

CMP: Rs 337

Rating: ACCUMULATE

Target Price: Rs 393

Stock Info

BSE	532482
NSE	GRANULES
Bloomberg	GRAN:IN
Reuters	GRAN.BO
Sector	PHARMACEUTICALS
Face Value (Rs)	1
Equity Capital (Rs cr)	25
Mkt Cap (Rs cr)	8350
52w H/L (Rs)	438 / 114
Avg Yearly Volumel (in 000 ¹)	2896

Shareholding Pattern %

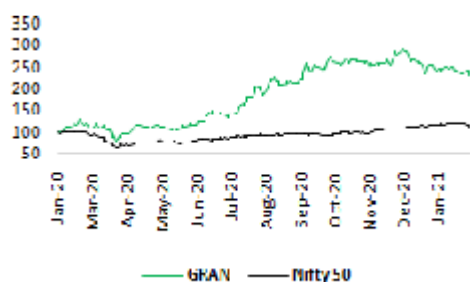
(As on December, 2020)

Promoters	42.04
FII	26.38
DII	0.31
Public & Others	31.27

Stock Performance (%) 3m 6m 12m

Granules	-11.7	19.3	120.0
Nifty 50	16.8	21.7	12.4

GRAN Vs Nifty



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Result Highlights:

- In Q3FY21, Granules India Ltd reported revenue growth of 20.0% YoY to Rs 845 Cr which is inline with our estimation of Rs 845 Cr. The revenue growth was largely driven by four new launches and increased growth in market share of existing products across FDs, APIs and PFIs to Rs 422 Cr, Rs 252 Cr and Rs 171 Cr respectively.
- The EBIDTA for the quarter stood at INR 212 Cr reporting growth of 30% YoY and de-growth of 17% QoQ. Operational margins expanded by 188bps YoY at 25.1% Vs 23.2% / 29.9% in Q3FY20 / Q2FY21 respectively. Margins were below our estimates of 26.5%, majorly on the back of lower gross margin due to increased raw material prices and supply and logistic disruptions.
- Net profit came in at INR 147 Cr registering growth of 129% YoY and de-growth of 10% QoQ. Profit margin stood at 17.4% up by 829 bps YoY, ahead of our revenue estimates of Rs 138 Cr. The growth in the bottom line is mainly due to higher other income.

Strong performance continued across all verticals and geographies: Granules India's North America business witnessed a growth of 17.0% YoY to Rs 436 Cr vs Rs 373 Crs in Q3FY20, in the US portfolio on account of new product launches, better utilization of Metformin block and increased market share of core products across all the three verticals of FDs, APIs and PFIs. Domestic and Europe business have also registered a YoY growth of 37.3% and 5.4% respectively. Hence we reckon 24.0% CAGR over FY20-FY22E average of all segments mainly on acquisition of new customers, rising industry demand and increased penetration. Therefore, revenues are expected to be over INR 3,997 Cr, over FY20-FY22E.

Operating margins compressed by increase in RM prices and supply chain disruption: EBIDTA margins for Q3FY21 came in at 25.1% Vs 23.2% / 29.9% in Q3FY20 / Q2FY21 respectively, a sequential decline is majorly on account of higher COGS due to supply disruption and logistic issues during the quarter. While considering increased production capacities, operational efficiencies and scheduled launches for coming years, we expect EBIDTA margins for FY21E-FY22E should be in the range of 23% to 25%. We believe the growth of PAT margins will be sustainable at mid double digit over FY20-FY22E.

Outlook & Valuations: In the current challenging COVID-19 pandemic environment, company is cautious about its new launches and focusing more on its supply and uninterrupted presence through heavy inventory building in the regulatory market. Further, we believe that, the company will continue to face logistic issue and supply disruption in next quarter and expects some pressure on gross margins. We recommend "ACCUMULATE" rating on the stock with a price target of Rs 393 (upside of 17%) at 17x FY22E EPS of Rs 23.1

FINANCIAL HIGHLIGHTS

Rs in Cr	FY18	FY19	FY20	FY21E	FY22E
Revenue	1685	2279	2599	3254	3997
EBITDA	278	383	525	823	951
EBITDA margin(%)	16.5%	16.8%	20.2%	25.3%	23.8%
PAT	132	236	335	539	572
PATM (%)	7.8%	10.3%	12.9%	16.6%	14.3%
EPS(in Rs)	5.2	9.8	13.3	21.6	23.1
ROE(%)	10.2%	16.3%	18.3%	22.6%	19.4%
PE(x)	64.3	34.4	25.4	15.6	14.6

Source: Company, Arihant Research

Quarterly Result

Rs in Cr.	Q3FY21	Q2FY21	Q3FY20	YoY	QoQ
Revenue	845	858	704	20%	-2%
Cost of Raw Material Consumed	414	418	347	19%	-1%
Change in inventories	-23	-57	0	-	-60%
COGS	391	361	347	13%	8%
Gross Profit	454	497	357	27%	-9%
Gross Profit (%)	53.7%	57.9%	50.7%	300bps	-422bps
Employee Cost	83	80	65	28%	4%
Other Expenses	159	161	129	23%	-1%
EBITDA	212	256	163	30%	-17%
EBITDA Margin (%)	25.1%	29.9%	23.2%	188bps	-483bps
Other Income	16	3	4	368%	409%
Depreciation	37	36	39	-6%	2%
EBIT	191	224	128	50%	-15%
Finance Cost	7	6	7	8%	16%
EBT and exceptional	184	217	121	52%	-15%
Share of Profit of JV	0	0	0	-	-
Exceptional items	0	0	-32	-	-
PBT	184	217	89	107%	-15%
Tax Expense	37	54	25	49%	-31%
Effective tax rate %	20.2%	24.7%	20.6%	-41	-453
PAT	147	164	64	129%	-10%
PAT margin (%)	17.4%	19.1%	9.1%	829	-169
EPS (Rs)	5.9	6.6	2.5	136%	-10%

Segment Revenue

Rs in Cr.	Q3FY21	Q2FY21	Q3FY20	YoY	QoQ
API's	209	255	422	-50%	-18%
PFI's	116	173	171	-32%	-33%
FDs	379	430	252	50%	-12%
Total	704	858	845	-17%	-18%

Source: Company, Arianth Research

Actual vs Estimates

	Q3FY21	Q3FY21E	Deviation %
Net Sales	844.5	844.7	-0.1%
EBITDA	211.6	223.7	-5.4%
EBITDA Margin (%)	25.1%	26.5%	-145bps
Profit before Tax	183.9	184.0	-0.1%
Net Profit	146.8	138.0	6.4%

Source: Company, Arianth Research

Conference Call Highlights

- Due to Covid, company had faced tremendous challenges with respect to supply chain disruption and increase in raw material prices and continues to see more logistics and supply chain disruption in next quarter as well. In Q3FY21, profitability had also impacted due to disruptions and withdrawal of MEIS scheme.
- **MUPS Segment:**
Company has few important MUPS based products commercialized at GPI having sizable market in the USA along with 10 approved products to be launched in phase manner.
The new blocks for MUPS in India will be ready by Q4FY22, yet company has started manufacturing a product with small capacity and building up inventory for schedule launch in Q1FY22, having a generic market of USD 148 mn.
- Company has acquired new site at Genome valley, Hyderabad to construct the facility for solid orals and few other forms of formulations. Company is also planning to build new block for dedicated API at Unit-V (Vizag API facility).
- In the US, company has also started building a new capacity for solid oral tablets as well as other forms of formulations and expects it to be operational from Q1FY22 for commercialization of new approvals.
- Company cumulatively has 45 ANDA filings, 35 ANDA approvals with 25 launches and also expects to make 4-5 filings during the year. Company is also focused on expanding geographical presence by extending its filings footprint in UK, Europe and Canada for core molecule business.
- At GPI, company has received approval for 8 products and launched 7 products for the year. Company has heavy stock for FDs and raw materials for GPI and GIL, which will help company to maintain its service level to the customer.
- Company has maintained its debt level successfully on account of efficient management of working capital, in spite of heavy built in inventories.
- Company maintains its EBITDA margin guidance in the range of 25% - 27% for FY21E and gross margin will remain at 52%-53%.
- Capex guidance for FY21 is Rs 220 cr and for FY22 Rs 230 crs.

Financial Performance

Exhibit 1: Revenue trend

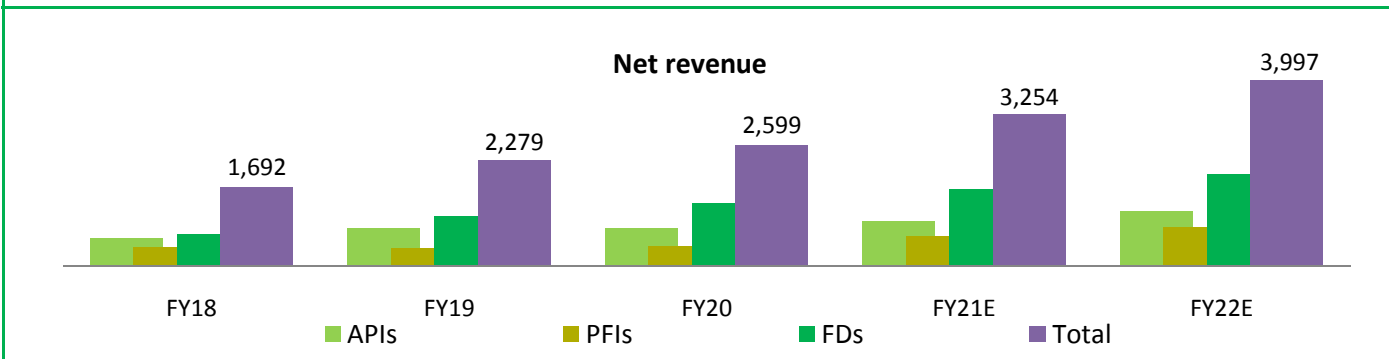


Exhibit 2: EBITDA Trend

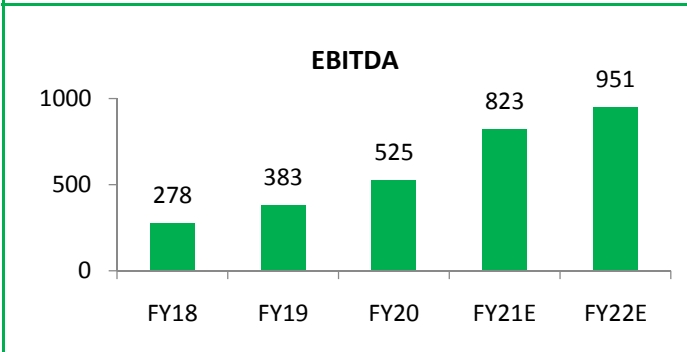


Exhibit 3: PAT trend

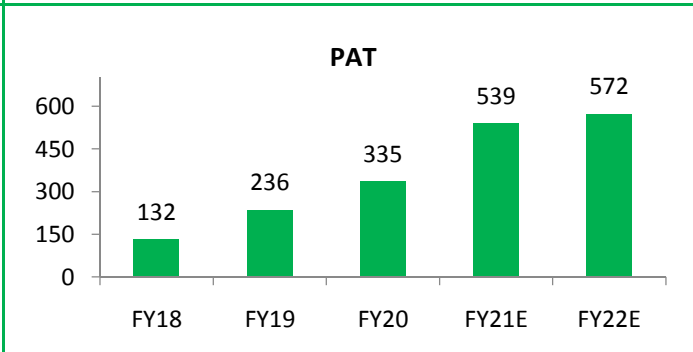


Exhibit 4: EBITDA Margin Trend

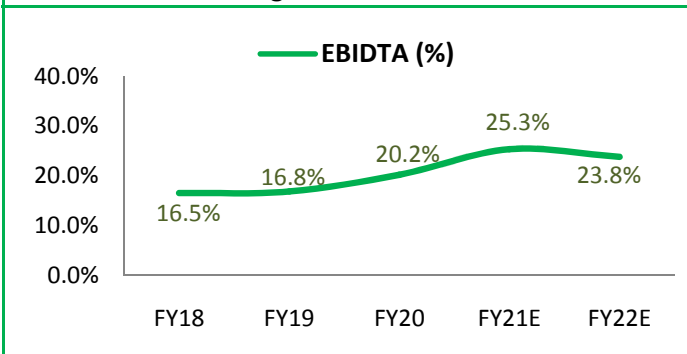


Exhibit 5: PAT Margin trend

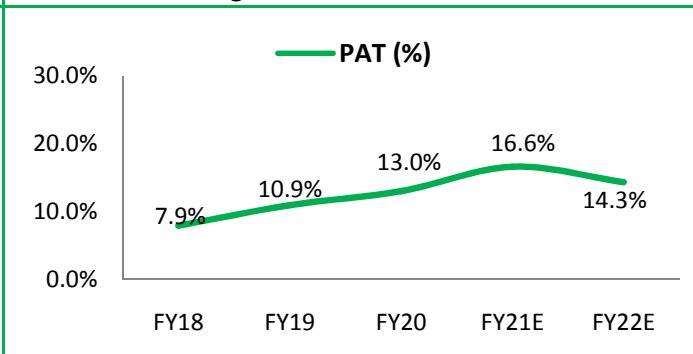


Exhibit 6: ROE Trend

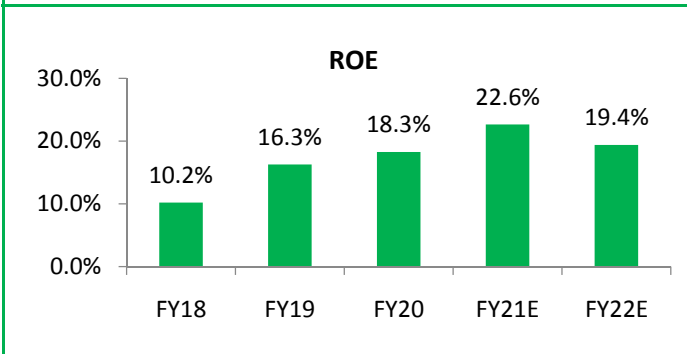
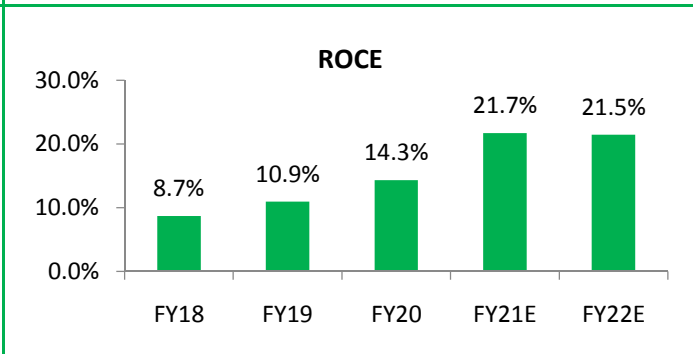


Exhibit 7: ROCE trend



Source: Company, Arianth Research

Annual Financials

Income Statement

Y/E March (Rs cr)	FY18	FY19	FY20	FY21E	FY22E
Revenues	1,685	2,279	2,599	3,254	3,997
Change (%)	19.4%	35.3%	14.0%	25.2%	22.9%
Cost of Goods Sold	897	1,256	1,281	1,441	1,899
% Sales	53.2%	55.1%	49.3%	44.3%	47.5%
Employee costs	165	210	259	336	408
Other expenses	345	430	533	654	740
EBITDA	278	383	525	823	951
EBITDA (%)	16.5%	16.8%	20.2%	25.3%	23.8%
Other Income	11	27	37	30	20
Depreciation	76	105	137	145	175
Interest	33	28	27	26	28
PBT	179	276	397	682	768
Extra-ordinary	16	49	53	15	0
PBT after ext-ord.	195	325	451	697	768
Tax Expense	63	89	116	158	196
Tax Rate (%)	32.4%	27.4%	25.7%	22.6%	25.5%
PAT	132	236	335	539	572
PAT (%)	7.8%	10.3%	12.9%	16.6%	14.3%
EPS	5.2	9.8	13.3	21.6	23.1

Source: Company, Arianth Research

Balance Sheet

Y/E March (Rs cr)	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Share Capital	25	25	25	25	25
Reserves & Surplus	1279	1504	1818	2358	2930
Net Worth	1304	1529	1844	2382	2954
Total Debt	958	933	793	673	593
Deferred Tax liabilities	54	65	48	48	48
Other non-current liab.	8	13	22	22	22
Current liabilities	319	442	595	651	867
Total Liabilities	2644	2983	3301	3776	4484
Application of Funds					
Net Block	701	748	989	1194	1369
Capital Work in Progress	290	323	148	108	108
Intangible Assets	224	172	146	146	146
Other non-current assets	275	457	317	303	323
Debtors	617	674	735	927	1150
Inventories	280	384	438	454	572
Cash & bank balance	116	89	284	300	372
Other Current Assets	141	135	244	344	444
Total Assets	2644	2983	3301	3776	4484

Source: Company, Arianth Research

Annual Financials

Cash Flow Statement

Y/E March (Rs cr)	FY18	FY19	FY20	FY21E	FY22E
PBT	180	277	426	697	768
Depreciation	76	105	137	145	175
Interest & others	33	28	27	26	28
Other	-3	-7	-6	0	0
CF before WC changes	287	427	583	868	971
(Inc)/dec in working capital	-230	-76	13	-251	-225
CF after WC changes	57	351	595	617	746
Less: Taxes	-58	-88	-119	-158	-196
Operating cash flow	-1	262	476	459	550
(Inc)/dec in F.A + CWIP	-446	-279	-184	-205	-175
Cash flow from investing	-462	-270	-161	-220	-195
Free cash flow (FCF)	446	542	661	665	725
Borrowings	250	102	-60	-120	-80
Finance cost paid	-31	-28	-27	-26	-28
Dividend	-29	-31	-31	-43	-46
Other financing	0	0	0	64	-129
Cash flow from financing	529	-17	-213	-126	-283
Net inc/(dec) in cash	66	-25	103	114	72
Opening balance of cash	42	108	83	186	300
Closing balance of cash	108	83	186	300	372

Source: Company, Arianth Research

Key Ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	5.2	9.8	13.3	21.6	23.1
BVPS	51.4	60.2	72.5	96.2	119.3
Valuation (x)					
P/E	64.3	34.4	25.4	15.6	14.6
P/BV	6.6	5.6	4.6	3.5	2.8
EV/EBITDA	33.8	24.5	17.3	10.6	9.0
Return Ratios (%)					
Gross Margin	46.8%	44.9%	50.7%	55.7%	52.5%
EBIDTA Margin	16.5%	16.8%	20.2%	25.3%	23.8%
PAT Margin	7.9%	10.9%	13.0%	16.6%	14.3%
ROE	10.2%	16.3%	18.3%	22.6%	19.4%
ROCE	8.7%	10.9%	14.3%	21.7%	21.5%
Leverage Ratio (%)					
Total D/E	0.7	0.6	0.4	0.3	0.2
Turnover Ratios					
Asset Turnover (x)	1.6	1.9	1.7	1.7	1.8
Inventory Days	112	96	117	115	110
Receivable Days	112	103	99	104	105
Payable days	95	84	107	110	115

Source: Company, Arianth Research

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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