

# GRANULES INDIA

**BUY**

## Equity Research Report

**20 September 2020**

**CMP: ₹ 365**  
(20/09/2020)

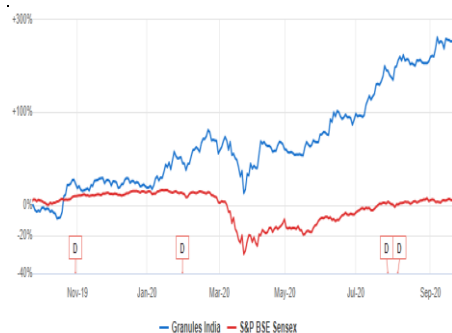
**TARGET PRICE: ₹ 450**  
Months: 12 Months

**RATING:**  
**BUY**

**Upside:**  
**24%**

### Company details

<b>Market Cap</b>	<b>₹ 9038 Cr</b>
<b>52 Weeks High/Low</b>	<b>₹385.10 / ₹ 93.00</b>
<b>Stock P/E</b>	<b>26.31</b>
<b>EPS</b>	<b>14.31</b>
<b>Dividend Yield</b>	<b>0.27%</b>



### About the Company:

Granules India Limited is a worldwide drug organization occupied with the manufacturing and selling of Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) and Finished Dosages (FDs). It offers dynamic drug fixings, drug plan intermediates, and completed measurements. The organization was established by Krishna Prasad Chigurupati on March 18, 1991 and is head-quartered in Hyderabad, India.

Granules India is perhaps the biggest producer of key APIs like Paracetamol, Ibu-profen, Metformin, Guaifenesin and Methocarbamol for the developed and developing market. Granules is a favored accomplice for a portion of the world's driving pharma marked and nonexclusive organizations. Organization is one of the main makers of high-volume drug items on the planet; the organization has one of the biggest Paracetamol API offices

On the fare limitation forced on paracetamol by the administration and on flexibly disturbances due to Covid-19, Granules India's Q4 FY20 topline slipped 2.2% y/y to '6bn. Its plans division, be that as it may, became 7.8% to '3.4bn, while PFI deals slid 18.5% to '781m and API deals 10.5% y/y to '1.8bn.

Its strength in key API such as paracetamol, ibuprofen and metformin is probably going to enable Granules to develop as a prime recipient since the Covid-19 flare-up has prompted a flood popular for such medications. Granules is probably going to keep up solid footing for the following couple of years, driven by definitions and the sound commitment from the new limits. I expect income and PAT CAGRs over FY20-22 of 25% and 23% individually.

The granules market share includes N. America 51.8%, Europe 19.1%, L. America 11.7%, India 11.4% and remaining for Rest of the world. The product wise sales composition was API 28.8%, PFI 18.7% and FD 52.4% in Q1FY21.

### Price Performance (%)

	<b>1m</b>	<b>3m</b>	<b>YTD</b>	<b>12m</b>
<b>Absolute</b>	15.81	77.18	196.26	241.00

### ShareHolding Pattern (%)

<b>Promoter</b>	42.13
<b>DII</b>	3.21
<b>FII</b>	22.95
<b>Others</b>	31.7

**Quarterly Financials (Figures in Rs. Crores)**

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
<b>Sales</b>	503.82	453.24	580.87	631.78	613.32	595.27	699.53	703.96	599.88	735.6
<b>Expenses</b>	460.19	380.65	480.34	518.47	515.71	476.65	555.93	540.81	499.93	552.01
<b>Other Income</b>	12.92	29.38	17.21	7.96	20.88	27.35	8.67	-28.52	82.29	5.63
<b>Depreciation</b>	20.41	24.53	26.53	27.01	27.42	28.67	30.32	38.99	38.97	34.08
<b>Interest</b>	6.21	6.54	7.6	7.48	6.85	6.87	6.85	6.73	6.57	5.95
<b>Profit before tax</b>	29.93	70.9	83.61	86.78	84.22	110.43	115.1	88.91	136.7	149.19
<b>Tax</b>	9.5	19.1	23.36	26.47	20.19	27.18	19.3	24.87	44.37	37.74
<b>Net profit</b>	20.44	51.8	60.26	60.32	64.04	83.24	95.79	64.03	92.34	111.45
<b>Operating Profit</b>	43.63	72.59	100.53	113.31	97.61	118.62	143.6	163.15	99.95	183.59

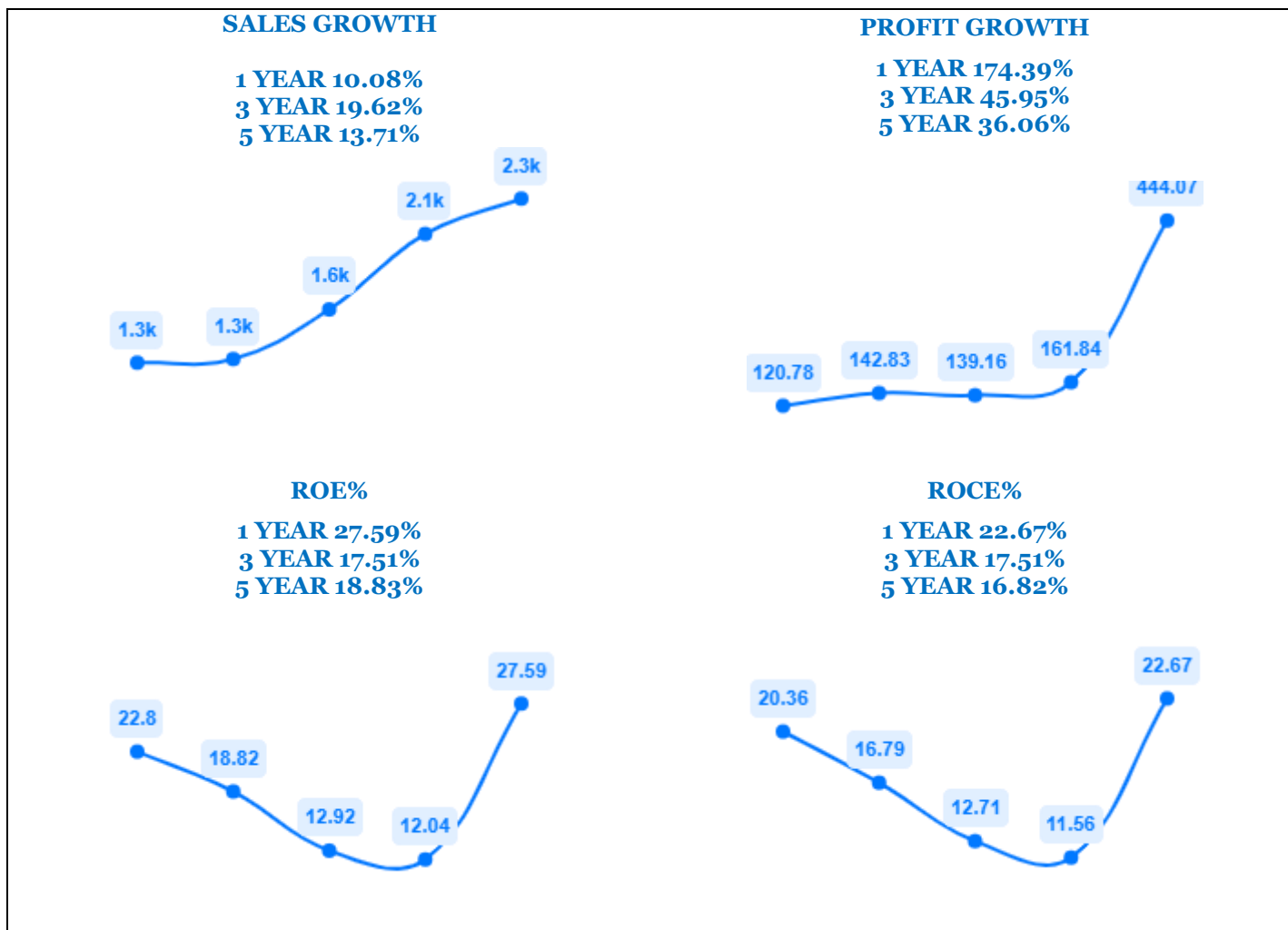
In the midst of the unprecedented covid pandameic Granules India posted record quarterly execution beating the estimates. The record quarterly execution result with a income rise of 24% YoY was driven by spiked interest around the pandemic and overflow from past quarter alongside market extensions in the center items. Improved item blend has contributed well to the quarter as PFI and FDs contributed almost 71% of deals taking gross edges to 60% and EBITDA edges to 25%. The quarter actually has some effect of higher worker costs with net edges overheads inversion. Additionally, Metformin ER 750 mg review affected the quarter. The center five items contributed 85% of revenues this quarter.

**Cash Flows Annual (Figures in Rs. Crores)**

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
<b>Cash from Operating Activity</b>	48.56	25.6	91.18	107.95	150.28	151.43	188.24	-0.65	262.24	476.19
<b>Cash from Investing Activity</b>	-25.09	-54.47	-127.79	-254.63	-145.55	-161.65	-326.09	-462.31	-269.82	-160.43
<b>Cash from Financing Activity</b>	-24.96	48.86	46.33	146.72	18.83	85.66	55.87	528.62	-17.43	-212.86
<b>Net Cash Flow</b>	-1.49	19.99	9.72	0.04	23.56	75.44	-81.98	65.66	-25.01	102.9

**Balance Sheet (Figures in Rs. Crores)**

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
<b>Equity</b>										
<b>Share Capital</b>	20.06	20.06	20.13	20.28	20.43	21.67	22.87	25.38	25.42	25.42
<b>Reserves</b>	199.72	225.03	254.41	335.43	410.74	639.93	880.73	1278.79	1504.05	1818.3
<b>Borrowings</b>	120.98	203.61	270.47	441.73	482.23	641.39	656.5	978.44	991.18	892.11
<b>Other Liabilities</b>	95	122.61	137.62	194.58	289.31	259.97	318.62	387.67	457.94	560.42
<b>Total</b>	435.76	571.31	682.63	992.02	1202.71	1562.96	1878.72	2670.28	2978.59	3296.25
<b>Net Block</b>	238.62	250.42	263.46	482.47	616.55	559.94	644.34	776.73	944.25	1203.97
<b>Capital</b>										
<b>Work in Progress</b>	6.85	29.3	108.8	124.56	62.03	76.56	267.43	514.52	495.95	294.2
<b>Investments</b>	0.3	0.19	9.65	0.19	0.19	70.11	108.23	156.56	210.42	19.34
<b>Other Assets</b>	189.99	291.4	300.72	384.8	523.94	856.35	858.72	1222.47	1327.97	1778.74
<b>Total</b>	435.76	571.31	682.63	992.02	1202.71	1562.96	1878.72	2670.28	2978.59	3296.25
<b>Receivables</b>	71.61	95.01	71.02	110.91	136.91	375.35	417.7	628.25	673.54	735.18
<b>Inventory</b>	75.13	109.91	136.48	174.16	224.52	253.72	269.18	279.95	384.21	438.43
<b>Cash &amp; Bank</b>	11.98	31.98	41.71	41.75	65.31	130.29	49.8	115.64	89.04	283.94



### Commercial benefits from complex products underway

Granules India's (GRAN) endeavors of building complex items ought to change into lucrative open doors for the organization throughout the following one and a half year. Organization has gotten 7 ANDA endorsements in the course of recent months, which has under 5 contenders.

In particular, the ongoing ANDA endorsement for the organization Focalin XR (market size of USD556m and considering 5 peers), we anticipate that the organization should collect USD 35m on an annualized premise post dispatch of the item.

I stay positive on Grnules India because of better development possibilities in the Formulations (FD) business, new item addi-tions in the API section, and decreased costs inferable from in reverse joining.

A portion of the other restricted rivalry items affirmed in the course of recent months are Colchicine, Trospium Chloride, Valganciclovir HCl, Acetaminophen, and Methylphenidate HCl (every one of which has under 5 contenders).

GRAN has petitioned for 15 ANDAs YTD FY21. GRAN means to dispatch 7-8 ANDAs/Dossiers in FY21.

The USFDA has affirmed GRAN's Dexmethylphenidate HCl (5mg/10mg/15mg/20mg/25mg/30mg/35mg/40mg) broadened discharge container, a nonexclusive variant of Focalin XR. It is utilized for the treatment of Attention Deficit Hyperac-tivity Disorder (ADHD).

I expect value disintegration of 7-10% with piece of the overall industry progressively developing to 10% more than a year post the dispatch of the item. Moreover, we expect annualized deals of USD35m from this chance. This could give significant advantage to Granules Formulations business.

## Outlook

Its dominance in key APIs (paracetamol, ibuprofen, metformin) would help Granules emerge a prime beneficiary as the Covid-19 outbreak has led to a surge in demand for such drugs. Granules is likely to retain strong traction for the next couple of years driven by formulations and the healthy contribution from new capacities. We expect 25% - 23% revenue over FY20-22.

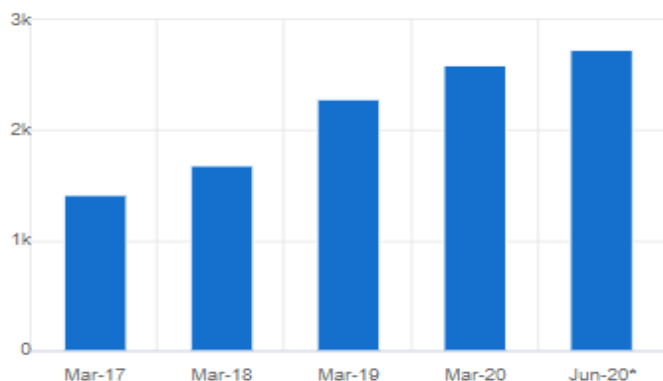
### Positives

- Highest ever revenue in the history of the company
- Gross margins expanded 920 bps yoy
- Operating margins expanded 503 bps YoY to 25%
- Promoters pledge reduced by around 12.95% to 3.64%
- Company has reduced debt
- Company has delivered good profit growth of 28.22% CAGR over last 5 years

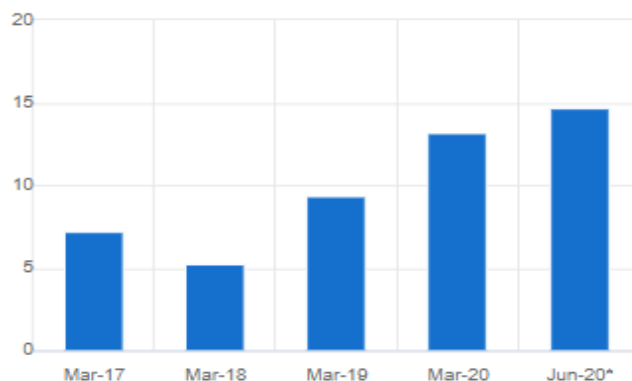
### Negative

- Promoter holding has decreased by -0.75% over last quarter
- Company might be capitalizing the interest cost

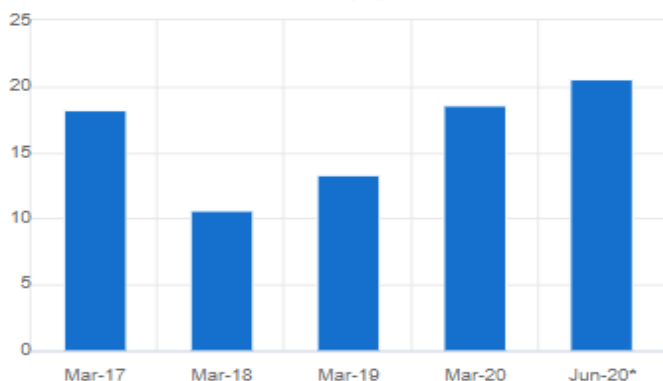
Revenue (₹ Cr)



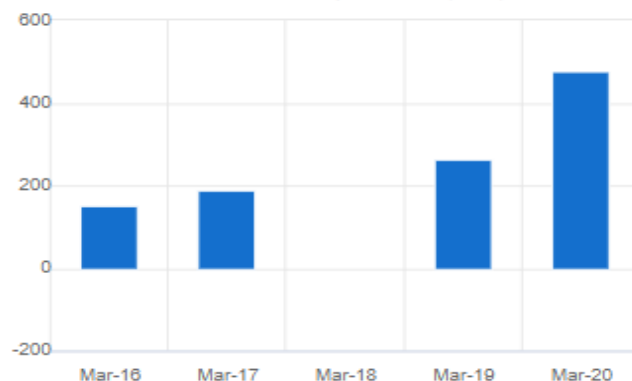
EPS (₹)



RoE (%)



Cash flow from operations (₹ Cr)



## My Call:

Granules is witnessing strong demand tractions across segments, which is expected to sustain going ahead as well. The lucrative high margin segments – PFI and FD are witnessing healthy growth. The company is also looking to expand its reach and tap new geographies for growth. With existing capacities expected to reach almost full utilization levels by end of FY2021, Granules has announced a capacity expansion plan, which would support the growth going ahead. Further, a favorable mix, operational efficiencies would drive the margins. Witnessing a strong demand, Granules has revised its PAT growth guidance upwards to 30% for FY2021.

Based on above positives coupled with modest multiple expansion, we maintain our Positive view and expect an upside of 20%-25%.

## Reasons for the upside potential:

**Strong performance for Q1FY21:** Granules reported strong performance for Q1FY2021. Results were ahead of estimates. The incomes at Rs 735.6 cr were up 23.6% y-o-y. The income development is inferable from the solid development in the PFI and FD portion deals, which developed 42% and 35% y-o-y individually. The working benefits for the quarter remained at Rs 183.6 cr, up 54.8% y-o-y. The working overall revenues at 25% were in front of evaluations and extended forcefully by 503 bps y-o-y. Good blend (high portion of FD and PFI deals) and higher API costs brought about the gross edge's development. During the quarter, Granules announced one-time arrangement of Rs 15 cr towards deliberate review of metformin. This is remembered for different costs and altering for this working edge remain at 27%. Duty rate for the quarter remained at 25% when contrasted with 32% in the relating quarter of the earlier year. Thus, the revealed PAT remained at Rs 111.4 cr when contrasted with Rs 83.2 cr in Q1FY20 and was in front of estimates.

**Healthy growth in core molecules; strong new product pipeline to fuel growth:** Solid new item pipeline to fuel development; Management changes PAT development direction upwards for FY21: Granules announced an amazing exhibition for Q1FY21 with record all-round execution. A solid demand condition for its medications, particularly in the PFI and FD space has prompted the outperformance. Granules anticipates that the solid presentation should continue proceeding also. The center atoms (~85% of the deals) would keep on continuing the hearty development direction as Granules hopes to dispatch these items in new geologies of Europe, Canada and South Africa. Further Granules had petitioned for 3 ANDA's during the quarter and has gotten endorsement for 6 items. Proceeding, the organization intends to document 7-9 ANDA's/Dossiers consistently, across geologies. This focuses at a solid item pipeline. Further, considering the hearty demand, the administration anticipates that the offices should accomplish practically full limit use levels before the finish of FY2021. So as to continue the development direction, Granules would put around Rs 350-400 cr in FY2021 towards extending limits. For FY2022, the organization has guided for a capex of Rs 300 cr generally towards setting up new limits/brownfield developments. Therefore, given the solid interest, solid item pipeline and new limits being set up, the incomes and PAT are expected to become astonishingly throughout the following two years. Granules has reconsidered its PAT development direction upwards to 30% for FY2021. This is honorable, particularly in the midst of testing times.

**New items/endorsements:** Launched Colchicine tablets and Butalbital APAP caffeine tablets through auxiliary organization in the US markets. Granules has petitioned for 3 ANDA's/Dossiers in the North America and the Europe markets during the quarter and had gotten endorsement for 6 ANDA's (counting one provisional endorsement) from the USFDA. Granules sees the portion of incomes from the worthwhile US markets expanding to around 68-70% levels from around 53.4% as of FY2020.

**Pledge Shares:** During the quarter, the promoters pledge was released to the tune of ~12.95%. Post this, the proportion of pledged shares has reduced to 3.64%.

**Buyback updates:** Granules has successfully completed the buyback of around 1.25 cr equity shares, with a total spends of Rs 142 cr (excluding taxes). The taxes amounting to Rs 32.9 cr would be paid in Q2FY21.

Granules is one of only a handful hardly any Pharmaceutical organizations with a vertical reconciliation (from API to FD's). The organization's emphasis on center business combined with solid interest in APIs forecast well in forthcoming years. The organization is required to report solid execution from FY2020 onwards, as its center business is relied upon to become sturdily sponsored by charging of limits in the ongoing past, increasing ANDA endorsements and dispatches for U.S. markets. In addition, since most of capex is now behind, it plans to pay off past commitments throughout the following couple of years. Operational efficiencies combined with economies of scale will help improve working execution just as gainfulness.