

Industry	Pharmaceuticals
Bloomberg	GRAN IN
BSE CODE	532482

Formulation business led growth followed by PFIs and FDs.

RATING	NEUTRAL
CMP	116
Price Target	120
Potential Upside	4%

Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	120/79
Mkt Capital (Rs Cr)	2938
Free float (%)	55%
Avg. Vol 1M (,000)	839
No. of Shares (Crs)	25
Promoters Pledged %	37%

Research Analyst

J Madhavi

j.madhavi@narnolia.com
+91-22-62701222

2QFY20 Result update

- Granules posted a strong revenue growth of 20% YoY at Rs. 700 crs in Q2FY20 (above our estimates of Rs. 636 crs). The major growth came from geographies like US followed by Europe, revenue from US and Europe grew by 42% and 20% to Rs. 371 crs and 140 crs respectively.
- EBITDA grew by 43% YoY to Rs. 144 crs (vs our estimates of 123 crs) this quarter on account of increased revenue contribution from US and Europe (High margin geographies) in terms of geographies.
- PAT for the quarter grew by 59% to Rs.96 crs (vs our estimates of 68 crs), PAT has increased due to an increase in overall sales volumes and a reduction in tax rate.
- The Net debt has reduced from 18% YoY to 827 crs in Q2FY20; the proceeds from the divestment of JV will further improve the net debt position.
- The promoters pledge has reduced from 43% in Q1FY20 to 37% in Q2FY20, the management has guided for further reduction in the next few weeks and expects to bring it zero by FY21.

View and Valuation

Granules has reported a strong revenue growth of 20% YoY at Rs. 700 crs in Q2FY20, the formulation business of the company has performed above the expectations followed by PFIs and APIs which has further improved the margins as well. US and Europe has been the major geographic contributors in terms of revenues contributing 53% and 20% of the overall sales. We expect the full year revenue growth to be 21% on account of improvement in core molecules contribution, new molecule addition and geography addition. Going forward, the proceeds from the divestment of JV will further improve the net debt position. The long term prospects of the company looks promising with increased focus on formulations and high margin markets, the Oncology facility would be a key revenue contributor from FY21 onwards.

Post results, based on management commentary and strong PAT growth, we have increased our PAT estimates FY20/FY21 by 16% and 19% respectively. The reduction in debt and promoters pledge will be a key watch out in the coming quarter; therefore, we maintain our neutral stance at a target price of Rs.120.

Key Risks to our rating and target

- Reduction in the Promoters pledge and net debt
- Completion of divestment of Omnicem and Biocause JV
- Commercialization of the Oncology facility

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1411	1685	2279	2755	3402
EBITDA	299	278	384	540	646
EBIT	227	202	279	425	519
PAT	165	133	236	337	381
EPS (Rs)	7	5	9	13	15
EPS growth (%)	27%	-27%	78%	43%	13%
ROE (%)	18.2%	10.2%	15.5%	18.3%	17.3%
ROCE (%)	22.1%	11.6%	13.9%	18.7%	19.8%
BV	40	51	60	72	86
P/B (X)	3.5	2.0	1.9	1.6	1.3
P/E (x)	19.3	19.8	12.3	8.7	7.7

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2QFY20 Results

Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	581	632	613	595	700	20.4%	17.5%	1,685	2,279	35.3%
Other Income	4	6	2	2	9	107.4%	367.5%	11	27	146.1%
COGS	318	359	332	295	359	13.1%	21.6%	896	1,256	40.1%
Gross Margin	45.3%	43.2%	45.9%	50.4%	48.6%	3.3%	-1.7%	46.8%	44.9%	-1.9%
Employee Cost	55	54	51	57	63	16.2%	11.2%	165	210	27.0%
Other Expen.	108	106	133	124	133	23.2%	7.2%	345	430	24.7%
EBITDA	101	113	98	119	144	42.8%	21.1%	278	384	37.9%
EBITDA Mar.	17.3%	17.9%	15.9%	19.9%	20.5%	3.2%	0.6%	16.5%	16.8%	0.3%
Depreciation	27	27	27	29	30	14.3%	5.8%	76	105	38.4%
EBIT	74	86	70	90	113	53%	25.9%	202	279	37.7%
Interest	8	7	7	7	7	-10%	-0.2%	33	28	-13.9%
PBT	71	85	65	85	115	63.1%	35.5%	180	277	54%
Exceptional	-	-	-	-	-					
Tax	23	26	20	27	19	-17.3%	-29.0%	63	89	41%
PAT	47	58	45	58	96	102.8%	65.9%	117	188	61%
Minority	13	2	19	25				16	49	205%
APAT	60	60	64	83	96	59.0%	15.1%	133	236	78%
PAT Margin	10.4%	9.5%	10.4%	14.0%	13.7%	3.3%	-0.3%	7.9%	10.4%	-18%

The Increased share of formulations in the overall revenue will lead to margin expansion going ahead

The formulation mix in the overall revenue is at 50% in Q2FY20 compared to 45% in Q2FY19, which has led to the expansion in the margins. The APIs and PFIs constitute 19% and 31% of the overall sales. Going ahead, with the expected ANDA filings of 10 and ANDA approval of 4-5 products in FY20, we expect the formulation revenues to increase in the long run thus expanding the margins.

Concall Highlights

- The Overall revenues increased by 20% YoY to Rs.700 crs majorly driven by higher sales from FDs (due to increase in the market share for the existing molecules and new launches) and PFIs.
- In terms of geographic contribution, North America and Europe now constitutes 53% and 20% of the overall sales and this also contributed to the higher margins this quarter.
- The 8 core molecule contributes around 83% to the overall revenues.
- GPI revenue, EBITDA and PAT this quarter were 63 crs, 7.8 crs and 4.8 crs respectively compared to 46 crs, 16 crs and 9 crs in Q2FY19.
- The gross margin in the sequential basis went down by 174 bps to 48.6% on account of increased domestic API sales in this quarter. Going forward, the management expects 48% to be a sustainable margin.
- Other Income breakup: 2.6 crs Forex, 4.2 crs received as settlement of a litigation and rest from Treasury.
- The gross debt in Q2FY20 was at Rs.928 crs in comparison to Rs.1120 crs in Q2FY19.
- The proceeds expected to be received from the divestment of the JVs will not be used to debt reduction, rather would be kept as cash though it would improve the net debt position.
- Of the pending 22 ANDA (80% of the products filed from GPI are limited competition products, having less than 3-4 players at this point).The management is confident of continued supply of Ibuprofen supplies even after the divestment in the Biocause JVs on account of doubling of the capacity in India and across the globe.
- The Metformin API capacity received EIR in the previous quarter; this capacity is now operational and has contributed for 15 days in this quarter. In the Q3FY20, the full benefit of new capacity would be derived.

- The Oncology facility in Vizag: the filings of DMFs and APIs has started, expects revenue and PAT contribution from FY22.
- The management has guided for achieving 300 crs PAT in FY20 and 25% CAGR growth in PAT in the next 3 years.
- The management has expects to achieve more than 20% EBITDA margin for FY20 (Earlier guided for 19% EBITDA margin in FY20).
- The management has guided for the total capex of Rs.150 crs in FY20.
- The management has guided for 10 ANDA filings in FY20 and expect around 4-5 approvals for the full year.

Exhibit: Net Sales and Sales growth

Sales grew by 20% YoY to Rs.700 crs in Q2FY20 driven by growth in formulations followed by PFIs and APIs.

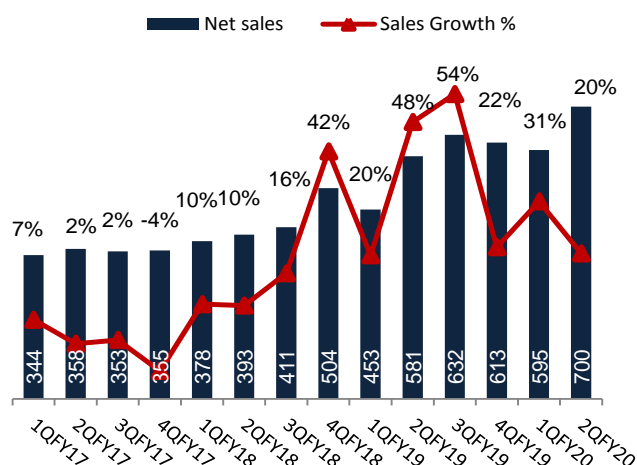


Exhibit: Segment Mix

The Formulations contribution is the overall sales has been increasing, and is currently at 50% of total sales.

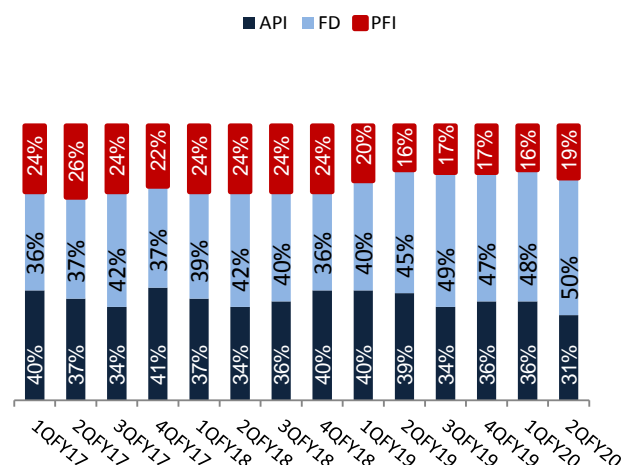


Exhibit: EBITDA and EBITDA margin

EBITDA saw a robust growth of 43% YoY in Q2FY20 on account on improved gross margin and reduced operating cost.

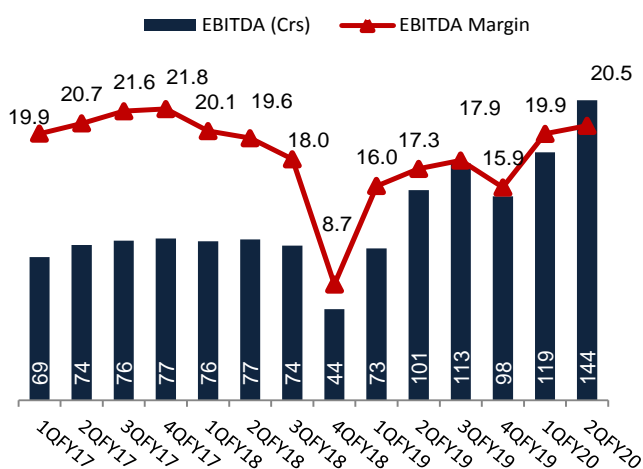
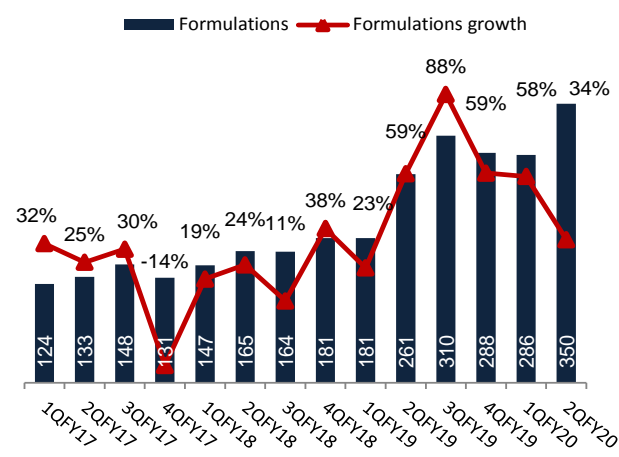


Exhibit: Formulation sales and Formulations growth

The FDs contribution in the overall sales is 50% now, the ramp in FD sales will continue in the high margin market.



Operational Details

Fig in Rs Cr

Geography	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	161	148	186	190	261	329	331	298	371
Europe	102	90	101	86	116	82	116	131	140
India	67	99	96	113	128	133	92	77	98
LATAM	39	49	55	36	46	63	49	48	56
ROW	24	25	65	27	29	25	25	42	35
Total	393	411	504	453	581	632	613	595	700

Revenue Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
North America	41%	36%	37%	42%	45%	52%	54%	50%	53%
Europe	26%	22%	20%	19%	20%	13%	19%	22%	20%
India	17%	24%	19%	25%	22%	21%	15%	13%	14%
LATAM	10%	12%	11%	8%	8%	10%	8%	8%	8%
ROW	6%	6%	13%	6%	5%	4%	4%	7%	5%

Segment Revenue	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
API	133	148	202	181	227	215	221	214	217
PFI	94	99	121	91	93	107	104	95	133
FD	165	164	181	181	261	310	288	286	350
Total	393	411	504	453	581	632	613	595	700

Revenue Mix	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
API	34%	36%	40%	40%	39%	34%	36%	36%	31%
PFI	24%	24%	24%	20%	16%	17%	17%	16%	19%
FD	42%	40%	36%	40%	45%	49%	47%	48%	50%

Revenue gr. %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
API	1%	23%	38%	30%	70%	45%	10%	18%	-4%
PFI	1%	16%	55%	0%	-1%	9%	-14%	5%	43%
FD	24%	11%	38%	23%	59%	88%	59%	58%	34%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	20	20	22	23	25	25	25	25
Reserves	335	411	640	881	1,279	1,504	1,816	2,171
Networth	356	431	662	904	1,304	1,529	1,841	2,196
Debt	410	428	577	598	958	933	840	850
Other Non Current Liab	35	53	62	64	62	78	93	96
Total Capital Employed	645	714	824	1,005	1,712	1,983	2,253	2,591
Net Fixed Assets (incl CWIP)	607	679	636	912	1,291	1,440	1,467	1,487
Non Current Investments	0	0	70	108	157	210	210	210
Other Non Current Assets	8	24	38	31	43	50	78	74
Non Current Assets	615	702	745	1,051	1,491	1,701	1,755	1,772
Inventory	174	225	254	269	280	384	415	513
Debtors	111	137	375	418	617	674	845	1,044
Cash & Bank	42	65	130	50	116	83	127	269
Other Current Assets	50	74	59	91	141	141	198	244
Current Assets	377	500	818	828	1,153	1,282	1,585	2,069
Creditors	136	188	181	216	252	323	423	522
Provisions	8	13	2	2	3	4	4	5
Other Current Liabilities	48	89	79	96	65	114	140	171
Curr Liabilities	192	290	262	313	319	442	566	698
Net Current Assets	185	210	556	515	834	840	1,019	1,371
Total Assets	992	1,203	1,563	1,879	2,644	2,983	3,341	3,841

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,096	1,294	1,357	1,411	1,685	2,279	2,755	3,402
Change (%)		18%	5%	4%	19%	35%	21%	23%
EBITDA	158	209	276	299	278	384	540	646
Change (%)		32%	32%	8%	-7%	38%	41%	20%
Margin (%)	14.4%	16.2%	20.4%	21.2%	16.5%	16.8%	19.6%	19.0%
Depr & Amor.	30	53	58	72	76	105	114	127
EBIT	128	157	218	227	202	279	425	519
Int. & other fin. Cost	20	32	37	32	33	28	26	26
Other Income	4	4	5	10	11	27	16	15
EBT	112	128	186	205	180	277	416	508
Exp Item	-	-	-	-	-	-	-	-
Tax	37	37	61	65	63	89	104	127
Minority Int & P/L share of Ass.	-	-	(2)	25	16	49	25	-
Reported PAT	75	91	123	165	133	236	337	381
Change (%)		21%	35%	34%	-19%	78%	43%	13%
Margin(%)	6.9%	7.0%	9.1%	11.7%	7.9%	10.4%	12.2%	11.2%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	21.1%	21.1%	18.6%	18.2%	10.2%	15.5%	18.3%	17.3%
ROCE	19.3%	21.3%	25.8%	22.1%	11.6%	13.9%	18.7%	19.8%
Asset Turnover	1.1	1.1	0.9	0.8	0.6	0.8	0.8	0.9
Debtor Days	37	39	101	108	134	108	112	112
Inv Days	58	63	68	70	61	62	55	55
Payable Days	45	53	49	56	55	52	56	56
Int Coverage	6	5	6	7	6	10	17	20
P/E	6.8	19.0	21.1	19.3	19.8	12.3	8.7	7.7
Price / Book Value	1.4	4.0	3.9	3.5	2.0	1.9	1.6	1.3
EV/EBITDA	5	9	10	11	11	9	6	5
FCF per Share	(8)	0	(0)	(6)	(18)	(1)	7	7
Div Yield	8%	4%	1%	1%	1%	1%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	112	128	186	205	180	277	416	508
(inc)/Dec in Working Capital	(31)	(31)	(80)	(52)	(230)	(76)	(154)	(202)
Non Cash Op Exp	30	53	58	72	76	105	114	127
Int Paid (+)	20	32	37	32	33	28	26	26
Tax Paid	(24)	(32)	(48)	(60)	(58)	(88)	(104)	(127)
others	0	0	(3)	(9)	(2)	16	25	-
CF from Op. Activities	108	150	151	188	(1)	262	323	331
(inc)/Dec in FA & CWIP	(267)	(148)	(162)	(317)	(446)	(279)	(141)	(147)
Free Cashflow	(159)	2	(11)	(128)	(447)	(17)	182	184
(Pur)/Sale of Inv								
others	12	3	1	(9)	(16)	10	-	-
CF from Inv. Activities	(255)	(146)	(162)	(326)	(462)	(270)	(141)	(147)
inc/(dec) in NW	1	1	133	83	293	1	-	-
inc/(dec) in Debt	171	58	13	27	296	40	(93)	10
Int. Paid	(20)	(32)	(37)	(32)	(31)	(28)	(26)	(26)
Div Paid (inc tax)	(5)	(8)	(23)	(22)	(29)	(31)	(26)	(26)
others								
CF from Fin. Activities	147	19	86	56	529	(17)	(144)	(41)
Inc(Dec) in Cash	0	24	75	(82)	66	(25)	38	142
Add: Opening Balance	42	42	55	124	42	108	89	127
Closing Balance	42	65	130	42	108	83	127	269

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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