

## Retail Equity Research

# Granules India Ltd.

## Pharmaceuticals

BSE CODE : 532482

NSE CODE: GRANULES

BLOOMBERG CODE: GRAN:IN

SENSEX : 67,481

**Accumulate**

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 393

TARGET Rs. 464

RETURN 18%



(Closing: 01-12-23)

**KEY CHANGES:**
**TARGET** ↑

**RATING** ↓

**EARNINGS** ↓

## Operational headwinds to normalize

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 H2FY24, topline reported flat growth to Rs.2,175cr, due to price erosion in European markets and the continued impact of cybersecurity issues.
- EBITDA was reported at Rs.350cr, down by 23% YoY, and EBITDA margin declined by 485bps YoY to 16%. Resultantly, Adj. PAT was reported at Rs.150cr (-45% YoY), due to higher interest charges.
- Going forward, softening raw material prices, expansion into new geographies, and strengthening of key molecules through backward integration are positive in the long term.
- However, delayed launches of some of the molecules are likely to impact revenue.
- Therefore, we downgrade our rating to Accumulate with a target price of Rs. 464 based on 16x FY26E EPS.

## Continued operational headwinds trimmed top line growth

In H2FY24, topline reported flat growth to Rs.2,175cr. Revenue in the US grew by 11% YoY to Rs.799cr, while in Europe it declined by 8% to Rs.213cr, in Q2FY24. This was due to price erosion in the European markets and the continued impact of cybersecurity issues faced in the first quarter. EBITDA was reported at Rs.350cr, down by 23% YoY, and EBITDA margin declined by 485bps YoY to 16%. Adj. PAT was reported at Rs.150cr (-45% YoY), due to higher interest charges.

## Share of FDs increased YoY

The FD (62% of revenue) grew by 27% to Rs. 742cr on increased volumes in U.S. markets. While the API segment contributed 25% to the revenue with a 9% YoY decline to Rs. 302 cr., the rest of the PFI segment contracted by 38%. During the quarter, GIL has received approval from 59 ANDAs, with 10 more awaiting approval in the US. They planned to launch 7 products in the U.S. and 2 each in the UK, South Africa, and Europe in H2FY24. However, due to operational headwinds, margins squeezed in H1FY24, which is expected to normalize during H2FY24.

## Capacity expansion and green chemistry for growth

A new packaging facility in Virginia, USA, was commissioned and is now fully operational. The management is expecting that this will help to improve working capital and reduce uncertainty in sales. GIL is partnering with Greenko to establish an integrated green pharmaceutical zone and has formed a fully owned subsidiary, Granules CZRO. The initial objective of this is to strengthen the key molecules, paracetamol and metformin, with a near-zero carbon footprint. The expected capex for this initiative is Rs 2,000cr over the next 5 years. Construction of the new formulation facility at Genome Valley is progressing at a good pace, with the first phase and next phase expected to be completed by May 2024, adding 2.5 billion dosages per year.

## Outlook and valuation

We remain optimistic 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 downgrade our rating to Accumulate with a target price of Rs. 464 based on 16x FY26E EPS.

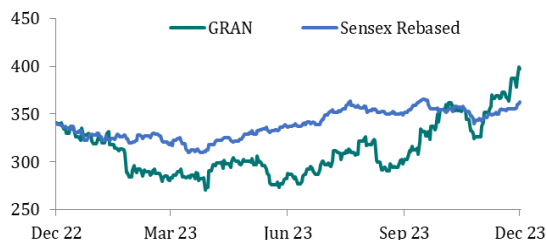
### Company Data

Market Cap (Rs cr)	9,518
Enterprise Value (Rs cr)	10,720
Outstanding Shares (cr)	24.2
Free Float	0.58
Dividend Yield	0.4%
52 week high (Rs)	405
52 week low (Rs)	268
6m average volume (cr)	0.19
Beta	1.1
Face value (Rs)	1.0

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	42.0	42.0	42.0
FPI's	23.9	21.4	23.9
MFs/Institutions	5.0	6.6	3.9
Public	29.1	30.0	32.6
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	31.5%	38.6%	16.7%
Absolute Sensex	3.1%	7.8%	6.5%
Relative Return*	28.4%	30.8%	10.1%

\*over or under performance to benchmark index



Consolidated (cr)	FY24E	FY25E	FY26E
Sales	4,794	5,417	6,207
Growth (%)	6.2	13.0	14.6
EBITDA	994	1,137	1,284
EBITDA Margin(%)	20.7	21.0	20.7
PAT Adj.	536.2	617.7	701.7
Growth (%)	3.8	15.2	13.6
Adj.EPS	22.2	25.5	29.0
Growth (%)	3.8	15.2	13.6
P/E	12.5	11.2	9.8
P/B	2.0	1.8	1.5
EV/EBITDA	7.9	7.0	6.0
ROE (%)	17.4	17.0	16.5
D/E	0.2	0.2	0.1

**Vinod T P**  
 Research Analyst

## Quarterly Financials (Consolidated)

Rs. Cr	Q2FY24	Q2FY23	% YoY Growth	Q1FY24	% QoQ Growth	H1FY24	H1FY23	% YoY Growth
<b>Revenue</b>	<b>1,190</b>	<b>1,151</b>	3.4	<b>986</b>	20.7	<b>2,175</b>	<b>2,170</b>	0.2
<b>EBITDA</b>	<b>213</b>	<b>243</b>	-12.3	<b>137</b>	55.7	<b>350</b>	<b>454</b>	-23.0
EBITDA margins	17.9	21.1	-320 bps	14	402 bps	16	21	-486 bps
Depreciation	53	44	19.2	49	6.7	<b>102</b>	<b>87</b>	16.4
<b>EBIT</b>	<b>160</b>	<b>199</b>	-19.3	<b>88</b>	0.8	<b>248</b>	<b>367</b>	-32.4
Interest	26	13	96.4	22	0.2	48	20	140.3
Other Income	2	5	-68.0	0	3.4	2	9	-0.8
Exceptional Items	-	0		-		-	-	-
<b>PBT</b>	<b>136</b>	<b>190</b>	-28.6	<b>65</b>	1.1	<b>201</b>	<b>356</b>	-43.4
Tax	34	45	-25.2	18	0.9	51	84	-38.4
Sh. of profit from Associate	-	-		-	-	-	-	-
<b>Reported PAT</b>	<b>102</b>	<b>145</b>	-29.6	<b>48</b>	1.1	<b>150</b>	<b>273</b>	-45.0
Adjustments	<b>0</b>	<b>0</b>		<b>0</b>	0.0	<b>0</b>	<b>0</b>	0.0
<b>Adj. PAT</b>	<b>102</b>	<b>145</b>	-29.6	<b>48</b>	1.1	<b>150</b>	<b>273</b>	-45.0
No. of shares	25	24		25	0.0	24	25	0.0
<b>Adj. EPS (Rs.)</b>	<b>4</b>	<b>6</b>	-29.6	<b>2</b>	1.1	<b>6</b>	<b>11</b>	-43.6

## Change in Estimates

(Rs cr)	Old estimates		New estimates			Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E
Revenue	5,194	5,854	4,512	5,417	6,207	-13.1	-7.5
EBITDA	1,077	1,229	914	1,137	1,284	-15.2	-7.5
Margins (%)	21	21	20	21	21	-48 bps	0 bps
Adj. PAT	600	689	517	618	702	-13.9	-10.3
EPS	25	29	21	26	29	-13.9	-10.4

## Segment-wise performance

(Rs cr)	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Active Pharma Ingredients	302	330	-8.6	300	0.7
Pharma Formulation Intermediaries	146	235	-38.0	148	-1.7
Finished Dosages	742	586	26.7	537	38.0
<b>Total</b>	<b>1,190</b>	<b>1,151</b>	<b>3.4</b>	<b>986</b>	<b>20.7</b>

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales</b>	<b>3,765</b>	<b>4,512</b>	<b>4,794</b>	<b>5,417</b>	<b>6,207</b>
% change	16.3	19.8	6.2	13.0	14.6
<b>EBITDA</b>	<b>722</b>	<b>914</b>	<b>994</b>	<b>1,137</b>	<b>1,284</b>
% change	-15.6	26.7	8.8	14.4	13.0
Depreciation	159	184	233	280	319
EBIT	563	729	761	857	965
Interest	23	56	75	71	73
Other Income	18	14	29	38	43
<b>PBT</b>	<b>557</b>	<b>687</b>	<b>715</b>	<b>824</b>	<b>936</b>
% change	-20.8	23.3	4.0	15.2	13.6
Tax	145	171	179	206	234
Tax Rate (%)	0	0	0	0	0
<b>Reported PAT</b>	<b>412</b>	<b>517</b>	<b>536</b>	<b>618</b>	<b>702</b>
Adj.*	0	0	0	0	0
<b>Adj. PAT</b>	<b>412</b>	<b>517</b>	<b>536</b>	<b>618</b>	<b>702</b>
% change	-24.9	0.3	0.0	0.2	0.1
No. of shares (cr)	24.8	24.2	24.2	24.2	24.2
<b>Adj EPS (Rs)</b>	<b>17</b>	<b>21</b>	<b>22</b>	<b>26</b>	<b>29</b>
% change	-24.9	28.5	3.8	15.2	13.6
DPS (Rs)	1.5	1.5	1.5	1.5	1.5

### BALANCE SHEET

Y.E March (Rs cr)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	185	292	350	488	735
Account Receivable	925	949	985	1,113	1,275
Inventories	979	1,149	1,138	1,273	1,467
Other Cur. Assets	258	306	322	356	408
Investments	20	21	22	23	23
Gross Fixed Assets	1,991	2,462	3,162	3,662	4,162
Net Fixed Assets	1,271	1,558	2,036	2,267	2,458
CWIP	312	228	200	250	250
Intangible Assets	302	291	280	269	258
Def. Tax (Net)	-13	-6	-6	-6	-5
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>4,499</b>	<b>4,897</b>	<b>5,437</b>	<b>6,145</b>	<b>6,985</b>
Current Liabilities	754	882	890	980	1,118
Provisions	51	44	46	52	60
Debt Funds	242	219	239	259	279
Other Liabilities	639	782	787	873	1,006
Equity Capital	25	24	24	24	24
Reserves & Surplus	2,562	2,811	3,311	3,892	4,557
Shareholder's Fund	2,587	2,835	3,335	3,916	4,582
<b>Total Liabilities</b>	<b>4,499</b>	<b>4,897</b>	<b>5,437</b>	<b>6,145</b>	<b>6,985</b>
<b>BVPS</b>	<b>104</b>	<b>117</b>	<b>138</b>	<b>162</b>	<b>189</b>

### CASH FLOW

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	717	872	948	1,104	1,255
Non-cash adj.	159	186	233	280	319
Changes in W.C	-257	-10	-30	-201	-264
<b>C.F. Operation</b>	<b>333</b>	<b>739</b>	<b>739</b>	<b>697</b>	<b>758</b>
Capital exp.	-397	-410	-672	-550	-500
Change in inv.	17	203	-1	-1	-1
Other invest.CF	12	203	0	0	0
<b>C.F - Investment</b>	<b>-380</b>	<b>-191</b>	<b>-674</b>	<b>-553</b>	<b>-503</b>
Issue of equity	0	-308	0	0	0
Issue/repay debt	253	-60	30	30	30
Dividends paid	-37	-19	-36	-36	-36
Other finance.CF	4	0	0	0	0
<b>C.F - Finance</b>	<b>190</b>	<b>-440</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>
Chg. in cash	143	107	58	137	248
Closing cash	185	292	350	488	735

### RATIOS

Y.E March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	19.2	20.3	20.7	21.0	20.7
EBIT margin (%)	15.0	16.2	15.9	15.8	15.5
Net profit mgn.(%)	10.9	11.5	11.2	11.4	11.3
ROE (%)	17.3	19.1	17.4	17.0	16.5
ROCE (%)	0.2	0.2	0.2	0.2	0.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	82	76	74	71	70
Inventory (days)	85	86	87	81	81
Payables (days)	114	112	121	114	112
Current ratio (x)	1.9	1.6	1.7	1.8	1.8
Quick ratio (x)	1.2	1.0	1.0	1.1	1.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.0	2.0	1.7	1.6	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	10.2	12.1	13.3
Adj. debt/equity (x)	0.4	0.3	0.2	0.2	0.1
<b>Valuation</b>					
EV/Sales (x)	2.1	1.7	1.6	1.5	1.2
EV/EBITDA (x)	10.7	8.6	7.9	7.0	6.0
P/E (x)	16.7	13.0	12.5	11.2	9.8
P/BV (x)	2.7	2.4	2.0	1.8	1.5

## Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
14 <sup>th</sup> May 2021	Buy	430
3 <sup>rd</sup> August 2021	Buy	443
17 <sup>th</sup> November 2021	Accumulate	349
3 <sup>rd</sup> June 2022	Accumulate	323
24 <sup>th</sup> November 2022	Accumulate	408
13 <sup>th</sup> June 2023	Buy	342
1 <sup>st</sup> December 2023	Accumulate	464

## Investment Criteria

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

### 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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