37	-3,084	32	0	0	0
(Inc)/Dec in Debt	-252	-1,534	-719	2,530	-600	1,435	-796	-796	-830
Interest Paid	-285	-266	-263	-242	-533	-1,027	-1,020	-741	-680
Dividend Paid	-306	-307	-247	-372	-186	-363	-284	-284	-284
CF from Fin. Activity	-102	-2,129	-2,993	1,900	-4,403	77	-2,100	-1,821	-1,793
Inc/Dec of Cash	-266	1,027	-1,440	1,419	1,151	869	1,327	-884	1,754
Opening Balance	1,156	890	2,839	2,711	4,095	3,128	3,863	5,190	4,306
FX	-30	921	1,312	-35	-2,118	-134	0	0	0
Closing Balance	891	2,839	2,711	4,095	3,128	3,863	5,190	4,306	6,060

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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