

# Shubh Nivesh



## API sales boost revenues; incremental capex for backward integration...

**About the stock:** Granules is a large-scale vertically integrated company that manufactures API, intermediates and finished dosages and has seven manufacturing facilities along with B2B & B2C marketing & distribution.

- Revenue mix Q4FY23: Formulations – 51%, API (API+PFI) – 49%
- Top five products (Paracetamol, Ibuprofen, Metformin, Methocarbamol, Guaifenesin) contributed 85% to FY23 revenues

### Investment Rationale

- Backward integration plans with Green technology focus** – Granules is strengthening key APIs through backward integration into KSMs and its chemicals via green energy root. It has made significant progress on enzyme and biotransformation product development and expects validation of a couple of enzymes-driven APIs over the next few quarters. Granules CZRO's primary goal is still to strengthen the key molecules i.e., Metformin and Paracetamol through backward integration into KSMs and its chemicals (₹250 crore capex planned). The management has projected to commercialise the same by the end of FY25 or early FY26. After achieving success with key molecules, the company plans to turn its attention to producing KSMs for a majority of its other APIs and certain products based on fermentation.
- Expanding core portfolio in different geographies** - Recently, the company has commercialized new packaging facility in Virginia, US. Company has also successfully introduced paracetamol and metformin formulations in selected European countries, with plans to expand presence to additional countries and geographies. Currently paracetamol formulation is sold in Hungary, Ireland, Germany and the UK. Company aims to expand to the entire continent with these formulations in the coming years.
- Focus towards launch of select small but high value products in the US and European markets where competition is less

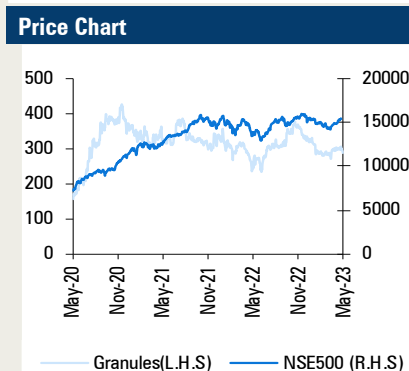
### Rating and Target price

- We maintain **BUY** rating on the back of 1) focus on strengthening the core API portfolio, 2) geographical expansion with product mix changes, 3) compelling risk-reward matrix with an ability to play in strength areas
- We value Granules India at **13x FY25E EPS of ₹ 27.8 with target price as ₹ 360/share**
- This is our high conviction Midcap Idea**



Particulars	
Particular	Amount
Market Capitalisation	₹ 7018 crore
Debt (FY23)	₹ 1136 crore
Cash (FY23)	₹ 313 crore
EV	₹ 7842 crore
52 week H/L	381/227
Equity capital	₹ 24.2 crore
Face value	₹ 1

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	42.0	42.0	42.0	42.0
Others	58.0	58.0	58.0	58.0



- ### Recent Event & Key risks
- Tie up with Greenko for green molecule solutions.
  - Key Risk:** (i) Lower ramp-up in key molecules (ii) Continued challenges in KSM, logistics

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### Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	5 year CAGR (FY17-22)	FY24E	FY25E	2 year CAGR (FY23-25E)
Revenues	2598.6	3237.5	3764.9	4511.4	21.8	5093.0	5762.4	13.0
EBITDA	525.3	853.6	722.2	913.3	27.5	1030.4	1223.5	15.7
EBITDA Margins (%)	20.2	26.4	19.2	20.2		20.2	21.2	
Net Profit	309.9	549.5	412.8	516.1	31.8	539.7	688.7	15.5
EPS (Adjusted)	12.4	22.2	16.6	20.8		21.8	27.8	
PE (x)	20.9	12.8	17.0	13.6		13.0	10.2	
EV to EBITDA (x)	14.5	8.9	10.7	8.6		7.7	6.2	
RoCE (%)	15.2	24.0	15.6	18.5		17.8	19.4	
RoE (%)	16.7	25.3	16.0	18.2		16.2	17.3	

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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