Narnolia™

GRANULES

Industry	Pharmaceuticals
Bloomberg	GRAN IN
BSE Code	532482
NSE Code	GRANULES

28 May 2018

RATING	ACCUMULATE
CMP	89
Price Target	100
Previous Target	132
Potential Upside	

Stock Info

52wk Range H/L	150/87
Mkt Capital (Rs Cr)	2251
Free float (%)	55%
Avg. Vol 1M (,000)	2113
No. of Shares (Crore)	25
Promoters Pledged %	42%

Revenue grew; PAT subdued

Key Highlights

- ☑ Granules reported 18% growth to Rs.1685 Cr in FY18 supported by growth across all product verticals, with Active Pharmaceutical (API) registering a 21% increase, Pharmaceutical formulation intermediates (PFI) 22% and Formulations (FD) 24%.
- ☑ EBITDA margin was reduced by 16% to Rs.64 Cr in 4QFY18 (Vs Rs.77 Cr in 4QFY17).
- ☑ During FY18, company had 4 USFDA inspection for 4 facility (Jeedimetla, Bonthapally, Gagillapur and one in Vizag Pharma City).
- ☑ There were 20 ANDA filings out of which 7 was approved, 21 US & 6 European DMF's, 11 CEPs with EDQM, 3 patents granted and 52 filed during FY18.
- ☑ Depreciation in FY19 will increase from backed by new facility will become operational.
- ☑ FY19 will gradually ramp up backed by first product from Virginia facility which is launched in 1QFY19.

4Q FY18 Result:

Granules revenue grew by 33% YoY to Rs.473 Cr in 4QFY18 (Vs Rs.355 cr in 4QFY17). It was majorly contributed by enhanced capacity by API's and PFI's follwed by increased Ibuprofen sales. EBITDA margins has come down to Rs.64 Cr in 4QFY18 due to increased raw material cost, reduced APIs supplies from China. PAT was subdued during the quater. PAT was reduced to Rs.34 Cr in 4QFY18 against Rs.46 Cr in 4QFY17. It was impacted due to muted depreciation cost and tax.

View and Valuation

Granules posted net sales of Rs504 Cr an increase of 41.8% YoY with the capacities expansion in the API and PFI segments. Management expect a turnaround going forward as the growth initiatives taken during the last couple of years should be translated into revenue from H2FY19 and onwards. Improved capacity utilization across different business segments and management strategy of entering into long term supply agreements with global pharma companies helps it in safeguarding its margins. However ,we are slightly cautious on the stock on its balance sheet side due to heavy CAPEX spent and planned, resulting in the increase in long term debt and increased prices of certain raw materials due to either crude related hikes which has affected the margin in near term. Considering the above stance , we maintain `ACCUMULATE' rating and value it at 9x times of FY20 Expected EPS with reduced target price of Rs.100 (Previous TP-132).

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1357	1411	1685	2294	2694
EBITDA	276	299	278	424	513
EBIT	218	227	202	320	392
PAT	123.0	164.5	116.6	219.7	256.0
EPS (Rs)	6	7	5	10	11
EPS growth (%)	35%	19%	-29%	88%	17%
ROE (%)	19%	18%	9%	15%	15%
ROCE (%)	26%	22%	12%	17%	18%
BV	32	40	57	65	75
P/B (X)	3.7	3.4	1.8	1.3	1.1
P/E (x)	19.9	18.8	20.3	8.7	7.4

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4Q FY 18 Results

Mixed Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	355	386	393	411	473	33.2%	15.2%	1,411	1,685	19.4%
Other Income	1	0.4	7	1	13	1039.2%	1456.7%	10	11	9.2%
COGS	156	180	198	209	286	83.4%	37.1%	680	896	31.9%
Employee Cost	36	39	42	42	38	5.4%	-8.1%	140	165	17.8%
Other Expenses	86	83	76	86	84	-1.4%	-2.2%	292	345	18.1%
EBITDA	77	77	77	74	64	-16.7%	-13.0%	299	278	-6.8%
Depreciation	18	18	19	20	20	13.0%	3.8%	72	76	6.6%
Interest	8	8	10	8	6	-19.3%	-24.9%	32	33	2.5%
PBT	53	52	55	47	51	-2.9%	9.1%	205	180	-12.2%
Tax	17	18	19	17	17	3.5%	1.6%	65	63	-2.8%
PAT	46	37	40	35	34	-25.2%	-2.4%	165	117	-29.1%

Mixed quarter

Granules had a mixed numbers in 4QFY18 with a 33% YoY growth in net sales to Rs.473 Cr and a de-growth in PAT by 25% YoY to Rs.34 Cr.

Net sales grew to Rs.473 Cr in 4QFY18 Vs Rs.355 Cr in 4QFY17 led by Increased sales from enhanced capacity in Bonthapally for APIs and Gagillapur for PFIs, increased contribution from FDs from Gagillapur and increased contribution from Ibuprofen sales.

PAT was declined to Rs.34 Cr in 4QFY18 against Rs.46 Cr in 4QFY17. It was impacted due to muted depreciation cost and tax.

Fall in margins

EBITDA during the quarter posted a contraction of 17% YoY to Rs.31 Cr (earlier Rs.33 Cr in 4QFY17). It was subdued due to raw material cost, reduced APIs supplies from China and geographical distribution of sales. EBITDA margin during 4QFY18 was also reduced from 18% to 14%.

Capacity expansion will boost the revenue in FY19

At present company, API capacity is running at 100% utilization and PFI capacity at 75-80% utilization. Company has already expanded Paracetamol capacity from 8,000MTPA in FY08 to 18,000MTPA in FY16.It also intends to expand Metformin capacities in two phases (from 2,000MTPA to 9,000MTPA) by FY19E.This capacity augmentation should remove the API level bottleneck and translate into increased revenues.

Granules OmniChem Private Ltd (CRAMS Business) will boost the growth in future

As per the management long term growth prospects of omnichem looks very good and expect it to grow by 25% CAGR in next 5 Years. Sharp Revival in this JV as new launches will be picking up in FY19-FY20 onwards.

Concall Highlights :

- ✓ Management expects the strong top line growth trajectory to continue.
- ✓ Company has planned to launch 5 ANDA's in the US in FY19.
- ✓ Granules has been able to secure gmethergine approval from USFDA in May 2018. It is the secönd generic player to launch this product in US.
- ✓ Management has guided for a EBITDA margin of 19% in FY19E.

Exhibit: Net Sales/ PAT

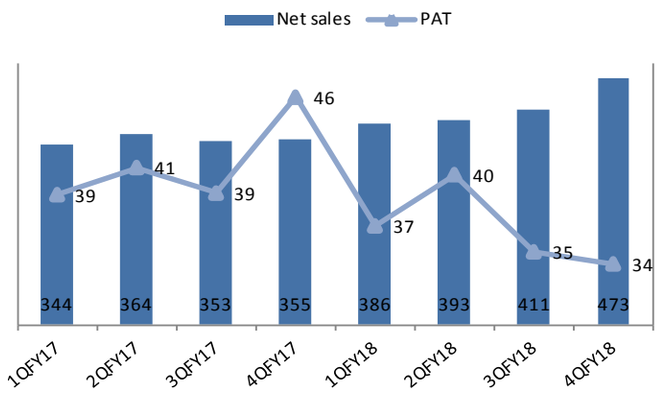


Exhibit: Net Sales/ Gross Margin

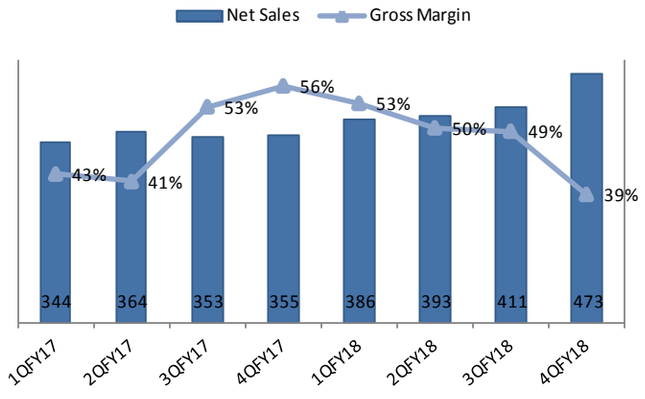


Exhibit: EBITDA/ EBITDA Margin %

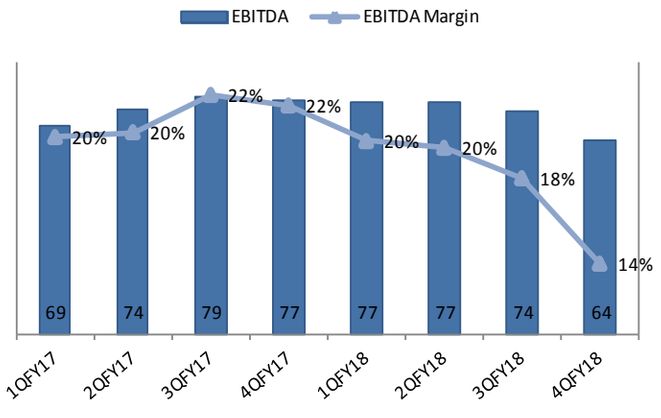


Exhibit: PAT/ PAT Margin %

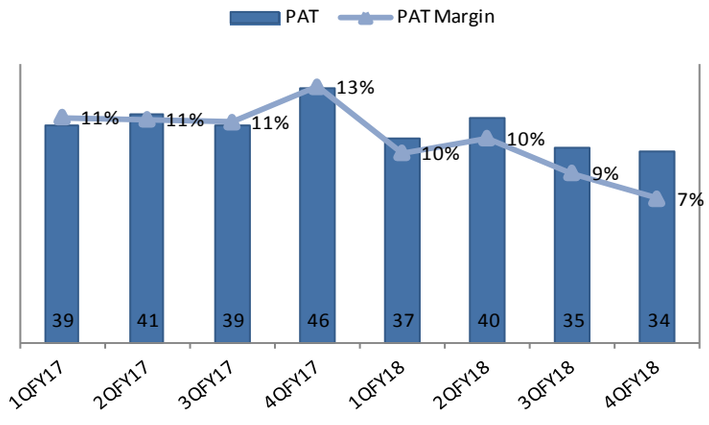


Exhibit: ROE %

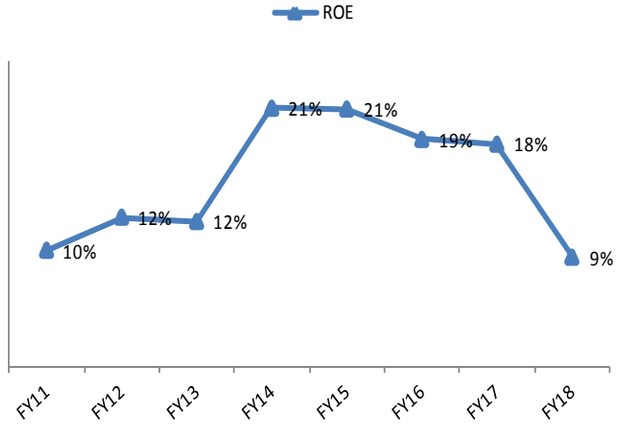
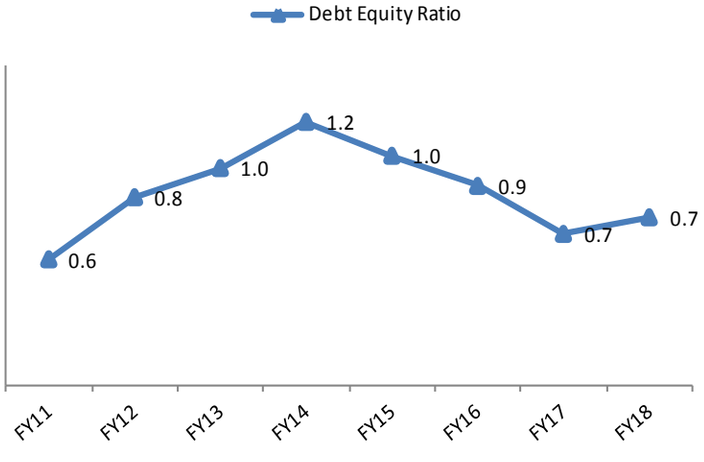


Exhibit: Debt Equity Ratio



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	20	20	20	22	23	25	23	23
Reserves	*254*	*335*	*411*	*640*	*881*	*1,279*	*1,471*	*1,700*
Networth	**275**	**356**	**431**	**662**	**904**	**1,304**	1,494	1,722
Debt	261	410	433	577	598	958	976	976
Other Non Cur Liab								
Total Capital Employed	535	766	864	1,239	1,502	2,262	2,470	2,698
Net Fixed Assets (incl CWIP)	*372*	*607*	*679*	*636*	*905*	*1,291*	*1,445.6*	*1,614.3*
Non Cur Investments	*0*	*0*	*0*	*70*	*108*	*157*	*157*	*157*
Other Non Cur Asst	*5*	*4*	*3*	*24*	*18*	*22*	*22.4*	*22.4*
Non Curr Assets	**394**	**615**	**702**	**745**	**1,041**	**1,491**	1,625	1,793
Inventory	136	174	225	254	276	280	314	369
Debtors	71	111	133	375	418	617	**635**	**745**
Cash & Bank	42	42	65	130	50	116	130	48
Other Curr Assets	**26**	**38**	**68**	**55**	**87**	**139**	188	221
Curr Assets	*289*	*377*	*495*	*818*	*835*	*1,153*	*1,269.0*	*1,385.3*
Creditors	92	136	189	181	216	252	308	362
Provisons	*5*	*8*	*12*	-	-	*3*	-	-
Other finicial liabilities	-	-	-	73	83	50	50	50
Other Curr Liab	24	48	77	6	10	9	12	14
Curr Liabilities	120	192	278	262	311	319	**370**	**425**
Net Curr Assets	**169**	**185**	**216**	**556**	**524**	**834**	**899**	**960**
Total Assets	683	992	1,197	1,563	1,876	2,644	2,894	3,179

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	764	1,096	1,293	1,357	1,411	1,685	2,294	2,694
Change (%)	17%	43%	18%	5%	4%	19%	36%	17%
EBITDA	85	158	209	276	299	278	424	513
Change (%)	*7%*	*86%*	*32%*	*32%*	*8%*	*-7%*	*52%*	*21%*
Margin (%)	11%	14%	16%	20%	21%	17%	18%	19%
Depr & Amor.	*23.1*	*29.8*	*52.7*	*58.4*	*71.5*	*76.2*	*103.2*	*121.2*
EBIT	*62*	*128*	*156*	*218*	*227*	*202*	*320*	*392*
Int. & other fin. Cost	*18*	*20*	*32*	*37*	*32*	*33*	*43*	*62*
Other Income	*2*	*4*	*4*	*5*	*10*	*11*	*39*	*39*
EBT	46	112	128	186	205	180	316	368
Exp Item	-	-	-	-	-	-	-	-
Tax	*13.8*	*37.1*	*37.1*	*61.1*	*65.2*	*63.4*	*96.4*	*112.4*
Minority Int & P/L share of Ass.	-	-	-	*(2)*	*25*	-	-	-
Reported PAT	33	75	91	123	165	117	220	256
Adjusted PAT	***32.6***	***75.2***	***90.9***	***123.0***	***164.5***	***116.6***	***219.7***	***256.0***
Change (%)	9%	131%	21%	35%	34%	-29%	88%	17%
Margin(%)	*4%*	*7%*	*7%*	*9%*	*12%*	*7%*	*10%*	*10%*

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	12%	21%	21%	19%	18%	18%	9%	15%
ROCE	14%	19%	21%	26%	22%	22%	12%	17%
Asset Turnover	1.1	1.1	1.1	1.1	0.9	0.9	0.8	0.6
Debtor Days	33.9	36.9	37.4	100.9	108.1	108.1	133.1	101.0
Inv Days	65.2	58.0	63.4	68.2	71.4	71.4	60.4	50.0
Payable Days	43.9	45.1	53.3	48.7	55.9	55.9	54.4	49.0
Int Coverage	3.5	6.3	4.8	5.9	7.0	7.0	6.1	7.4
P/E	*0.6*	*0.7*	*19.1*	*19.9*	*18.8*	*18.8*	*20.3*	*8.7*
Price / Book Value	*0.1*	*0.1*	*4.0*	*3.7*	*3.4*	*3.4*	*1.8*	*1.3*
EV/EBITDA	*1.8*	*2.0*	*9.5*	*9.1*	*10.6*	*10.6*	*9.6*	*5.2*
FCF per Share	*(1.4)*	*(54.8)*	*(0.1)*	*0.4*	*(5.1)*	*(5.1)*	*(20.4)*	*2.7*
Div Yield	21.1%	7.8%	4.1%	0.8%	0.6%	0.6%	0.8%	1.0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	46	112	128	180	205	180	316	368
(inc)/Dec in Working Capital	15	(31)	(36)	(92)	(56)	(231)	(46)	(145)
Non Cash Op Exp	23	30	53	64	72	76	103	121
Int Paid (+)	18	20	32	40	32	33	43	62
Tax Paid	11	24	(32)	(49)	(60)	(63)	(96)	(112)
others	1	0	0	(0)	(0)	-	-	-
CF from Op. Activities	**114**	**156**	**145**	**144**	**193**	**(5)**	**320**	**295**
(inc)/Dec in FA & CWIP	(116)	(265)	(147)	(133)	(309)	(463)	(258)	(290)
Free Cashflow	(3)	(111)	(3)	9	(116)	(467)	63	5
(Pur)/Sale of Inv	(9)	9	-	-	(13)	-	-	-
others	(2)	1	2	5	4	-	-	-
CF from Inv. Activities	**(128)**	**(255)**	**(146)**	**(128)**	**(318)**	**(463)**	**(258)**	**(290)**
inc/(dec) in NW	1	1	1	133	83	3	(3)	-
inc/(dec) in Debt	85	155	39	(41)	15	360	13	(5)
Int. Paid	(18)	(20)	(32)	(41)	(32)	(33)	(43)	(62)
Div Paid (inc tax)	(5)	(5)	(8)	(23)	(22)	-	(23)	(23)
others	(17)	15	24	33	-	-	-	-
CF from Fin. Activities	**46**	**147**	**24**	**61**	**44**	**330**	**(55)**	**(90)**
Inc(Dec) in Cash	10	0	24	77	(80)	(138)	8	(85)
Add: Opening Balance	32	42	42	65	130	83	116	130
Closing Balance	42	42	65	142	50	(54)	123	45

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