

# Granules India Ltd.



**BUY**

Target Price: Rs 144

# Granules India Ltd.

Sector: Pharmaceuticals

At inflection point; Initiate BUY...

CMP : Rs. 118  
Potential Upside : 22%

**MARKET DATA**

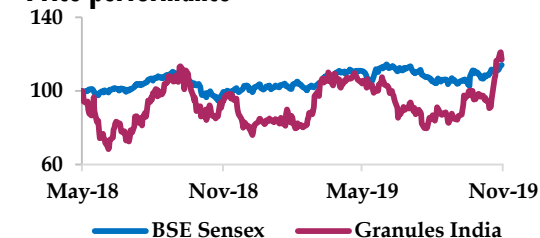
No. of Shares : 25.43Cr.  
Market Cap : 3,021Cr  
Free Float : 55%  
Avg. daily vol (6mth) : 3,57,804  
52-w High / Low : Rs 79/133  
Bloomberg : GRAN IN  
Promoter holding : 43%

**Financial Summary (Consolidated)**

Y/E March	Sales (Rs Cr)	EBITDA (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
FY17	1,435	299	165	7.2	32%	16.4	21%	17%	12.6	1.1
FY18	1,692	278	133	5.2	-28%	22.6	12%	11%	13.5	1.2
FY19	2,279	384	236	9.3	78%	12.7	17%	12%	9.8	1.2
FY20E	2,685	517	326	12.9	38%	9.2	18%	15%	7.3	1.4
FY21E	3,120	619	366	14.4	12%	8.2	19%	18%	6.1	1.4

Source: Company, Axis Securities

CMP as on Nov 06, 2019

**Price performance****Shareholding pattern**

	Sep-19	Q-o-Q Chg
Promoters	42.9%	0.00
FIIIs	14.4%	0.56
DIIIs	3.3%	0.14
Public	39.4%	(0.70)

## **Investment Rationale**

## Investment Summary...

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Granules India (GRAN) is a vertically integrated pharmaceuticals company, headquartered in Hyderabad, India. GRAN is one of the largest manufacturer of key APIs like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol for the developed and emerging markets. With five key API products, GRAN is amongst the largest supplier of these products globally. It is second largest API supplier of Paracetamol and holds ~40-45% of total strategic market. Currently, it has eight manufacturing facilities and presence across 75+ countries. GRAN also has a formulation plant with total capacity to produce 18bn tablets per annum. GRAN has three business verticals namely Active Pharmaceutical Ingredient (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosage (FD). About 46% of total revenues (in FY19) are derived from FD, followed by ~37% revenue from APIs and remaining 17% from PFI segment.

### Asset sweating and receding net debt

Improving utilization level to drive significant expansion in margins, along with higher free cash flow generation and lower capex, to aid reduction in net debt levels.

### US business - positioned to gain traction

Enhanced its capabilities in finished dosage segment through significant investment in R&D and has 36ANDAs filed and 22ANDAs awaiting approval from the USFDA.

### Recommendation

We initiate coverage on **Granules India** with a **BUY** rating and **target price of Rs144** (upside of 22%), based on P/E of 10x on FY21E earnings of Rs14.4.

## ...Investment Summary

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### Focus on asset sweating; Capex phase is over...

GRAN is one of the largest manufacturer of key molecules like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol APIs for the developed and emerging markets. GRAN holds strong market position in these five molecules. GRAN has invested over Rs1,000-1,200Cr during FY17-19 to increase its capacity for core APIs and set-up new formulation block (oncology unit and multiproduct unit), which will boost overall revenues in FY20/21E. We forecast revenue growth of 17% CAGR over FY19-21E.

### Shifting gears towards high margin business...

Over the years, GRAN has stepped up its contribution from finished dosages from 25% in FY11 to 46% in FY19, which is a higher value and higher margin business segment. Predominantly, we believe the product mix would further improve in favor of FDs going ahead. Finished dosage bring ~46% to total revenue and we expect this business to register growth of ~31% CAGR over FY19-21E through market share gain in existing products coupled with new launches. Finished dosage is high-margin business vertical as compared to APIs/PFIs.

### US generic – next growth driver...

GRAN has entered into the US market as a “generic-generic” company, with focus on niche and high-volumes products. FD business has gained strong traction with 10 launches. Currently, GRAN has 36ANDAs filed and 22ANDAs awaiting approval from the USFDA. GRAN expects to file ~6-8 ANDAs in FY20E. It will launch ~6-7ANDAs from Granules Pharmaceuticals, Inc over the next two to three years. In FY19, GRAN has set-up its own front-end team to scale-up the US business. We believe launch of own label products will help to improve overall margins.

## ...Investment Summary

### Play on profitability improvement and receding balance sheet concerns

With significant capacity additions and superior product mix in the next few years, we expect GRAN revenue CAGR to be ~17% over FY19-21E. EBITDA margin is expected to improve by ~240/60bps in FY20E/FY21E to a normalized rate of 19-21% vs 16.8% in FY19. In FY19, overall margin improved by 40bps, largely driven by combination of strong revenue growth and stable cost inflation. We estimate GRAN to generate cash flows of Rs1,030Cr from operation activities over FY19-21E. We assume capex of Rs 180/140Cr in FY20/21E, as the company is likely to invest in new oncology block. GRAN is likely to generate positive free cash flow of Rs 430Cr during FY19-21E and company aims to reduce its net debt levels from Rs 980Cr (in FY19) to Rs 500Cr by FY21E.

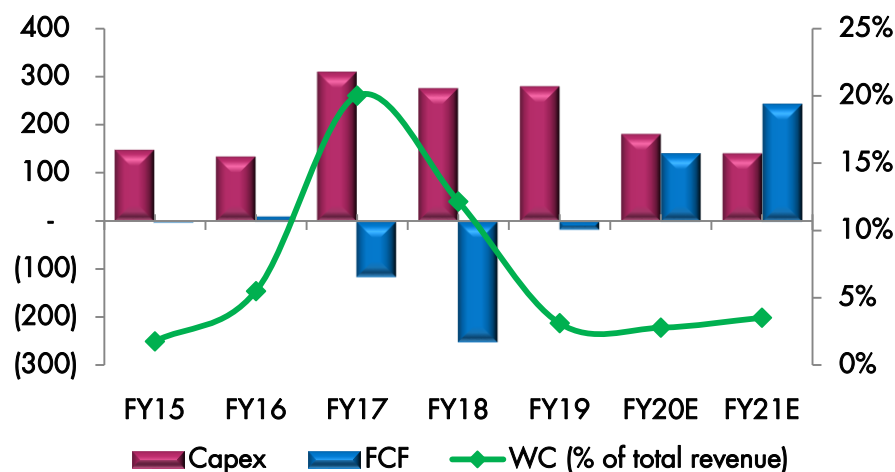
### ... At reasonable valuations

GRAN has done well with 15% CAGR in revenue and an EPS growth of 20% over FY15-19. In last three-four years, GRAN has heavily invested in new capacities and enhance capabilities in finished dosage for longer term growth. We think the current P/E of 8.2x FY21E EPS is at a discount to its intrinsic value, considering strong revenue growth coupled with improving profitability, we believe this valuation gap to narrow down. With focus on deleveraging balance sheet, divestments in joint venture and improving return ratios, we expect stock to trade in its 3-years average one year forward multiple of ~13-14x. We assume earnings CAGR of ~24% over FY19-21E, resulting EPS of Rs12.9/14.4 for FY20/21E respectively.

## Focus on asset sweating; Capex phase is over...

- ♦ GRAN is one of the largest manufacturer of key molecules like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol APIs for the developed and emerging markets. GRAN holds strong market position in these five molecules. GRAN has invested over Rs1,000-1,200Cr during FY17-19 to increase its capacity for core APIs and set-up new formulation block (oncology unit and multiproduct unit), which will boost overall revenues in FY20/21E. We forecast revenue growth of 17% CAGR over FY19-21E.
- ♦ In the last three years, GRAN has embarked on a capacity expansion plan, wherein it expanded core APIs capabilities and set-up new API/formulation block. Given the current API capacity utilization of ~65-70%, near-term capex is likely to remain low as compared to previous years. GRAN will focus on asset sweating as the newly installed capacity is under-utilized. We believe improvement in utilization levels will lead to rise in profitability from current lower levels and generate healthy free cash flow going ahead. Besides the improvement in utilization levels, we expect reduction in net debt and working capital.

### Improvement in working capital and lower capex drive healthy FCF



Source: Company, Axis Securities

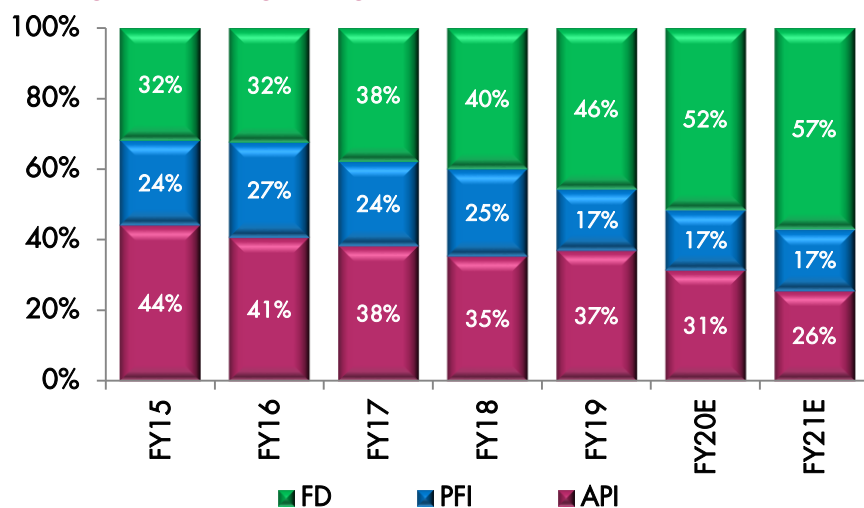
### Under-utilized capacity...

		Total capacity	Capacity utilization	Comments
API	Solid (in TPA)	39,360	65-70%	Key molecule capacity is under utilized and waiting for regulatory approvals. Currently, Paracetamol capacity utilization is at ~60-65%, Metformin ~15% and Guaifenesin is undergoing validation process.
	Liquid (in KL)	437		
PFI	Solid (in TPA)	24,400	50-55%	
FD	Solid and Liquid (in Bn)	18.5	65-70%	

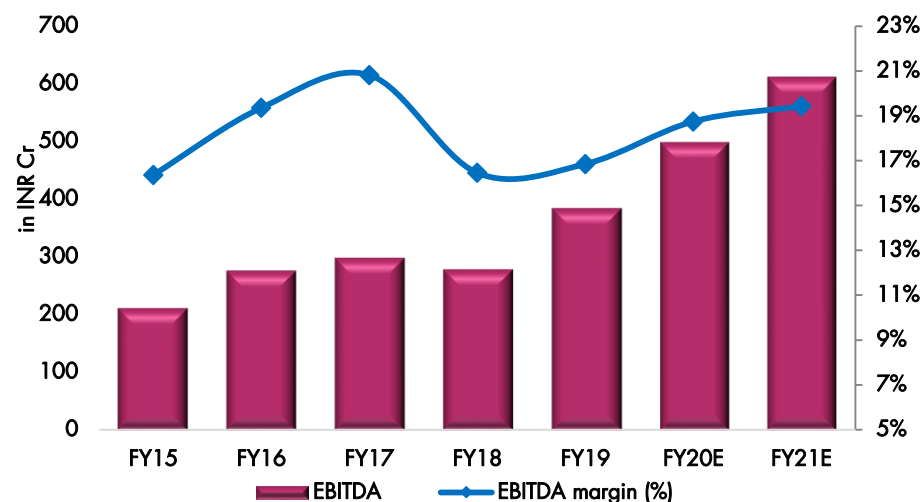
## Shifting gears towards high margin business...

- Over the years, GRAN has stepped up its contribution from finished dosages from 25% in FY11 to 46% in FY19, which is higher value and higher margin business segment. Predominantly, we believe the product mix would further improve in favor of FDs going ahead.
- Finished dosage to bring ~52% (in FY20E) to total revenue and expect this business to register growth of ~31% CAGR over FY19-21E through market share gain in existing products coupled with new launches. Finished dosage is high-margin business vertical as compared to APIs/PFIs.
- GRAN indicate that the company produces products which provides cost advantage, competitive advantage or has the ability to offer value addition through its processes to its customers. In addition, company has built strong long-term relationships with customers by offering wide-range of products.

### Moving towards high margin business...



### Inching up EBITDA margin...



Source: Company, Axis Securities



## US generic – next growth driver...

- ♦ GRAN has entered into the US market as a “generic-generic” company, with focus on niche and high-volumes products. Company has filed as Para II/III, which implies molecules are old and off-patent. With backward integration into API/PFI, GRAN will be able to capitalize the cost advantage and strong operational efficiencies.
- ♦ US generic business has gained strong traction with 10 launches. Currently, company has 36ANDAs filed and 22ANDAs awaiting approval from the USFDA. GRAN expects to file ~6-8 ANDAs in FY20. Company will be launching ~6-7ANDAs each from Granules Pharmaceuticals Inc. over the next two to three years. In FY19, GRAN has set-up its own front-end team to scale-up the US business. We believe launch of own label products would help to improve operating margins.
- ♦ US generic business generates the highest EBITDA margin of ~22-23% plus, which is followed by PFI at ~15-20% and API ~8-10%. With strong product pipeline that includes controlled substance and modified release molecules, we believe US business will be a key growth driver in the medium to long term.

## Strong product pipeline...

Brand name	Generic name	Innovator	Therapy / Dosage form
Esbriet	Pirfenidone	Genentech Inc	Treatment of idiopathic pulmonary fibrosis (IPF)
Mitigare	Colchicine	West-ward Pharma and Hikma Pharma, Inc.	Prophylaxis of gout flares in adults
Colcrys	Colchicine	Takeda Pharma Inc.	Acute gout flares
Multaq	Dronedarone Hydrochloride	Sanofi	Atrial fibrillation
Gilenya	Fingolimod Hydrochloride	Novartis Pharmaceuticals	Relapsing forms of multiple sclerosis (MS)
Effient	Prasugrel	Eli Lilly	Acute coronary syndrome
Latuda	Lurasidone	Sunovion Pharmaceuticals, Inc	Schizophrenia
Glumetza/Fortamet	Metformin/Metformin Hcl	-	Type 2 diabetes

### Market size indicator

&gt; USD1,000mn

Between USD1,000-500mn

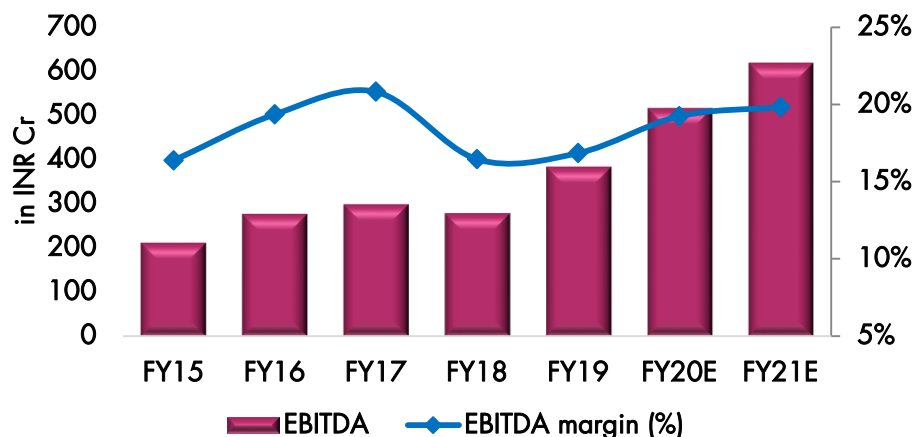
&lt;USD500mn

Source: Company, Axis Securities, USFDA Website

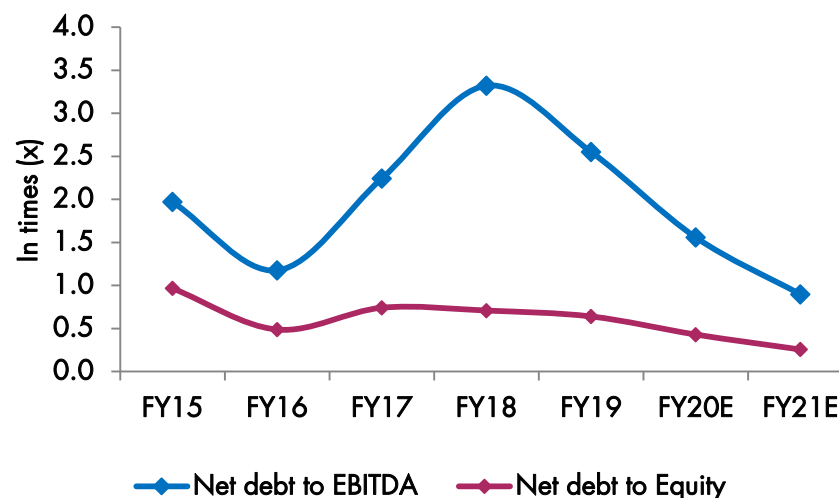
## Play on profitability improvement and receding balance sheet concerns...

- With significant capacity additions and superior product mix in the next two-three years, we expect GRAN revenue CAGR to be at ~17%. EBITDA margin is expected to improve by ~240/60bps in FY20E/FY21E to a normalized rate of 19-21% vs 16.8% in FY19. In FY19, overall margin improved by 40bps, driven by combination of strong revenue growth and stable raw material cost inflation.
- We estimate GRAN to generate cash flows of Rs1,000 from operation activities over FY19-21E. We assume capex of Rs180/140Cr in FY20/21E, as the company likely to invest in new oncology block. GRAN is likely to generate positive free cash flow of Rs 430Cr during FY19-21E and company aims to reduce its net debt levels from Rs 980Cr to Rs500Cr by FY21E.
- We believe the increase in capacity utilization and improvement in EBITDA margins primarily driven by operating leverage and superior product mix in the coming years would help improve return ratios going ahead.

### Profitability improving on the back of higher capacity utilization and superior product mix...



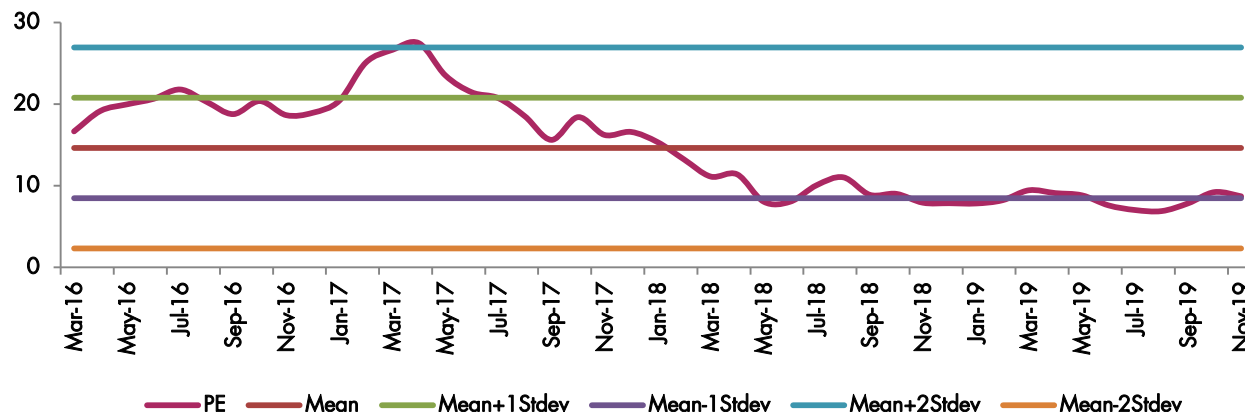
### Receding Net debt to EBITDA...



Source: Company, Axis Securities

## ...At reasonable valuation

### One year forward P/E with standard deviation



## Granules India Ltd.

Sector: Pharmaceuticals

- ✓ We expect earnings CAGR of ~24% over FY19-21E, resulting an EPS of Rs12.9 to 14.4 for FY20/21E respectively.
- ✓ With strong earnings visibility, focus on deleveraging balance sheet and improved return ratios, we expect stock to trade in its 3-years average one year forward multiple of ~13-14x.

### Peer Comparison...

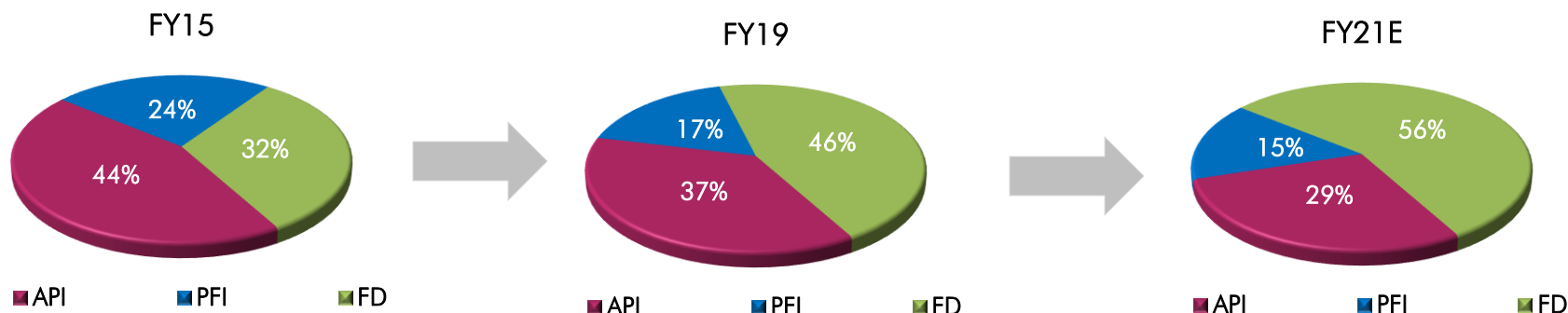
	CMP	MCAp (in Cr)	P/E		EV/EBITDA		RoE (%)		Earnings FY19-21E CAGR(%)
			FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	
Granules India	118	3,021	9.2	8.2	7.3	6.1	18.5	18.8	24%
Jubilant Lifescience	535	8,590	9.8	8.2	6.3	5.5	17.2	17.2	33%
Dishman	122	1,982	7.8	6.7	4.7	4.2	5.7	6.4	19%
Neuland Laboratories	493	635	14.8	10.8	8.8	7.0	6.0	7.6	87%
Suven Life Science	286	3,529	28.2	24.3	16.9	14.6	14.2	14.7	29%

Source: Axis Securities, Reuters

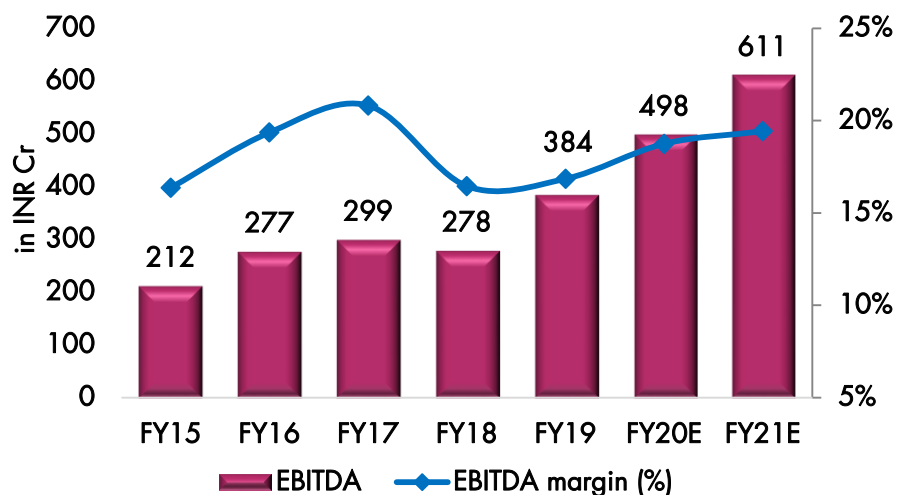
- ✓ We estimate revenue/earnings CAGR of ~17%/24 over FY19-21E for GRAN's, driven by a) scale up in finished dosage, b) steady growth in PFIs and APIs segment and c) improving product mix.
- ✓ At CMP of Rs118, the stock trades at 9.2x and 8.2x PE on FY20E and FY21E earnings respectively. Given the higher earnings growth, rising operating margins and receding net debt levels, we expect the valuation discount gap to narrow down.

The story in charts...

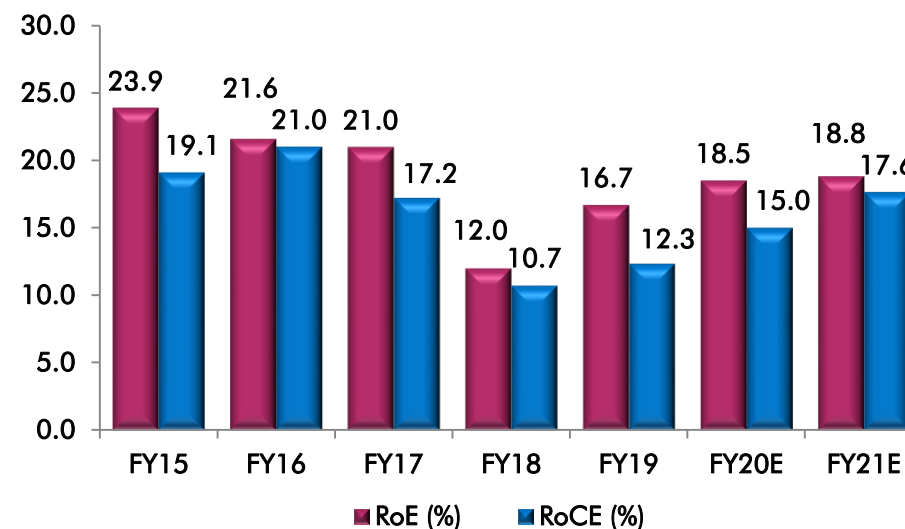
Gradual uptick in revenue share from finished dosage segment...



...which will spur consolidated EBITDA margins



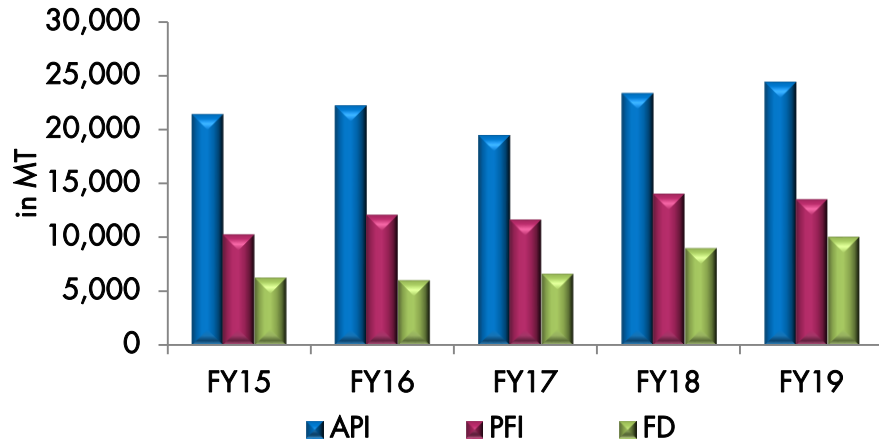
...and improve return ratios going ahead



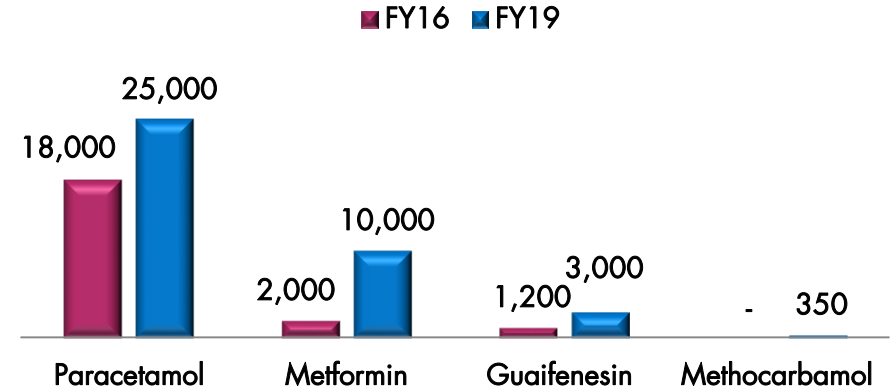
Source: Company, Axis Securities

The story in charts...

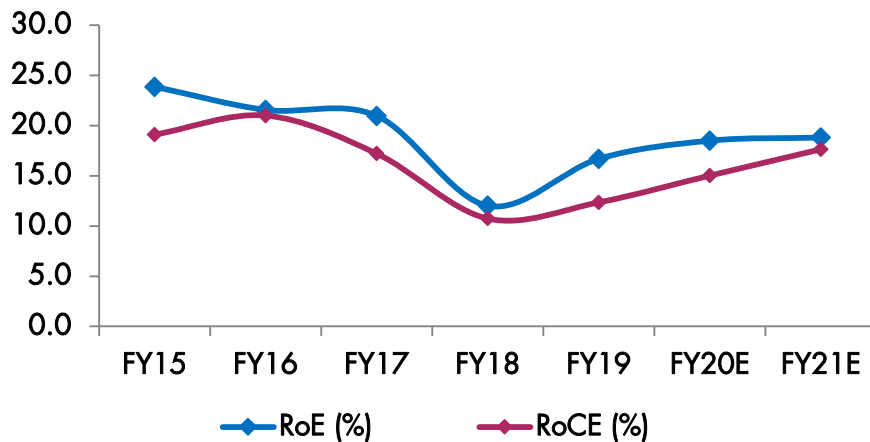
**Product Mix - Capacity Utilized...**



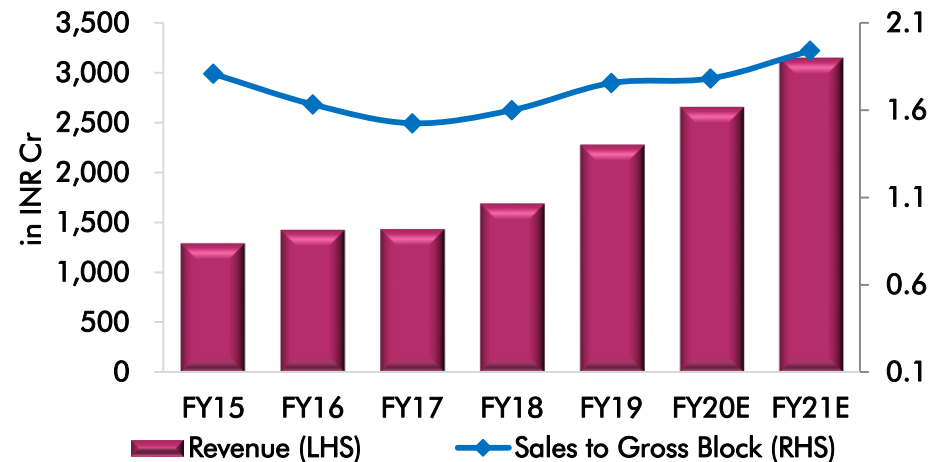
**Invests in capacity expansion in key APIs to drive growth with increased traction in regulated markets...**



**Return ratio improving going ahead...**



**Higher capacity utilization of newly installed capacity...**



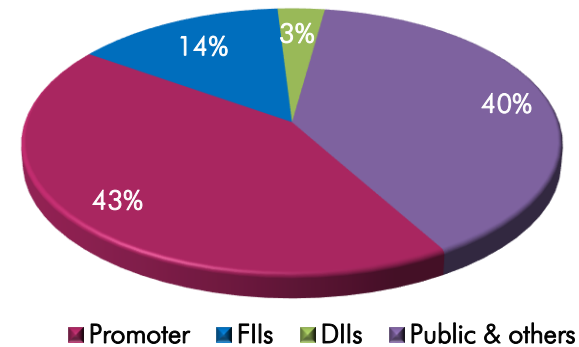
Source: Company, Axis Securities

## **Company Overview**

## Company background

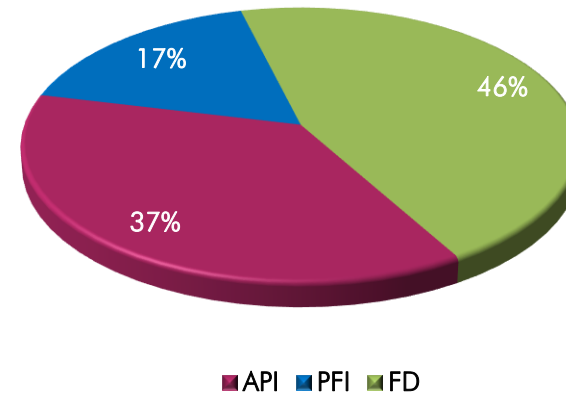
- ◆ Granules India (GRAN) is a vertically integrated pharmaceuticals company, headquartered in Hyderabad, India. GRAN is one of the largest manufacturer of key APIs like Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol for the developed and emerging markets. With five key API products, GRAN is among the top supplier of these products globally. It is 2<sup>nd</sup> largest API supplier of Paracetamol globally and holds ~40-45% share of total strategic market.
- ◆ Currently, it has 8 manufacturing facilities and presence across 75+ countries. GRAN also has a formulation plant with total capacity to produce 18bn tablets per annum.
- ◆ GRAN has three business verticals namely Active Pharmaceutical Ingredient (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosage (FD). About 46% of total revenue (in FY19) is derived from FD, which is followed by ~37% revenue from API and remaining 17% from PFI segment. Over the years, GRAN has stepped up its contribution from finished dosages from 25% in FY11 to 46% in FY19, which is a higher value and higher margin business segment.

## Shareholding Pattern (Sep'19)



Source: Company, Axis Securities

## Segment-wise revenue breakdown - FY19

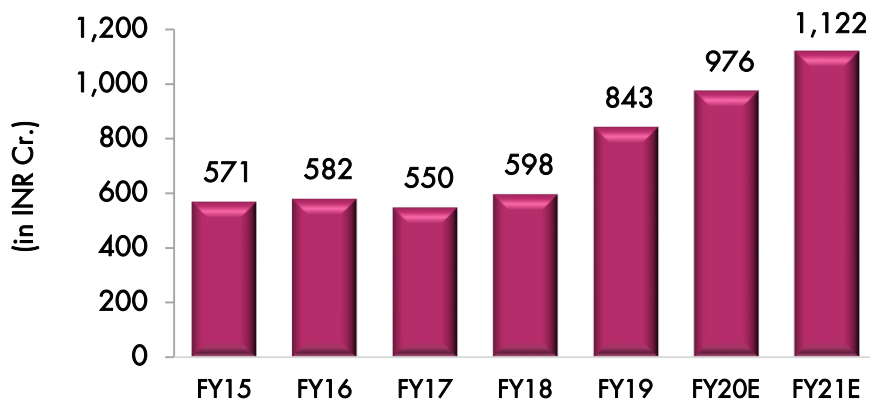


Source: Company, Axis Securities

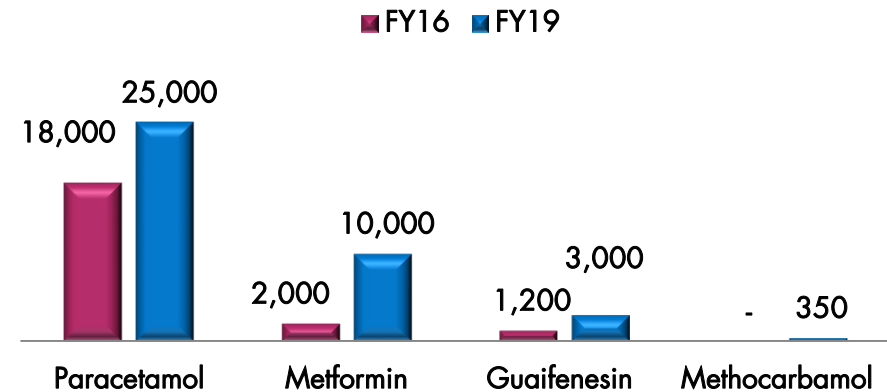
## Active Pharmaceutical Ingredients (API): Steady growth...

- ◆ GRAN is among the top supplier of five key APIs globally. It is second largest API supplier of Paracetamol globally and holds ~40-45% share of total strategic market. We believe GRAN positioning in these products has been advantageous both in terms of quality and pricing.
- ◆ Generally, GRAN enters into long-term contracts with its customers, which also includes its ability to pass raw material cost inflation. Management indicated that the company only manufactures products for which it has strong cost advantage and capability to offer multiple products across the value chain to its customers.
- ◆ We expect API revenue to grow at a steady pace owing to improving capacity utilization and addition in the product portfolio.

### We expect API revenue to grow at a steady pace over next two years...



### Invests in capacity expansion in key APIs to drive growth with increased traction in regulated markets...



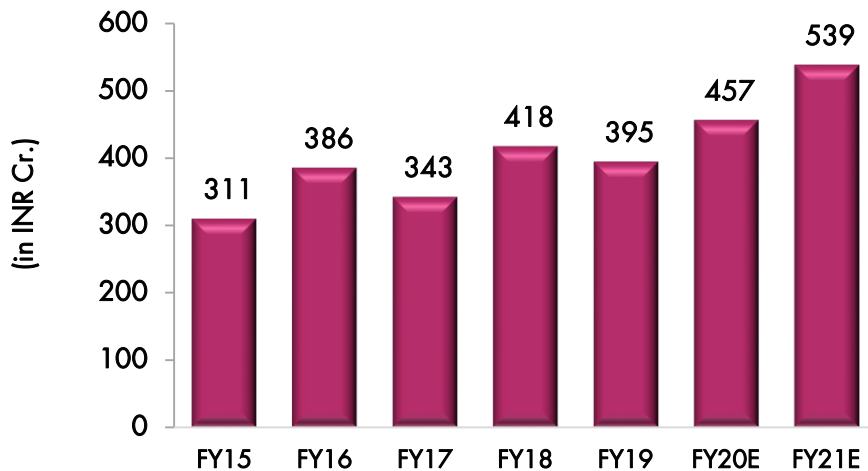
Source: Company, Axis Securities



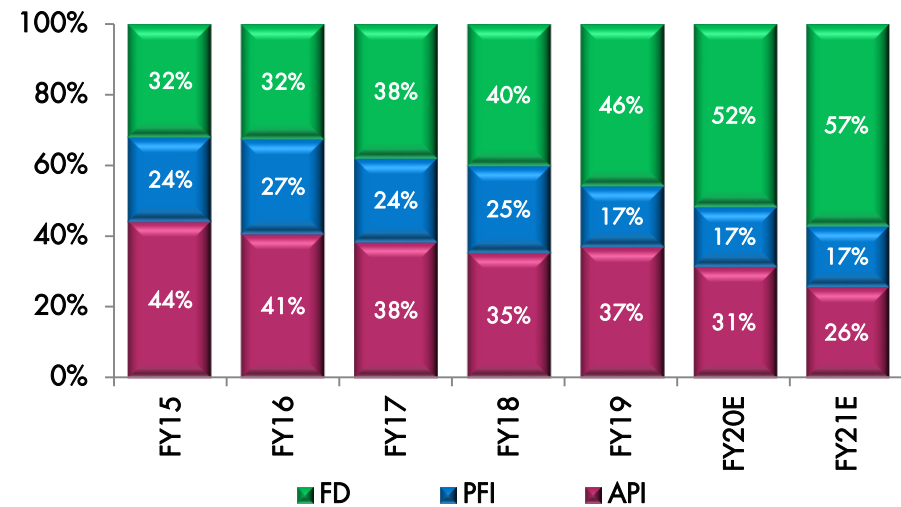
## Pharmaceutical Formulation Intermediates (PFIs): Consistent performance...

- ◆ Pharmaceutical Formulation Intermediates (PFIs) is an intermediate product between API and Formulation. GRAN has pioneered the concept of commercializing PFIs and provides value proposition by offering large capacity to its customers. PFIs use results in substantial cost saving, as it forms ~80% of asset cost in finished dosage manufacturing. Also, customer saves a significant amount on vendor development cost.
- ◆ GRAN provides formulation development, analytical development and regulatory submission facilities to its customer. In FY19, GRAN derived 17% of total revenue from PFI segment and has an installed capacity of 24,640TPA of PFI.

### Stable revenue growth expected in PFI segment...



### Segmental mix improving towards high margin business (PFI and FD)...

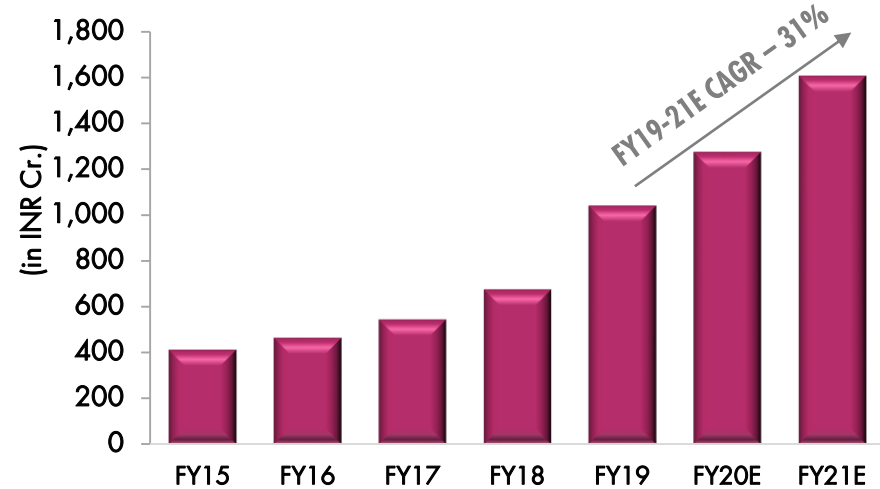


Source: Company, Axis Securities

## Finished Dosages (FDs): next growth driver...

- GRAN has entered into the US market as a “generic-generic” company, with focus on niche and high-volumes products. Company has filed as Para II/III, which implies molecules are old and off-patent. With backward integration into API, GRAN will be able to capitalize the cost advantage and strong operational efficiencies.
- US generic business has gained strong traction with 10 launches. Currently, company has 36ANDAs filed and 22ANDAs awaiting approval from the USFDA. GRAN expects to file ~6-8 ANDAs in FY20.

### We expect FD revenue to grow at 31% CAGR over FY19-21E



### With strong product pipeline...

Brand name	Generic name	Innovator	Therapy / Dosage form
Esbriet	Pirfenidone	Genentech Inc	Treatment of idiopathic pulmonary fibrosis (IPF)
Mitigare	Colchicine	West-ward Pharma and Hikma Pharma, Inc.	Prophylaxis of gout flares in adults
Colcrys	Colchicine	Takeda Pharma Inc.	Acute gout flares
Multaq	Dronedarone Hydrochloride	Sanofi	Atrial fibrillation
Gilenya	Fingolimod Hydrochloride	Novartis Pharmaceuticals	Relapsing forms of multiple sclerosis (MS)
Effient	Prasugrel	Eli Lilly	Acute coronary syndrome
Latuda	Lurasidone	Sunovion Pharmaceuticals, Inc	Schizophrenia
Glumetza/Fortamet	Metformin/Metformin Hcl	-	Type 2 diabetes

#### Market size indicator

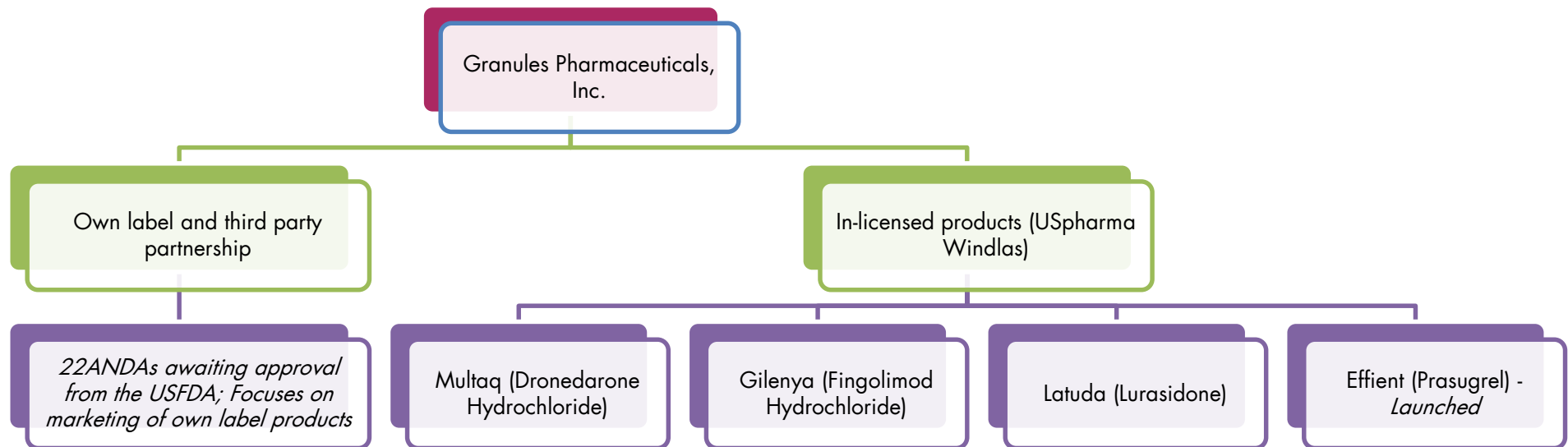
> USD1,000mn	between USD1,000-500mn	<USD500mn
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Source: Company, Axis Securities

## ...US business structure

- ◆ In FY19, GRAN has set-up its own front-end team and formulation manufacturing facility in Virginia to scale-up the finished dosage business. We believe launch of own label product would help improve operating margins.
- ◆ US generic business generates the highest EBITDA margin of ~22-23% plus, which is followed by PFI at ~15-20% and API ~8-10%. With strong product pipeline that includes controlled substance and modified release molecules, we believe US business will be key growth driver in the medium to long term.

## FD segment structure



Source: Company, Axis Securities

## Strong earnings visibility over FY19-21E; Capex phase is over...

Segment	Facility Location	Installed Capacity (as on 31st Mar 2016)	Installed Capacity (as on 31st Mar 2019)	Comments
API	Bonthapally	18,000 TPA	31,000 TPA	Invested ~Rs350-400Cr for capacity expansion of key APIs like Paracetamol, Metformin, and Guaifenesin
	Jeedimetla	3,560 TPA	3,560 TPA	
	Jingmen, China (Biocause JV)	4,800 TPA	4,800 TPA	
	Vizag (Auctus)	285 KL	285 KL	
	Vizag SEZ (OmniChem - CRAMs JV)	152 KL	152 KL	
	Vizag (Unit 5)	-	-	Expected commercialization by H2FY21; Total Capex of ~Rs250-300cr.
PFI	Gagillapur	17,200 TPA	23,200 TPA	
	Jeedimetla	1,200 TPA	1,200 TPA	
FD	Gagillapur	18 Bn	18 Bn	Spend ~Rs30-40Cr in last 3 years
	Virginia, USA	-	0.5 Bn	Invested ~Rs90-100Cr to enhance formulation capabilities
API Intermediates	Bonthapally	61.5 KL	61.5 KL	

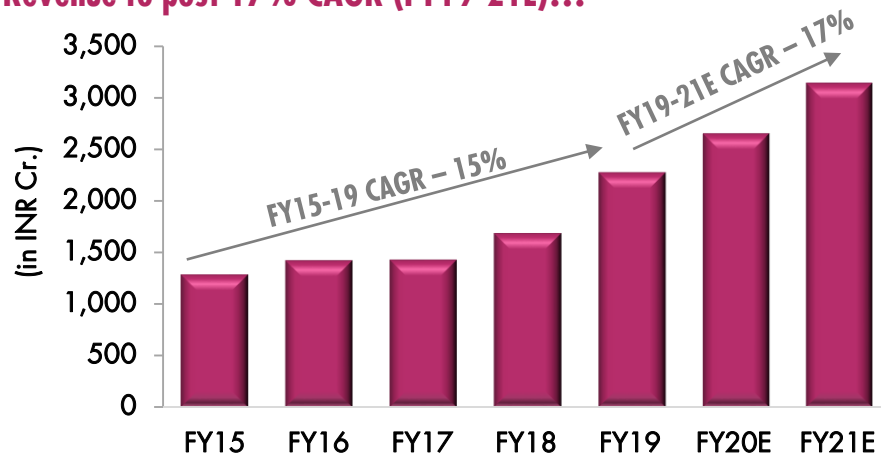
Source: Company, Axis Securities

Enhanced its capabilities in finished dosage segment through significant investment in R&D and has 36ANDAs filed and 22ANDAs awaiting approval from the USFDA. In addition, GRAN has expanded its capacities for key APIs like Paracetamol, Metformin and Guaifenesin. Going ahead, we think improvement in utilization levels will lead to rise in profitability and generate healthy cash flows. Besides that, we expect reduction in net debt and working capital.

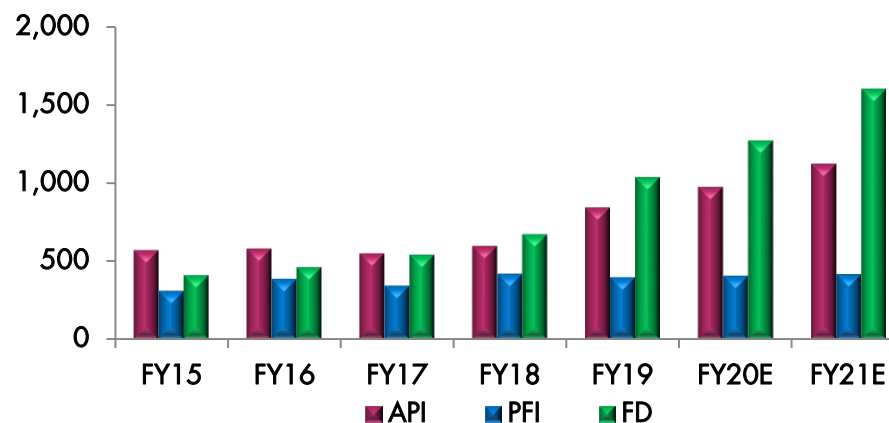
## **Financials and Valuation**

## Financial Outlook...

### Revenue to post 17% CAGR (FY19-21E)...

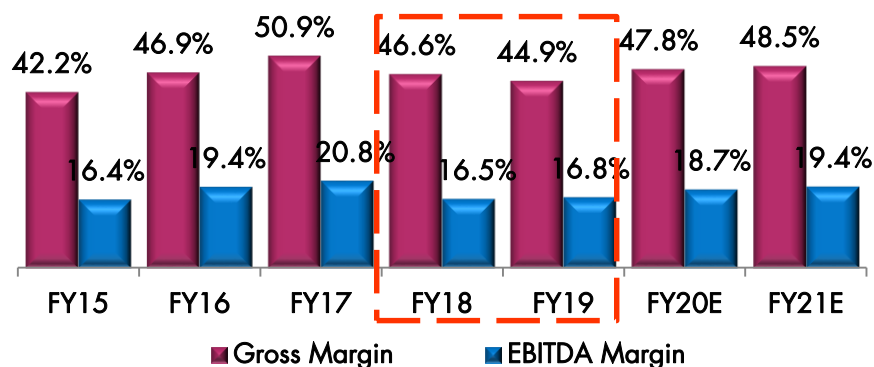


### ...with 31% CAGR (FY19-21E) in finished dosage segment



### Post stable raw material cost and higher capacity utilization, Margin expansion on the cards ...

Margins impacted due to disruption in raw material and higher fixed cost on account of commissioned new API capacities; Revival started from Q4FY19.

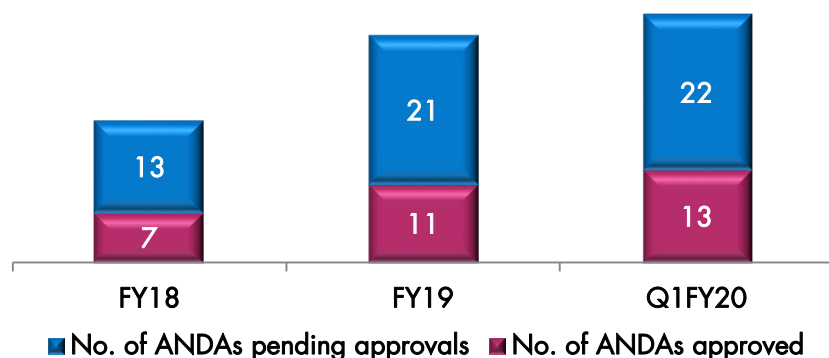


- ♦ GRAN is a vertically integrated pharmaceuticals company with revenue of Rs2,279Cr in FY19 and expect to grow at 17% CAGR over FY19-21E, largely driven by: (a) scale-up in finished dosage segment, and (b) ramp-up of utilization of newly installed capacity for key APIs like paracetamol, metformin and methocarbamol. In FY19, finished dosage constituted 46% (vs. 32% in FY15) to total revenue and we expect it to further elevate in FY21E.
- ♦ Since 2015, GRAN has consistently maintained its EBITDA margins largely in the range of ~16-19% and we expect improvement in overall margins from the current levels of ~17% (in FY19) by ~150-250bps, primarily on the back of (a) normalization of raw material cost, (b) traction in high margins FD segment, and (c) ramp up in capacity utilization.

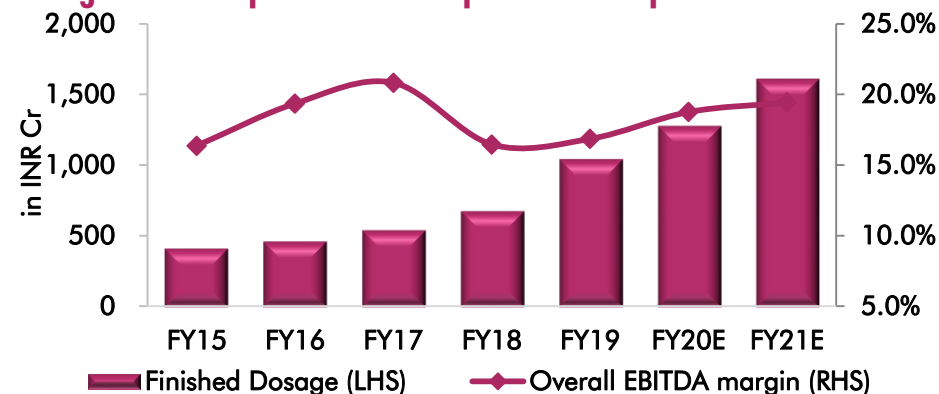
Source: Company, Axis Securities

## Financial Outlook...

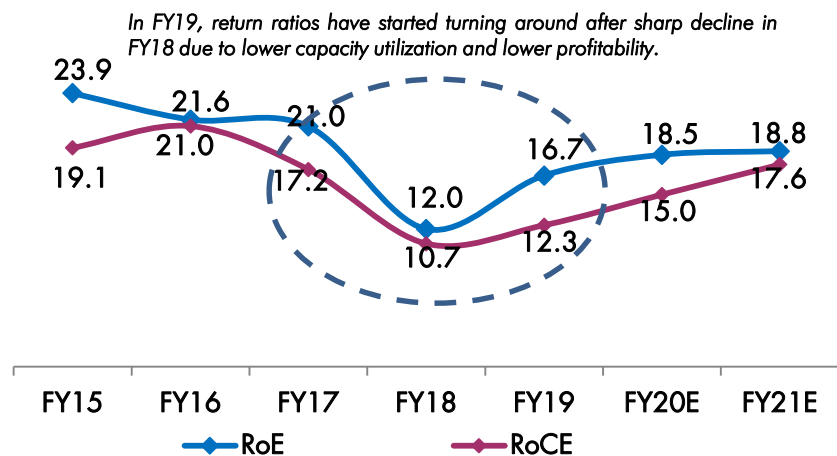
Targeting around 5-6ANDAs launches (incl. own label) in FY20...



With strong approvals/launches pipeline, we think finished dosage to scale-up further and improve overall product mix



Expect return ratios to step-up going ahead...

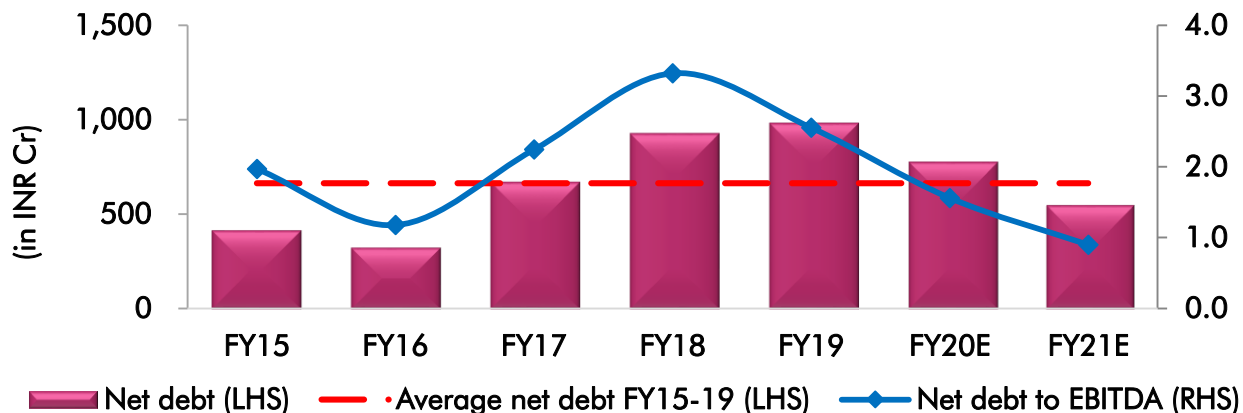


- ◆ In FY18, GRAN's margin decline to 16.5% was due to (a) higher fixed cost and (b) China API supply disruption led to higher raw material cost. However, company was able to source key material from other suppliers and passed on additional costs to customers. Moreover, GRAN has started ramping-up utilization levels, which reflected from Q4FY19. On finished dosage side, we think first wave of approvals/launches have started and felt in revenue growth of FY19.
- ◆ With strong pipeline, we forecast finished dosage revenue to be Rs1,779Cr in FY21E from Rs1,041Cr in FY19, ~31% CAGR over FY19-21E.
- ◆ Besides that, we think return ratios will improve going ahead, given strong business momentum picking up in light of new launches and ramp-up in key APIs.

Source: Company, Axis Securities

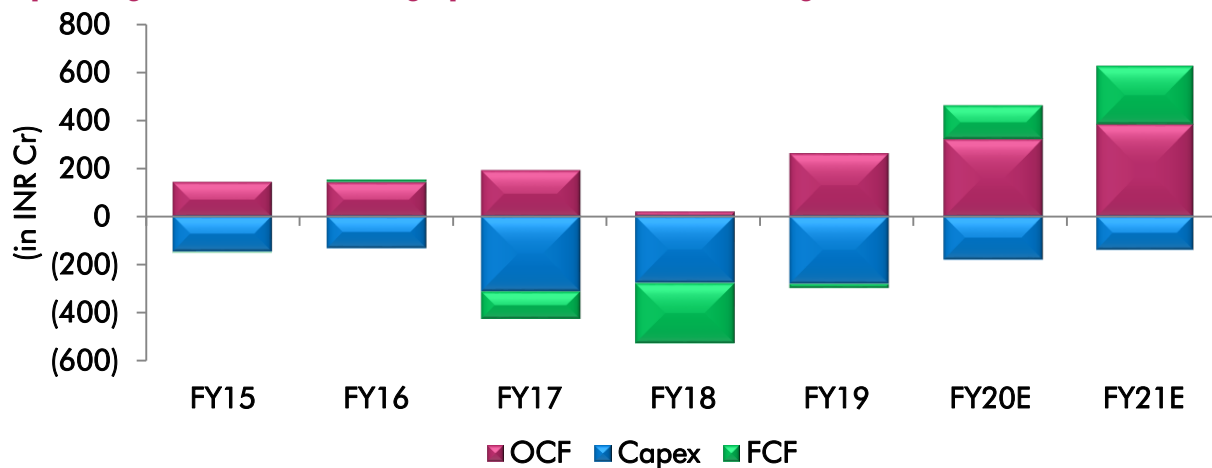
...Financial Outlook

**Receding overall net debt going ahead; Net debt to peak-out in FY19...**



- ✓ Divestments in joint ventures and higher profitability to reduce overall net debt in FY20/21E
- ✓ We expect net debt/equity and Net debt/EBITDA to improve to 0.3x (vs. 0.6x in FY19) and 0.9x (vs. 2.6x in FY19) respectively in FY21

**Operating cash flows is scaling-up; Positive free cash flow generation from FY20...**



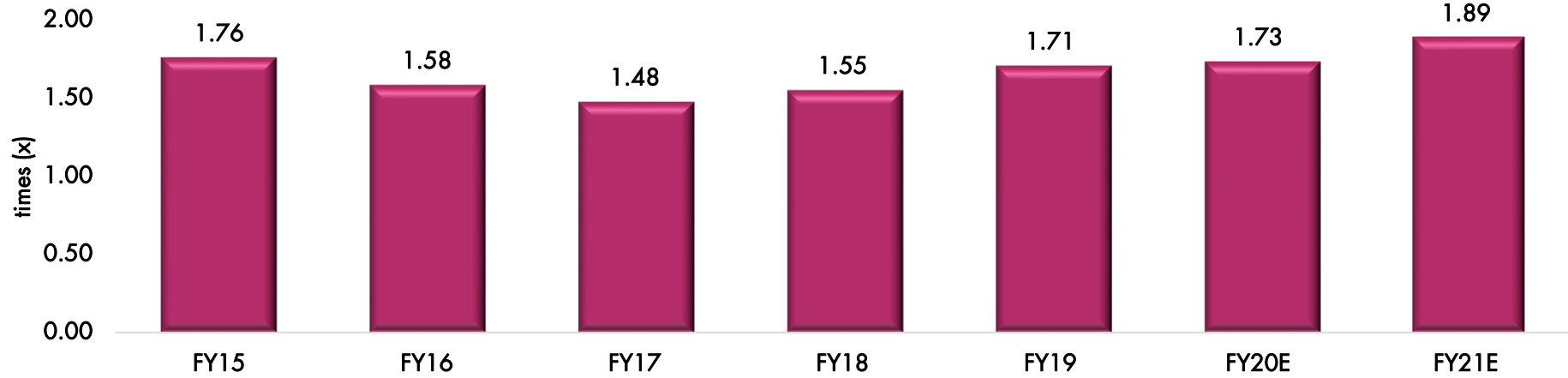
- ✓ Capex moderation and expected expansion of ~150-250bps in consolidated EBITDA margin, which would result in GRAN turning FCF positive in FY20
- ✓ With focus on effective working capital management and higher profitability, we expect operating cash flow to scale-up further and generate OCF an average of Rs1343Cr over FY19-21E (vs. average of Rs160Cr. over FY17-19)
- ✓ We expect operating OCF of GRAN's to grow at a CAGR of ~27% over FY19-21E

Source: Company, Axis Securities

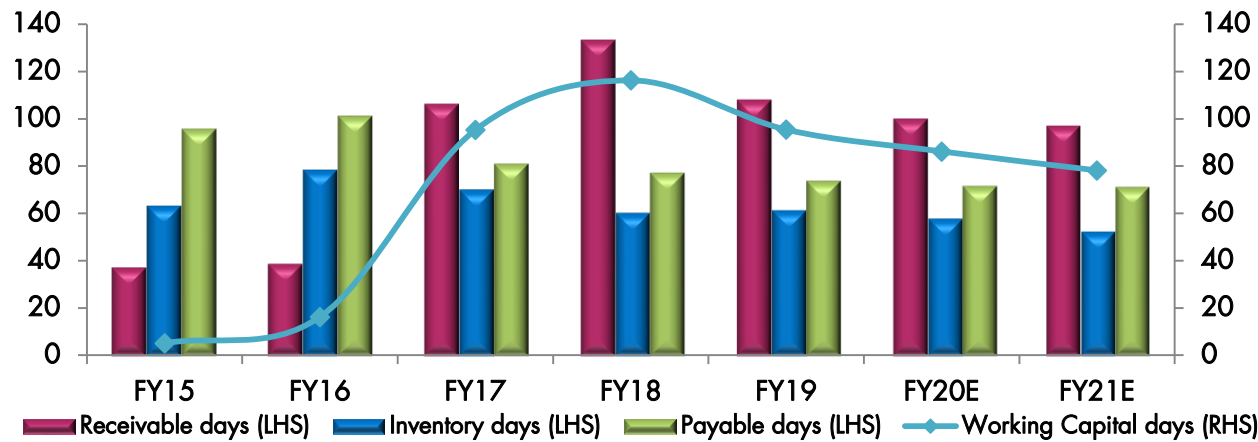


...Financial Outlook

**Asset Turnover (Gross) ~ Gradual pick-up in utilization levels...**



**After sharp upsurge in receivable days, and normalization in FY19...**



✓ Capex is tapering off as the large investment phase is over and improving operating leverage along with improving asset turnover will enhance return ratios going ahead

✓ We anticipate decline in working capital days post sharp surge in receivable days

Source: Company, Axis Securities

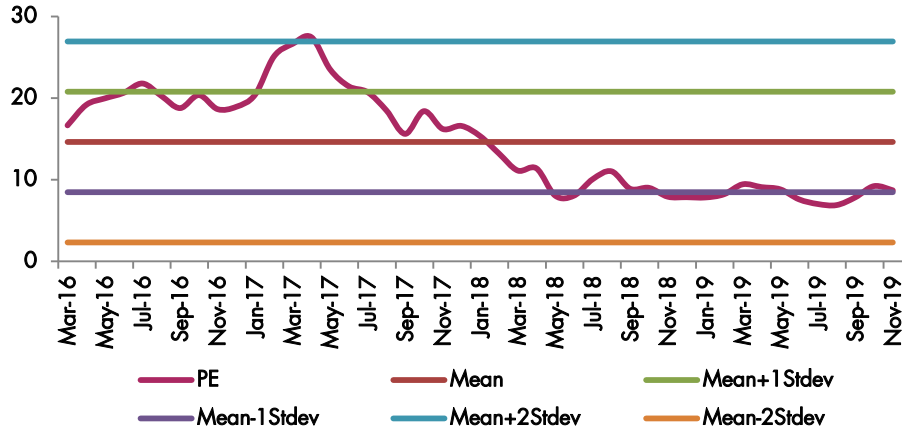
## Q2FY20 Performance

INR Crs	Q2FY20	Q1FY20	Q2FY19	% Change		Comments
				QoQ	YoY	
<b>Net Sales</b>	<b>700</b>	<b>595</b>	<b>581</b>	<b>18%</b>	<b>20%</b>	Strong revenue growth of 18% QoQ and 20% YoY aided by robust performance in FD (up 34% YoY) and PFI (up 37%YoY). Management guided for revenue/PAT CAGR of 20%/25% over FY19-22E
COGS	359	295	318	22%	13%	
Employee Cost	63	57	55	11%	16%	
Other Expenditure	133	124	108	7%	23%	
<b>Total Expenditures</b>	<b>556</b>	<b>477</b>	<b>480</b>	<b>17%</b>	<b>16%</b>	
<b>EBITDA</b>	<b>144</b>	<b>119</b>	<b>101</b>	<b>21%</b>	<b>43%</b>	Overall EBITDA margin improved significantly by ~322bps YoY (up 60bps QoQ) reflecting a better operating leverage as 'asset sweating' has come into play
Depreciation	30	29	27	6%	14%	
<b>EBIT</b>	<b>113</b>	<b>90</b>	<b>74</b>	<b>26%</b>	<b>53%</b>	
Interest	7	7	8	0%	-10%	Decline in overall net debt led to decrease in finance cost
Other Income	9	2	4	368%	107%	Other income includes forex gain of Rs3 Cr and product related litigation settlement of Rs4 Cr
<b>PBT</b>	<b>115</b>	<b>85</b>	<b>71</b>	<b>36%</b>	<b>63%</b>	
Tax	19	27	23	-29%	-17%	
<b>PAT before MI</b>	<b>96</b>	<b>58</b>	<b>47</b>	<b>66%</b>	<b>103%</b>	
Minority interest (MI)	0	25	13			
<b>Reported PAT</b>	<b>96</b>	<b>83</b>	<b>60</b>	<b>15%</b>	<b>59%</b>	
EPS (Rs)	3.8	3.3	2.4	15%	59%	
Gross Margin	51.4%	49.6%	54.7%	174 bps	-332 bps	
EBITDA Margin	20.5%	19.9%	17.3%	60 bps	322 bps	
EBIT Margin	16.2%	15.1%	12.7%	108 bps	345 bps	
PBT Margin	16.5%	14.3%	12.2%	219 bps	430 bps	
PAT Margin	13.7%	14.0%	10.4%	-29 bps	332 bps	
Tax Rate	16.8%	32.0%	33.1%	-1523 bps	-1631 bps	

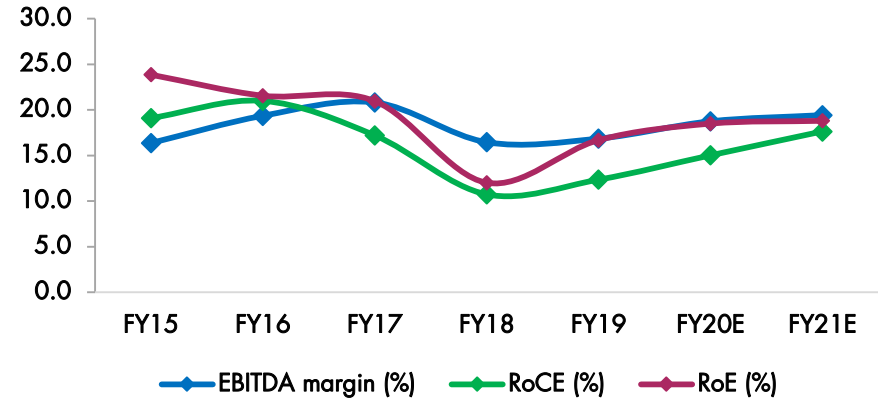
Source: Company, Axis Securities

## Valuation

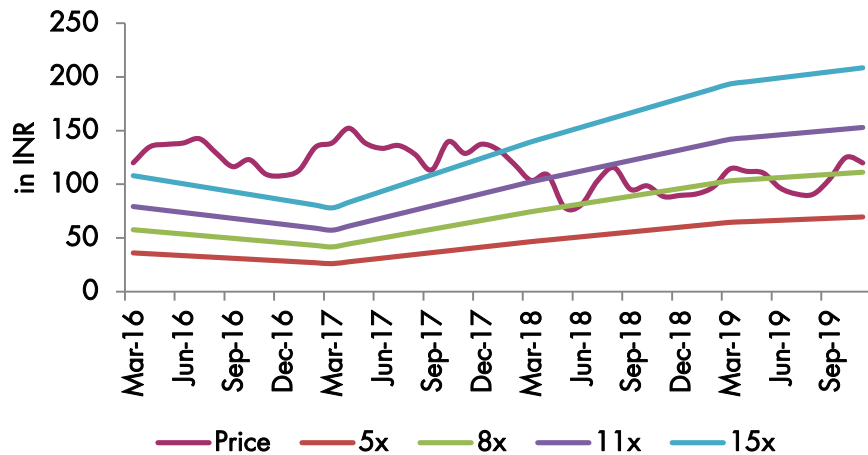
### At reasonable valuation...



### ...and improvement in EBITDA margin and return ratios



### PE band chart



Source: Company, Axis Securities

- ◆ At the CMP of Rs118, the stock trades at 9.2x PE FY20E EPS of Rs12.9 and 8.2x FY21E EPS of Rs14.4. We think the current P/E is at a discount to its intrinsic value, considering strong revenue growth coupled with improving profitability and return ratios, we believe this valuation gap to narrow going ahead.
- ◆ With strong earnings visibility, focus on deleveraging balance sheet, divestments in Joint Venture and improving return ratios, we think stock to trade at its 3-years average one year forward multiple of ~13-14x. We assume earnings CAGR of ~24% over FY19-21E, resulting EPS of Rs12.9 to 14.4 for FY20/21E respectively.

## Valuation - Peer Comparison...

Company Name	CMP	Mcap (In Cr)	P/E			EV/EBITDA			RoE (%)			RoCE (%)		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Jubilant Life Sciences Ltd	535	8,590	9.2	9.8	8.2	6.3	6.3	5.5	20.3	17.2	17.2	15.8	13.9	15.4
Neuland Laboratories Ltd	493	635	38.6	14.8	10.8	14.5	8.8	7.0	2.7	6.0	7.6	3.3	6.5	7.9
Suven Life Sciences Ltd	286	3,529	29.7	28.2	24.3	19.1	16.9	14.6	14.4	14.2	14.7	17.0	15.5	16.2
<b>Granules India Ltd</b>	<b>118</b>	<b>3,021</b>	<b>12.7</b>	<b>9.2</b>	<b>8.2</b>	<b>9.8</b>	<b>7.3</b>	<b>6.1</b>	<b>16.7</b>	<b>18.5</b>	<b>18.8</b>	<b>12.3</b>	<b>15.0</b>	<b>17.6</b>
Dishman Carbogen Amcis	122	1,982	8.7	7.8	6.7	5.5	4.7	4.2	4.0	5.7	6.4	4.4	5.7	6.5
Laurus Lab.	372	3,962	41.1	22.7	15.2	13.9	9.8	7.7	6.4	10.1	13.5	7.3	10.3	13.0

## Key Risks

- ◆ Regulatory hurdles
- ◆ Adverse movement in foreign exchange
- ◆ Surge in raw material cost
- ◆ Slow-than-expected pick up in finished dosage segment

Source: Company, Axis Securities

## Financials (Consolidated)

**Granules India Ltd.**
**Sector: Pharmaceuticals**

### Profit & Loss

**(Rs Cr)**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Net sales	1,435	1,692	2,279	2,685	3,120
Other operating income	0	0	0	0	0
<b>Total income</b>	<b>1,435</b>	<b>1,692</b>	<b>2,279</b>	<b>2,685</b>	<b>3,120</b>
Cost of goods sold	704	904	1,256	1,364	1,582
<b>Gross profit</b>	<b>731</b>	<b>788</b>	<b>1,024</b>	<b>1,321</b>	<b>1,538</b>
<i>Gross margin (%)</i>	<i>51%</i>	<i>47%</i>	<i>45%</i>	<i>49%</i>	<i>49%</i>
Total operating expenses	432	510	640	804	920
<b>EBITDA</b>	<b>299</b>	<b>278</b>	<b>384</b>	<b>517</b>	<b>619</b>
<i>EBITDA margin (%)</i>	<i>21%</i>	<i>16%</i>	<i>17%</i>	<i>19%</i>	<i>20%</i>
Depreciation	72	76	105	127	152
<b>EBIT</b>	<b>227</b>	<b>202</b>	<b>279</b>	<b>390</b>	<b>467</b>
Finance cost	32	33	28	26	30
Other income	10	11	27	21	20
<b>EBT</b>	<b>205</b>	<b>180</b>	<b>277</b>	<b>384</b>	<b>457</b>
Tax	65	63	89	83	91
<i>Tax rate(%)</i>	<i>32%</i>	<i>35%</i>	<i>32%</i>	<i>22%</i>	<i>20%</i>
<b>Profit after tax</b>	<b>140</b>	<b>117</b>	<b>188</b>	<b>301</b>	<b>366</b>
Minorities	0	0	0	0	0
Profit/ Loss associate co(s)	25	16	49	25	0
<b>Reported PAT</b>	<b>165</b>	<b>133</b>	<b>236</b>	<b>326</b>	<b>366</b>
EPS	7.2	5.2	9.3	12.9	14.4

### Balance Sheet

**(Rs Cr)**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Total assets</b>	<b>1,660</b>	<b>2,392</b>	<b>2,659</b>	<b>2,786</b>	<b>3,057</b>
Net Block	644	777	944	938	926
CWIP	261	515	496	496	496
Investments	136	199	260	260	260
Wkg. cap. (excl cash)	569	785	870	958	1,063
Cash / Bank balance	50	116	89	134	312
Misc. Assets	-	-	-	-	-
<b>Capital employed</b>	<b>1,660</b>	<b>2,392</b>	<b>2,659</b>	<b>2,786</b>	<b>3,057</b>
Equity capital	23	25	25	25	25
Reserves	881	1,279	1,504	1,795	2,126
Minority Interests	-	-	-	-	-
Borrowings	720	1,040	1,069	899	829
Def tax Liabilities	37	47	61	66	76

Source: Company, Axis Securities

## Financials (Consolidated)

**Granules India Ltd.**
**Sector: Pharmaceuticals**

### Cash Flow

**(Rs Cr)**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Profit before tax</b>	<b>174</b>	<b>159</b>	<b>256</b>	<b>332</b>	<b>376</b>
Depreciation & Amortization	72	76	105	127	152
Change in Working capital	(287)	(206)	(71)	(83)	(94)
<b>Cash flow from operation</b>	<b>(42)</b>	<b>30</b>	<b>291</b>	<b>375</b>	<b>434</b>
Capital Expenditure	(309)	(275)	(279)	(180)	(140)
<b>Cash flow from investing</b>	<b>(357)</b>	<b>(515)</b>	<b>(289)</b>	<b>(99)</b>	<b>(120)</b>
<b>Cash flow from financing</b>	<b>307</b>	<b>550</b>	<b>(28)</b>	<b>(231)</b>	<b>(135)</b>
Net Change in cash	(92)	66	(27)	45	179
Cash / Bank Balance	142	50	116	89	134
<b>Closing Cash Balance as per Balance Sheet</b>	<b>50</b>	<b>116</b>	<b>89</b>	<b>134</b>	<b>312</b>

Source: Company, Axis Securities

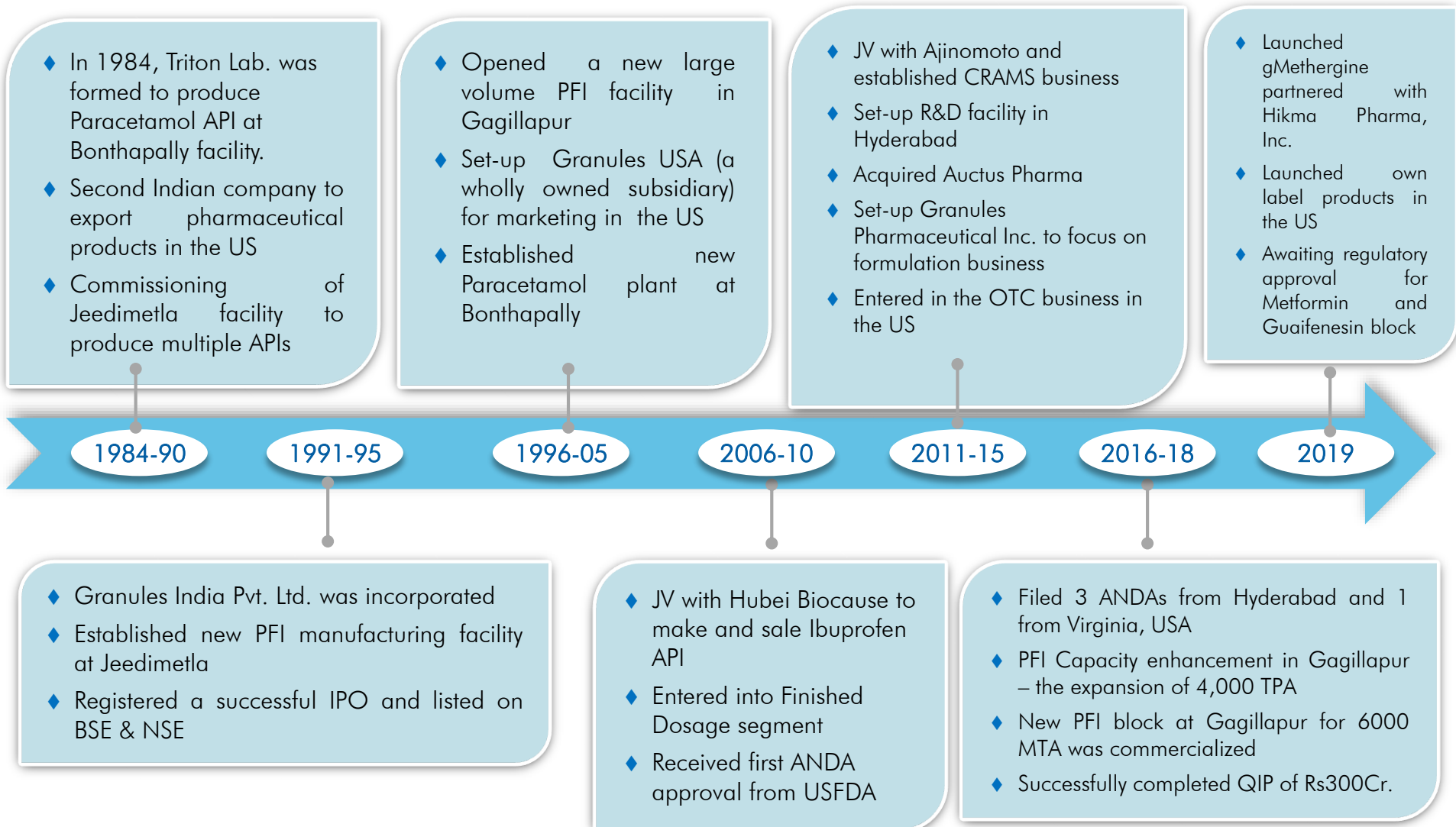
### Ratio Analysis

**(%)**

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Growth ratio</b>					
Sales growth	0%	18%	35%	18%	16%
EBITDA growth	8%	-7%	38%	35%	20%
PAT growth	39%	-19%	78%	38%	12%
<b>Profitability ratios(%)</b>					
Gross margin	51%	47%	45%	49%	49%
EBITDA margin	21%	16%	17%	19%	20%
EBIT margin	16%	12%	12%	15%	15%
PAT margin	11%	8%	10%	12%	12%
<b>Performance ratios (%)</b>					
ROE	21%	12%	16.7%	18.5%	19%
ROCE	17%	11%	12%	15%	18%
<b>Per share data</b>					
EPS (Rs.)	7.2	5.2	9.3	12.9	14.4
CEPS (Rs.)	10.3	8.2	13.5	17.9	20.4
DPS (Rs.)	1.1	1.2	1.2	1.4	1.4
<b>Efficiency ratios</b>					
Receivable days	106	133	108	100	97
Inventory days	70	60	62	56	52
Payable days	81	77	74	70	71
Asset Turnover (x)	1.0	0.9	0.9	1.0	1.1

# Annexure

## Evolution of business...



Source: Company, Axis Securities



## Management Depth

### Mr. Krishna Prasad Chigurupati

Mr. Krishna Prasad Chigurupati is the founder of Granules India and has more than 30 years of experience in the pharma industry. Mr. Krishna Prasad is the Chairman and Managing Director of the company. In 1984, he set up a Paracetamol manufacturing facility. He has pioneered and popularized for global formulation manufacturers.

### Mrs. Uma Devi Chigurupati

Mrs. Uma Devi Chigurupati is the Executive Director of the company. She has more than 30 years of experience in various fields. Mr. Krishna Prasad and Mrs. Uma had co-founded Triton Laboratories in 1984, which was later amalgamated with Granules India. She holds a post-graduate degree in Botany (soil microbiology) from Nagarjuna University.

### Ms. Priyanka Chigurupati

Ms. Priyanka Chigurupati is the Executive Director of Granules Pharmaceuticals, Inc. and is responsible for the US generic business. She has a Bachelor of Science degree in Business Management from Case Western Reserve University. She oversees various divisions in the US and India related to Core business, Emerging Business and Consumer Health business.

### Mr. Harsha Chigurupati

Mr. Harsha Chigurupati has been with Granules since 2005 and served as CMO from 2006-10. He has vast experience of 14 years in entrepreneurial roles like marketing, product development and customer relationship management. As an Executive Director, he is responsible for the standalone operations of Granules India, including the P&L.

### Mr. Stefan Lohle

Mr. Stefan Lohle is the Chief Marketing Officer of Granules India and has vast experience of over 20 years in pharmaceutical industry. He has been associated with Granules since 2001 and previously was Head of Latin America operations, where he focused on PFI business. Mr. Lohle also served at Kimberly Clark Corporation for new projects development.

### Mr. Atul Dhavle

Mr. Atul Dhavle holds the designation of Chief Human Resources Officers and Head of Operational Excellence. He has over two decades of experience in Human Resource and Operational Excellence and worked with companies like Dr. Reddy's, Welspun, DuPont and Mahindra. Mr. Dhavle holds a Bachelor degree in Production Engineering from Nagpur University and PGCBM from XLRI.

Source: Company, Axis Securities

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Instead of a company visit, we have done a conference call with the company's management.

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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
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