

Retail Equity Research (South India Focus)

Granules India Ltd

Pharmaceuticals

BSE CODE : 532482

NSE CODE: GRANULES

BLOOMBERG CODE: GRAN:IN

SENSEX : 34,371

Buy

12M Investment Period

Rating as per Small Cap

CMP Rs.182

TARGET Rs.233

RETURN +28% ↑

(Closing: 08-06-2020)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Outlook intact despite subdued quarter

Granules (Inc) is a leading generic player in the Indian pharmaceutical industry with 2/3rd of its revenue generated from North America and Europe.

- Granule's Q4FY20 revenues declined 2% YoY mainly on the back of the government ban on exports of Paracetamol API, PFI and Finished Dosages (FD) in March
- For FY20, total revenues grew by 14% as the company launched 5 new products in the U.S which have gained traction.
- The share of revenues from FDs have grown from 44% in FY19 to 52% in FY20. As a result, EBITDA grew by 37% with margins expanding by 340bps in FY20
- The company has initiated a buyback offer equal to 4.9% of total paid up share capital and plans to return Rs.250crs to the shareholders.
- Hence we value Granules at 12x FY22E EPS with a target of Rs.233 and reiterate a BUY.

Export restrictions impact revenues

Granules' Q4FY20 revenues declined 2% YoY mainly on the back of the government ban on exports of Paracetamol API, PFI and Finished Dosages (FD) in March during the outbreak of Covid-19 in the country. However, the government subsequently lifted the ban in April and the exports have resumed. For FY20, total revenues grew by 14% as the company launched 5 new products in the U.S which have gained traction. The share of revenues from FDs has grown from 44% in FY19 to 52% in FY20.

Focus on FDs drives net profit in FY20

EBITDA grew by only 2% YoY during the quarter as the company took a one time impairment of Rs.22crs on account of investments in the U.S pharma business. However, for the full year, EBITDA grew by 37% with margins expanding by 340bps as the high margin FDs continued its sales growth in the U.S and other regulated markets. The company's focus on increasing its backward integration through the API segment have reduced costs. These factors have enabled net profit to grow by 54% to Rs.362crs in FY20

Disinvestment activities completed

During the year, the company completed the disinvestment of its JVs Granules Omnicem and Granules Biocause. Rs.27crs was recognized as an exceptional gain in the FY20 PAT as a result of the disinvestment. The Rs.32crs exceptional loss recognized in Q3FY20 after the sale of Biocause was offset by Rs.59crs gain recognized during the quarter from the sale of Omnicem. The company stated that the disinvestments were made as a result of low ROCE and capacity utilization as well as large investments required for Chinese regulatory compliances

Buyback offer initiated

Granules has initiated its buyback offer on June 8th, with subscription open for around two weeks. The buyback represents 4.9% of the total paid up share capital and the price has been fixed at Rs.200 per share. The company plans to return around Rs.250crs to the shareholders through this scheme. The promoters will take part and they plan to reduce their pledge percentage through the offer

Valuations...

Granules is looking to launch 9 new products in FY21 and has stated that most of the R&D costs will focus on growing its core molecule portfolio. We expect the finished dosages segment to continue to be the key earnings driver in the long term in addition to further backward integration measures. We expect PAT to grow by 15% CAGR over FY20-FY22 on the back of these assumptions. Hence we value Granules at 12x FY22E EPS with a target of Rs.233 and reiterate a BUY.

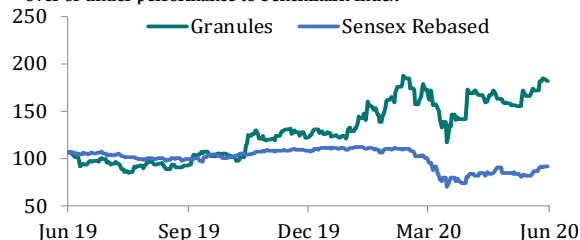
Company Data

Market Cap (cr)	Rs.4,617
Enterprise Value (cr)	Rs.5,473
Outstanding Shares (cr)	25.4
Free Float	57%
Dividend Yield	0.5%
52 week high	Rs.189
52 week low	Rs.84
6m average volume (cr)	0.2
Beta	0.9
Face value	Rs.1

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	43	43	44
FII's	14.6	17.7	21.7
MFs/Insti	3.0	3.2	3.0
Public	39.4	36.1	32.4
Total	100.0	100.0	100.0
Promoter Pledge (%)	37.0	30.3	37.6

Price Performance	3 month	6 Month	1 Year
Absolute Return	12.6%	45.6%	72.0%
Absolute Sensex	-3.5%	-14.9%	-13.2%
Relative Return*	16.1%	60.5%	85.3%

over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	2,598	3,252	3,877
Growth (%)	14.0	25.2	19.2
EBITDA	525	663	775
EBITDA Margin(%)	20.2	20.4	20.0
PAT Adj.	363	394	475
Growth (%)	53.6	8.8	20.6
Adj.EPS	14.3	16.1	19.4
Growth (%)	53.8	12.8	20.6
P/E	13	12	10
P/B	2.5	2.2	1.8
EV/EBITDA	9.8	7.9	6.5
ROE (%)	21.7	20.5	21.3
D/E	0.3	0.3	0.2

Joe V Samuel
Research Analyst

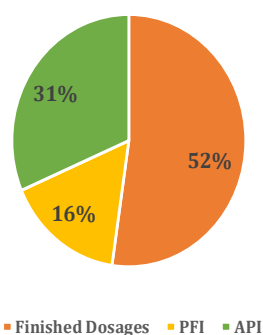
Quarterly Financials (Consolidated)

Profit & Loss

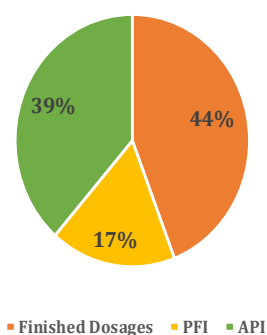
(Rs cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Sales	600	613	(2.2)	704	(14.8)	2,598	2279	14.0
EBITDA	100	98	2.4	163	(38.7)	525	383	36.9
EBITDA margins %	16.7	15.9	80bps	23.2	(650)bps	20.2	16.8	340bps
Depreciation	39	27	42.2	39	-	137	105	29.8
EBIT	61	70	(13.2)	124	(50.9)	388	278	39.6
Interest	7	7	(3.6)	7	(1.8)	27	29	(5.1)
Other Income	23	2	1091	4	541.2	37	27	36.9
Exceptional Items	60	-	-	-32	-	(28)	0.0	-
PBT	137	65	109.5	89	53.7	425	276	54.0
Tax	44	20	119.5	25	78.1	116	89	30.0
Share of profit from Associate	0.0	0.0	-	0.0	-	25	49	(47.7)
Reported PAT	92	64	44.2	64	44.2	335	236	-
Adjustments	60	-	-	32	86.7	28	-	-
Adj PAT	32	64	(49.2)	96	(66.1)	363	236	53.8
No. of Shares	25	25	-	25	-	25	25	-
Adj EPS (Rs)	1.3	2.5	(49.2)	3.8	(66.1)	14.3	9.3	53.8

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,277	3,898	3,252	3,877	-0.8%	-0.5%
EBITDA	638	763	663	775	3.9%	1.6%
Margins (%)	19.5%	19.6%	20.4%	20.0%	90bps	40bps
Adj. PAT	376	467	394	475	4.8%	1.8%
EPS	14.8	18.4	16.1	19.4	9.0%	5.0%

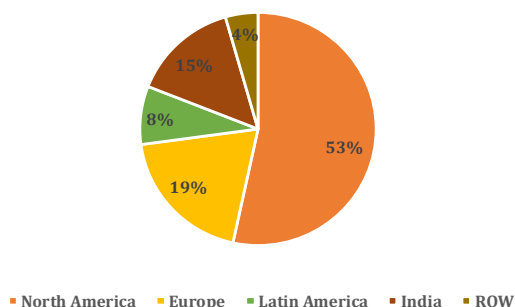
Revenue Mix FY20



Revenue Mix FY19



Geographical Revenue-FY20



Source: Company, Geojit Research

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	1,685	2,279	2,598	3,252	3,877
% change	19.4	35.3	14.0	25.2	19.2
EBITDA	278	383	525	663	775
% change	-6.9	38.0	36.9	26.3	16.9
Depreciation	76	105	137	131	140
EBIT	202	278	388	532	634
Interest	33	28	27	24	21
Other Income	11	27	37	24	29
PBT	179	276	425	532	642
% change	-12	54	54	25	21
Tax	63	89	116	138	167
Tax Rate (%)	35%	32%	26%	26%	26%
JV profit	-23	0	-28	0	0
Reported PAT	132	236	335	394	475
Adj.*	-23	0	-28	0	0
Adj. PAT	155	236	363	394	475
% change	-5.0	51.7	53.8	8.8	20.6
No. of shares (cr)	25.4	25.4	25.4	24.5	24.5
Adj EPS (Rs)	6.1	9.3	14.3	16.1	19.4
% change	-5.0	51.7	53.6	12.8	20.6
DPS (Rs)	1.0	1.0	1.0	1.0	1.0

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	21	34	56	52	62
Non-cash adj.	54	105	145	131	140
Changes in W.C	-230	-2	13	-24	-30
C.F. Operation	-24	364	476	280	319
Capital exp.	-446	-185	-183	-122	-110
Change in inv.	-16	-123	24	-29	0
Other invest.CF	-16	-69	116	-5	-5
C.F - Investment	-462	-281	-161	-151	-110
Issue of equity	293	0	0	-200	0
Issue/repay debt	250	-25	-154	-90	-90
Dividends paid	-29	-29	-31	-29	-28
Other finance.CF	0	0	-2	-6	-5
C.F - Finance	529	22	-211	-319	-118
Chg. in cash	43	105	105	-190	91
Closing cash	108	89	284	90	176

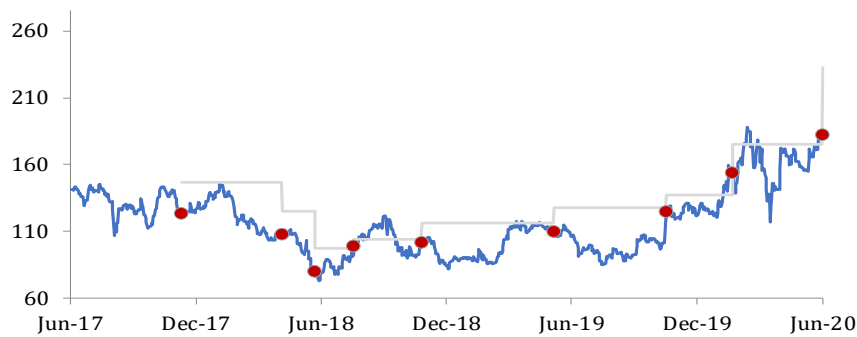
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	108	89	284	90	176
Account Receivable	617	674	735	909	1062
Inventories	280	384	438	481	589
Other Cur. Assets	148	132	236	223	266
Investments	157	210	19	19	19
Gross Fixed Assets	1103	1255	1632	1782	1932
Net Fixed Assets	701	748	988	1007	1017
CWIP	290	323	148	120	80
Intangible Assets	300	369	361	385	380
Def. Tax (Net)	-47	-61	-43	-43	-43
Other Assets	0	0	0	0	0
Total Assets	2590	2915	3247	3283	3647
Current Liabilities	317	437	583	535	535
Provisions	10	17	27	34	40
Debt Funds	433	479	422	372	322
Other Liabilities	252	324	430	535	535
Equity Capital	25	25	25	25	25
Reserves & Surplus	1273	1480	1813	1979	2426
Shareholder's Fund	1304	1530	1844	2009	2456
Total Liabilities	2590	2915	3247	3283	3647
BVPS	51	59	72	82	100

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	16.5	16.8	20.2	20.4	20.0
EBIT margin (%)	12.0	12.2	14.9	16.4	16.4
Net profit mgn.(%)	9.2	10.3	13.9	12.1	12.3
ROE (%)	14.1	16.8	21.7	20.5	21.3
ROCE (%)	10.7	11.7	15.1	19.7	21.7
W.C & Liquidity					
Receivables (days)	112	103	99	91	92
Inventory (days)	60	53	58	52	50
Payables (days)	91	84	107	108	100
Current ratio (x)	2.1	1.7	1.7	1.6	2.0
Quick ratio (x)	1.6	1.2	1.3	1.2	1.4
Turnover & Leverage					
Gross asset T.O (x)	1.7	1.9	1.8	1.9	2.1
Total asset T.O (x)	0.8	0.8	0.8	1.0	1.1
Int. covge. ratio (x)	6.1	9.8	14.4	22.0	29.7
Adj. debt/equity (x)	0.8	0.6	0.3	0.4	0.2
Valuation					
EV/Sales (x)	3.2	2.4	2.0	1.6	1.3
EV/EBITDA (x)	19.7	14.3	9.8	7.9	6.5
P/E (x)	29.8	19.6	12.8	11.7	9.7
P/BV (x)	3.6	3.1	2.5	2.3	1.9

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
17 th Nov 2017	Buy	147
12 th March 2018	Buy	125
30 th May 2018	Buy	97
26 th July 2018	Accumulate	104
2 nd Nov 2018	Buy	116
13 th May 2019	Buy	127
25 th October 2019	Accumulate	137
3 rd February 2020	Buy	175
9 th June 2020	Buy	233

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	-	-	-

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 : 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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