

CMP: INR 360

Rating: REDUCE

Target Price: INR 342

Stock Info

| | |
|------------------------------|-----------------|
| BSE | 532482 |
| NSE | GRANULES |
| Bloomberg | GRAN:IN |
| Reuters | GRAN.BO |
| Sector | PHARMACEUTICALS |
| Face Value (INR) | 1 |
| Equity Capital (INR cr) | 25 |
| Mkt Cap (INR cr) | 8914 |
| 52w H/L (INR) | 438 / 154 |
| Avg Yearly Volumel (in 000') | 2230 |

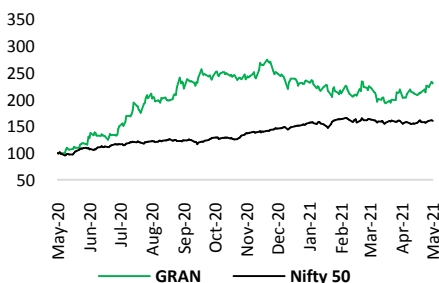
Shareholding Pattern %

(As on March, 2021)

| | |
|-----------------|-------|
| Promoters | 42.04 |
| FII | 23.11 |
| DII | 1.49 |
| Public & Others | 33.36 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|-------|------|-------|
| Granules | 9.0 | -4.0 | 131.2 |
| Nifty 50 | -2.13 | 16.5 | 60.7 |

Granules Vs Nifty



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Result Highlights:

- In Q4FY21, Granules India Ltd reported revenue growth of 33.2% YoY to INR 799 Cr which is above our estimates of INR 750 Cr. The revenue growth was largely driven by four new launches and an increase in market share of existing products across FDs, PFIs and APIs which has grown by 34% YoY, 85% YoY, and 9% YoY respectively.
- The EBIDTA for the quarter stood at INR 202 Cr reporting growth of 102% YoY (on the back of lower base due to Lockdown) and de-growth of 4.5% QoQ. Operational margins expanded by 861bps YoY at 25.3% Vs 16.7% / 25.1% in Q4FY20 / Q3FY21 respectively. Margins were above our estimates of 21.0%, majorly on the back of higher gross margin due to increased in FD sales volumes, improved cost mix and operational efficiencies.
- Net profit came in at INR 128 Cr registering growth of 38.0% YoY and de-growth of 13.1% QoQ. Profit margin stood at 16.0% up by 57 bps YoY, ahead of our profit estimates of INR 106 Cr. The growth in the bottom line is mainly due to lower tax rate during the quarter.

Higher volumes of PFI and FD segments lead to robust performance: Granules India's North America business witnessed a growth of 32.2% YoY to INR 456 Cr vs INR 345 Crs in Q4FY20, in the US portfolio on account of new product launches, increased volume of FDs and increased market share of core products across all the verticals. Domestic and Europe business have also registered a YoY growth of 8% and 34.9% respectively while ROW market grew significantly on lower base. We reckon 18.9% CAGR over FY21-FY23E average of all segments mainly on acquisition of new customers, industry demand and increased penetration. Therefore, revenues are expected to be over INR 4,573 Cr, over FY21-FY23E.

Operating margins maintained successfully despite of challenging business environment : EBIDTA margins for Q4FY21 came in at 25.3% Vs 16.7% / 25.1% in Q4FY20 / Q3FY21 respectively. We expect, company continues to face margin pressure going forward in terms of surge in raw material prices and come back of Chinese facility. While considering increased production capacities, operational efficiencies and scheduled launches for coming years, we expect EBIDTA margins for FY22E-FY22E continued to be in the range of 20% to 21%. We expect the growth of PAT margins should be at low double digit over FY22-FY23E.

Outlook & Valuations: In the tough situation of Covid 19, management is more focused on its supply securities. Company is positive about its FDs and PFIs segment growth to continue across the geographies. We believe that the company has taken the strategically competent move to maintain its hard earned market place and hopeful of things to settle as projected. Irrespective of short term headwinds of KSM supply disruption, we maintain our long term positive view on the stock and expect margin pressure to continue during FY22E. At CMP, we downgrade our rating to "REDUCE" with a revised price target of INR 342 at 15x FY23E EPS of INR 22.8

FINANCIAL HIGHLIGHTS

| INR in Cr | FY19 | FY20 | FY21 | FY22E | FY23E |
|------------------|-------|-------|-------|-------|-------|
| Revenue | 2279 | 2599 | 3237 | 3795 | 4573 |
| EBITDA | 383 | 525 | 853 | 750 | 928 |
| EBITDA margin(%) | 16.8% | 20.2% | 26.4% | 19.8% | 20.3% |
| PAT | 236 | 335 | 549 | 442 | 565 |
| PATM (%) | 10.3% | 12.9% | 17.0% | 11.6% | 12.4% |
| EPS(in Rs) | 9.8 | 13.3 | 22.1 | 17.8 | 22.8 |
| ROE(%) | 16.3% | 18.3% | 25.3% | 16.6% | 17.7% |
| PE(x) | 36.8 | 27.2 | 16.3 | 20.2 | 15.8 |

Source: Company, Arihant Research

Quarterly Result

| INR in Cr. | Q4FY21 | Q3FY21 | Q4FY20 | YoY | QoQ |
|-------------------------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 799 | 845 | 600 | 33% | -5% |
| Cost of Raw Material Consumed | 385 | 414 | 294 | 31% | -7% |
| Change in inventories | -43 | -23 | -15 | 188% | 92% |
| COGS | 342 | 391 | 279 | 22% | -13% |
| Gross Profit | 458 | 454 | 321 | 43% | 1% |
| Gross Profit (%) | 57.3% | 53.7% | 53.5% | 378 | 357 |
| Employee Cost | 100 | 83 | 74 | 35% | 20% |
| Other Expenses | 156 | 159 | 147 | 6% | -2% |
| EBITDA | 202 | 212 | 100 | 102% | -5% |
| EBITDA Margin (%) | 25.3% | 25.1% | 16.7% | 861 | 22 |
| Other Income | 3 | 16 | 23 | -85% | -80% |
| Depreciation | 44 | 37 | 39 | 14% | 21% |
| EBIT | 161 | 191 | 83 | 93% | -16% |
| Finance Cost | 7 | 7 | 7 | 4% | -6% |
| EBT and exceptional | 154 | 184 | 77 | 100% | -16% |
| Share of Profit of JV | 0 | 0 | 0 | - | - |
| Exceptional items | 0 | 0 | -60 | - | - |
| PBT | 154 | 184 | 137 | 13% | -16% |
| Tax Expense | 26 | 37 | 44 | -40% | -29% |
| Effective tax rate % | 17.2% | 20.2% | 57.7% | -4051 | -301 |
| PAT | 128 | 147 | 92 | 38.2% | -13.1% |
| PAT margin (%) | 16.0% | 17.4% | 15.4% | 57 | -142 |
| EPS (INR) | 5.2 | 5.9 | 3.6 | 42% | -13% |

Segment Revenue

| INR in Cr. | Q4FY21 | Q3FY21 | Q4FY20 | YoY | QoQ |
|--------------|------------|------------|------------|------------|------------|
| API's | 194 | 252 | 178 | 9% | -23% |
| PFIs | 144 | 171 | 78 | 85% | -16% |
| FDs | 461 | 422 | 344 | 34% | 9% |
| Total | 799 | 845 | 600 | 33% | -5% |

Source: Company, Arianth Research

Actual vs Estimates

| INR in Cr. | Q4FY21 | Q4FY21E | Deviation % |
|-------------------|--------|---------|-------------|
| Net Sales | 799 | 750 | 6.6% |
| EBITDA | 202 | 158 | 28.3% |
| EBITDA Margin (%) | 25.3% | 21.0% | 427bps |
| Profit before Tax | 154 | 133 | 16.2% |
| Net Profit | 128 | 106 | 20.3% |

Source: Company, Arianth Research

Conference Call Highlights

- Despite the challenging situation in FY21, company was able to achieve its growth target, but it has provided a cautious growth guidance going forward mainly due to shortages and supply disruption in KSM for Paracetamol and other key products of the company.
- The shortage is mainly due to the largest manufacturer of KSM of Paracetamol from China, who has shut down its plant and company is expecting this disruption to be normalized by Q3FY22, as manufacturers from India are in the process of its trial production of such KSMs'. Company is also hopeful of new players to enter in to the Global market as well.
- Company looks at this situation as a temporary in nature and ready to take short term hit on its profitability and is not willing to take any market share losses. Company in its B2C business model cannot pass the entire increased prices to the customers.
- In the FY21, company's gross margins have moved up mainly on account of new launches and higher PFI and FD volumes which have grown by around 50% over the FY21. During FY21, Pharmaceutical Formulation Intermediates (PFI) segment grew 49% YoY, Active Pharmaceutical Ingredients (API) segment grew 12% YoY and Finished Dosage (FD) grew 25% YoY.
- Company has already acquired 7 ANDAs and look to launch it during next two quarter in the US. During the year, company has launched 12 new products, filed 5 ANDAs, 2 EU dossiers, 3 products in Canada and 1 in South Africa. Company also filed 4 US DMFs as well as 3 CEPs and has received 14 ANDAs, 1 EU dossier and 1 Canadian dossier in the FY21.
- Company expected to invest ~INR 1000 Crs over the next three years. This is largely in Finished Dosages, the new MUPS facility, expansion of the API facility and maintenance capex. Company has also added 800 Mn of capacity of solid oral tablets in the US and expects it's to be operational by Q1FY22. MUPs and API plant expansion projects are on track and green field plant is also expected to commence soon.
- All the capex requirement of the company will be fulfilled by its internal accrual and will not consider any additional external loan for the same. Company's short term loans have increased during the year mainly due to new launches and for working capital requirements.
- Company has guided for INR 1.5 bn of R&D expenditure going forward specially on GPI business which would lead to pressure on cash flow. CAGR guidance was 20% - 23% with respect to Top line and 22% - 25% with respect to EBITDA margins over the period of next two years.

Financial Performance

Exhibit 1: Revenue trend

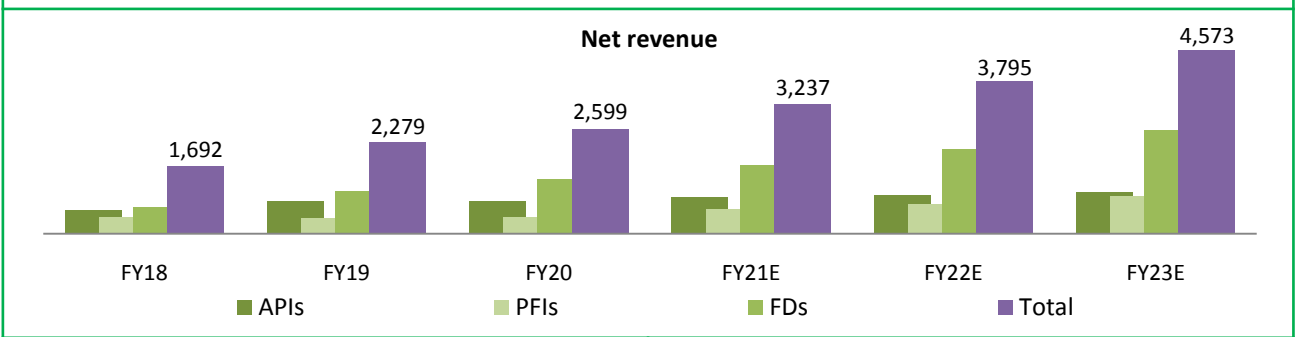


Exhibit 2: EBITDA Trend

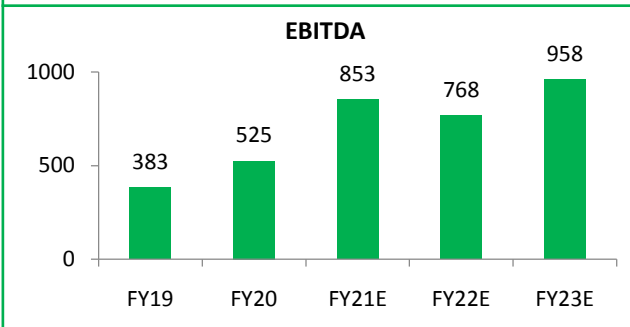


Exhibit 3: PAT trend

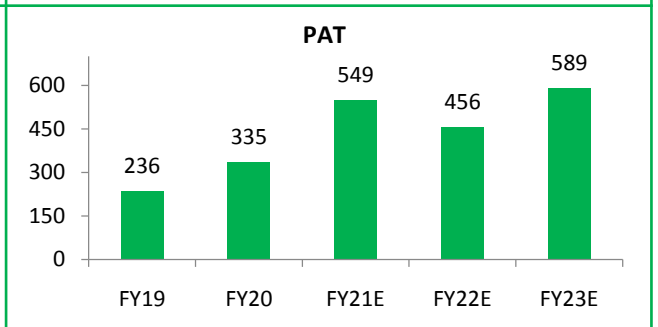


Exhibit 4: EBITDA Margin Trend

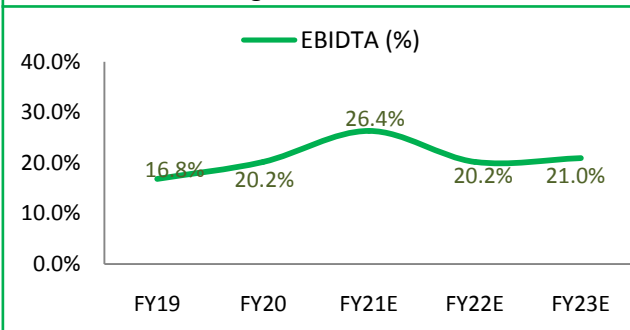


Exhibit 5: PAT Margin trend

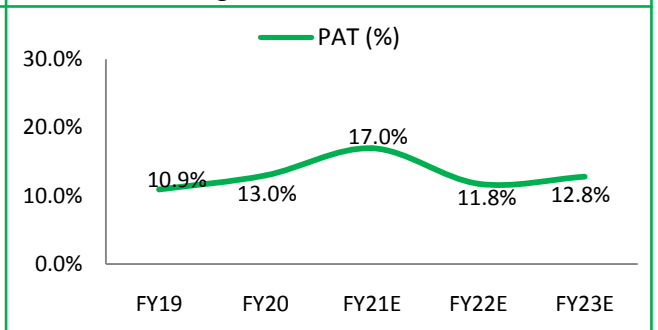


Exhibit 6: ROE Trend

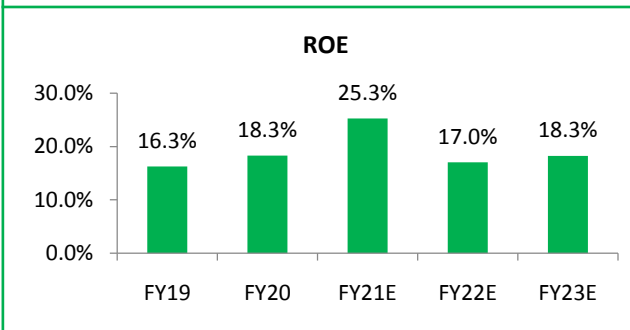
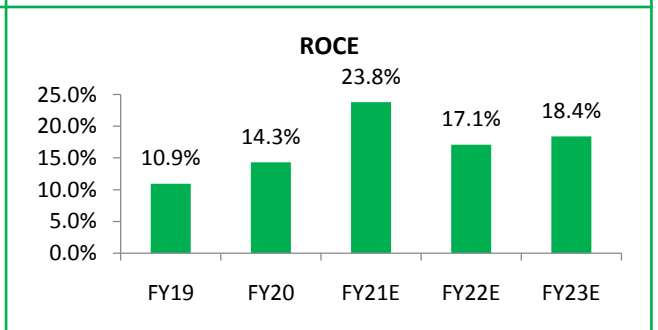


Exhibit 7: ROCE trend



Source: Company, Arianth Research

Annual Financials

Income Statement

| Y/E March (INR cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 2,279 | 2,599 | 3,237 | 3,795 | 4,573 |
| Change (%) | 35.3% | 14.0% | 24.6% | 17.2% | 20.5% |
| Cost of Goods Sold | 1,256 | 1,281 | 1,391 | 1,860 | 2,170 |
| % Sales | 55.1% | 49.3% | 43.0% | 49.0% | 47.5% |
| Employee costs | 210 | 259 | 346 | 487 | 618 |
| Other expenses | 430 | 533 | 646 | 699 | 857 |
| EBITDA | 383 | 525 | 853 | 750 | 928 |
| EBITDA (%) | 16.8% | 20.2% | 26.4% | 19.8% | 20.3% |
| Other Income | 27 | 37 | 29 | 22 | 26 |
| Depreciation | 105 | 137 | 151 | 182 | 217 |
| Interest | 28 | 27 | 26 | 28 | 30 |
| PBT | 276 | 397 | 704 | 562 | 708 |
| Extra-ordinary | 49 | 53 | 0 | 0 | 0 |
| PBT after ext-ord. | 325 | 451 | 704 | 562 | 708 |
| Tax Expense | 89 | 116 | 155 | 120 | 142 |
| Tax Rate (%) | 27.4% | 25.7% | 22.0% | 21.4% | 20.1% |
| PAT | 236 | 335 | 549 | 442 | 565 |
| PAT (%) | 10.3% | 12.9% | 17.0% | 11.6% | 12.4% |
| EPS | 9.8 | 13.3 | 22.1 | 17.8 | 22.8 |

Source: Company, Arihant Research

Balance Sheet

| Y/E March (INR cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Sources of Funds | | | | | |
| Share Capital | 25 | 25 | 25 | 25 | 25 |
| Reserves & Surplus | 1504 | 1818 | 2149 | 2581 | 3142 |
| Net Worth | 1529 | 1844 | 2173 | 2606 | 3167 |
| Total Debt | 933 | 793 | 750 | 780 | 800 |
| Deferred Tax liabilities | 65 | 48 | 1 | 1 | 1 |
| Other non-current liab. | 13 | 22 | 25 | 25 | 25 |
| Current liabilities | 442 | 595 | 764 | 1014 | 1100 |
| Total Liabilities | 2983 | 3301 | 3713 | 4425 | 5093 |
| Application of Funds | | | | | |
| Net Block | 748 | 989 | 1071 | 1190 | 1373 |
| Capital Work in Progress | 323 | 148 | 185 | 185 | 185 |
| Intangible Assets | 172 | 146 | 54 | 54 | 54 |
| Other non-current assets | 457 | 317 | 406 | 426 | 446 |
| Debtors | 674 | 735 | 765 | 1040 | 1253 |
| Inventories | 384 | 438 | 782 | 917 | 1011 |
| Cash & bank balance | 89 | 284 | 271 | 336 | 393 |
| Other Current Assets | 135 | 244 | 178 | 278 | 378 |
| Total Assets | 2983 | 3301 | 3713 | 4425 | 5093 |

Source: Company, Arihant Research

Annual Financials

Cash Flow Statement

| Y/E March (INR cr) | FY19 | FY20 | FY21 | FY22E | FY23E |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| PBT | 277 | 426 | 704 | 562 | 708 |
| Depreciation | 105 | 137 | 151 | 182 | 217 |
| Interest & others | 28 | 27 | 26 | 28 | 30 |
| Other | -7 | -6 | 0 | 0 | 0 |
| CF before WC changes | 427 | 583 | 899 | 772 | 954 |
| (Inc)/dec in working capital | -76 | 13 | -275 | -259 | -321 |
| CF after WC changes | 351 | 595 | 624 | 513 | 634 |
| Less: Taxes | -88 | -119 | -191 | -120 | -142 |
| Operating cash flow | 262 | 476 | 432 | 393 | 492 |
| (Inc)/dec in F.A + CWIP | -279 | -184 | -271 | -118 | -183 |
| Cash flow from investing | -270 | -161 | -277 | -138 | -203 |
| Free cash flow (FCF) | 542 | 661 | 704 | 511 | 675 |
| Borrowings | 102 | -60 | -102 | 30 | 20 |
| Finance cost paid | -28 | -27 | -26 | -28 | -30 |
| Dividend | -31 | -31 | -25 | -35 | -45 |
| Other financing | 0 | 0 | -177 | 73 | -175 |
| Cash flow from financing | -17 | -213 | -299 | 39 | -231 |
| Net inc /(dec) in cash | -25 | 103 | -144 | 294 | 57 |
| Opening balance of cash | 108 | 83 | 186 | 42 | 336 |
| Closing balance of cash | 83 | 186 | 42 | 336 | 393 |

Source: Company, Aриhant Research

Key Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22E | FY23E |
|---------------------------|-------|-------|-------|-------|-------|
| Per share (INR) | | | | | |
| EPS | 9.8 | 13.3 | 22.1 | 17.8 | 22.8 |
| BVPS | 60.2 | 72.5 | 87.7 | 105.2 | 127.9 |
| Valuation (x) | | | | | |
| P/E | 36.8 | 27.2 | 16.3 | 20.2 | 15.8 |
| P/BV | 6.0 | 5.0 | 4.1 | 3.4 | 2.8 |
| EV/EBITDA | 26.1 | 18.4 | 11.0 | 12.5 | 10.0 |
| Return Ratios (%) | | | | | |
| Gross Margin | 44.9% | 50.7% | 57.0% | 51.0% | 52.5% |
| EBIDTA Margin | 16.8% | 20.2% | 26.4% | 19.8% | 20.3% |
| PAT Margin | 10.9% | 13.0% | 17.0% | 11.4% | 12.3% |
| ROE | 16.3% | 18.3% | 25.3% | 16.6% | 17.7% |
| ROCE | 10.9% | 14.3% | 23.8% | 16.7% | 17.8% |
| Leverage Ratio (%) | | | | | |
| Total D/E | 0.6 | 0.4 | 0.3 | 0.3 | 0.3 |
| Turnover Ratios | | | | | |
| Asset Turnover (x) | 1.9 | 1.7 | 1.8 | 1.8 | 1.8 |
| Inventory Days | 96 | 117 | 160 | 180 | 170 |
| Receivable Days | 103 | 99 | 85 | 100 | 100 |
| Payable days | 84 | 107 | 127 | 145 | 130 |

Source: Company, Aриhant 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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