




Industry  
Bloomberg  
BSE CODE

Pharmaceuticals  
GRAN IN  
532482

## Robust margin expansion on account increased FDs share in the overall mix.

RATING	ACCUMULATE
CMP	181
Price Target	201
Potential Upside	11%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	188/84
Mkt Capital (Rs Cr)	4697
Free float (%)	55%
Avg. Vol 1M (,000)	1416
No. of Shares (Crs)	25
Promoters Pledged %	38%

### RESEARCH ANALYST

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#### 4QFY20 Result update

- The revenue for the quarter grew by 2% YoY on account of due to restriction imposed on export of Paracetamol API, PFI and FD's and disruption in logistics.
- EBITDA and EBITDA Margin in 4QFY20 was impacted due to one-off expense of Rs. 21.7 crs towards impairment of US pharma as a conservative measure due to delay in new product launches and approval.
- EBITDA grew by 25% adjusted for impairment taken for US pharma on account of increased capacity of Metformin commissioned last year, better FD margins, new product launches from GPI & contribution from Vizag API plant with higher margin products.
- The gross margin improved from 45.9% in 4QFY19 to 53.5% in 4QFY20 on account of increased FDs share & launch of new products at GPI. EBITDA margin adjusted for the impairment increased by 440 bps YoY to 20.3%.
- Q4FY20 PAT grew by 44% YoY to Rs. 92 crs. Adjusted for exceptional gain of Rs 59.7 crs from the sale of Omnichem JV, long term capital gain tax payable on the exceptional item of Rs 27.8 crs, impairment of Investments of Rs. 21.7 crs & deferred tax reversal of Rs. 6.3 crs, PAT stood at Rs. 75.8 crs (in-line with our estimate).

#### View and Valuation

GRANULES revenues declined by 2% in 4QFY20 on account of restriction imposed on export of Paracetamol API, PFI & FD's and disruption in logistics. Going ahead the management is confident of continued growth momentum based on increased contribution from higher-margin FDs, new product launches from GPI & contribution from Vizag API plant with higher margin products.

Being vertically integrated, the company has the ability to manufacture & supply FDs with its own API, which has enabled the company to improve their gross margin. The company has been successful in managing the working capital cycle by reducing the working capital days from 118 days in FY19 to 104 days in FY20. The strategy going ahead would be to focus on the profitability through better capacity utilization and by enhancing product mix and operational cost efficiencies. Therefore, the long term prospects of the company look promising. We increase our rating from NEUTRAL to ACCUMUALTE with a target price of Rs.201.

#### Key Risks to our rating and target

- Delay in product approvals or launches in the U.S.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	1411	1685	2279	2599	2977
EBITDA	299	278	384	525	670
EBIT	227	202	279	388	516
PAT	165	133	236	335	384
EPS (Rs)	7	5	9	13	15
EPS growth (%)	27%	-27%	78%	42%	14%
ROE (%)	18.2%	10.2%	15.5%	18.2%	17.4%
ROCE (%)	22.1%	11.6%	13.9%	17.1%	19.7%
BV	40	51	60	73	87
P/B (X)	3.5	2.0	1.9	2.0	2.1
P/E (x)	19.3	19.8	12.3	10.9	12.0

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## 4QFY20 Results

Fig in Rs Cr

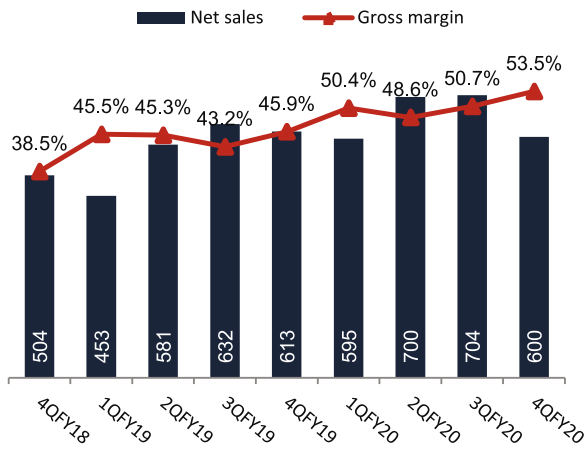
FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ %	FY19	FY20	YoY %
Net Sales	613	595	700	704	600	-2.2%	-14.8%	2,279	2,599	14.0%
Other Income	2	2	9	4	23	1096.6%	541.6%	27	37	37.0%
COGS	332	295	359	347	279	-15.8%	-19.6%	1,256	1,281	2.0%
Gross Margin	45.9%	50.4%	48.6%	50.7%	53.5%	7.5%	2.8%	44.9%	50.7%	5.8%
Employee Cost	51	57	63	65	74	43.8%	14.0%	210	259	23.5%
Other Expen.	133	124	133	129	147	10.7%	14.0%	430	533	24.1%
EBITDA	98	119	144	163	100	2.4%	-38.7%	384	525	36.8%
EBITDA Mar.	15.9%	19.9%	20.5%	23.2%	16.7%	0.7%	-6.5%	16.8%	20.2%	3.4%
Depreciation	27	29	30	39	39	42.1%	-0.1%	105	137	29.8%
EBIT	70	90	113	124	61	-13%	-50.9%	279	388	39.4%
Interest	7	7	7	7	7	-4%	-2.3%	28	27	-5.0%
PBT	65	85	115	121	77	17.9%	-36.4%	277	398	44%
Exceptional Item	-	-	-	32	(60)		NA		28	
Tax	20	27	19	25	44	119.8%	78.3%	89	116	30%
PAT	45	58	96	64	92	105.0%	44.2%	188	310	65%
Minority Interest	19	25						49	25	-48%
APAT	45	58	96	96	33	-27.7%	-66.1%	236	335	42%
PAT Margin	10.4%	14.0%	13.7%	9.1%	15.4%	5.0%	6.3%	10.4%	12.9%	3%

## Concall Highlights

- EBITDA grew by 25% adjusted for impairment taken for US pharma on account of increased capacity of Metformin commissioned last year, better FD margins, new product launches from GPI & contribution from Vizag API plant with higher margin products.
- The USFDA tested few samples of API & FDs of Metformin for NDMA content, the company has been recently communicated by the USFDA that the tested samples did not detect NDMA.
- The revenues from the top 5 core products reduced by 5% YoY due to restriction imposed on the export of API, PFI & FDs of Paracetamol, lockdown in the last week of March & increased contribution from the other products. The 5 core products contribute 85% of the total revenues.
- Post the upliftment of restriction from Paracetamol, the company sees significant increase in demand for Paracetamol & other products as well and have strong order book. The primary increase is expected to be seen in US products in terms of dispatches.
- The manufacturing capacities of the facilities are at 90-95%, with no supply disruption seen since March2020.
- The gross margin improved from 45.9% in 4QFY19 to 53.5% in 4QFY20 on account of increased FDs share & launch of new products at GPI. EBITDA margin adjusted for the impairment increased by 440 bps YoY to 20.3%. The management expects the sustainable gross & EBITDA margins to be in the range of 50% & 20-21% respectively.
- The strategy of the company going ahead would be to focus on higher profitability with high margin products rather than chasing topline.
- The company expects to backward integrate all the products filed in the FD space which would improve the gross margins going ahead. Therefore, this Vizag API plant will be the next growth driver for the company.
- The company going ahead may invest into key intermediates to reduce its dependence on China.
- Buyback of shares in on track and is expected to be completed by the first week of July 2020.
- R&D in absolute terms is expected to remain stable. Along with FDs, R&D would be spent on APIs as well for making APIs more process efficient.

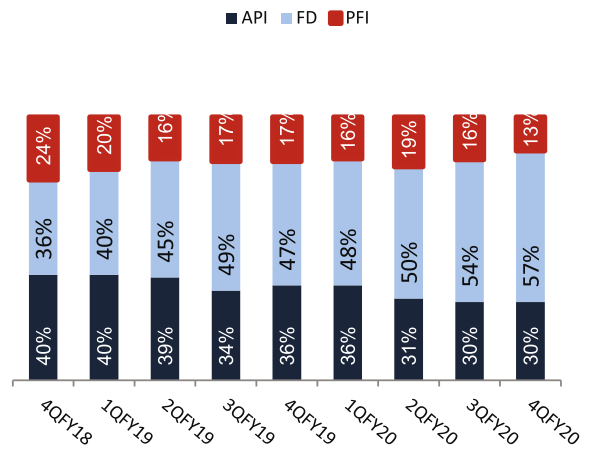
## Exhibit: Net Sales and gross margin

Net sales stayed muted. Gross margin improved on account of increased FDs share & launch of new products at GPI.



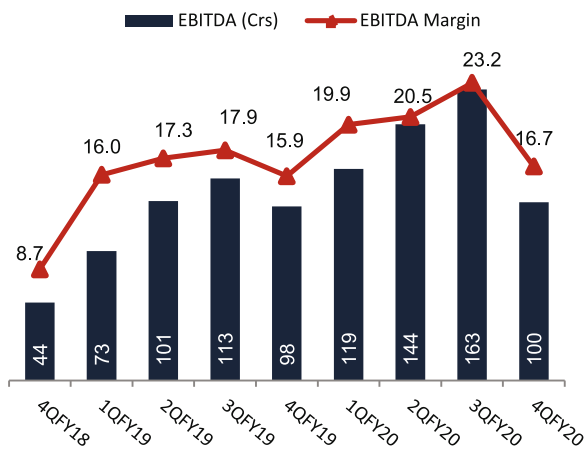
## Exhibit: Segment Mix

Fds share increased from 47% in 4QFY19 to 57% in 4QFY20 leading to expansion in gross margin.



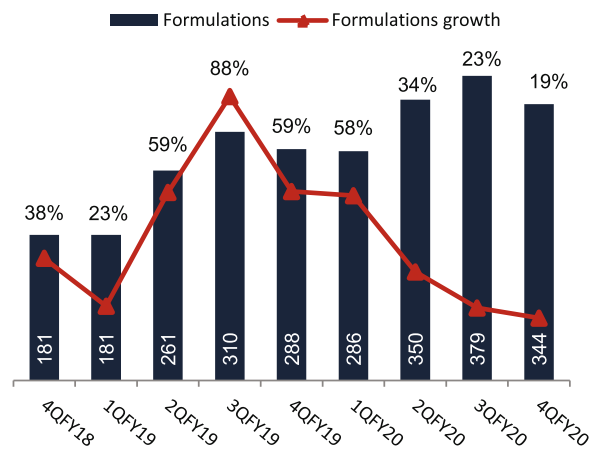
## Exhibit: EBITDA and EBITDA margin

EBITDA margin adjusted for the impairment of US Pharma (22 crs) increased by 440 bps YoY to 20.3%.



## Exhibit: Formulation sales and Formulations growth

Fds sales in 4QFY20 was impacted due to restriction imposed on Paracetamol export & logistics disruption.



### Operational Details

Fig in Rs Cr

GEOGRAPHY	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	186	190	261	329	331	298	371	373	345
Europe	101	86	116	82	116	131	140	149	86
India	96	113	128	133	92	77	98	103	100
LATAM	55	36	46	63	49	48	56	51	51
ROW	65	27	29	25	25	42	35	28	18
<b>Total</b>	<b>504</b>	<b>453</b>	<b>581</b>	<b>632</b>	<b>613</b>	<b>595</b>	<b>700</b>	<b>704</b>	<b>600</b>

REVENUE MIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
North America	37%	42%	45%	52%	54%	50%	53%	53%	58%
Europe	20%	19%	20%	13%	19%	22%	20%	21%	14%
India	19%	25%	22%	21%	15%	13%	14%	15%	17%
LATAM	11%	8%	8%	10%	8%	8%	8%	7%	8%
ROW	13%	6%	5%	4%	4%	7%	5%	4%	3%

SEGMENT REVENUE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
API	202	181	227	215	221	214	217	209	178
PFI	121	91	93	107	104	95	133	116	78
FD	181	181	261	310	288	286	350	379	344
<b>Total</b>	<b>504</b>	<b>453</b>	<b>581</b>	<b>632</b>	<b>613</b>	<b>595</b>	<b>700</b>	<b>704</b>	<b>600</b>

REVENUE MIX	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
API	44%	31%	36%	35%	37%	31%	31%	30%	30%
PFI	27%	16%	15%	18%	18%	14%	19%	16%	13%
FD	40%	31%	41%	51%	48%	41%	50%	54%	57%

REVENUE GR. %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
API	38%	30%	70%	45%	10%	18%	-4%	-3%	-19%
PFI	55%	0%	-1%	9%	-14%	5%	43%	8%	-25%
FD	38%	23%	59%	88%	59%	58%	34%	23%	19%

## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	20	20	22	23	25	25	25	25
Reserves	335	411	640	881	1,279	1,504	1,818	2,176
<b>Networth</b>	<b>356</b>	<b>431</b>	<b>662</b>	<b>904</b>	<b>1,304</b>	<b>1,529</b>	<b>1,844</b>	<b>2,202</b>
Debt	410	428	577	598	958	933	793	793
Other Non Current Liab	35	53	62	64	62	78	70	66
<b>Total Capital Employed</b>	<b>645</b>	<b>714</b>	<b>824</b>	<b>1,005</b>	<b>1,712</b>	<b>1,983</b>	<b>2,240</b>	<b>2,598</b>
Net Fixed Assets (incl CWIP)	607	679	636	912	1,291	1,440	1,498	1,517
Non Current Investments	0	0	70	108	157	210	19	19
Other Non Current Assets	8	24	38	31	43	50	82	70
<b>Non Current Assets</b>	<b>615</b>	<b>702</b>	<b>745</b>	<b>1,051</b>	<b>1,491</b>	<b>1,701</b>	<b>1,600</b>	<b>1,606</b>
Inventory	174	225	254	269	280	384	438	502
Debtors	111	137	375	418	617	674	735	842
Cash & Bank	42	65	130	50	116	83	186	634
Other Current Assets	50	74	59	91	141	141	232	152
<b>Current Assets</b>	<b>377</b>	<b>500</b>	<b>818</b>	<b>828</b>	<b>1,153</b>	<b>1,282</b>	<b>1,592</b>	<b>2,131</b>
Creditors	136	188	181	216	252	323	430	493
Provisions	8	13	2	2	3	4	6	5
Other Current Liabilities	48	89	79	96	65	114	159	178
<b>Curr Liabilities</b>	<b>192</b>	<b>290</b>	<b>262</b>	<b>313</b>	<b>319</b>	<b>442</b>	<b>595</b>	<b>676</b>
<b>Net Current Assets</b>	<b>185</b>	<b>210</b>	<b>556</b>	<b>515</b>	<b>834</b>	<b>840</b>	<b>997</b>	<b>1,454</b>
<b>Total Assets</b>	<b>992</b>	<b>1,203</b>	<b>1,563</b>	<b>1,879</b>	<b>2,644</b>	<b>2,983</b>	<b>3,301</b>	<b>3,737</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Revenue from Operation</b>	<b>1,096</b>	<b>1,294</b>	<b>1,357</b>	<b>1,411</b>	<b>1,685</b>	<b>2,279</b>	<b>2,599</b>	<b>2,977</b>
Change (%)	-	18%	5%	4%	19%	35%	14%	15%
<b>EBITDA</b>	<b>158</b>	<b>209</b>	<b>276</b>	<b>299</b>	<b>278</b>	<b>384</b>	<b>525</b>	<b>670</b>
Change (%)	-	32%	32%	8%	-7%	38%	37%	28%
Margin (%)	14.4%	16.2%	20.4%	21.2%	16.5%	16.8%	20.2%	22.5%
Depr & Amor.	30	53	58	72	76	105	137	154
<b>EBIT</b>	<b>128</b>	<b>157</b>	<b>218</b>	<b>227</b>	<b>202</b>	<b>279</b>	<b>388</b>	<b>516</b>
Int. & other fin. Cost	20	32	37	32	33	28	27	26
Other Income	4	4	5	10	11	27	37	15
<b>EBT</b>	<b>112</b>	<b>128</b>	<b>186</b>	<b>205</b>	<b>180</b>	<b>277</b>	<b>398</b>	<b>505</b>
Exp Item	0	0	0	0	0	0	28	0
Tax	37	37	61	65	63	89	116	121
Minority Int & P/L share of Ass.	-	-	(2)	25	16	49	-	-
<b>Reported PAT</b>	<b>75</b>	<b>91</b>	<b>123</b>	<b>165</b>	<b>133</b>	<b>236</b>	<b>335</b>	<b>384</b>
Change (%)	-	21%	35%	34%	-19%	78%	42%	14%
Margin(%)	6.9%	7.0%	9.1%	11.7%	7.9%	10.4%	12.9%	12.9%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	21.1%	21.1%	18.6%	18.2%	10.2%	15.5%	18.2%	17.4%
ROCE	19.3%	21.3%	25.8%	22.1%	11.6%	13.9%	17.1%	19.7%
Asset Turnover	1.1	1.1	0.9	0.8	0.6	0.8	0.8	0.8
Debtor Days	37	39	101	108	134	108	103	103
Inv Days	58	63	68	70	61	62	62	62
Payable Days	45	53	49	56	55	52	60	60
Int Coverage	6	5	6	7	6	10	14	20
P/E	6.8	19.0	21.1	19.3	19.8	12.3	10.9	12.0
Price / Book Value	1.4	4.0	3.9	3.5	2.0	1.9	2.0	2.1
EV/EBITDA	5	9	10	11	11	9	7	7
FCF per Share	(8)	0	(0)	(6)	(18)	(1)	11	16
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	FY20	FY21E
PBT	112	128	186	205	180	277	426	505
(inc)/Dec in Working Capital	(31)	(31)	(80)	(52)	(230)	(76)	13	(99)
Non Cash Op Exp	30	53	58	72	76	105	137	154
Int Paid (+)	20	32	37	32	33	28	27	26
Tax Paid	(24)	(32)	(48)	(60)	(58)	(88)	(119)	(121)
others	0	0	(3)	(9)	(2)	16	2	-
<b>CF from Op. Activities</b>	<b>108</b>	<b>150</b>	<b>151</b>	<b>188</b>	<b>(1)</b>	<b>262</b>	<b>485</b>	<b>464</b>
(inc)/Dec in FA & CWIP	(267)	(148)	(162)	(317)	(446)	(279)	(184)	(172)
Free Cashflow	(159)	2	(11)	(128)	(447)	(17)	301	292
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	12	3	1	(9)	(16)	10	24	-
<b>CF from Inv. Activities</b>	<b>(255)</b>	<b>(146)</b>	<b>(162)</b>	<b>(326)</b>	<b>(462)</b>	<b>(270)</b>	<b>(161)</b>	<b>(172)</b>
inc/(dec) in NW	1	1	133	83	293	1	-	-
inc/(dec) in Debt	171	58	13	27	296	40	(153)	-
Int. Paid	(20)	(32)	(37)	(32)	(31)	(28)	(27)	(26)
Div Paid (inc tax)	(5)	(8)	(23)	(22)	(29)	(31)	(31)	(26)
others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>147</b>	<b>19</b>	<b>86</b>	<b>56</b>	<b>529</b>	<b>(17)</b>	<b>(211)</b>	<b>(52)</b>
Inc(Dec) in Cash	0	24	75	(82)	66	(25)	103	350
<b>Add: Opening Balance</b>	<b>42</b>	<b>42</b>	<b>55</b>	<b>124</b>	<b>42</b>	<b>108</b>	<b>83</b>	<b>284</b>
Closing Balance	42	65	130	42	108	83	186	634

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.-SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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