Granules India (GRANUL)

ICICI Direct

CMP: ₹ 535 | Target: ₹ 635(19%) | Target Period: 12 months

BUY

May 30, 2025

Formulation focus continues; CDMO foray to expand offerings...

About the stock: Granules is a large-scale vertically integrated company that manufactures API, intermediates and finished dosages. It owns eight manufacturing facilities catering mainly for export markets (~94% of sales). In April, 2025, it acquired Senn Chemicals AG, a Swiss CDMO specializing in peptide development and manufacturing (FY25 revenue ~CHF 20 million)

- ANDA and Dossiers filed and approved- US- 85, Europe- 18, Canada- 7, UK- 2, Others – 15.
- Top five products (Paracetamol, Ibuprofen, Metformin, Methocarbamol, Guaifenesin) contributed 62% to FY25 revenues (across segments).
- Revenue mix Q4FY25: Formulations (FD) - 77%, API - 12%, PFI - 10%.

Investment Rationale

- Q4FY25- Strong profitability amid adverse conditions- Revenues grew ~2% YoY and grew ~5% QoQ to ₹ 1197 crore, on the back of staggered production in the Gagillapur facility. On segmental front, Formulations grew 7% YoY and ~7% QoQ to ₹ 926 crore, driven by new products in the US and other geographies. APIs (APIs + PFIs), on the other hand declined ~15% to ₹ 271 crore led primarily by higher customer inventory and price erosion. Gross Profit, showed a growth of 7.5% YoY to ₹ 759 crore (margins stood at 63.4%, up 333 bps YoY) driven by better product mix (higher formulations sales). EBITDA de-grew ~1.3% YoY to ₹ 252 crore due to higher overheads related to consultant cost for rectifying measures and other related costs. The EBITDA margins stood at 21.1% (67 bps dip).
- Formulation focus to improve margins- The performance was commendable in the back drop of warning letter Gagillapur facility and manufacturing disturbances on account of optical stoppage to incorporate remediation measures a good part of H2FY25. Despite issues pertaining to the US focused plant, the US still grew 14% YoY in Q4. The company over the years has added other facilities as well such as Granules Life Sciences (GLS). The company is also focusing on Oncology as a segment with dedicated API and formulations block at Vizag. On the margins front, the GPM are trending at +60% since the last four quarters due to increasing formulations contribution and a vertically integrated model. The company has announced an aggressive Capex crore which includes manufacturing of Paracetamol and Metformin KSMs and intermediates via green route. Foray into CDMO, by the acquisition of Senn Chemicals AG that specialises in the peptide development has open up new revenues stream for Granules. We believe the focus of management remains on profitability and FCF generation.

Rating and Target price

- We value granules at ₹ 635 based on 22x FY27E EPS of 28.8

GRANULES

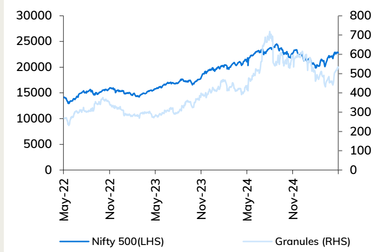
Particulars

Particular	Amount
Market Capitalisation	₹ 12947 crore
Debt (FY25)	₹ 1455 crore
Cash (FY25)	₹ 466 crore
EV	₹ 13936 crore
52 week H/L	725/401
Equity capital	₹ 24.2 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	38.9	38.9	38.9	38.8
FII	20.4	19.5	15.9	15.1
DII	14.1	14.9	19.6	22.5
Others	26.6	26.8	25.7	23.6

Price Chart



Key risks

(i) Higher than expected remediation cost (ii) Pricing pressure in the regulated markets especially the US

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Result update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ Crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25	FY26E	FY27E	2 year CAGR (FY25-27E)
Revenues	3237.5	3764.9	4511.4	4506.4	11.7	4481.5	5114.2	5752.2	13.3
EBITDA	853.6	722.2	913.3	856.0	0.1	945.1	998.4	1265.5	15.7
EBITDA Margins (%)	26.4	19.2	20.2	19.0		21.1	19.5	22.0	
Net Profit	549.5	412.8	516.1	405.3	-9.6	470.6	484.2	696.5	21.7
EPS (Adjusted)	22.7	17.1	21.3	16.7		20.7	20.0	28.8	
PE (x)	23.6	31.4	25.1	31.9		25.8	26.7	18.6	
EV to EBITDA (x)	15.8	19.2	15.1	16.2		14.7	14.1	10.9	
RoCE (%)	24.0	15.6	18.5	14.3		14.2	14.0	17.5	
RoE (%)	25.3	16.0	18.2	12.6		13.5	11.6	14.4	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

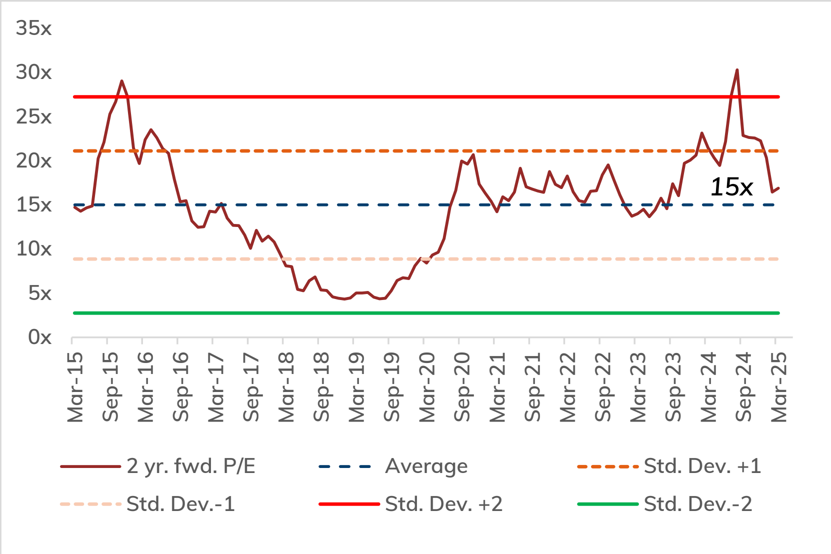
(₹ crore)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	YoY (%)	QoQ (%)
Net Sales	1030.0	1019.6	1150.7	1145.6	1195.5	985.5	1189.5	1155.6	1175.7	1179.9	966.6	1137.6	1197.4	1.8	5.3
Raw Material Expenses	526.0	513.5	578.5	591.8	623.5	479.2	575.1	497.3	469.6	484.4	367.2	435.7	438.4	-6.7	0.6
% of Revenue	51.1	50.4	50.3	51.7	52.2	48.6	48.3	43.0	39.9	41.1	38.0	38.3	36.6	-333 bps	-169 bps
Gross Profit	503.9	506.0	572.2	553.9	572.0	506.3	614.4	658.3	706.1	695.5	599.4	701.9	759.0	7.5	8.1
Gross Profit Margin (%)	48.9	49.6	49.7	48.3	47.8	51.4	51.7	57.0	60.1	58.9	62.0	61.7	63.4	333 bps	169 bps
Employee Expenses	108.2	108.7	117.7	119.2	126.7	140.3	148.8	157.0	151.7	163.6	159.4	167.6	169.1	11.5	0.9
% of Revenue	10.5	10.7	10.2	10.4	10.6	14.2	12.5	13.6	12.9	13.9	16.5	14.7	14.1	122 bps	-61 bps
Other Expenditure	203.1	185.8	211.6	203.9	217.3	229.2	252.6	250.8	298.8	272.5	236.7	304.1	337.6	13.0	11.0
% of Revenue	19.7	18.2	18.4	17.8	18.2	23.3	21.2	21.7	25.4	23.1	24.5	26.7	28.2	278 bps	146 bps
Total Expenditure	837.3	808.1	907.8	914.8	967.4	848.7	976.5	905.1	920.1	920.6	763.3	907.4	945.1	2.7	4.2
% of Revenue	81.3	79.3	78.9	79.9	80.9	86.1	82.1	78.3	78.3	78.0	79.0	79.8	78.9	67 bps	-84 bps
EBITDA	192.7	211.5	242.9	230.8	228.1	136.8	213.0	250.5	255.6	259.3	203.3	230.2	252.3	-1.3	9.6
EBITDA Margin (%)	18.7	20.7	21.1	20.1	19.1	13.9	17.9	21.7	21.7	22.0	21.0	20.2	21.1	-67 bps	84 bps
Depreciation	40.2	43.4	44.1	48.4	48.7	49.2	52.5	52.4	53.2	52.9	52.5	56.6	63.5	19.4	12.2
Interest	6.4	6.9	13.2	17.0	18.8	22.5	26.0	28.6	28.8	27.0	25.7	26.6	24.0	-16.6	-9.7
Other Income	4.0	4.7	4.8	0.9	3.4	0.3	1.5	0.7	1.9	2.1	3.3	5.7	1.9	2.8	-66.1
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
PBT	150.1	165.9	190.4	166.4	164.0	65.5	136.0	170.1	175.6	181.5	128.4	152.7	166.8	-5.0	9.2
Total Tax	39.1	38.3	45.3	42.6	44.4	17.6	33.9	44.4	46.0	46.8	31.1	35.2	45.5	-1.0	29.4
Tax rate (%)	26.1	23.1	23.8	25.6	27.1	26.9	24.9	26.1	26.2	25.8	24.3	23.0	27.3	110 bps	425 bps
PAT before MI	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	129.6	134.7	97.2	117.5	121.3	-6.4	3.2
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Adjusted PAT	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	129.6	134.6	97.2	117.5	152.0	17.2	29.4
PAT Margin (%)	10.8	12.5	12.6	10.8	10.0	4.9	8.6	10.9	11.0	11.4	10.1	10.3	12.7	167 bps	236 bps

Source: Company, ICICI Direct Research

Q4FY25 Results / Conference call highlights

- Warning letter for Gagillapur facility doesn't affect the already approved product revenues and operations in the facility have resumed.
- The management expects Gagillapur slowdown to continue for quarter or 2 and overall, still expect to do better than FY25 both in terms of revenue and EBITDA.
- For the oncology pipeline Granules has a mix of NCE-1 launches; FTF and 180 days opportunities.
- Recently acquired Senn Chemicals will help for a formal entry into peptides like GLP-1s and integration activities between both the companies are underway.
- Senn Chemicals will be targeting innovators regarding GLP-1 as a CDMO company. For GLP-1 Granules is working on APIs and will develop formulations while get it manufactured from a CDMO for the time being.
- For the capex relating to GLP-1 this will primarily be done for following 3 avenues. 1.) Capex in Switzerland for Senn Chemicals; 2) setting up an R&D plant in Hyderabad for peptides; and 3) Eventually setting up a manufacturing setup in India post R&D.
- The API validation and DMF filing for Dexmethylphenidate (leading to vertical integration for the drug) is expected in Q4FY26.
- On the US tariff front Granules believes its customers in no way can absorb the tariffs and eventually would have to pass it on to the end consumers.
- Granules Life Sciences plant with full capacity of 7.5 billion to start from next month expecting approval in Q2FY26 with a capacity utilization of 40-50% in FY26. (Eventually 90% capacity utilization to be achieved by FY27.)
- Currently, Senn chemicals remain around breakeven for next 2-3 quarters. It does a revenue of CHF 20 million per year with breakeven EBITDA and manufactures peptide, amino acid derivatives and cosmetics type of products.
- Capex for FY26 is ₹600 crore (GLS, oncology and peptides) devoid of the Senn Chemicals acquisition.
- Europe is driven by paracetamol API (price erosion is there and Granules expects not get to previous sales levels). Europe to be driven by formulations. (As a percentage of revenue, it might remain the same as that of FY25)
- Geographically US will continue to be the biggest growth driver
- GLS, peptide and oncology are priority for granules.

2-year forward PE band



Source: Company, ICICI Direct Research

Financial Tables

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Total Operating Income	4,506.4	4,481.5	5,114.2	5,752.2
Growth (%)	-0.1	-0.6	14.1	12.5
Raw Material Expenses	2,021.3	1,725.7	2,045.7	2,243.4
Gross Profit	2,485.1	2,755.8	3,068.5	3,508.8
Gross Profit Margins (%)	55.1	61.5	60.0	61.0
Employee Expenses	597.9	659.8	767.1	862.8
Other Expenditure	1,031.3	1,150.9	1,303.0	1,380.5
Total Operating Expenditure	3,650.4	3,536.4	4,115.8	4,486.7
EBITDA	856.0	945.1	998.4	1,265.5
Growth (%)	-6.3	10.4	5.6	26.8
Interest	105.8	103.2	96.4	72.4
Depreciation	207.3	225.5	273.3	293.2
Other Income	4.4	12.9	25.6	28.8
PBT before Exceptional Item:	547.2	629.3	654.3	928.7
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	547.2	629.3	654.3	928.7
Total Tax	141.9	158.7	170.1	232.2
PAT before MI	405.3	470.6	484.2	696.5
PAT	405.3	470.6	484.2	696.5
Growth (%)	-21.5	16.1	2.9	43.9
EPS (Adjusted)	16.7	20.7	20.0	28.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	356.9	516.4	484.2	696.5
Add: Depreciation & Amortization	207.3	225.5	273.3	293.2
Net Increase in Current Assets	-242.5	2.3	176.0	-238.1
Net Increase in Current Liabilities	-3.9	3.7	8.4	76.4
Others	121.5	118.6	96.4	72.4
CF from Operating activities	439.4	866.6	1,038.3	900.4
(Purchase)/Sale of Fixed Assets	-378.8	-570.0	-1,040.2	-500.0
Investments	15.9	-124.9	0.0	0.0
Others	2.8	3.6	-3.7	-3.8
CF from Investing activities	-360.2	-691.3	-1,043.9	-503.8
(inc)/Dec in Loan	-113.0	-117.6	-250.0	-503.8
Dividend & Dividend tax	-36.3	-36.4	-36.3	-36.3
Other	157.0	61.4	-96.4	131.4
CF from Financing activities	7.7	-92.5	-382.7	-408.7
Net Cash Flow	89.5	-135.1	-388.3	-12.1
Cash and Cash Equivalent	291.6	381.1	466.1	77.8
Cash	381.1	246.0	77.8	65.7
Free Cash Flow	60.6	296.6	-1.9	400.4

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity Capital	24.2	24.3	24.3	24.3
Reserve and Surplus	3,201.3	3,691.3	4,139.2	4,799.4
Total Shareholders funds	3,225.5	3,715.6	4,163.5	4,823.6
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	1,315.1	1,454.8	1,204.8	904.8
Net Deferred Tax Liability	-14.0	-36.5	-37.2	-37.9
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	37.9	31.8	32.4	33.0
Source of Funds	4,564.5	5,165.6	5,363.4	5,723.5
Gross Block - Fixed Assets	3,408.0	3,964.4	4,804.6	5,154.6
Accumulated Depreciation	1,312.4	1,537.9	1,811.2	2,104.4
Net Block	2,095.6	2,426.5	2,993.4	3,050.2
Capital WIP	271.7	440.2	640.2	790.2
Fixed Assets	2,367.3	2,866.7	3,633.6	3,840.4
Investments	21.5	22.0	22.0	22.0
Other non-Current Assets	195.1	185.8	189.4	187.8
Inventory	1,300.5	1,342.8	1,120.9	1,229.2
Debtors	985.8	942.2	980.8	1,103.2
Other Current Assets	232.5	359.1	366.4	379.0
Cash	381.1	466.1	77.8	65.7
Total Current Assets	2,899.9	3,110.3	2,545.9	2,777.1
Creditors	749.5	726.1	728.6	799.0
Provisions	11.8	31.7	32.3	33.0
Other Current Liabilities	158.0	261.4	266.6	271.9
Total Current Liabilities	919.4	1,019.1	1,027.5	1,103.9
Net Current Assets	1,980.6	2,091.2	1,518.4	1,673.3
Application of Funds	4,564.5	5,165.6	5,363.4	5,723.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Reported EPS	16.7	20.7	20.0	28.8
Cash EPS	23.8	28.5	29.8	39.4
BV per share	133.3	153.5	172.0	199.3
Cash per Share	15.7	19.3	3.2	2.7
Dividend per share	1.5	1.5	1.5	1.5
Operating Ratios (%)				
Gross Profit Margins	55.1	61.5	60.0	61.0
EBITDA margins	19.0	21.1	19.5	22.0
PAT Margins	9.0	11.2	9.5	12.1
Cash Conversion Cycle	179	207	140	140
Asset Turnover	1.3	1.1	1.1	1.1
EBITDA conversion Rate	51.3	91.7	104.0	71.1
Return Ratios (%)				
RoE	12.6	13.5	11.6	14.4
RoCE	14.3	14.2	14.0	17.5
RoIC	16.6	16.9	15.6	20.0
Valuation Ratios (x)				
P/E	31.9	25.8	26.7	18.6
EV / EBITDA	16.2	14.7	14.1	10.9
EV / Net Sales	3.1	3.1	2.8	2.4
Market Cap / Sales	2.9	2.9	2.5	2.3
Price to Book Value	4.0	3.5	3.1	2.7
Solvency Ratios				
Debt / EBITDA	1.5	1.5	1.2	0.7
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	2.7	2.6	2.4	2.5
Quick Ratio	1.3	1.3	1.3	1.3
Inventory days	235	284	200	200
Debtor days	80	77	70	70
Creditor days	135	154	130	130
Long term debt/Equity	0.1	0.0	0.1	0.1

Source: Company, ICICI Direct Research

ANALYST CERTIFICATION

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