

Granules India

BSE SENSEX
80,846

S&P CNX
24,457



Stock Info

	GRAN IN
Bloomberg	GRAN IN
Equity Shares (m)	242
M.Cap.(INRb)/(USD b)	129.5 / 1.5
52-Week Range (INR)	725 / 365
1, 6, 12 Rel. Per (%)	-7/16/15
12M Avg Val (INR M)	1245
Free float (%)	61.1

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	44.1	50.4	58.4
EBITDA	9.9	11.9	14.3
Adj. PAT	5.2	6.9	8.7
EBIT Margin (%)	17.6	19.2	20.4
Cons. Adj. EPS (INR)	21.6	28.6	36.0
EPS Gr. (%)	24.2	32.8	25.8
BV/Sh. (INR)	153.2	180.7	215.5

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	15.1	17.2	18.2
RoCE (%)	12.7	14.3	15.6
Payout (%)	5.4	4.1	3.2

Valuations

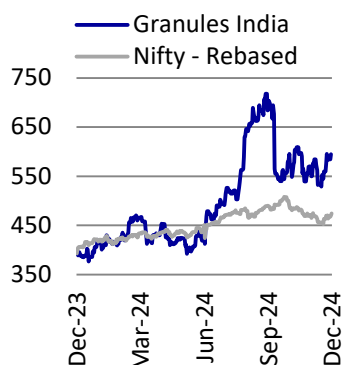
P/E (x)	24.8	18.6	14.8
EV/EBITDA (x)	17.4	14.4	11.8
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.3	0.8	2.5
EV/Sales (x)	3.9	3.4	2.9

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	38.9	38.9	42.0
DII	14.9	14.1	7.1
FII	19.5	20.4	21.5
Others	26.8	26.6	29.5

FII includes depository receipts

Stock Performance (one-year)



CMP: INR534

TP: INR625 (+17%)

Buy

OAI at Gagillapur breaks the sound compliance track record

Limited approvals pending from Gagillapur offer some respite

- USFDA classified Granules India's (GRAN) gagillapur site as Official Action Indicated (OAI) following the recent inspection.
- OAI implies that the remediation measures have some lacuna in addressing issues highlighted by USFDA.
- Having said that, there are only three ANDAs pending for approval. Additionally, with the OAI classification, GRAN can continue to supply the approved products.
- The temporary disruption in production due to the implementation of remediation measures is already built into our FY25 estimates.
- GRAN is not only diversifying its formulation manufacturing capacity at Vizag/Genome Valley/Virginia but also building capabilities to manufacture products in oncology as well as utilizing differentiated technologies such as MUPS.
- We expect a 29% earnings CAGR over FY25-27, driven by a) building a niche pipeline in oncology and innovative tech-based products; b) large volume products; and c) backward integration. We lower the PE multiple from 20x to 18x to factor in the escalation of the regulatory issue and arrive at a TP of INR625. Reiterate BUY.

OAI at Gagillapur to impact new approvals while base business continues

- GRAN was issued a form 483 with six observations for its Gagillapur site after the USFDA inspection on Sept'24.
- The observations were related to cleaning/maintenance, inadequate root-cause analysis, document management, procedures for in-process controls, and air purification units.
- The USFDA has now classified the inspection as OAI.
- The company has only three products pending approval from this site.
- It has responded to all the observations issued by the USFDA.
- To remediate the facility, GRAN has voluntarily paused the manufacturing and distribution at the site. It has also employed an independent third-party consultant for the site's cleaning protocols and cross-contamination controls.
- To date, GRAN has gone through 24 USFDA inspections since 2009. Out of 24 inspections, Gagillapur (Medchal-Malkhajgiri) has been inspected six times. All the inspections received either Voluntary Action Indicated (VAI) or No Action Indicated (NAI) classifications.

De-risking/adding new capabilities/capacities

- The Gagillapur site has a 24k TPA of PFI and 21.6b PA of formulation capacity, which is higher than the combined capacity of Parawada, Chantilly, and Jeedimetla.
- Further, to de-risk the facility, GRAN has commercialized the new 2.5b formulation capacity at Genome Valley and filed new complex products, such as CNS, ADHD, and other products. An additional capacity of 5.5b from Genome Valley is expected to come online by FY26 to support growth.
- Furthermore, GRAN is launching new oncology products from Vizag plants in the near term.

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Limited impact on financials

- Post the form 483 issuance by the USFDA on the Gagillapur site, GRAN temporarily paused the production and distribution at this site. This affected revenue and profitability in 2QFY25.
- This impact would also be carried forward in 3QFY25, led by the gradual ramp-up of the plant.
- While GRAN is implementing remediation measures at the plant, it is also filing niche products from alternate sites such as Genome Valley and Vizag, which would offset the impact.
- As such, we have already factored in the impact of classification and remediation measures at the Gagillapur plant in FY25.

Valuation and view

- GRAN has recorded a healthy 10% earnings CAGR over FY19-24. Given GRAN's focus on building a niche pipeline in the oncology space, large-volume products, innovative tech-based products, and backward integration, we estimate a 29% earnings CAGR over FY25-27. However, the regulatory inspection at Gagillapur will be a near-term hurdle for growth in the US markets, and GRAN is working on implementing remediation measures in this plant.
- We await further clarity on the business prospects following the OAI classification at Gagillapur.
- We lower the PE multiple from 20x to 18x to factor in the escalation of the regulatory issue and arrive at a TP of INR625. Reiterate BUY.

Exhibit 1: Granules USFDA inspection history

Sr No	Site	Inspection end date	Classification
1	Medchal-Malkhajgiri	Sep-24	OAI
2	Parawada Mandal	Apr-24	NAI
3	Chantilly	Dec-23	VAI
4	Chantilly	Aug-23	NAI
5	Visakhapatnam	Jun-23	NAI
6	Secunderabad	Jun-23	NAI
7	Manassas	Mar-23	NAI
8	Chantilly	Jul-22	VAI
9	Medchal-Malkajgiri	Feb-20	VAI
10	Medchal-Malkajgiri	Mar-18	NAI
11	Medchal-Malkajgiri	Oct-16	NAI
12	Medchal-Malkajgiri	Mar-15	NAI
13	Medchal-Malkajgiri	Sep-12	VAI
14	Medchal-Malkajgiri	Nov-09	NAI

VAI: Voluntary Action Indicated, NAI: No Action Indicated, OAI: Official Action Indicated;

Source: MOFSL, Company, USFDA

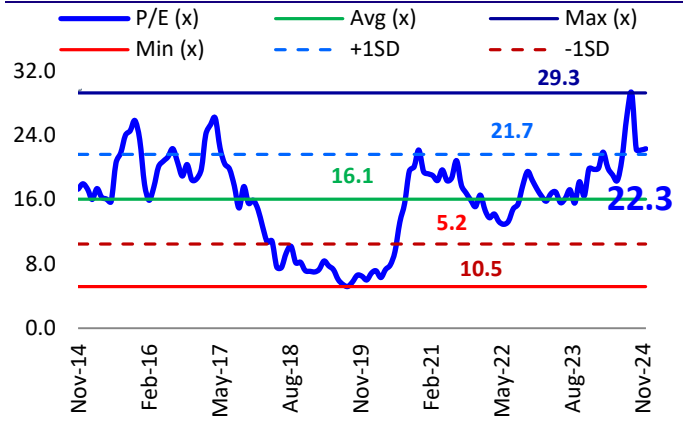
Exhibit 2: Granules plant capacity

Segment	Facility	Capacity
FD	Gagillapur	26.8b
	Virginia	1.5b
	Vizag (Unit V)	1.1b
	Granules Life Sciences	2.5b*
PFI	Gagillapur	23200 TPA
	Jeedimetla	1440 TPA

*Note: The remaining 5.5b capacity will come online in FY26;

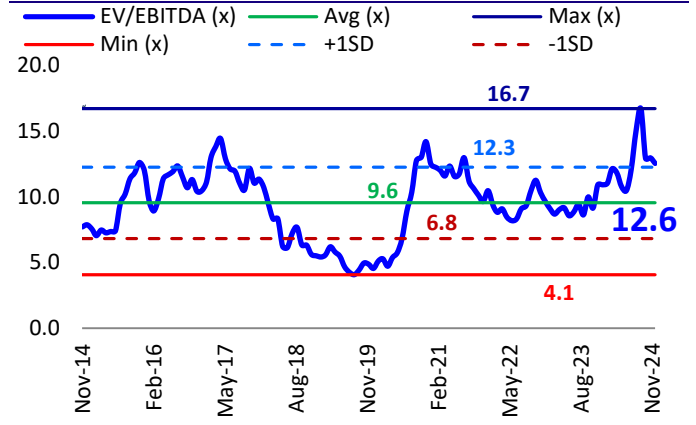
Source: MOFSL, Company, USFDA

Exhibit 3: P/E chart



Source: MOFSL, Company, and Bloomberg

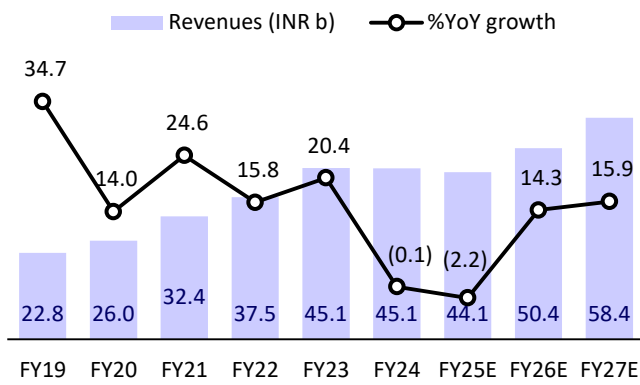
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, and Bloomberg

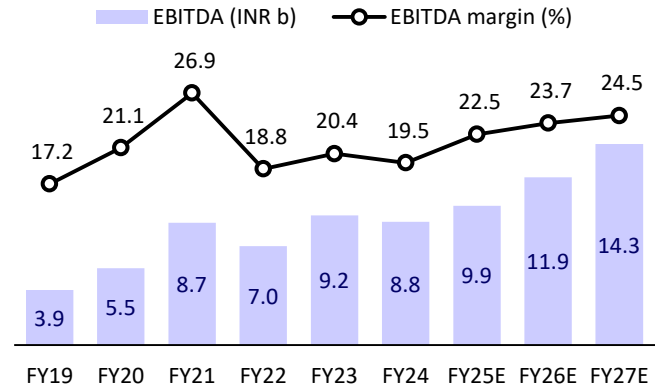
Story in charts

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



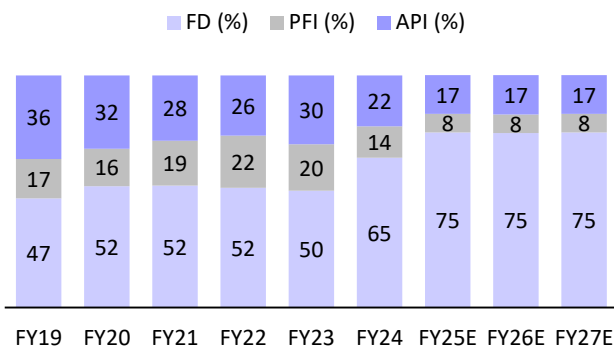
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 200bp over FY25-27



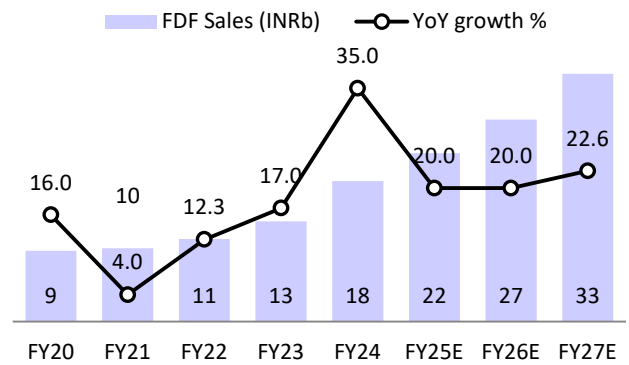
Source: MOFSL, Company

Exhibit 7: Formulations' contribution to remain the highest



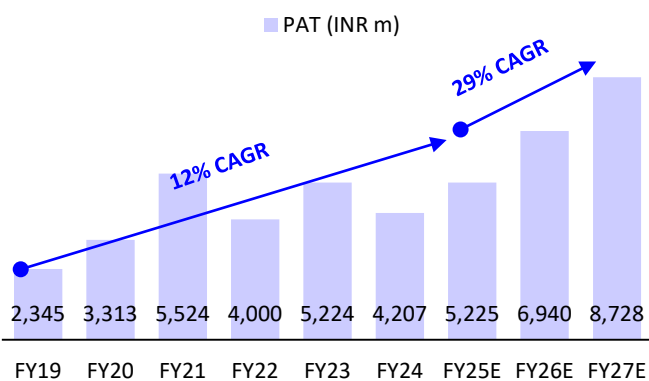
Source: MOFSL, Company

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



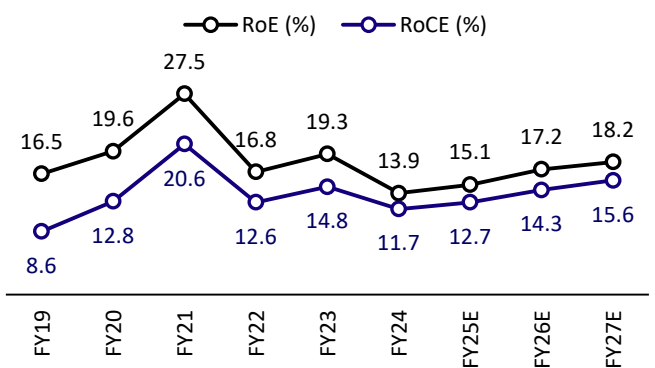
Source: MOFSL, Company

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

INR m

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	44,056	50,372	58,391
Change (%)	34.7	14.0	24.6	15.8	20.4	-0.1	-2.2	14.3	15.9
Total Expenditure	18,872	20,513	23,665	30,427	35,901	36,293	34,144	38,434	44,085
% of Sales	82.8	78.9	73.1	81.2	79.6	80.5	77.5	76.3	75.5
EBITDA	3,920	5,473	8,710	7,050	9,218	8,770	9,913	11,938	14,306
Margin (%)	17.2	21.1	26.9	18.8	20.4	19.5	22.5	23.7	24.5
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,150	2,286	2,407
EBIT	2,866	4,104	7,195	5,464	7,373	6,697	7,763	9,652	11,899
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	146
PBT bef. EO Exp.	2,848	4,199	7,085	5,407	6,952	5,683	6,853	9,036	11,365
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	6,853	9,036	11,365
Current Tax	891	1,257	1,954	1,382	1,772	1,652	1,687	2,096	2,637
Deferred Tax	72	-100	-405	70	-66	-233	-60	0	0
Tax Rate (%)	34.8	27.2	22.0	26.0	24.8	25.9	23.7	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	5,225	6,940	8,728
Adjusted PAT	2,345	3,313	5,524	4,000	5,224	4,207	5,225	6,940	8,728
Change (%)	76.8	41.3	66.8	-27.6	30.6	-19.5	24.2	32.8	25.8
Margin (%)	10.2	12.6	17.0	10.6	11.5	9.3	11.8	13.7	14.9

Consolidated - Balance Sheet

INR m

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	36,895	43,551	51,996
Net Worth	15,295	18,437	21,733	25,865	28,349	32,255	37,137	43,794	52,238
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	49,723	55,583	63,198
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	16,011	18,297	20,704
Net Fixed Assets	11,167	14,600	13,863	15,412	19,109	20,956	23,306	25,520	26,313
Capital WIP	3,235	1,481	1,848	3,562	2,394	2,717	4,406	5,037	4,671
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	30,187	34,848	43,039
Inventory	3,842	4,384	7,822	9,786	11,494	13,005	10,758	12,530	14,977
Account Receivables	6,735	6,620	7,654	9,250	9,485	9,858	9,777	12,420	14,398
Cash and Bank Balance	890	2,839	2,710	4,095	3,128	3,864	5,687	5,364	7,825
Loans and Advances	1,811	2,113	3,040	2,815	3,060	4,056	3,965	4,534	5,839
Curr. Liability & Prov.	4,548	5,432	7,887	8,191	9,258	9,573	8,930	10,576	11,579
Account Payables	3,235	3,569	5,410	6,386	7,821	7,495	7,016	8,424	9,421
Other Current Liabilities	1,144	1,589	2,160	1,294	998	1,580	1,545	1,767	1,752
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	21,257	24,272	31,460
Appl. of Funds	25,279	26,852	29,248	36,938	39,788	45,637	49,723	55,583	63,198

E: MOFSL Estimates

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	21.6	28.6	36.0
Cash EPS	13.4	18.4	28.4	22.5	29.2	25.9	30.4	38.1	45.9
BV/Share	60.2	72.5	87.7	104.3	117.1	133.1	153.2	180.7	215.5
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	5.4	4.1	3.2
Valuation (x)									
P/E	55.2	39.1	23.4	32.4	24.8	30.8	24.8	18.6	14.8
Cash P/E	39.9	29.0	18.8	23.7	18.3	20.6	17.5	14.0	11.6
P/BV	8.9	7.4	6.1	5.1	4.6	4.0	3.5	3.0	2.5
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	17.4	14.4	11.8
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	15.1	17.2	18.2
RoCE	8.6	12.8	20.6	12.6	14.8	11.7	12.7	14.3	15.6
RoIC	10.2	14.4	24.0	15.1	17.6	13.7	15.2	17.6	19.2
Working Capital Ratios									
Asset Turnover (x)	0.9	1.0	1.1	1.0	1.1	1.0	0.9	0.9	0.9
Inventory (Days)	53	58	69	86	86	99	98	84	86
Debtor (Days)	103	94	80	82	76	78	81	80	84
Creditor (Days)	56	61	69	71	72	77	78	73	74
Leverage Ratio (x)									
Current Ratio	2.9	2.9	2.7	3.2	2.9	3.2	3.4	3.3	3.7
Interest Cover Ratio	10	15	27	24	13	6	8	13	18
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	INR m
OP/(Loss) before Tax	2,848	4,256	7,044	5,580	6,952	5,472	6,853	9,036	11,365	
Depreciation	1,055	1,370	1,515	1,586	1,845	2,073	2,150	2,286	2,407	
Interest & Finance Charges	18	207	139	232	559	1,058	910	615	534	
Direct Taxes Paid	-891	-1,191	-1,914	-1,450	-1,758	-1,903	-1,687	-2,096	-2,637	
(Inc)/Dec in WC	-377	128	-2,749	-2,572	-103	-2,463	1,777	-3,338	-4,727	
CF from Operations	2,652	4,769	4,034	3,376	7,495	4,238	10,002	6,503	6,943	
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	10,002	6,503	6,943	
(inc)/dec in FA	-2,544	-1,843	-2,710	-3,967	-4,107	-3,788	-6,189	-5,132	-2,834	
(Pur)/Sale of Investments	-539	0	-2	0	2,035	159	0	0	0	
Others	267	237	-59	166	158	28	110	126	146	
CF from Investments	-2,816	-1,606	-2,771	-3,801	-1,914	-3,602	-6,078	-5,006	-2,688	
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	1,824	-323	2,461	
Opening Balance	1,156	890	2,839	2,711	4,095	3,128	3,863	5,687	5,364	
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	5,687	5,364	7,825	

E: MOFSL Estimates

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