

Industry **Pharmaceuticals**
 Bloomberg **GRAN IN**
 BSE CODE **532482**

Focus on Improving returns and FCF generation going ahead.

RATING	ACCUMULATE
CMP	140
Price Target	157
Potential Upside	12%

Rating Change	↓
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	153/84
Mkt Capital (Rs Cr)	3551
Free float (%)	55%
Avg. Vol 1M (,000)	1416
No. of Shares (Crs)	25
Promoters Pledged %	30%

3QFY20 Result update

- The overall sales grew by 11% YoY to Rs. 704 crs in Q3FY20 (vs our expectation of Rs. 720 crs). The major growth came from FDs, whose contribution in the overall revenue has increased from 49% in Q3FY19 to 53% in Q3FY20.
- The gross margin for the quarter increased by 755 bps YoY to 50.7% on account of increased revenue from GPI, better product mix and contribution from the new API facility in Vizag.
- EBITDA margin for the quarter increased by 524 bps YoY to 23.3% on account of positive contribution at the gross margin levels and minimal increase in the fixed operational expenses.
- PAT for the quarter grew by 6% YoY to Rs. 64 crs, adjusted for the one time exceptional item of Rs. 32 crs provided for impairment in Biocause, the PAT grew by 59%.
- The company expects a cash flow of around Rs. 200 crs from the sale of both its JV, and based on that the board has approved a buyback proposal of Rs. 200 per share at total value of Rs. 250 crs.

View and Valuation

Granules have reported a revenue growth of 11% YoY at Rs. 704 crs in Q3FY20, though sequentially the revenue growth remained muted. The EBITDA margin grew by 524 bps YoY to 23.3% on account of increased revenue from GPI, better product mix, contribution from the new API facility in Vizag and minimal increase in the fixed operational expenses. 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 20% on account of improvement in core molecules contribution, new launches and better capacity utilization. Going forward, the long term prospects of the company looks promising with increased focus on formulations and high margin markets; the Oncology facility and the Vizag facility would be a key revenue contributor from FY21 onwards. The management's continuous endeavor to reduce the pledge and major focus on improving the FCF and ROCE makes us positive about the stock; therefore, we maintain ACCUMULATE stance at a target price of Rs.157.

Key Risks to our rating and target

- Reduction in the Promoters pege.
- Completion of divestment of Omnicem and Biocause JV.
- Commercialization of the Oncology facility.

RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1411	1685	2279	2729	3367
EBITDA	299	278	384	582	677
EBIT	227	202	279	455	538
PAT	165	133	236	336	399
EPS (Rs)	7	5	9	13	16
EPS growth (%)	27%	-27%	78%	42%	19%
ROE (%)	18.2%	10.2%	15.5%	18.3%	18.0%
ROCE (%)	22.1%	11.6%	13.9%	20.0%	20.4%
BV	40	51	60	72	87
P/B (X)	3.5	2.0	1.9	1.9	1.6
P/E (x)	19.3	19.8	12.3	10.6	8.9

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3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	632	613	595	700	704	11.4%	0.6%	1,685	2,279	35.3%
Other Income	6	2	2	9	4	-40.3%	-59.5%	11	27	146.1%
COGS	359	332	295	359	347	-3.4%	-3.4%	896	1,256	40.1%
Gross Margin	43.2%	45.9%	50.4%	48.6%	50.7%	7.5%	2.1%	46.8%	44.9%	-1.9%
Employee Cost	54	51	57	63	65	20.7%	2.1%	165	210	27.0%
Other Expen.	106	133	124	133	129	22.1%	-3.1%	345	430	24.7%
EBITDA	113	98	119	144	163	44.0%	13.6%	278	384	37.9%
EBITDA Mar.	17.9%	15.9%	19.9%	20.5%	23.2%	5.2%	2.6%	16.5%	16.8%	0.3%
Depreciation	27	27	29	30	39	44.4%	28.6%	76	105	38.4%
EBIT	86	70	90	113	124	44%	9.6%	202	279	37.7%
Interest	7	7	7	7	7	-10%	-1.8%	33	28	-13.9%
PBT	85	65	85	115	121	42.8%	5.1%	180	277	54%
Exceptional Item	-	-	-	-	32					
Tax	26	20	27	19	25	-6.0%	28.8%	63	89	41%
PAT	58	45	58	96	64	10.0%	-33.2%	117	188	61%
Minority Interest	2	19	25					16	49	205%
APAT	58	45	58	96	96	65.0%	0.3%	133	236	78%
PAT Margin	9.5%	10.4%	14.0%	13.7%	9.1%	-0.5%	-4.6%	7.9%	10.4%	-18%

The Increased share of formulations in the overall revenue led to robust margin expansion.

The formulation mix in the overall revenue has increased to 54% in Q3FY20 from 49% in Q3FY19, which has led to the expansion in the margins. The Metformin API facility approved by USFDA last quarter can now be used by the company for Metformin FD production which will further improve the revenues from formulation, which in turn will lead to improvement in margins and positive addition to PAT improving FCF and ROCE.

Concall Highlights

- The overall sales for Q3FY20 grew by 11% YoY and remained flat sequentially at Rs. 704 crs.
- The 5 core molecule of the company contributes around 85% of the overall revenue. The formulations sales grew by 23% YoY to Rs. 379 crs majorly on account of Ritalin ramp up.
- The gross margin for the quarter increased by 755 bps YoY to 50.7% on account of increased revenue from GPI, better product mix and contribution from the new API facility in Vizag.
- EBITDA margin for the quarter increased by 524 bps YoY to 23.3% on account of positive contribution at the gross margin levels and minimal increase in the fixed operational expenses.
- PAT for the quarter grew by 6% YoY to Rs. 64 crs, adjusted for the one time exceptional item of Rs. 32 crs provided for impairment in Biocause, the PAT grew by 59%.
- The company expects a cash flow of around Rs. 200 crs from the sale of both its JV, and based on that the board has approved a buyback proposal of Rs. 200 per share at total value of Rs. 250 crs.
- The FCF for the quarter stood at Rs. 59 crs; for the 9MFY20, the FCF stood at 155 crs compared to -38 crs in March 2019.
- The Gross debt as on Dec 2019 stood at Rs.902 crs as compared to Rs. 1040 crs at the end of Q3FY19. The R&D spends expensed for the quarter stood at 22 crs (3% of sales).
- The company has received 3 ANDA approvals and has filed 2 ANDAs this quarter. As on Dec 2019, there are 19 ANDAs awaiting approvals.
- GPI- the revenues increased by 11% YoY to Rs. 88.72 crs, EBITDA stood at 19.38 crs and PAT 3.45 crs.
- The major focus of the company would be on improving the FCF and ROCE.
- The company's major focus would be on the bottom line which is expected to be driven by better product mix, new launches from GPI, and contribution from the new facility in Vizag and Metformin facility and new Oncology facility (yet to be commercialized).
- The Vizag facility has been commissioned, and is expected to break-even in FY21 and contribute meaningfully from FY22.
- **Guidance:**
 - EBITDA 21% + sustainable
 - 20-25 product filings in the next 2-3 yrs
 - Revenue CAGR 20%, PAT CAGR 25% and ROCE of 20%+ in the next 2-3 yrs

Exhibit: Net Sales and Sales growth

Sales grew by 11% YoY to Rs.704 crs in Q3FY20 driven by growth in formulations.

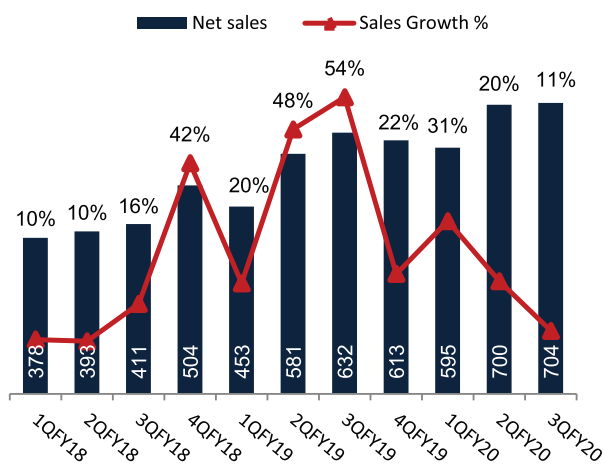


Exhibit: Segment Mix

The Formulations contribution to the overall sales has been increasing, and is currently at 54% of total sales.

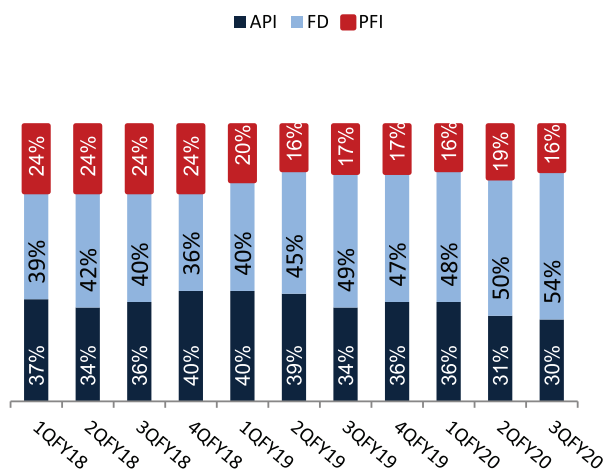


Exhibit: EBITDA and EBITDA margin

EBITDA margin increased by 524 bps YoY to 23.3% on account of positive contribution at the gross margin levels.

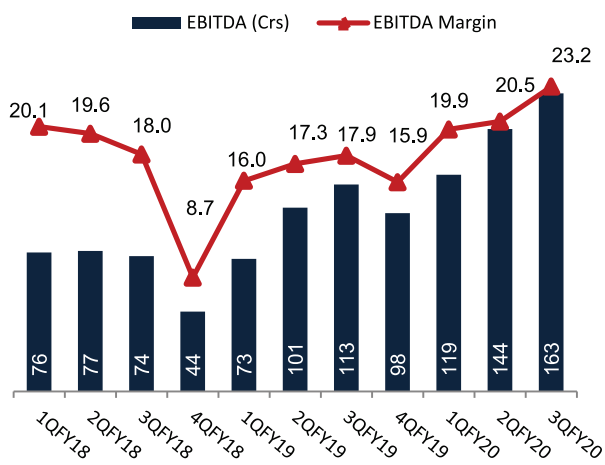
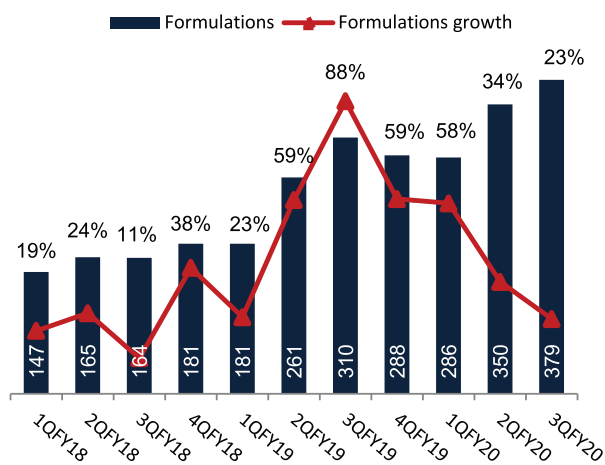


Exhibit: Formulation sales and Formulations growth

The FDs contribution in the overall sales is 54% now, the ramp in FD sales will continue in the high margin market.



Operational Details

Fig in Rs Cr

GEOGRAPHY %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
North America	148	186	190	261	329	331	298	371	373
Europe	90	101	86	116	82	116	131	140	149
India	99	96	113	128	133	92	77	98	103
LATAM	49	55	36	46	63	49	48	56	51
ROW	25	65	27	29	25	25	42	35	28
Total	411	504	453	581	632	613	595	700	704

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

SEGMENT REVENUE	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
API	148	202	181	227	215	221	214	217	209
PFI	99	121	91	93	107	104	95	133	116
FD	164	181	181	261	310	288	286	350	379
Total	411	504	453	581	632	613	595	700	704

REVENUE MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
API	36%	40%	40%	39%	34%	36%	36%	31%	30%
PFI	24%	24%	20%	16%	17%	17%	16%	19%	16%
FD	40%	36%	40%	45%	49%	47%	48%	50%	54%

REVENUE GR. %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
API	23%	38%	30%	70%	45%	10%	18%	-4%	-3%
PFI	16%	55%	0%	-1%	9%	-14%	5%	43%	8%
FD	11%	38%	23%	59%	88%	59%	58%	34%	23%

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	1,814	2,188
Networth	356	431	662	904	1,304	1,529	1,840	2,213
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	2,251	2,608
Net Fixed Assets (incl CWIP)	607	679	636	912	1,291	1,440	1,455	1,463
Non Current Investments	0	0	70	108	157	210	210	210
Other Non Current Assets	8	24	38	31	43	50	77	74
Non Current Assets	615	702	745	1,051	1,491	1,701	1,742	1,747
Inventory	174	225	254	269	280	384	411	507
Debtors	111	137	375	418	617	674	837	1,033
Cash & Bank	42	65	130	50	116	83	146	321
Other Current Assets	50	74	59	91	141	141	197	241
Current Assets	377	500	818	828	1,153	1,282	1,592	2,103
Creditors	136	188	181	216	252	323	419	517
Provisions	8	13	2	2	3	4	4	5
Other Current Liabilities	48	89	79	96	65	114	138	169
Curr Liabilities	192	290	262	313	319	442	561	691
Net Current Assets	185	210	556	515	834	840	1,030	1,412
Total Assets	992	1,203	1,563	1,879	2,644	2,983	3,334	3,850

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	2,729	3,367
Change (%)		18%	5%	4%	19%	35%	20%	23%
EBITDA	158	209	276	299	278	384	582	677
Change (%)		32%	32%	8%	-7%	38%	51%	16%
Margin (%)	14.4%	16.2%	20.4%	21.2%	16.5%	16.8%	21.3%	20.1%
Depr & Amor.	30	53	58	72	76	105	127	139
EBIT	128	157	218	227	202	279	455	538
Int. & other fin. Cost	20	32	37	32	33	28	28	28
Other Income	4	4	5	10	11	27	18	15
EBT	112	128	186	205	180	277	445	525
Exp Item	0	0	0	0	0	0	(32)	0
Tax	37	37	61	65	63	89	102	126
Minority Int & P/L share of Ass.	-	-	(2)	25	16	49	25	-
Reported PAT	75	91	123	165	133	236	336	399
Change (%)		21%	35%	34%	-19%	78%	42%	19%
Margin(%)	6.9%	7.0%	9.1%	11.7%	7.9%	10.4%	12.3%	11.8%

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%	18.0%
ROCE	19.3%	21.3%	25.8%	22.1%	11.6%	13.9%	20.0%	20.4%
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	16	19
P/E	6.8	19.0	21.1	19.3	19.8	12.3	10.6	8.9
Price / Book Value	1.4	4.0	3.9	3.5	2.0	1.9	1.9	1.6
EV/EBITDA	5	9	10	11	11	9	7	5
FCF per Share	(8)	0	(0)	(6)	(18)	(1)	8	9
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	445	525
(inc)/Dec in Working Capital	(31)	(31)	(80)	(52)	(230)	(76)	(145)	(200)
Non Cash Op Exp	30	53	58	72	76	105	127	139
Int Paid (+)	20	32	37	32	33	28	28	28
Tax Paid	(24)	(32)	(48)	(60)	(58)	(88)	(102)	(126)
others	0	0	(3)	(9)	(2)	16	25	-
CF from Op. Activities	108	150	151	188	(1)	262	377	366
(inc)/Dec in FA & CWIP	(267)	(148)	(162)	(317)	(446)	(279)	(141)	(147)
Free Cashflow	(159)	2	(11)	(128)	(447)	(17)	236	218
(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)	(28)	(28)
Div Paid (inc tax)	(5)	(8)	(23)	(22)	(29)	(31)	(26)	(26)
others								
CF from Fin. Activities	147	19	86	56	529	(17)	(146)	(43)
Inc(Dec) in Cash	0	24	75	(82)	66	(25)	57	175
Add: Opening Balance	42	42	55	124	42	108	89	146
Closing Balance	42	65	130	42	108	83	146	321

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