

Making strides towards better business model...

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).

- ANDA and Dossiers filed and approved- US- 62, Europe- 8, Canada- 6, UK- 2, Others – 3.
- Top five products (Paracetamol, Ibuprofen, Metformin, Methocarbamol, Guaifenesin) contributed 72% to Q3FY24 revenues (across segments).
- Revenue mix Q3FY24: Formulations (FD) - 66%, API - 19%, PFI - 15%.

Investment Rationale

- Mixed Q3FY24 numbers with flat revenues but improved margins– Revenues were flat YoY to ₹ 1156 crore, as ~21% growth in the US was undone by de-growth across other markets. On segmental front, Formulations grew 47% % YoY to ₹ 766 crore, driven by increased volumes in the US across all major products especially controlled substances. APIs + PFIs on the other hand declined ~37% to ₹ 390 crore led primarily by reduction in Paracetamol prices which were reduced in-line with the reduction in the key raw material prices besides correction in inventories in LATAM markets. Gross Profit grew 19% YoY to ₹ 658 crore (margins stood at 57%) driven by better product mix (higher Formulations). EBITDA grew 8% YoY to ₹ 251 crore and EBITDA margins stood at 21.7%.
- Backward integration plans with green technology focus –Granules is strengthening key APIs through backward integration into KSMs via green energy root. Granules CZRO's primary goal is to strengthen the key molecules i.e., Metformin and Paracetamol through backward integration into DCDA and PAP respectively. It has also made significant progress in biocatalysis with two products already through pilot process.
- Plans to expand product and therapeutic basket- The company is focusing more on Formulations (FD) to drive growth backed by volumes especially in the US and Europe. The focus especially in the US is shifting from Para 2 to Para 3 / Para 4 launches with better unit economics. It plans to file 7-8 products in the US every year. The company is also focusing on Oncology as a segment with dedicated API and formulations block at Vizag.

Rating and Target price

- We recommend BUY on the back of 1) focus on strengthening the margin accretive FD portfolio, 2) firm backward integration plans, 3) compelling risk-reward matrix with an ability to play in strength areas
- We value Granules India at 17x FY256E EPS of ₹ 30.2 with a target of ₹ 515/share.

Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	2598.6	3237.5	3764.9	4511.4	20.2	4596.3	5197.6	5840.8	9.0
EBITDA	525.3	853.6	722.2	913.3	20.2	848.4	1066.7	1315.4	12.9
EBITDA Margins (%)	20.2	26.4	19.2	20.2		18.5	20.5	22.5	
Net Profit	309.9	549.5	412.8	516.1	18.5	399.6	556.6	749.2	13.2
EPS (Adjusted)	12.4	22.2	16.6	20.8		16.1	22.4	30.2	
PE (x)	31.5	19.2	25.6	20.5		26.4	19.0	14.1	
EV to EBITDA (x)	21.3	13.1	15.6	12.5		13.5	10.7	8.4	
RoCE (%)	15.2	24.0	15.6	18.5		14.1	17.4	20.3	
RoE (%)	16.7	25.3	16.0	18.2		12.5	15.0	16.9	



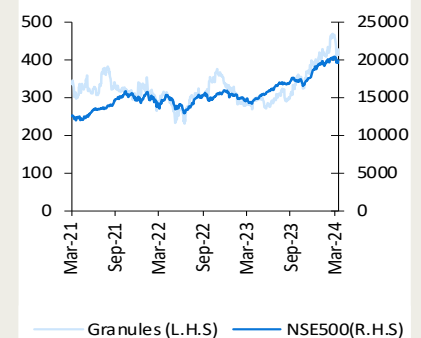
Particulars

Particular	Amount
Market Capitalisation	Rs 10565 crore
Debt (FY23)	Rs 1136 crore
Cash (FY23)	Rs 313 crore
EV	Rs 11388 crore
52 week H/L	480/268
Equity capital	Rs 24.2 crore
Face value	Re 1

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	42.0	42.0	42.0	42.0
FII	23.9	21.4	21.5	18.8
DII	5.0	6.7	7.1	10.2
Others	29.1	30.0	29.5	29.1

Price Chart



Key risks

- (i) Delay in capex execution (ii) Pricing pressure in the regulated markets especially the US

Research Analyst

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Quarterly summary

(Rs crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Net Sales	844.5	799.3	849.8	888.3	996.8	1030.0	1019.6	1150.7	1145.6	1195.5	985.5	1189.5	1155.6	0.9	-2.8
Raw Material Expenses	391.0	341.6	389.1	436.6	531.9	526.0	513.5	578.5	591.8	623.5	479.2	575.1	497.3	-16.0	-13.5
% of Revenue	46.3	42.7	45.8	49.1	53.4	51.1	50.4	50.3	51.7	52.2	48.6	48.3	43.0	-862 bps	-531 bps
Gross Profit	453.5	457.8	460.8	451.7	464.8	503.9	506.0	572.2	553.9	572.0	506.3	614.4	658.3	18.9	7.1
Gross Profit Margin (%)	53.7	57.3	54.2	50.9	46.6	48.9	49.6	49.7	48.3	47.8	51.4	51.7	57.0	862 bps	531 bps
Employee Expenses	83.1	99.9	95.4	92.5	105.3	108.2	108.7	117.7	119.2	126.7	140.3	148.8	157.0	31.8	5.5
% of Revenue	9.8	12.5	11.2	10.4	10.6	10.5	10.7	10.2	10.4	10.6	14.2	12.5	13.6	319 bps	107 bps
Other Expenditure	158.9	155.9	164.0	208.0	185.8	203.1	185.8	211.6	203.9	217.3	229.2	252.6	250.8	23.0	-0.7
% of Revenue	18.8	19.5	19.3	23.4	18.6	19.7	18.2	18.4	17.8	18.2	23.3	21.2	21.7	390 bps	47 bps
Total Expenditure	633.0	597.3	648.4	737.2	823.0	837.3	808.1	907.8	914.8	967.4	848.7	976.5	905.1	-1.1	-7.3
% of Revenue	74.9	74.7	76.3	83.0	82.6	81.3	79.3	78.9	79.9	80.9	86.1	82.1	78.3	-153 bps	-377 bps
EBITDA	211.6	202.0	201.4	151.2	173.7	192.7	211.5	242.9	230.8	228.1	136.8	213.0	250.5	8.5	17.6
EBITDA Margin (%)	25.1	25.3	23.7	17.0	17.4	18.7	20.7	21.1	20.1	19.1	13.9	17.9	21.7	153 bps	377 bps
Depreciation	36.8	44.5	39.4	39.8	39.2	40.2	43.4	44.1	48.4	48.7	49.2	52.5	52.4	8.3	-0.3
Interest	7.2	6.8	6.8	5.5	4.6	6.4	6.9	13.2	17.0	18.8	22.5	26.0	28.6	68.8	10.3
Other Income	16.4	3.3	7.6	4.4	4.9	4.0	4.7	4.8	0.9	3.4	0.3	1.5	0.7	-30.6	-57.4
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	183.9	154.0	162.9	110.2	134.8	150.1	165.9	190.4	166.4	164.0	65.5	136.0	170.1	2.2	25.1
Total Tax	37.1	26.4	42.7	29.6	33.9	39.1	38.3	45.3	42.6	44.4	17.6	33.9	44.4	4.4	31.1
Tax rate (%)	20.2	17.2	26.2	26.8	25.2	26.1	23.1	23.8	25.6	27.1	26.9	24.9	26.1	53 bps	120 bps
PAT before MI	146.8	127.6	120.2	80.7	100.9	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	1.5	23.0
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	146.8	127.6	120.2	80.7	100.9	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	1.5	23.0
PAT Margin (%)	17.4	16.0	14.1	9.1	10.1	10.8	12.5	12.6	10.8	10.0	4.9	8.6	10.9	7 bps	229 bps
EPS (Rs)	5.9	5.1	4.8	3.3	4.1	4.5	5.1	5.9	5.0	4.8	1.9	4.1	5.1		

Source: Company, ICICI Direct Research

Revenue break-up

Rs crore	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR FY18-23E	CAGR FY23-26E
API	817	913	975	1341	1098	1216	1383	CAGR 18.0%	CAGR 1.0%
PFI	421	627	846	902	658	684	718	CAGR 28.9%	-CAGR 7.3%
FD	1360	1699	1945	2268	2840	3298	3740	CAGR 18.6%	CAGR 18.1%
API+PFI	1238	1539	1821	2244	1756	1900	2101	CAGR 21.9%	-CAGR 2.2%

Source: Company, ICICI Direct Research

Financial Tables

Profit and loss statement (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Total Operating Income	4,511.4	4,596.3	5,197.6	5,840.8
Growth (%)	19.8	1.9	13.1	12.4
Raw Material Expenses	2,307.3	2,133.8	2,415.7	2,656.3
Gross Profit	2,204.1	2,462.4	2,781.9	3,184.4
Gross Profit Margins (%)	48.9	53.6	53.5	54.5
Employee Expenses	472.2	613.2	675.7	759.3
Other Expenditure	818.6	1,000.8	1,039.5	1,109.7
Total Operating Expenditure	3,598.1	3,747.9	4,130.9	4,525.4
EBITDA	913.3	848.4	1,066.7	1,315.4
Growth (%)	26.5	-7.1	25.7	23.3
Interest	55.9	105.7	94.0	68.5
Depreciation	184.5	206.5	246.5	263.7
Other Income	13.8	3.2	26.0	29.2
PBT before Exceptional Item:	686.7	539.3	752.1	1,012.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	686.7	539.3	752.1	1,012.4
Total Tax	170.6	139.8	195.6	263.2
PAT before MI	516.1	399.6	556.6	749.2
PAT	516.1	399.6	556.6	749.2
Growth (%)	25.0	-22.6	39.3	34.6
EPS (Adjusted)	20.8	16.1	22.4	30.2

Cash Flow Statement (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
9.0 Profit/(Loss) after taxation	511.3	399.6	556.6	749.2
Add: Depreciation & Amortization	184.5	206.5	246.5	263.7
Net Increase in Current Assets	-119.5	-57.6	-286.2	-276.8
Net Increase in Current Liabilities	109.2	-56.4	97.9	84.0
Others	53.2	105.7	94.0	68.5
CF from Operating activities	738.7	597.9	708.8	888.5
(Purchase)/Sale of Fixed Assets	-410.6	-500.0	-600.0	-300.0
12.9 Investments	203.5	0.0	0.0	0.0
Others	15.8	-7.5	-2.5	-2.5
CF from Investing activities	-191.3	-507.5	-602.5	-302.5
(inc)/Dec in Loan	-60.0	200.0	-240.0	-240.0
Dividend & Dividend tax	-18.6	-37.2	-37.2	-37.2
Other	-361.6	-105.7	-94.0	-68.5
CF from Financing activities	-440.3	57.1	-371.2	-345.7
Net Cash Flow	107.1	147.4	-264.9	240.3
13.2 Cash and Cash Equivalent	184.7	312.8	460.2	195.3
Cash	291.8	460.2	195.3	435.6
Free Cash Flow	328.1	97.9	108.8	588.5

Balance Sheet (₹ crore)				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Equity Capital	24.2	24.2	24.2	24.2
Reserve and Surplus	2,810.7	3,173.1	3,692.5	4,404.5
Total Shareholders funds	2,834.9	3,197.3	3,716.7	4,428.7
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	1,136.2	1,336.2	1,096.2	856.2
Net Deferred Tax Liability	11.3	11.5	11.7	11.9
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	29.3	29.8	30.4	31.1
Source of Funds	4,011.6	4,574.8	4,855.1	5,327.9
Gross Block - Fixed Assets	3,015.9	3,615.9	4,315.9	4,615.9
Accumulated Depreciation	1,105.1	1,311.6	1,558.2	1,821.8
Net Block	1,910.8	2,304.3	2,757.7	2,794.1
Capital WIP	239.3	139.3	39.3	39.3
Fixed Assets	2,150.1	2,443.6	2,797.1	2,833.4
Investments	21.2	21.2	21.2	21.2
Other non-Current Assets	162.6	170.9	174.3	177.7
Inventory	1,149.4	1,023.1	1,158.2	1,273.6
Debtors	948.5	1,129.2	1,276.9	1,434.9
Other Current Assets	163.4	166.7	170.0	173.4
Cash	312.8	460.2	195.3	435.6
Total Current Assets	2,574.2	2,779.2	2,800.5	3,317.6
Creditors	782.1	723.4	819.0	900.6
Provisions	14.6	14.9	15.2	15.5
Other Current Liabilities	99.8	101.8	103.8	105.9
Total Current Liabilities	896.5	840.1	938.0	1,022.0
Net Current Assets	1,677.6	1,939.0	1,862.5	2,295.6
Application of Funds	4,011.6	4,574.8	4,855.1	5,327.9

Ratio Analysis				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
Reported EPS	20.8	16.1	22.4	30.2
Cash EPS	26.7	22.9	30.9	39.3
BV per share	114.3	128.9	149.9	178.6
Cash per Share	12.6	18.6	7.9	17.6
Dividend per share	1.5	1.5	1.5	1.5
Operating Ratios (%)				
Gross Profit Margins	48.9	53.6	53.5	54.5
EBITDA margins	20.2	18.5	20.5	22.5
PAT Margins	11.4	8.7	10.7	12.8
Cash Conversion Cycle	134.8	140.9	140.9	140.9
Asset Turnover	1.5	1.3	1.2	1.3
EBITDA conversion Rate	80.9	70.5	66.4	67.5
Return Ratios (%)				
RoE	18.2	12.5	15.0	16.9
RoCE	18.5	14.1	17.4	20.3
RoIc	21.1	16.1	17.8	21.7
Valuation Ratios (x)				
P/E	20.5	26.4	19.0	14.1
EV / EBITDA	12.5	13.5	10.7	8.4
EV / Net Sales	2.5	2.5	2.2	1.9
Market Cap / Sales	2.3	2.3	2.0	1.8
Price to Book Value	3.7	3.3	2.8	2.4
Solvency Ratios				
Debt / EBITDA	1.2	1.6	1.0	0.7
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	2.5	2.8	2.8	2.8
Quick Ratio	1.2	1.5	1.5	1.6
Inventory days	181.8	175.0	175.0	175.0
Debtor days	76.7	89.7	89.7	89.7
Creditor days	123.7	123.7	123.7	123.7
Long term debt/Equity	0.1	0.1	0.1	0.0

Source: Company, ICICI Direct Research

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