

Retail Equity Research

Granules India Ltd.

Pharmaceuticals

BSE CODE : 532482

NSE CODE: GRANULES

BLOOMBERG CODE: GRAN:IN

SENSEX: 80,437

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 662

TARGET Rs. 732

RETURN 11%



(Closing: 16-08-24)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Healthy topline growth... Margins expanded

Granules India Ltd. (Inc.) is a vertically integrated, high growth pharmaceutical company headquartered in Hyderabad, India. The company manufactures Active Pharmaceutical Ingredients (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosages (FD).

- During Q1FY25, Topline reported a strong growth of 20% (YoY), due to healthy growth in formulations across all geographies.
- EBITDA was reported at Rs.259cr, up by 89% YoY, and EBITDA margin expanded by 810bps YoY to 22%. Resultantly, Adj. PAT was reported at Rs.134.6cr (181% YoY).
- GIL plans to increase R&D spending on CNS, oncology and diabetes segments and aims to backward integrate key molecules.
- Going forward, increasing share of formulations, softening raw material prices, expansion into new geographies, and strengthening key molecules through backward integration are positive in the long term.
- Therefore, we maintain Accumulate rating with a revised target price of Rs.732 based on 23x FY26E EPS.

Margins improved on value added product mix

In Q1FY25, topline reported a healthy growth of 20% to Rs.1,179cr. This was due to favourable product mix, which is partly offset by price erosion of paracetamol prices across all geographies due to overstocking of inventories. While revenue in the US grew by 45% YoY to Rs.870cr, it declined by 38% to Rs.149.3cr, in Europe in Q1FY25. However, the company's EBITDA improved by 89% YoY to Rs.259.3cr, and the EBITDA margin increased by 810bps YoY to 22%, driven by an improved value-added percentage. Thus, the adj. PAT was reported at Rs.134.6cr (an 84% YoY increase). The company's value added product mix improved, accounting for 58.9% of sales in Q1FY25.

Share of FDs increased YoY

The FD (76% of revenue) grew by 66% to Rs. 891.2cr on increased volumes in all the major geographies. While the API segment contributed 16% to the revenue with a 37% YoY decline to Rs.189cr, the rest of the PFI segment contracted by 33% on pricing pressure and using PFI as raw material for formulations. During the quarter, GIL has received approval from 27 ANDAs in the U.S, with 5 more awaiting approval. The company's strategic focus is shifting towards the formulation (FD) business and value added products, aiming to increase overall revenue share from 65% to 70% in the coming years. This shift is expected to improve the EBITDA margin going forward. The company is eager to launch 16-18 products in FY25, with 14 of them being new products. This initiative will enhance future revenue visibility.

R&D spending and capacity expansion favours growth

GIL plans to increase R&D spending for the development of complex drugs, particularly in the CNS and oncology, expected to see growth drivers in FY25. Additionally, the company intends to backward integrate some of the key ingredients and launch new products in the oncology segment in FY26E to enhance long-term revenue visibility. In FY25, the company plans to allocate a new capex of Rs.600cr and will pave the way for some of the manufacturing projects in Vizag. The 1st phase of the new formulation facility at Genome Valley is already complete, with 2 billion dosages of FD per year expected during the fiscal year.

Outlook and valuation

We remain positive about the company's long-term profitability and growth prospects owing to new product launches across geographies, a focus on backward integration, and increased market share in existing geographies. However, overstocking of inventories of key drug Paracetamol is likely to soften revenue in the short term. Therefore, we maintain our Accumulate rating, with a target price of Rs.732 based on 23x FY26E EPS.

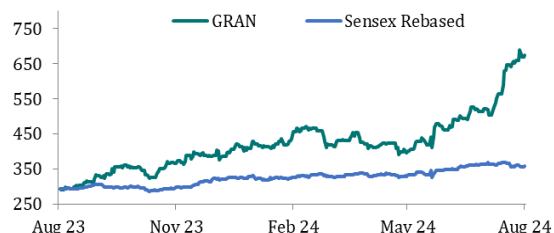
Company Data

Market Cap (Rs cr)	16,366
Enterprise Value (Rs cr)	17,295
Outstanding Shares (cr)	24.2
Free Float	61%
Dividend Yield	0.2%
52 week high (Rs)	697
52 week low (Rs)	288
6m average volume (cr)	0.18
Beta	1.0
Face value (Rs)	1.0

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	42.0	42.0	38.9
FPI's	18.8	18.8	20.4
MFs/Institutions	10.2	10.2	9.2
Public	29.1	29.1	31.6
Total	100.0	100.0	100.0
Promoters pledge	4.0	4.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	66.0%	48.2%	129.6%
Absolute Sensex	7.5%	9.9%	22.1%
Relative Return*	58.5%	38.3%	107.5%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	4,506	5,188	5,933
Growth (%)	-0.1	15.1	14.4
EBITDA	856	1,125	1,370
EBITDA Margin(%)	19.0	21.7	23.1
PAT Adj.	405.8	607.4	769.8
Growth (%)	-21.5	49.7	26.7
Adj.EPS	16.8	25.1	31.8
Growth (%)	-21.5	49.7	26.7
P/E	39.5	11.4	9.0
P/B	5.0	1.8	1.5
EV/EBITDA	20.7	7.0	5.5
ROE (%)	13.4	17.3	18.5
D/E	0.3	0.2	0.1

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 Research Analyst

Quarterly Financials (Consolidated)

Rs. cr	Q1FY25	Q1FY24	% YoY Growth	Q4FY24	% QoQ Growth
Revenue	1,180	986	19.7	1,176	0.3
EBITDA	259	137	89.5	256	1.4
EBITDA margins	22.0	13.9	809 bps	21.7	23 bps
Depreciation	53	49	7.4	53	-0.6
EBIT	206	88	135.7	203	0.0
Interest	27	22	20.5	29	-0.1
Other Income	2	0	493.1	2	0.1
Exceptional Items	-	0		-	
PBT	181	65	177.1	176	0.0
Tax	47	18	166.2	46	0.0
Sh. of profit from Associate	-	-		-	-
Reported PAT	135	48	181.0	130	0.0
Adjustments	0	0		0	0.0
Adj. PAT	135	48	181.0	130	0.0
No. of shares	25	24		25	0.0
Adj. EPS (Rs.)	5.6	2.0	181.0	5.4	0.0

Change in Estimates

(Rs cr)	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,119	5,901	5,188	5,933	1.3	0.5
EBITDA	1,049	1,274	1,125	1,370	7.3	7.5
Margins (%)	20	22	22	23	169 bps	109 bps
Adj. PAT	555	710	607	770	9.4	8.4
EPS	23	29	25	32	9.1	9.7

Segment-wise performance

(Rs cr)	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Active Pharma Ingredients	189	300	-37.0	163	15.7
Pharma Formulation Intermediaries	100	148	-32.4	148	-32.5
Finished Dosages	891	537	65.9	864	3.1
Total	1,180	985	19.8	1,176	0.4

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	3,765	4,512	4,506	5,188	5,933
% change	16.3	19.8	-0.1	15.1	14.4
EBITDA	722	914	856	1,125	1,370
% change	-15.6	26.7	-6.3	31.4	21.7
Depreciation	159	184	207	248	286
EBIT	563	729	649	877	1,084
Interest	23	56	106	93	88
Other Income	18	14	4	26	24
PBT	557	687	548	810	1,020
% change	-20.8	23.3	-20.3	47.9	25.9
Tax	145	171	142	202	250
Tax Rate (%)	0	0	0	0	0
Reported PAT	412	517	406	607	770
Adj.*	0	0	0	0	0
Adj. PAT	412	517	406	607	770
% change	-24.9	0.3	-0.2	0.5	0.3
No. of shares (cr)	24.8	24.2	24.2	24.2	24.2
Adj EPS (Rs)	17	21	17	25	32
% change	-24.9	28.5	-21.5	49.7	26.7
DPS (Rs)	1.0	1.0	1.5	1.5	1.5

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	185	292	381	705	1,039
Account Receivable	925	949	986	1,066	1,219
Inventories	979	1,149	1,301	1,259	1,430
Other Cur. Assets	258	306	232	341	390
Investments	20	21	38	39	41
Gross Fixed Assets	1,991	2,462	2,791	3,391	3,891
Net Fixed Assets	1,271	1,558	1,731	2,093	2,316
CWIP	312	228	260	250	250
Intangible Assets	302	291	252	229	221
Def. Tax (Net)	-13	-6	14	20	26
Other Assets	0	0	0	0	0
Total Assets	4,499	4,897	5,498	6,151	7,083
Current Liabilities	754	882	908	951	1,112
Provisions	51	44	50	58	67
Debt Funds	242	219	152	162	172
Other Liabilities	639	782	871	913	1,073
Equity Capital	25	24	24	24	24
Reserves & Surplus	2,562	2,811	3,201	3,772	4,505
Shareholder's Fund	2,587	2,835	3,226	3,797	4,530
Total Liabilities	4,499	4,897	5,498	6,151	7,083
BVPS	104	117	133	157	187

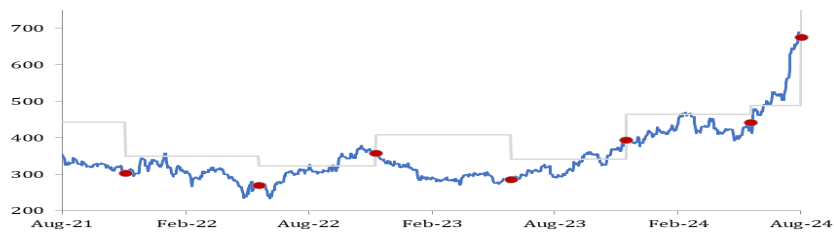
CASH FLOW

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	717	872	755	1,058	1,305
Non-cash adj.	159	186	72	248	286
Changes in W.C	-257	-10	-104	-96	-203
C.F. Operation	333	739	439	760	852
Capital exp.	-397	-410	-381	-590	-500
Change in inv.	17	203	2	-1	-2
Other invest.CF	12	0	18	0	0
C.F - Investment	-380	-191	-360	-609	-505
Issue of equity	0	-308	0	0	0
Issue/repay debt	253	-60	-83	30	30
Dividends paid	-37	-19	-36	-36	-36
Other finance.CF	4	0	3	0	0
C.F - Finance	190	-440	8	-12	-13
Chg. in cash	143	107	87	138	335
Closing cash	185	292	381	705	1,039

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	19.2	20.3	19.0	21.7	23.1
EBIT margin (%)	15.0	16.2	14.4	16.9	18.3
Net profit mgn.(%)	10.9	11.5	9.0	11.7	13.0
ROE (%)	17.3	19.1	13.4	17.3	18.5
ROCE (%)	0.2	0.2	0.2	0.2	0.2
W.C & Liquidity					
Receivables (days)	82	76	78	72	70
Inventory (days)	85	86	99	90	83
Payables (days)	114	112	149	142	139
Current ratio (x)	1.9	1.6	1.6	1.8	1.9
Quick ratio (x)	1.2	1.0	0.9	1.1	1.2
Turnover & Leverage					
Gross asset T.O (x)	2.0	2.0	1.7	1.7	1.6
Total asset T.O (x)	0.9	1.0	0.9	0.9	0.9
Int. covge. ratio (x)	24.3	13.0	6.1	9.4	12.3
Adj. debt/equity (x)	0.4	0.3	0.3	0.2	0.1
Valuation					
EV/Sales (x)	4.6	3.9	3.9	1.5	1.3
EV/EBITDA (x)	24.2	19.2	20.6	7.0	5.5
P/E (x)	39.6	30.9	39.3	11.4	9.0
P/BV (x)	6.3	5.6	4.9	1.8	1.5

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
14 th May 2021	Buy	430
3 rd August 2021	Buy	443
17 th November 2021	Accumulate	349
3 rd June 2022	Accumulate	323
24 th November 2022	Accumulate	408
13 th June 2023	Buy	342
1 st December 2023	Accumulate	464
5 th June 2024	Accumulate	470
16 th August 2024	Accumulate	732

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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