

CMP: ₹ 620

Target: ₹ 765(23%)

Target Period: 12 months

BUY

July 31, 2024

## Numbers continue to improve...

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 65% to Q1FY25 revenues (across segments).
- Revenue mix Q1FY25: Formulations (FD) - 76%, API - 16%, PFI - 8%.

### Investment Rationale

- Revenues in line with strong growth; profitability better – Revenues grew ~20% YoY to ₹ 1176 crore, driven by strong US traction which grew ~45% to ₹ 602 crore. US now accounts for ~74% of overall sales. Europe on the other hand de-grew ~38% to ₹ 241 crore due to lower paracetamol sales. On segmental front, Formulations grew 66% YoY to ₹ 891 crore, driven by new products in the US and other geographies. APIs (APIs + PFIs), on the other hand declined ~35% to ₹ 289 crore led primarily by higher customer inventory and price erosion besides higher captive consumption. Gross Profit which grew 23% YoY to Rs 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 ~90% YoY to ₹ 259 crore and EBITDA margins stood at 22% (809 bps improvement). Besides lower base, the growth was driven by better product mix as reflected in GPM improvement (757 bps to 58.9%).
- 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 India at 24x FY26E EPS of ₹ 31.8 with a target of ₹ 765.

### Key Financial Summary

Key Financials ₹ Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24	FY25E	FY26E	2 year CAGR (FY24-26E)
Revenues	2598.6	3237.5	3764.9	4511.4	20.2	4506.4	5099.6	5742.3	12.9
EBITDA	525.3	853.6	722.2	913.3	20.2	856.0	1108.5	1320.7	24.2
EBITDA Margins (%)	20.2	26.4	19.2	20.2		19.0	21.7	23.0	
Net Profit	309.9	549.5	412.8	516.1	18.5	405.3	596.9	770.4	37.9
EPS (Adjusted)	12.7	22.7	17.1	21.3		16.7	24.7	31.8	
PE (x)	44.7	27.3	36.4	29.1		37.0	25.1	19.5	
EV to EBITDA (x)	29.7	18.3	22.1	17.4		18.6	14.2	11.6	
RoCE (%)	15.2	24.0	15.6	18.5		14.3	18.5	20.6	
RoE (%)	16.7	25.3	16.0	18.2		12.6	15.8	17.0	

Source: Company, ICICI Direct Research



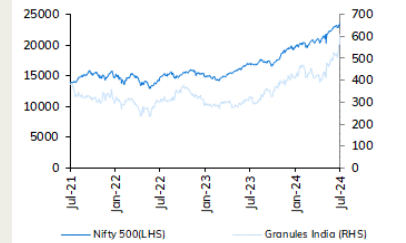
### Particulars

Particular	Amount
Market Capitalisation	₹ 15004 crore
Debt (FY24)	₹ 1315 crore
Cash (FY24)	₹ 381 crore
EV	₹ 15938 crore
52 week H/L	480/275
Equity capital	₹ 24.2 crore
Face value	₹ 1

### Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	42.0	42.0	42.0	38.9
FII	21.5	18.8	19.6	20.4
DII	7.1	10.2	10.7	14.1
Others	29.5	29.1	27.8	26.6

### 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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**Exhibit 1: Quarterly Summary**

(Rs crore)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Net Sales	849.8	888.3	996.8	1030.0	1019.6	1150.7	1145.6	1195.5	985.5	1189.5	1155.6	1175.7	1179.9	19.7	0.4
Raw Material Expenses	389.1	436.6	531.9	526.0	513.5	578.5	591.8	623.5	479.2	575.1	497.3	469.6	484.4	1.1	3.2
% of Revenue	45.8	49.1	53.4	51.1	50.4	50.3	51.7	52.2	48.6	48.3	43.0	39.9	41.1	-757 bps	111 bps
Gross Profit	460.8	451.7	464.8	503.9	506.0	572.2	553.9	572.0	506.3	614.4	658.3	706.1	695.5	37.4	-1.5
Gross Profit Margin (%)	54.2	50.9	46.6	48.9	49.6	49.7	48.3	47.8	51.4	51.7	57.0	60.1	58.9	757 bps	-111 bps
Employee Expenses	95.4	92.5	105.3	108.2	108.7	117.7	119.2	126.7	140.3	148.8	157.0	151.7	163.6	16.6	7.9
% of Revenue	11.2	10.4	10.6	10.5	10.7	10.2	10.4	10.6	14.2	12.5	13.6	12.9	13.9	-37 bps	96 bps
Other Expenditure	164.0	208.0	185.8	203.1	185.8	211.6	203.9	217.3	229.2	252.6	250.8	298.8	272.5	18.9	-8.8
% of Revenue	19.3	23.4	18.6	19.7	18.2	18.4	17.8	18.2	23.3	21.2	21.7	25.4	23.1	-16 bps	-231 bps
Total Expenditure	648.4	737.2	823.0	837.3	808.1	907.8	914.8	967.4	848.7	976.5	905.1	920.1	920.6	8.5	0.1
% of Revenue	76.3	83.0	82.6	81.3	79.3	78.9	79.9	80.9	86.1	82.1	78.3	78.3	78.0	-809 bps	-23 bps
EBITDA	201.4	151.2	173.7	192.7	211.5	242.9	230.8	228.1	136.8	213.0	250.5	255.6	259.3	89.5	1.4
EBITDA Margin (%)	23.7	17.0	17.4	18.7	20.7	21.1	20.1	19.1	13.9	17.9	21.7	21.7	22.0	809 bps	23 bps
Depreciation	39.4	39.8	39.2	40.2	43.4	44.1	48.4	48.7	49.2	52.5	52.4	53.2	52.9	7.4	-0.6
Interest	6.8	5.5	4.6	6.4	6.9	13.2	17.0	18.8	22.5	26.0	28.6	28.8	27.0	20.3	-6.0
Other Income	7.6	4.4	4.9	4.0	4.7	4.8	0.9	3.4	0.3	1.5	0.7	1.9	2.1	493.1	10.3
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	162.9	110.2	134.8	150.1	165.9	190.4	166.4	164.0	65.5	136.0	170.1	175.6	181.5	177.3	3.4
Total Tax	42.7	29.6	33.9	39.1	38.3	45.3	42.6	44.4	17.6	33.9	44.4	46.0	46.8	166.2	1.7
Tax rate (%)	26.2	26.8	25.2	26.1	23.1	23.8	25.6	27.1	26.9	24.9	26.1	26.2	25.8	-107 bps	-41 bps
PAT before MI	120.2	80.7	100.9	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	129.6	134.7	181.3	3.9
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	120.2	80.7	100.9	111.0	127.6	145.1	123.8	119.6	47.9	102.1	125.7	129.6	134.6	181.2	3.9
PAT Margin (%)	14.1	9.1	10.1	10.8	12.5	12.6	10.8	10.0	4.9	8.6	10.9	11.0	11.4	655 bps	38 bps
EPS (Rs)	4.8	3.3	4.1	4.5	5.1	5.9	5.0	4.9	2.0	4.2	5.2	5.4	5.6		

**Exhibit 2: Segmental Breakup**

	FY21	FY22	FY23	FY24	FY25E	FY26E
Formulations	1,699	1,945	2,268	2,909	3,543	4,020
API(API+PFI)	1,539	1,821	2,244	1,597	1,556	1,723
Total	3,238	3,765	4,512	4,506	5,100	5,742

Source: Company, ICICI Direct Research

**Q1FY25 Results / Conference call highlights**

- Formulation growth was driven by new product pipeline during the quarter.
- The legacy products (5) contribution has come down to 65% of Q1 revenues as against 75% in FY24 and 85% in FY23.
- Genome Valley plant successfully commenced operations in March for the first stage of 2 billion capacity.
- Management has indicated CNS and in particular ADHD to be a good growth driver going ahead.
- Company witnessed some Paracetamol API volume and price erosion.
- Company is gearing up to put commercial scale manufacturing capacity at unit 5 Vizag.
- Company proposes to create new oncology manufacturing facility and augment finished dosages and other infrastructures.
- The company project execution is likely to start from September and would take approximately twelve months to complete.
- 5 projects in Enzymes technology front are significantly advanced and almost at the stage of completion.
- Company in the next two quarters to start validation of at least three molecules while also focusing on creating manufacturing technology, infrastructure.
- R&D for the quarter stood at ₹ 62 crore and is likely to go up.
- Company witnessed red see issues which impacted inventory days.
- Company has guided for Gross Margin of 57-60% kind of range.
- OTC represents 15% of overall formulations sales (Current quarter in 2 crore and growing in double digit, FY24 – 6 Crore, FY23- INR 4 Crore).
- In Europe as per management companies have inventory jack up for another 6 months.
- US Price erosion has now stabilized and has come to High / mid-single digit.

## Financial Tables

Exhibit 3: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Operating Income	4,511.4	4,506.4	5,099.6	5,742.3
Growth (%)	19.8	-0.1	13.2	12.6
Raw Material Expenses	2,307.3	2,021.3	2,261.4	2,497.3
Gross Profit	2,204.1	2,485.1	2,838.2	3,245.0
Gross Profit Margins (%)	48.9	55.1	55.7	56.5
Employee Expenses	472.2	597.9	673.2	746.5
Other Expenditure	818.6	1,031.3	1,056.5	1,177.8
Total Operating Expenditure	3,598.1	3,650.4	3,991.1	4,421.6
EBITDA	913.3	856.0	1,108.5	1,320.7
Growth (%)	26.5	-6.3	29.5	19.1
Interest	55.9	105.8	97.5	66.8
Depreciation	184.5	207.3	226.6	241.5
Other Income	13.8	4.4	21.7	28.7
PBT before Exceptional Item	686.7	547.2	806.0	1,041.1
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	686.7	547.2	806.0	1,041.1
Total Tax	170.6	141.9	209.2	270.7
PAT before MI	516.1	405.3	596.9	770.4
PAT	516.1	405.3	596.9	770.4
Growth (%)	25.0	-21.5	47.3	29.1
EPS (Adjusted)	21.3	16.7	24.7	31.8

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	511.3	356.9	596.9	770.4
Add: Depreciation & Amortization	184.5	207.3	226.6	241.5
Net Increase in Current Assets	-119.5	-242.5	-55.5	-275.8
Net Increase in Current Liabilities	109.2	-3.9	20.6	83.4
Others	53.2	121.5	97.5	66.8
CF from Operating activities	738.7	439.4	886.1	886.4
(Purchase)/Sale of Fixed Assets	-410.7	-378.8	-600.0	-350.0
Investments	203.5	15.9	0.0	0.0
Others	15.8	2.8	-3.3	-3.4
CF from Investing activities	-191.4	-360.2	-603.3	-353.4
(inc)/Dec in Loan	-60.0	-113.0	-240.0	-240.0
Dividend & Dividend tax	-18.6	-36.3	-36.3	-36.3
Other	-361.6	157.0	-97.5	-66.8
CF from Financing activities	-440.3	7.7	-373.8	-343.1
Net Cash Flow	107.1	86.9	-91.1	189.9
Cash and Cash Equivalent	184.7	291.6	381.1	290.0
Cash	291.8	378.5	290.0	479.9
Free Cash Flow	328.1	60.6	286.1	536.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	24.2	24.2	24.2	24.2
Reserve and Surplus	2,810.7	3,201.3	3,761.9	4,496.0
Total Shareholders funds	2,834.9	3,225.5	3,786.1	4,520.2
Minority Interest	0.0	0.0	0.0	0.0
Total Debt	1,136.2	1,315.1	1,075.1	835.1
Net Deferred Tax Liability	11.3	-14.0	-14.3	-14.6
Long-Term Provisions	0.0	0.0	0.0	0.0
Other Non Current Liabilities	29.3	37.9	38.6	39.4
Source of Funds	4,011.6	4,564.5	4,885.5	5,380.1
Gross Block - Fixed Assets	3,015.9	3,408.0	3,808.0	4,058.0
Accumulated Depreciation	1,105.1	1,312.4	1,539.0	1,780.5
Net Block	1,910.8	2,095.6	2,269.0	2,277.5
Capital WIP	239.3	271.7	471.7	571.7
Fixed Assets	2,150.1	2,367.3	2,740.7	2,849.2
Investments	21.2	21.5	21.5	21.5
Other non-Current Assets	162.6	195.1	199.0	202.9
Inventory	1,149.4	1,300.5	1,084.2	1,197.3
Debtors	948.5	985.8	1,252.9	1,410.7
Other Current Assets	184.6	232.5	237.1	242.0
Cash	291.6	381.1	290.0	479.9
Total Current Assets	2,574.2	2,899.9	2,864.3	3,329.9
Creditors	782.1	749.5	766.7	846.7
Provisions	14.6	11.8	12.1	12.3
Other Current Liabilities	99.8	158.0	161.2	164.4
Total Current Liabilities	896.5	919.4	940.0	1,023.4
Net Current Assets	1,677.6	1,980.6	1,924.3	2,306.5
Application of Funds	4,011.6	4,564.5	4,885.5	5,380.1

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	21.3	16.7	24.7	31.8
Cash EPS	27.4	23.8	32.5	40.3
BV per share	117.1	133.3	156.5	186.8
Cash per Share	12.0	15.7	12.0	19.8
Dividend per share	1.5	1.5	1.5	1.5
Operating Ratios (%)				
Gross Profit Margins	48.9	55.1	55.7	56.5
EBITDA margins	20.2	19.0	21.7	23.0
PAT Margins	11.4	9.0	11.7	13.4
Cash Conversion Cycle	135	179	141	141
Asset Turnover	1.5	1.3	1.3	1.4
EBITDA conversion Rate	80.9	51.3	79.9	67.1
Return Ratios (%)				
RoE	18.2	12.6	15.8	17.0
RoCE	18.5	14.3	18.5	20.6
RoIC	20.9	16.6	21.4	24.9
Valuation Ratios (x)				
P/E	29.1	37.0	25.1	19.5
EV / EBITDA	17.4	18.6	14.2	11.6
EV / Net Sales	3.5	3.5	3.1	2.7
Market Cap / Sales	3.3	3.3	2.9	2.6
Price to Book Value	5.3	4.7	4.0	3.3
Solvency Ratios				
Debt / EBITDA	1.2	1.5	1.0	0.6
Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	2.5	2.7	2.7	2.8
Quick Ratio	1.3	1.3	1.6	1.6
Inventory days	182	235	175	175
Debtor days	77	80	90	90
Creditor days	124	135	124	124
Long term debt/Equity	0.1	0.1	0.0	0.0

Source: Company, ICICI Direct Research

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