

Granules India

Estimate change	↔
TP change	↓
Rating change	↔

CMP: INR396

TP: INR465 (+17%)

Buy

Strong show in formulations

API/PFI continue to drag overall performance

Bloomberg	GRAN IN
Equity Shares (m)	242
M.Cap.(INRb)/(USDb)	96.2 / 1.2
52-Week Range (INR)	481 / 272
1, 6, 12 Rel. Per (%)	-3/-4/15
12M Avg Val (INR M)	607

Financials & Valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	45.1	51.1	58.4
EBITDA	8.8	11.1	13.1
Adj. PAT	4.2	6.1	7.8
EBIT Margin (%)	14.9	17.5	18.6
Cons. Adj. EPS (INR)	17.4	25.3	32.2
EPS Gr. (%)	-19.5	45.9	27.3
BV/Sh. (INR)	133.1	157.2	188.3

Ratios

Net D:E	0.4	0.3	0.3
RoE (%)	13.9	17.4	18.7
RoCE (%)	11.7	14.1	15.6
Payout (%)	7.0	4.6	3.6

Valuations

P/E (x)	22.8	15.6	12.3
EV/EBITDA (x)	10.7	8.4	6.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.7	1.6	5.1
EV/Sales (x)	2.1	1.8	1.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	42.0	42.0	42.0
DII	10.2	7.1	4.8
FII	18.8	21.5	23.7
Others	29.1	30.0	29.6

FII Includes depository receipts

- Granules India (GRAN) delivered in-line operational performance for the quarter. The earnings were below estimate due to higher-than-expected interest/tax. GRAN ended FY24 with a 19.5% YoY decline in earnings, attributed to an IT incident and a significant decrease in paracetamol demand.
- We maintain our estimates for FY25/FY26. We value GRAN at 15x 12M forward earnings to arrive at a price target of INR465. With new launches in regulated markets (US/EU) comprising niche products such as Metoprolol, better offtake of Ibuprofen, and a low base of FY24, we expect strong recovery in earnings over FY24-26. The prolonged timeline for inventory normalization related to paracetamol would partly offset the business recovery.
- We remain positive on GRAN on the back of a) robust pace of product introduction in focus market, b) backward integration for its key molecules and c) attractive valuation. We maintain our BUY recommendation on the stock.

Segment mix benefit offset by higher other expenses

- GRAN sales declined 1.6% YoY to INR11.8b (our est: INR12.2b). Robust performance in the US was offset by weak show in the EU/LATAM/India/ROW market. Intermediates (PFI) sales declined 32% YoY to INR1.5b (13% of sales). API sales declined 55% YoY to INR1.6b (14% of sales). Formulation (FDF) sales grew 41% YoY to INR8.6b (73% of sales).
- Gross Margin (GM) expanded 12.2 percentage points YoY to 60.1%, due to change in segmental mix and lower RM cost.
- However, EBITDA margin expanded at a lower rate of 200bp YoY to 21.7% (our est: 19.5%), due to higher employee cost and other expenses (up 230bp/790bp YoY as a % of sales). Other expense was higher due to increased R&D expenditure and Freight cost.
- EBITDA grew 8% YoY to INR2b (in line) for the quarter.
- Adjusted PAT grew at 3.4% YoY to INR1.3b (our estimate: INR1.4b).
- In FY24, revenue was flat YoY at INR45b, while EBITDA/PAT declined 5%/20% YoY to INR7.8b/INR4.2b.

Highlights from the management commentary

- GRAN indicated GM to be in the range of 55-58% for FY25. GNP guided for EBITDA margin to be 22-23% for FY25.
- GRAN indicated 16-18 launches in US/EU in FY25, out of which, ~14 would be new to the market.
- g-Metoprolol and Ibuprofen would be among the key drivers of growth in revenue for FY25.

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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)	FY23				FY24				FY23	FY24	FY24E 4QE	Var. vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	10,196	11,507	11,461	11,955	9,855	11,895	11,556	11,758	45,119	45,063	12,185	-3.5
YoY Change (%)	20.0	29.5	17.0	16.1	-3.3	3.4	0.8	-1.6	20.4	-0.1	1.9	
EBITDA	2,115	2,429	2,313	2,361	1,579	2,130	2,505	2,557	9,218	8,770	2,612	-2.1
YoY Change (%)	5.0	60.7	47.8	22.5	-25.4	-12.3	8.3	8.3	30.8	-4.9	10.6	
Margins (%)	20.7	21.1	20.2	19.8	16.0	17.9	21.7	21.7	20.4	19.5	21.4	
Depreciation	434	441	484	487	492	525	524	532	1,845	2,073	544	
EBIT	1,682	1,988	1,829	1,874	1,086	1,605	1,981	2,025	7,373	6,697	2,068	-2.1
YoY Change (%)	3.8	78.6	56.0	22.9	-35.4	-19.3	8.3	8.1	35.0	-9.2	10.3	
Margins (%)	16.5	17.3	16.0	15.7	11.0	13.5	17.1	17.2	16.3	14.9	17.0	
Interest	69	132	170	188	225	260	286	288	559	1,058	210	
Other Income	47	48	9	34	3	15	7	19	138	44	66	
PBT before EO expense	1,659	1,904	1,669	1,720	865	1,360	1,701	1,756	6,952	5,683	1,924	-8.7
Extra-Ord expense	0	0	0	80	211	0	0	0	80	211	0	
PBT	1,659	1,904	1,669	1,640	654	1,360	1,701	1,756	6,872	5,472	1,924	
Tax	383	453	426	444	176	339	444	460	1,706	1,419	479	
Rate (%)	23.1	23.8	25.5	27.1	26.9	24.9	26.1	26.2	24.8	25.9	24.9	
(Profit)/Loss of JV/Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,276	1,451	1,243	1,196	479	1,021	1,257	1,296	5,166	4,052	1,445	-10.3
Adjusted PAT	1,276	1,451	1,243	1,254	633	1,021	1,257	1,296	5,224	4,207	1,445	-10.3
YoY Change (%)	6.1	79.8	41.3	13.0	-50.4	-29.6	1.1	3.4	30.6	-19.5	15.2	
Margins (%)	12.5	12.6	10.8	10.5	6.4	8.6	10.9	11.0	11.6	9.3	11.9	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24				FY23	FY24	FY24E 4QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
FD	5,487	5,856	5,226	6,115	5,420	7,375	7,627	8,642	22,684	29,090	8,011
YoY Change (%)	20.7	15.6	14.2	16.4	-1.2	25.9	45.9	41.3	16.7	28.2	31.0
PFI	2,368	2,349	2,132	2,172	1,478	1,427	1,733	1,482	9,021	6,107	1,946
YoY Change (%)	38.0	22.9	-5.6	-15.4	-37.6	-39.2	-18.7	-31.8	6.7	-32.3	-10.4
API	2,341	3,303	4,103	3,667	2,957	2,974	2,196	1,633	13,414	9,823	2,304
YoY Change (%)	4.6	73.4	31.0	48.0	26.3	-10.0	-46.5	-55.5	37.6	-26.8	-37.2
Cost Break-up											
RM Cost (% of Sales)	50.4	50.3	51.6	52.2	48.6	48.3	43.0	39.9	48.9	55.1	44.4
Staff Cost (% of Sales)	10.7	10.2	10.4	10.6	14.2	12.5	13.6	12.9	10.5	13.3	12.7
Other Cost (% of Sales)	18.2	18.4	17.8	17.5	21.1	21.2	21.7	25.4	18.0	22.4	21.5
Gross Margins(%)	49.6	49.7	48.4	47.8	51.4	51.7	57.0	60.1	51.1	44.9	55.6
EBITDA Margins(%)	20.7	21.1	20.2	19.8	16.0	17.9	21.7	21.7	20.4	19.5	21.4
EBIT Margins(%)	16.5	17.3	16.0	15.7	11.0	13.5	17.1	17.2	16.3	14.9	17.0

E: MOFSL Estimates

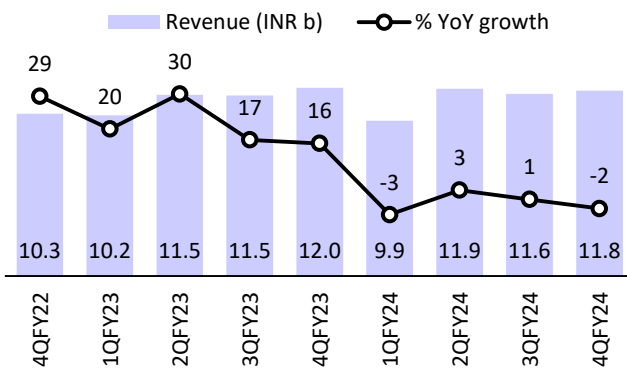


Conference call highlights

- Despite the ibuprofen market growing at a rate of 4-5% YoY, GRAN possesses specific contracts and European approval that are poised to propel growth beyond industry averages in FY25
- The inventory rationalization process for Paracetamol is expected to persist for another 2-3 quarters.
- The net debt to remain stable at INR8.4b for FY25.
- GRAN guided for capex of INR16b for FY25.
- GRAN incurred higher freight expense related to red-sea issue in 4QFY24.
- GRAN has 13 ANDAs pending for approval.
- GPI had revenue of INR4.7b/INR16b for 4QFY24/FY24.

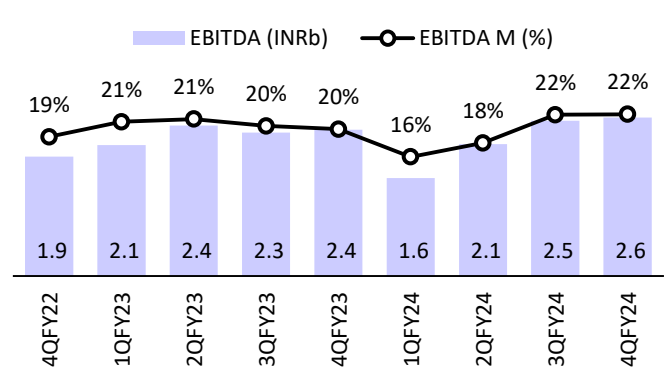
Key exhibits

Exhibit 1: Revenue growth declined 2% YoY in 4QFY24



Source: MOFSL, Company

Exhibit 2: EBITDA margin expanded 200bp YoY in 4QFY24



Source: MOFSL, Company

Focus towards scaling FDF business

Working on multiple drivers to aid sales growth/profitability

- In FY24, overall sales were flat YoY at INR45b, due to the one-time impact of a cyber-security attack and a decline in Para API Volume and price erosion. This was offset by strong growth in the FDF segment.
- In FY25, GRAN expects to ramp up its Genome capacity (8b tablets) and API capacity. Further, the company would start commercial manufacturing at its DCDA plant in FY26, which would enhance backward integration.
- GRAN is also leveraging its technology alliances with Greenko to reduce carbon emission. GRAN plans to start manufacturing multiple products, besides paracetamol, from this technology. It has started the pilot batch at the DCDA plant.
- 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.
- Thus, GRAN is working across the value chain to not only improve sales prospects, but also its profitability over the next three to five years.

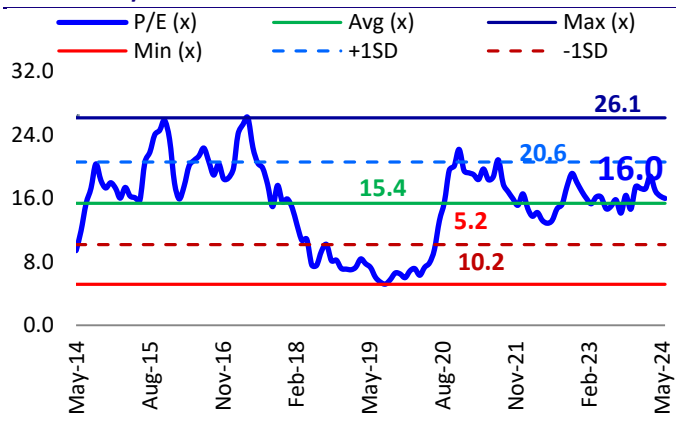
New launches in US/EU to drive growth over medium term

- In FY24, GRAN reported 15%YoY growth in the US to INR29.9b, largely due to volume growth and new launches. Europe revenue declined 14% YoY to INR8.8b due to price erosion in paracetamol.
- GRAN plans to file several products in the Rx and OTC markets in the US, supported by launches in new dosage forms.
- Also, the company aims to start the FDF business in Europe, which would further boost growth.
- It also plans to increase R&D expenditure going forward as it plans to file complex products in the US and EU markets.
- The management expects to launch a couple of complex products in the regulated market, which would support overall growth for GRAN over the medium term.

Reiterate BUY

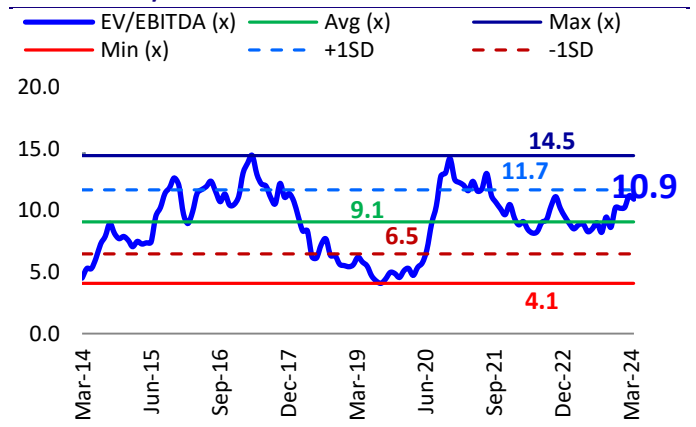
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- We remain positive on GRAN on the back of a) robust pace of product introduction in the focus market, b) backward integration for its key molecules and c) attractive valuation. We maintain our BUY recommendation on the stock.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

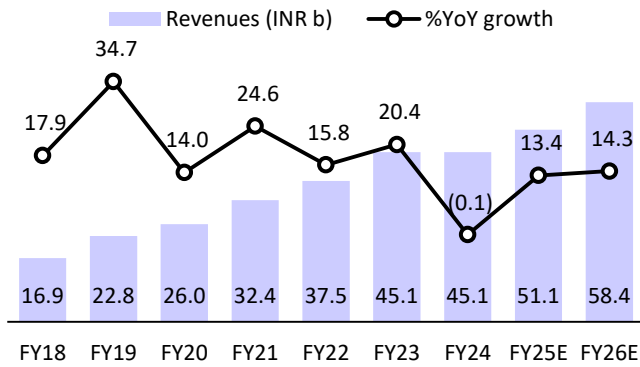
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

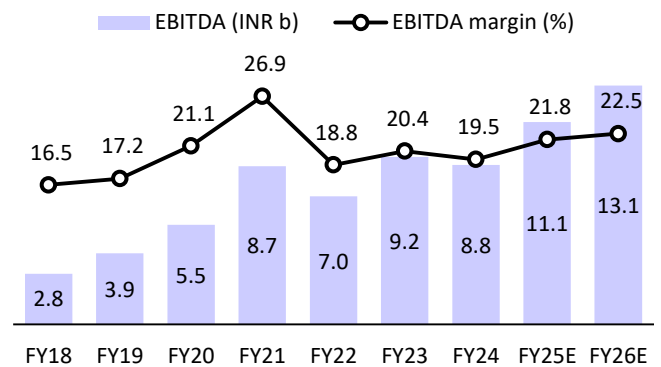
Story in charts

Exhibit 5: Expect revenue CAGR of 13.8% over FY24–26



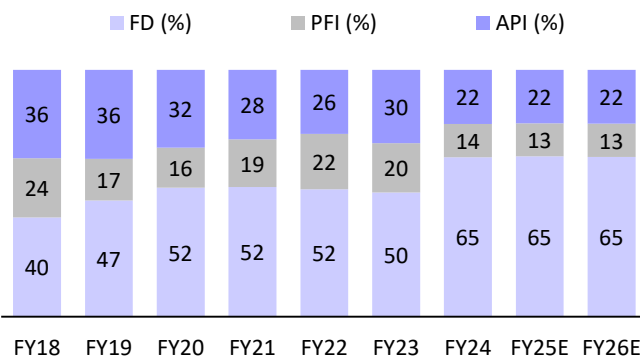
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 300bp over FY24–26



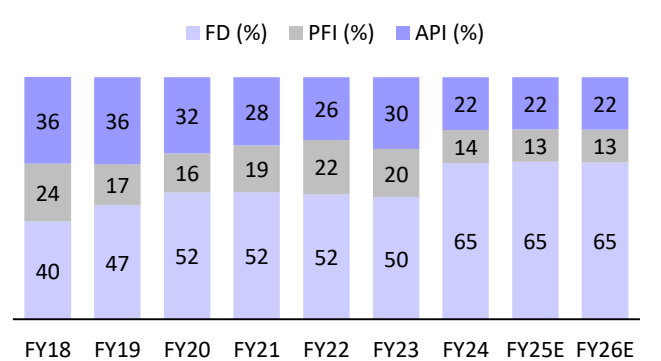
Source: MOFSL, Company

Exhibit 7: FD contribution increased in FY24



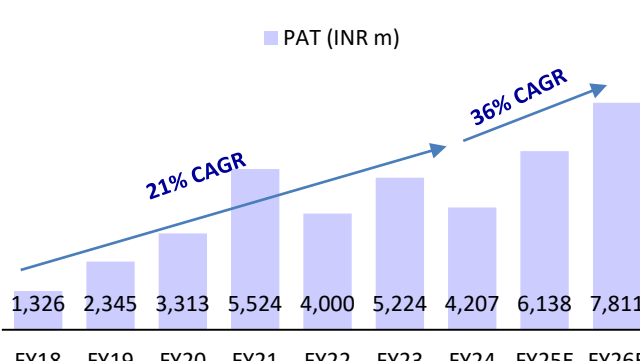
Source: MOFSL, Company

Exhibit 8: US has the highest revenue contribution



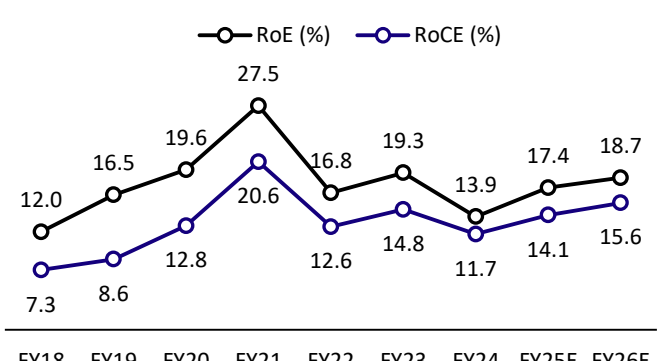
Source: MOFSL, Company

Exhibit 9: PAT to exhibit 37% CAGR over FY24–26



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
Total Income from Operations	22,792	25,986	32,375	37,477	45,119	45,063	51,087	58,406
Change (%)	34.7	14.0	24.6	15.8	20.4	-0.1	13.4	14.3
Total Expenditure	18,872	20,513	23,665	30,427	35,901	36,293	39,950	45,265
% of Sales	82.8	78.9	73.1	81.2	79.6	80.5	78.2	77.5
EBITDA	3,920	5,473	8,710	7,050	9,218	8,770	11,137	13,141
Margin (%)	17.2	21.1	26.9	18.8	20.4	19.5	21.8	22.5
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,187	2,286
EBIT	2,866	4,104	7,195	5,464	7,373	6,697	8,950	10,855
Int. and Finance Charges	285	270	263	232	559	1,058	816	741
Other Income	267	366	152	176	138	44	50	57
PBT bef. EO Exp.	2,848	4,199	7,085	5,407	6,952	5,683	8,184	10,171
EO Items	-80	57	-40	173	-80	-211	0	0
PBT after EO Exp.	2,768	4,257	7,045	5,580	6,872	5,472	8,184	10,171
Current Tax	891	1,257	1,954	1,382	1,772	1,652	2,046	2,360
Deferred Tax	72	-100	-405	70	-66	-233	0	0
Tax Rate (%)	34.8	27.2	22.0	26.0	24.8	25.9	25.0	23.2
Add: Associate income	487	255	0	0	0	0	0	0
Reported PAT	2,292	3,354	5,496	4,128	5,166	4,052	6,138	7,811
Adjusted PAT	2,345	3,313	5,524	4,000	5,224	4,207	6,138	7,811
Change (%)	76.8	41.3	66.8	-27.6	30.6	-19.5	45.9	27.3
Margin (%)	10.2	12.6	17.0	10.6	11.5	9.3	12.0	13.4

Consolidated - Balance Sheet								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	254	254	248	248	242	242	242	242
Total Reserves	15,040	18,183	21,485	25,617	28,107	32,013	37,867	45,395
Net Worth	15,295	18,437	21,733	25,865	28,349	32,255	38,110	45,637
Minority Interest	0	0	0	6	0	0	0	0
Deferred Liabilities	655	482	11	139	77	231	231	231
Total Loans	9,330	7,932	7,504	10,928	11,362	13,151	12,355	11,559
Capital Employed	25,279	26,851	29,248	36,938	39,788	45,637	50,695	57,427
Gross Block	16,639	21,442	22,220	25,355	30,897	34,817	39,317	43,817
Less: Accum. Deprn.	5,473	6,842	8,357	9,943	11,788	13,861	16,048	18,334
Net Fixed Assets	11,167	14,600	13,863	15,412	19,109	20,956	23,269	25,483
Capital WIP	3,235	1,481	1,848	3,562	2,394	2,717	5,109	5,841
Total Investments	2,104	193	190	197	361	382	382	382
Curr. Assets, Loans&Adv.	13,279	15,957	21,226	25,945	27,168	30,783	31,933	37,209
Inventory	3,842	4,384	7,822	9,786	11,494	13,005	12,587	13,021
Account Receivables	6,735	6,620	7,654	9,250	9,485	9,858	11,337	12,961
Cash and Bank Balance	890	2,839	2,710	4,095	3,128	3,864	3,411	5,969
Loans and Advances	1,811	2,113	3,040	2,815	3,060	4,056	4,598	5,257
Curr. Liability & Prov.	4,548	5,432	7,887	8,191	9,258	9,573	10,369	11,859
Account Payables	3,235	3,569	5,410	6,386	7,821	7,495	8,209	9,425
Other Current Liabilities	1,144	1,589	2,160	1,294	998	1,580	1,792	2,048
Provisions	169	275	317	511	439	497	369	386
Net Current Assets	8,731	10,525	13,340	17,753	17,910	21,211	21,564	25,350
Appl. of Funds	25,279	26,852	29,248	36,938	39,788	45,637	50,695	57,427

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
EPS	9.7	13.7	22.8	16.5	21.6	17.4	25.3	32.2
Cash EPS	13.4	18.4	28.4	22.5	29.2	25.9	34.3	41.7
BV/Share	60.2	72.5	87.7	104.3	117.1	133.1	157.2	188.3
DPS	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	4.6	3.6
Valuation (x)								
P/E	40.9	29.0	17.4	24.0	18.4	22.8	15.6	12.3
Cash P/E	29.6	21.5	13.9	17.6	13.6	15.3	11.5	9.5
P/BV	6.6	5.5	4.5	3.8	3.4	3.0	2.5	2.1
EV/Sales	4.1	3.5	2.8	2.4	2.1	2.1	1.8	1.5
EV/EBITDA	23.7	16.4	10.3	13.0	10.1	10.7	8.4	6.9
Dividend Yield (%)	0.3	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	17.4	18.7
RoCE	8.6	12.8	20.6	12.6	14.8	11.7	14.1	15.6
RoIC	10.2	14.4	24.0	15.1	17.6	13.7	16.7	19.2
Working Capital Ratios								
Asset Turnover (x)	0.9	1.0	1.1	1.0	1.1	1.0	1.0	1.0
Inventory (Days)	53	58	69	86	86	99	91	80
Debtor (Days)	103	94	80	82	76	78	76	76
Creditor (Days)	56	61	69	71	72	77	72	71
Leverage Ratio (x)								
Current Ratio	2.9	2.9	2.7	3.2	2.9	3.2	3.1	3.1
Interest Cover Ratio	10	15	27	24	13	6	11	15
Debt/Equity	0.6	0.4	0.3	0.4	0.4	0.4	0.3	0.3

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	2,848	4,256	7,044	5,580	6,952	5,472	8,184	10,171
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,187	2,286
Interest & Finance Charges	18	207	139	232	559	1,058	766	684
Direct Taxes Paid	-891	-1,191	-1,914	-1,450	-1,758	-1,903	-2,046	-2,360
(Inc)/Dec in WC	-377	128	-2,749	-2,572	-103	-2,463	-806	-1,228
CF from Operations	2,652	4,769	4,034	3,376	7,495	4,238	8,285	9,554
Others	0	-7	291	-56	-27	156	0	0
CF from Operating incl EO	2,652	4,762	4,325	3,321	7,467	4,394	8,285	9,554
(inc)/dec in FA	-2,544	-1,843	-2,710	-3,967	-4,107	-3,788	-6,892	-5,232
(Pur)/Sale of Investments	-539	0	-2	0	2,035	159	0	0
Others	267	237	-59	166	158	28	50	57
CF from Investments	-2,816	-1,606	-2,771	-3,801	-1,914	-3,602	-6,842	-5,175
Issue of Shares	195	0	41	37	-3,084	32	0	0
(Inc)/Dec in Debt	-252	-1,534	-719	2,530	-600	1,435	-796	-796
Interest Paid	-285	-266	-263	-242	-533	-1,027	-816	-741
Dividend Paid	-306	-307	-247	-372	-186	-363	-284	-284
CF from Fin. Activity	-102	-2,129	-2,993	1,900	-4,403	77	-1,896	-1,821
Inc/Dec of Cash	-266	1,027	-1,440	1,419	1,151	869	-452	2,558
Opening Balance	1,156	890	2,839	2,711	4,095	3,128	3,863	3,411
FX	-30	921	1,312	-35	-2,118	-134	0	0
Closing Balance	891	2,839	2,711	4,095	3,128	3,863	3,411	5,969

E: MOSL Estimates

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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