

### Company Update

CMP	124.65
Target Price	130
Previous Target Price	
Upside	
Change from Previous	

### Market Data

BSE Code	532482
NSE Symbol	GRANULES
52wk Range H/L	164.45/75.55
Mkt Capital (Rs Cr)	2701.3
Av. Volume(,000)	957.31
Nifty	7735.5

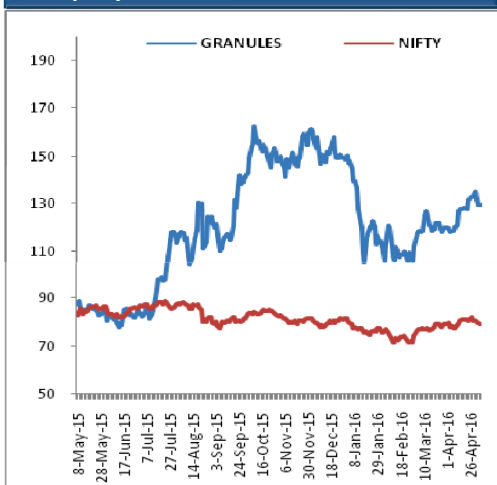
### Stock Performance

	1M	3M	12M
Absolute	7.8	46.0	52.0
Rel.to Nifty	5.8	51.9	59.2

### Share Holding Pattern-%

	4QFY16	3QFY16	2QFY16
Promoters	51.15	49.5	48.4
Public	48.85	50.5	51.6
Others			
Total	100	100.0	100.0

### Company Vs NIFTY



Granules India Limited (GIL) has successfully transformed its business model from low-margin APIs to medium-margin PFIs to high margin formulations. This long term story will remain intact as management has guided Sales contribution from FDs will reach 65% at peak level in 5yrs time. So long term investor should hold on due to its momentum from the existing and newly commissioned facilities which will lead to top line growth and sustainable margin expansion. Going ahead we expect a healthy growth momentum on the back of growing contribution from finished dosages and improved product offering from Auctus and Omnicem JV. The stock seems to discount almost every positive trait in its current market price. Considering limited upside from here we have " NEUTRAL" view for the stock with a target price of Rs130.

### Q4FY16\_Result Update

- Company reported sales with formulations (FD) contributing 40 % (149cr), PFI 27%(1031cr) and API 33%(123cr).

- Molecule-wise, Paracetamol contributed 38%, Metformin 28% and Ibuprofen 17% to GRAN's overall sales.

- EBITDA stood at 78Cr. EBITDA margin stood at 21% mainly aided by lower employee expenses coupled with lower manufacturing and other expenses.

- NPM at 8.9% and Gross Margin at 41.1%.

### Future Growth Drivers

- Granules is likely to file 10 more ANDAs over the next one year and 7-8 product filings every year post FY17.

- Granules Omnicem the equally owned venture with Ajinomoto of Japan can generate revenue of more than Rs200Cr for granules.

- Granules is ramping up its API Capacity at Vizag to support the growing need of internal consumption and new filings

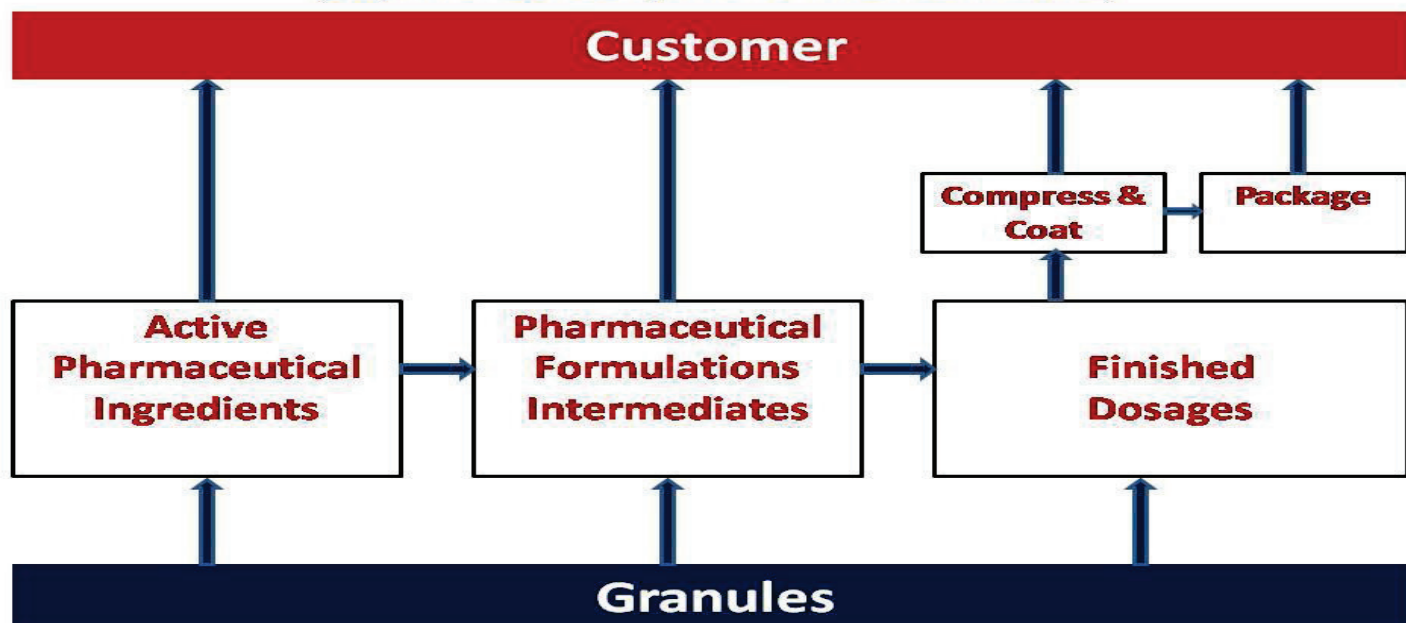
Rs,Cr

Financials	2012	2013	2014	2015	2016
Sales	655	766	1100	1297	1430
EBITDA	79	85	158	209	277
Net Profit	30	33	75	91	118
P/E	5.4	5.9	6.9	18.4	19.1
ROCE	17%	14%	19%	21%	24%
ROE	12%	12%	21%	21%	23%

(Source: Company/Eastwind)

**Granules Buisness Model**

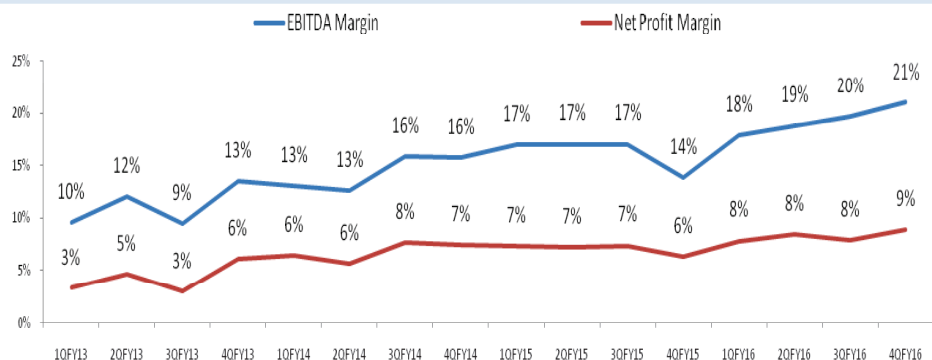
**The Granules Integrated Model  
(Captive Consumption & Merchant Sale)**



**Key take aways From Conference call / Investor Meets**

- Management has given revenue guidance of 10-15 percent revenue growth over last year .EBITDA Margin-20%+.
- GRANULES have demonstrated strong regulatory record, with no warning letter or import alert for any facility. Over the last 8 inspections done by US FDA across its facilities, GRAN has either received no observations or a few minor 483s.
- Over the next 2 years Granules expects to file 14 ANDA's across its various facilities in India and in US.
- Embarking on an aggressive capex programme of nearly Rs500CR over next 24-30 months which covers not just hard assets but investments in building a US generic pipeline . The capex would be funded through warrant money and internal accruals.
- The management expects enhanced visibility from its Omnicem JV going forward with sales expected to be in the range of INR 150-2,00Cr(Can be more than 200Cr)
- Company is also expanding Metformin API capacity at Bonthapally to 9000 tonnes from current 2000 tonnes. Management expects Phase 1 of expansion to complete by August 2016.
- Company is planning to launch additional 4-5 APIs during the year, (including Auctus & Owned) in next 12 months & 10 ANDAs by FY17.
- Except to repay debt of Rs 60Cr in FY17 (FY16 Total Debt-Rs404 Cr)

## Quarterly Financial Performance

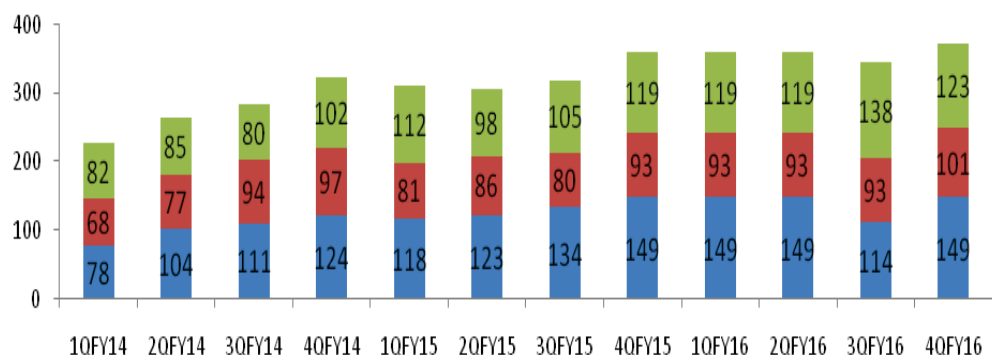


→EBITDA margin at 21% (up 721bp YoY) was boosted by a higher contribution from the Finished dosage segment

→Pat margin improve due to higher profitability from increased capacity utilisation

## Segment Wise Revenue

■ Finished formulations ■ PFIs ■ APIs



→Gradual move over the value chain from API→PFI→Finished Formulations.

→Over the years, GRAN has substantially changed its business mix from 61% PFI and 39% API to 31% FD, 27% PFI and 41% API in FY16

## View And Valuation

Granules India Limited (GIL) has successfully transformed its business model from low-margin APIs to medium-margin PFIs to high margin formulations. We had recommend BUY on Granule in 4QFY16 result update with the price target of Rs. /share released on 29th April 2016 .This long term story will remain intact as management has guided Sales contribution from FDs will reach 65% at peak level in 5yrs time.Going ahead we expect a healthy growth momentum on the back of growing contribution from finished dosages and improved product offering from Auctus and Omnichem JV.We believe valuations are attractive and can give descent return in the future.

## About the Company

Granules., an export-oriented company (84% of revenues), exports to more than 300 customers in 60 countries. The company derives 63% of its revenues from regulated markets of North America (32%) and EU (31%) and balance from LATAM (11%),ROW (10%) and India (16%). Until 2008, Granules focused on building a large scale in select APIs/PFIs like Paracetamol, Ibuprofen, Metformin and Guaifenesin wherein it is amongst the largest producers globally.Going forward, the company shall continue to witness margin expansion on the back of (i) continued increase in share of formulations in the base business, (ii) turnaround of and filing of ANDAs in the newly acquired company Auctus and (iii) commencement of high margin business in the CRAMS JV with Omnichem from FY18 onwards.

# GRANULES INDIA LTD.-\$

## Financials Snap Shot

### INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	764	1096	1293	1430
Other Income	2	4	4	8
Total Revenue	766	1100	1297	1437
COGS	467	645	747	758
GPM	39%	41%	42%	57%
Other Expenses	153	204	230	269
EBITDA	85	158	209	277
EBITDA Margin (%)	11%	14%	16%	19%
Depreciation	23	30	53	64
EBIT	62	128	156	212
Interest	18	20	32	40
PBT	46	112	128	180
Tax	14	37	37	62
Tax Rate (%)	30%	33%	29%	34%
Reported PAT	33	75	91	118
Dividend Paid	5	5	8	12
Adjusted No. of Shares	20	20	20	20

Source: Eastwind/Company

### RATIOS

	FY13	FY14	FY15	FY16E
EPS	16	37	4	5
Book Value	136	175	21	26
DPS	2	2	0	1
Payout (incl. Div. Tax.)	0.1	0.1	0.1	0.1
<b>Valuation(x)</b>				
Adjusted P/E	5.9	6.9	18.9	15.7
Price / Book Value	0.7	1.5	3.9	4.0
Dividend Yield (%)	2.5%	1.6%	4.0%	3.8%
<b>Profitability Ratios</b>				
RoE	12%	21%	21%	23%
RoCE	14%	19%	21%	24%
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.12	1.10	1.08	1.04
Debtors (No. of Days)	33.91	36.94	37.44	37.00
Inventory (No. of Days)	65.17	58.01	63.38	64.65
Creditors (No. of Days)	43.86	45.15	53.28	54.34
Net Debt/Equity (x)	0.64	0.87	0.71	0.69

Source: Eastwind/Company

### BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	20	20	20	22
Reserves	254	335	411	617
Net Worth	275	356	431	639
Long term Debt	175	309	308	246
Short term Debt	85	101	125	158
Deferred Tax	24	30	49	58
Total Liability	560	796	914	1101
Net Fixed Assets	372	607	679	745
Capital WIP	109	125	62	77
Debtors	71	111	133	153
Cash & Bank Balances	42	42	65	142
Other Current Assets	176	224	297	80
Current Liabilities	116	183	266	313
Total Provisions	7	12	17	12
Net Current Assets	167	181	211	307
Others	21.5	8.06	23.8	23.8
Total Assets	560	796	914	1453

Source:

	FY13	FY14	FY15E	FY16E
OP/(Loss) before Tax	46	112	128	142
Depreciation	23	30	53	68
Direct Taxes Paid	11	24	-37	-37
Operating profit before v	88	163	213	246
CF from Op. Activity	114	156	189	187
Purchase of Fixed Assets	-116	-267	-124	-137
Investments in Subsidiar	0	0	0	0
CF from Inv. Activity	-128	-255	-140	-137
Repayment of Long Term	-14	-10	-1	54
Interest Paid	-18	-20	-32	-36
Divd Paid (incl Tax)	-5	-5	-8	-12
CF from Fin. Activity	46	147	-18	6
Inc/(Dec) in Cash	10	0	31	56
Add: Opening Balance	32	42	42	65
Closing Balance	42	42	73	121

Source: Eastwind/Company