

Shubh Nivesh



CMP: ₹ 418

Target: ₹ 515(23%)

Target Period: 12 months

BUY

June 3, 2024

Formulation focus, backward integration to the fore...

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 75% to FY24 revenues (across segments).
- Revenue mix for FY24: Formulations (FD) - 65%, API - 22%, PFI - 13%.

Investment Rationale

- Q4FY24- flat revenues but notable improvement in US sales, overall profitability – Revenues were almost flat YoY (and QoQ) to ₹ 1176 crore, as ~19% growth in the US was undone by de-growth across other markets. US now accounts for ~70% of overall sales. On segmental front, Formulations grew 41% YoY to ₹ 864 crore, driven by increased volumes in the US across all major products especially controlled substances. APIs (APIs + PFIs) declined ~47% to ₹ 311 crore led primarily by reduction in Paracetamol prices which were reduced in-line with the reduction in the key raw material prices. Gross Profit grew 23% YoY to ₹ 706.2 crore (margins stood at 60%) driven by better product mix (higher formulations sales). Price erosions were more than offset by the reduction in price of key raw materials. EBITDA grew 12% YoY to ₹ 256 crore and EBITDA margins stood at 21.7%. lower growth vis-à-vis Gross Profit was on account of higher R&D spend.
- 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 value Granules at 17x FY26E EPS of ₹ 30.3 with a target of ₹515/ share.

Key Financial Summary

Key Financials ₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	3 year CAGR (FY23-26E)
Revenues	2598.6	3237.5	3764.9	4511.4	20.2	4506.4	5093.3	5730.1	8.3
EBITDA	525.3	853.6	722.2	913.3	20.2	856.0	1044.8	1275.9	11.8
EBITDA Margins (%)	20.2	26.4	19.2	20.2		19.0	20.5	22.3	
Net Profit	309.9	549.5	412.8	516.1	18.5	405.3	551.0	733.3	12.4
EPS (Adjusted)	12.7	22.7	17.1	21.3		16.7	22.8	30.3	
PE (x)	30.1	18.4	24.4	19.6		24.9	18.3	13.8	
EV to EBITDA (x)	20.4	12.5	15.2	12.0		12.9	10.5	8.3	
RoCE (%)	15.2	24.0	15.6	18.5		14.3	17.3	20.0	
RoE (%)	16.7	25.3	16.0	18.2		12.6	14.7	16.5	



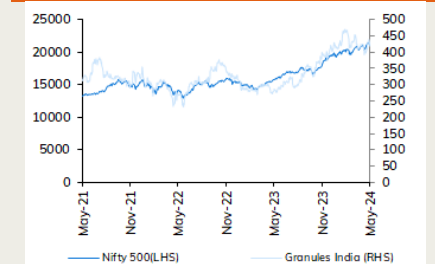
Particulars

Particular	Amount
Market Capitalisation	₹ 10116 crore
Debt (FY24)	₹ 1315 crore
Cash (FY24)	₹ 381 crore
EV	₹ 11050 crore
52 week H/L	480/275
Equity capital	₹ 24.2 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	42.0	42.0	42.0	42.0
FII	21.4	21.5	18.8	19.6
DII	6.7	7.1	10.2	10.7
Others	30.0	29.5	29.1	27.8

Price Chart



Key risks

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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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