

Retail Equity Research

Granules India Ltd.

Pharmaceuticals

BSE CODE : 532482

NSE CODE: GRANULES

BLOOMBERG CODE: GRAN:IN

SENSEX: 72,079

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 412

TARGET Rs. 470

RETURN 14%



(Closing: 04-06-24)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Muted 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 Q4FY24, Topline reported degrowth by 1.6% to Rs.1,176cr, due to falling volumes and price erosion in paracetamol across all geographies due to overstocking of inventories.
- EBITDA was reported at Rs.256cr, up by 12.1% YoY, and EBITDA margin expanded by 267bps YoY to 21.7%. Resultantly, Adj. PAT was reported at Rs.130cr (8.7% YoY).
- GIL plans to increase R&D spending on CNS and oncology segments and aims to backward integrate key molecules to reduce raw material costs.
- Going forward, 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.470 based on 16x FY26E EPS.

Margins improved on value added product mix

In Q4FY24, GIL topline reported degrowth by 1.6% to Rs.1,176cr. This was due to falling volumes and paracetamol prices across all geographies due to overstocking of inventories. While revenue in the US grew by 19% YoY to Rs.696cr, it declined by 30% to Rs.287cr, in Europe in Q4FY24. However, the company's EBITDA improved by 12.1% YoY to Rs.256cr, and the EBITDA margin increased by 267bps YoY to 21.7%, driven by an improved value-added percentage. Thus, the adj. PAT was reported at Rs.130cr (an 8.4% YoY increase). The company's value added product mix improved, accounting for 57% of sales in Q4FY24.

Share of FDs increased YoY

The FD (74% of revenue) grew by 41% to Rs. 864cr on increased volumes in all the major geographies. While the API segment contributed 14% to the revenue with a 55% YoY decline to Rs. 163cr, the rest of the PFI segment contracted by 12% on pricing pressure. During the quarter, GIL has received approval from 26 ANDAs in the U.S, with 6 more awaiting approval. The company's strategic focus is shifting toward the formulations (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. Additionally, the company intends to backward integrate some of the key ingredients used in Paracetamol and Metformin, aiming to reduce raw material costs. In FY25, company plans to allocate a new capex of Rs. 600cr, which will be deployed towards the expansion of Granules Life Sciences and other projects. The construction of the new formulation facility at Genome Valley is progressing and first phase already completed, once completed, adding 8 billion dosages of FD per year.

Outlook and valuation

We remain positive about the company's long-term profitability and growth prospects owing to new product launches, a focus on backward integration, and increased market share in existing geographies. However, delayed launches of some of the molecules are likely to impact revenue. Therefore, we maintain our Accumulate rating, with a target price of Rs.470 based on 16x FY26E EPS.

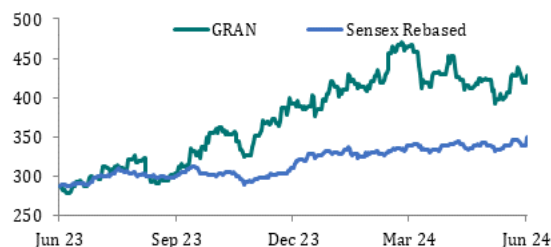
Company Data

Market Cap (Rs cr)	10,352
Enterprise Value (Rs cr)	11,188
Outstanding Shares (cr)	24.2
Free Float (%)	58
Dividend Yield	0.4%
52 week high (Rs)	481
52 week low (Rs)	275
6m average volume (cr)	0.15
Beta	0.9
Face value (Rs)	1.0

Shareholding (%)	Q2FY23	Q3FY24	Q4FY24
Promoters	42.0	42.0	42.0
FPI's	21.5	18.8	19.6
MFs/Institutions	7.1	10.2	10.7
Public	29.5	29.1	27.8
Total	100.0	100.0	100.0
Promoters pledge	4.0	4.0	4.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-8.6%	8.9%	48.8%
Absolute Sensex	3.2%	9.2%	21.6%
Relative Return*	-11.8%	-0.3%	27.3%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	4,506	5,119	5,901
Growth (%)	-0.1	13.6	15.3
EBITDA	856	1,049	1,274
EBITDA Margin(%)	19.0	20.5	21.6
PAT Adj.	405.8	555.4	710.4
Growth (%)	-21.5	36.9	27.9
Adj.EPS	16.8	22.9	29.4
Growth (%)	-21.5	36.9	27.9
P/E	25.2	12.4	9.7
P/B	3.2	1.8	1.6
EV/EBITDA	13.6	7.5	6.0
ROE (%)	13.4	15.9	17.4
D/E	0.3	0.2	0.1

Vinod T P
 Research Analyst

Quarterly Financials (Consolidated)

Rs. cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Revenue	1,176	1,196	-1.6	1,156	1.7	4,506	4,512	-0.1
EBITDA	256	228	12.1	250	2.1	856	914	-6.3
EBITDA margins	21.7	19.1	267 bps	22	7 bps	19	20	-126 bps
Depreciation	53	49	9.2	52	1.5	207	184	12.4
EBIT	203	179	12.9	198	0.0	649	729	-11.1
Interest	29	19	53.0	29	0.0	106	56	89.2
Other Income	2	3	-44.5	1	1.9	4	14	-0.7
Exceptional Items	-	0		-		-	-	-
PBT	176	164	7.1	170	0.0	547	687	-20.4
Tax	46	44	3.6	44	0.0	142	171	-16.8
Sh. of profit from Associate	-	-		-	-	-	-	-
Reported PAT	130	120	8.4	126	0.0	405	517	-21.5
Adjustments	0	0		0	0.0	0	0	0.0
Adj. PAT	130	120	8.4	126	0.0	405	517	-21.5
No. of shares	25	24		25	0.0	24	25	0.0
Adj. EPS (Rs.)	5.4	4.9	8.4	5.2	0.0	16.7	20.8	-19.6

Change in Estimates

(Rs cr)	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,417	6,207	5,119	5,901	-5.5	-4.9
EBITDA	1,137	1,284	1,049	1,274	-7.7	-0.8
Margins (%)	21	21	20	22	-51 bps	59 bps
Adj. PAT	618	702	555	710	-10.1	1.2
EPS	26	29	23	29	-11.7	1.2

Segment-wise performance

(Rs cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)
Active Pharma Ingredients	163	366	-55.4	221	-26.1
Pharma Formulation Intermediaries	148	217	-31.8	169	-12.1
Finished Dosages	864	612	41.3	766	12.8
Total	1,176	1,196	-1.7	1,155	1.8

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	3,765	4,512	4,506	5,119	5,901
% change	16.3	19.8	-0.1	13.6	15.3
EBITDA	722	914	856	1,049	1,274
% change	-15.6	26.7	-6.3	22.5	21.5
Depreciation	159	184	207	248	286
EBIT	563	729	649	801	988
Interest	23	56	106	106	101
Other Income	18	14	4	46	53
PBT	557	687	548	740	941
% change	-20.8	23.3	-20.3	35.2	27.1
Tax	145	171	142	185	231
Tax Rate (%)	0	0	0	0	0
Reported PAT	412	517	406	555	710
Adj.*	0	0	0	0	0
Adj. PAT	412	517	406	555	710
% change	-24.9	0.3	-0.2	0.4	0.3
No. of shares (cr)	24.8	24.2	24.2	24.2	24.2
Adj EPS (Rs)	17	21	17	23	29
% change	-24.9	28.5	-21.5	36.9	27.9
DPS (Rs)	1.5	1.5	1.5	1.5	1.5

BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	185	292	381	674	937
Account Receivable	925	949	986	1,052	1,213
Inventories	979	1,149	1,301	1,248	1,432
Other Cur. Assets	258	306	232	337	388
Investments	20	21	38	39	40
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	6,090	6,974
Current Liabilities	754	882	908	943	1,114
Provisions	51	44	50	58	66
Debt Funds	242	219	152	162	172
Other Liabilities	639	782	871	905	1,074
Equity Capital	25	24	24	24	24
Reserves & Surplus	2,562	2,811	3,201	3,720	4,394
Shareholder's Fund	2,587	2,835	3,226	3,745	4,419
Total Liabilities	4,499	4,897	5,498	6,090	6,974
BVPS	104	117	133	154	182

CASH FLOW

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	717	872	755	989	1,227
Non-cash adj.	159	186	72	248	286
Changes in W.C	-257	-10	-104	-75	-217
C.F. Operation	333	739	439	728	779
Capital exp.	-397	-410	-381	-590	-500
Change in inv.	17	203	2	-1	-1
Other invest.CF	12	0	18	0	0
C.F - Investment	-380	-191	-360	-609	-504
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	108	263
Closing cash	185	292	381	674	937

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab & Return					
EBITDA margin (%)	19.2	20.3	19.0	20.5	21.6
EBIT margin (%)	15.0	16.2	14.4	15.6	16.8
Net profit mgn.(%)	10.9	11.5	9.0	10.8	12.0
ROE (%)	17.3	19.1	13.4	15.9	17.4
ROCE (%)	0.2	0.2	0.2	0.2	0.2
W.C & Liquidity					
Receivables (days)	82	76	78	73	70
Inventory (days)	85	86	99	91	83
Payables (days)	114	112	149	142	138
Current ratio (x)	1.9	1.6	1.6	1.8	1.8
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	7.5	9.8
Adj. debt/equity (x)	0.4	0.3	0.3	0.2	0.1
Valuation					
EV/Sales (x)	3.0	2.6	2.6	1.5	1.3
EV/EBITDA (x)	15.9	12.7	13.6	7.5	6.0
P/E (x)	25.5	19.8	25.2	12.4	9.7
P/BV (x)	4.1	3.6	3.2	1.8	1.6

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

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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Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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