

Industry
Bloomberg
BSE CODE

Pharmaceuticals
GRAN IN
532482

Continued growth momentum to be driven by new launches, geography expansion & operational efficiencies.

RATING	BUY
CMP	264
Price Target	301
Potential Upside	14%
Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	267/84
Mkt Capital (Rs Cr)	6713
Free float (%)	55%
Avg. Vol 1M (,000)	3774
No. of Shares (Crs)	25
Promoters Pledged %	9%

RESEARCH ANALYST

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1QFY21 Result update

- The Total revenue grew by 24% YoY to Rs.736 crs due to a significant increase in production to cater to new product launches and increase in market share of the base business from PFI and FD sales.
- The gross margin improved from 50.4% in 1QFY20 to 59.5% in 1QFY21 based on higher realization, increased market share & product rationalization in the PFI & FD segments based on profitability. There was an element of freight cost paid by the customers & overhead reversal in the cost of material on account of increase in inventory, which added 2.4% to the gross margin.
- EBITDA grew by 54.8% YoY to Rs.184 crs & EBITDA margin grew by 503 bps YoY to 25% based on increased gross margin & improved operational efficiency.
- PAT for the quarter excluding JVs contribution (Rs.25 crs) in the previous year grew by 93% YoY at Rs.111 crs on account of improved revenue growth due to strong demand & operational efficiency.
- The company has conducted Voluntary nationwide Class 2 recall of Metformin Hydrochloride ER Tablets USP, 750 mg due to the Detection of NDMA Impurity; a provision has been created of Rs. 15 crs providing for current estimate of impact.

View and Valuation

Granules reported highest ever quarterly performance with a revenue growth of 23.6% YoY. The increased contribution from PFI & FDs over the quarters & operational efficiencies has led to an impressive EBITDA margin expansion of 503 bps YoY at 25% in 1QFY21. Going forward, we expect to see continued growth momentum based on the increased formulation contribution in the overall mix with 7-8 new launches each year in the high margin geographies of US & Europe. The recent recall of Metformin ER 750 mg will have least impact on the overall revenues growth. The continued investment in the backward integration process will bring about operational efficiency, which in turn will lead to margin expansion. The company has recently started the construction of a new block in the existing formulation plant in Gagillapur with the expectations of approval of 4-5 high volume & high value complex molecules in the next 3-4 yrs. The construction will be completed over the next 15-18 months with expected payback within 24-36 months from the date of commissioning.

Based on strong management guidance, we expect revenues & PAT to grow at CAGR of 20% & 26% over FY20-22. Therefore, we increased our rating from NEUTRAL to BUY at a target price of Rs.301 at 13.8x FY22E EPS.

Key Risks to our rating and target

- Increase in the raw material cost due to Covid & geo political issues with China.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY18	FY19	FY20	FY21E	FY22E
Net Sales	1685	2279	2599	3173	3717
EBITDA	278	384	525	720	857
EBIT	202	279	388	582	700
PAT	133	236	335	442	537
EPS (Rs)	5	9	13	18	22
EPS growth (%)	-27%	78%	42%	36%	21%
ROE (%)	10.2%	15.5%	18.2%	19.6%	19.4%
ROCE (%)	11.6%	13.9%	17.1%	21.7%	21.9%
BV	51	60	73	91	112
P/B (X)	2.0	1.9	2.0	2.9	2.4
P/E (x)	19.8	12.3	10.9	14.7	12.2

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1QFY21 Results

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	595	700	704	600	736	23.6%	22.6%	2,279	2,599	14.0%
Other Income	2	9	4	23	6	203.6%	-75.0%	27	37	37.0%
COGS	295	359	347	279	298	0.7%	6.6%	1,256	1,281	2.0%
Gross Margin	50.4%	48.6%	50.7%	53.5%	59.5%	9.2%	6.1%	44.9%	50.7%	5.8%
Employee Cost	57	63	65	74	84	46.7%	13.3%	210	259	23.5%
Other Expen.	124	133	129	147	171	37.5%	16.1%	430	533	24.1%
EBITDA	119	144	163	100	184	54.8%	83.7%	384	525	36.8%
EBITDA Mar.	19.9%	20.5%	23.2%	16.7%	25.0%	5.0%	8.3%	16.8%	20.2%	3.4%
Depreciation	29	30	39	39	34	18.9%	-12.6%	105	137	29.8%
EBIT	90	113	124	61	150	66%	145.2%	279	388	39.4%
Interest	7	7	7	7	6	-13%	-9.4%	28	27	-5.0%
PBT	85	115	121	77	149	75.6%	93.9%	277	398	44%
Exceptional Item	-	-	32	(60)	-	-	-100%		28	-
Tax	27	19	25	44	38	38.8%	-14.9%	89	116	30%
PAT	58	96	64	92	111	93.0%	20.7%	188	310	65%
Minority Interest	25	-	-	-	-	-	-	49	25	-48%
APAT	58	96	96	33	111	93.0%	242.2%	236	335	42%
PAT Margin	14.0%	13.7%	9.1%	15.4%	15.2%	1.2%	-0.2%	10.4%	12.9%	3%

Concall Highlights

- The revenues grew by 24% YoY to Rs.736 crs due to a significant increase in production to cater to new product launches and increase in market share of existing products across the three verticals.
- GPI (US business)- the revenues were lower than anticipated this quarter primarily due to stabilization in the stock levels compared to 4QFY20, also the full impact of new launches i.e., Colchicine tablets and Butalbital APAP caffeine tablets wasn't visible in the numbers.
- The company filed 3 ANDAs/Dossiers in North America and European markets and received 6 ANDAs approval (including 1 tentative approval) from the USFDA during the quarter. Going forward, the company expects to file 7-9 ANDAs & dossiers per year and will invest in backward integrating each product for sustainable growth ahead.
- GPI contributes 11% to the topline today; in the next 3-4 yrs, the company expects revenue to grow 4 folds from GPI. US as a market are expected to contribute 68-70% of the total revenues in the next 3-4 yrs from 53% today.
- Guidance- the Company is confident of crossing 30% PAT growth in FY21 compared to previous year. Going forward, the strong revenue growth along with the higher utilization of capacity will lead to better EBITDA margins.
- The company expects R&D spend to increase in absolute terms going ahead, it will be more focussed on limited no. of medium – large volume integrated molecule along with few strategic differentiated products.
- During the quarter, the company voluntarily recalled Metformin Hydrochloride ER Tablets USP, 750 mg due to the Detection of NDMA Impurity. Metformin 750 mg contributed 0.3% to the total revenues in FY20. The company expects to re-launch the product soon.
- The company is working on reducing its dependence on china. 3 products were imported from china; the company has taken care of 2 products by having multiple sources. For 1 product, the company is trying to backward integrate in the next couple of years.
- The gross margin improved from 50.4% in 1QFY20 to 59.5% in 1QFY21 based on higher realization from the new launches, increased market share from the existing products & product rationalization in the PFI & FD segments based on profitability. Going forward, the Gross margin might see some impact on the back of increase in the RM cost from vendors due to Covid & geo-political challenges.
- The company expects capex of Rs 350-400 crs in FY21 & FY22 respectively.

Construction of a new facility to cater to the increased demand growth

The company has started the construction of a new block in the existing formulation plant of Gagillapur with an expected capex spend of Rs.250 crs over the next 15-18 months, to be funded from the internal accruals. The company expects to get approval of 4-5 high volume & high value complex molecules in the next 3-4 years; along with this the strong demand growth in the current high volume products portfolio has led to the need for additional capacity. This new plant will cater to this increased demand growth with the capacity of 4-5 bn tablets per year.

This new facility will be one of the largest & most integrated multi-particulate system tableting facilities. This facility once fully constructed will also provide additional PFI capacity & additional compression capacity of 2.5 bn units per year. The company expects the facility to pay back within 24-36 months from the date of commissioning.

Reduction in the pledge from 16.13% to 3.64% of the total shareholders' equity

The company recently completed the buyback of 7101374 equity shares on 1st July 2020. Post Buyback, the no of shares for promoters has reduced from 10.90 crs to 10.41 crs equity shares, thereby reducing the total promoter's stake from 42.86% to 42.13%.

The promoters have reduced 12.95% of the total equity share pledge on GIL. Post this event, 3.64% of the total shareholder's equity is currently pledged.

Exhibit: Net Sales and gross margin

Net sales grew by 24 % YoY, gross margin improved from 50.4% in 1QFY20 to 59.5% in 1QFY21.

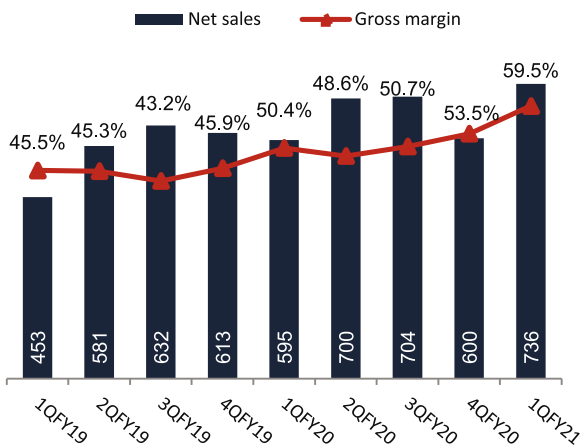


Exhibit: Segment Mix

Fds share increased from 48% in 1QFY20 to 52% in 1QFY21 leading to expansion in gross margin.

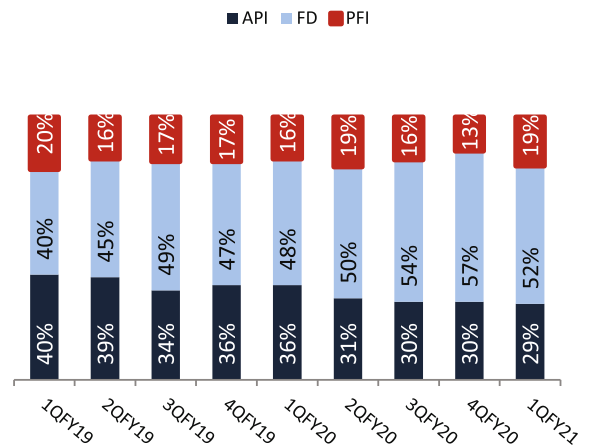


Exhibit: EBITDA and EBITDA margin

EBITDA margin grew by 503 bps YoY to 25% based on increased gross margin & improved operational efficiency.

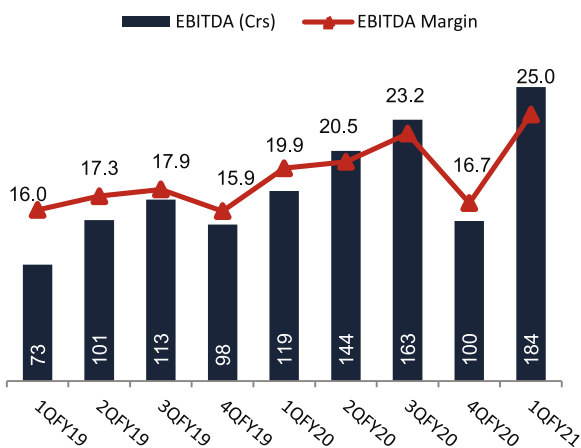
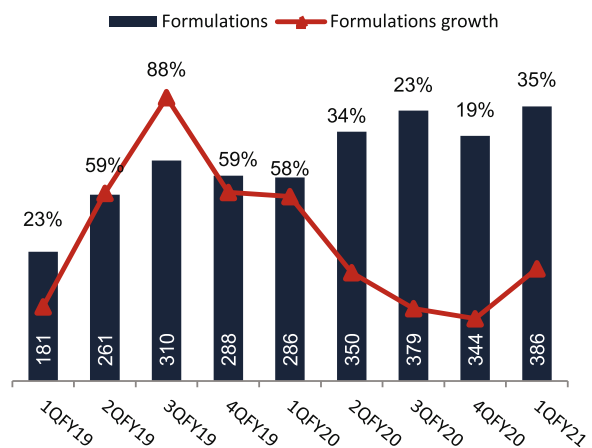


Exhibit: Formulation sales and Formulations growth

Fds sales in 1QFY21 grew by 35% YoY to Rs.386 crs based on increased launches from GPI.



Operational Details

Fig in Rs Cr

GEOGRAPHY	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
North America	190	261	329	331	298	371	373	345	381
Europe	86	116	82	116	131	140	149	86	141
India	113	128	133	92	77	98	103	100	86
LATAM	36	46	63	49	48	56	51	51	84
ROW	27	29	25	25	42	35	28	18	43
Total	453	581	632	613	595	700	704	600	736

REVENUE MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
North America	42%	45%	52%	54%	50%	53%	53%	58%	52%
Europe	19%	20%	13%	19%	22%	20%	21%	14%	19%
India	25%	22%	21%	15%	13%	14%	15%	17%	12%
LATAM	8%	8%	10%	8%	8%	8%	7%	8%	11%
ROW	6%	5%	4%	4%	7%	5%	4%	3%	6%

SEGMENT REVENUE	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
API	181	227	215	221	214	217	209	178	212
PFI	91	93	107	104	95	133	116	78	138
FD	181	261	310	288	286	350	379	344	386
Total	453	581	632	613	595	700	704	600	736

REVENUE MIX	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
API	31%	36%	35%	37%	31%	31%	30%	30%	29%
PFI	16%	15%	18%	18%	14%	19%	16%	13%	19%
FD	31%	41%	51%	48%	41%	50%	54%	57%	52%

REVENUE GR. %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
API	30%	70%	45%	10%	18%	-4%	-3%	-19%	-1%
PFI	0%	-1%	9%	-14%	5%	43%	8%	-25%	45%
FD	23%	59%	88%	59%	58%	34%	23%	19%	35%

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	20	22	23	25	25	25	25	25
Reserves	411	640	881	1,279	1,504	1,818	2,236	2,748
Networth	431	662	904	1,304	1,529	1,844	2,261	2,772
Debt	428	577	598	958	933	793	793	793
Other Non Current Liab	53	62	64	62	78	70	76	77
Total Capital Employed	714	824	1,005	1,712	1,983	2,240	2,657	3,169
Net Fixed Assets (incl CWIP)	679	636	912	1,291	1,440	1,498	1,662	1,805
Non Current Investments	0	70	108	157	210	19	30	30
Other Non Current Assets	24	38	31	43	50	82	73	86
Non Current Assets	702	745	1,051	1,491	1,701	1,600	1,765	1,920
Inventory	225	254	269	280	384	438	535	627
Debtors	137	375	418	617	674	735	898	1,052
Cash & Bank	65	130	50	116	83	186	492	701
Other Current Assets	74	59	91	141	141	232	162	187
Current Assets	500	818	828	1,153	1,282	1,592	2,086	2,567
Creditors	188	181	216	252	323	430	525	615
Provisions	13	2	2	3	4	6	7	8
Other Current Liabilities	89	79	96	65	114	159	190	222
Curr Liabilities	290	262	313	319	442	595	721	845
Net Current Assets	210	556	515	834	840	997	1,365	1,722
Total Assets	1,203	1,563	1,879	2,644	2,983	3,301	3,852	4,487

Income Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenue from Operation	1,294	1,357	1,411	1,685	2,279	2,599	3,173	3,717
Change (%)	18%	5%	4%	19%	35%	14%	22%	17%
EBITDA	209	276	299	278	384	525	720	857
Change (%)	0	32%	8%	-7%	38%	37%	37%	19%
Margin (%)	16.2%	20.4%	21.2%	16.5%	16.8%	20.2%	22.7%	23.1%
Depr & Amor.	53	58	72	76	105	137	138	157
EBIT	157	218	227	202	279	388	582	700
Int. & other fin. Cost	32	37	32	33	28	27	26	26
Other Income	4	5	10	11	27	37	23	33
EBT	128	186	205	180	277	398	579	706
Exp Item	0	0	0	0	0	-28	-	0
Tax	37	61	65	63	89	116	137	169
Minority Int & P/L share of Ass.	-	(2)	25	16	49	-	-	-
Reported PAT	91	123	165	133	236	335	442	537
Adjusted PAT	91	123	165	133	236	338	442	537
Change (%)	21%	35%	34%	-19%	78%	43%	31%	21%
Margin(%)	7.0%	9.1%	11.7%	7.9%	10.4%	12.9%	13.9%	14.4%

Financial Details

Key Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
ROE	21.1%	18.6%	18.2%	10.2%	15.5%	18.2%	19.6%	19.4%
ROCE	21.3%	25.8%	22.1%	11.6%	13.9%	17.1%	21.7%	21.9%
Asset Turnover	1.1	0.9	0.8	0.6	0.8	0.8	0.8	0.8
Debtor Days	39	101	108	134	108	103	103	103
Inv Days	63	68	70	61	62	62	62	62
Payable Days	53	49	56	55	52	60	60	60
Int Coverage	5	6	7	6	10	14	22	27
P/E	19.0	21.1	19.3	19.8	12.3	10.9	14.7	12.2
Price / Book Value	4.0	3.9	3.5	2.0	1.9	2.0	2.9	2.4
EV/EBITDA	9	10	11	11	9	7	9	7
FCF per Share	0	(0)	(6)	(18)	(1)	11	11	11
Div Yield	4%	1%	1%	1%	1%	1%	0%	0%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	128	186	205	180	277	426	579	706
(inc)/Dec in Working Capital	(31)	(80)	(52)	(230)	(76)	13	(144)	(160)
Non Cash Op Exp	53	58	72	76	105	137	138	157
Int Paid (+)	32	37	32	33	28	27	26	26
Tax Paid	(32)	(48)	(60)	(58)	(88)	(119)	(137)	(169)
others	0	(3)	(9)	(2)	16	2	-	-
CF from Op. Activities	150	151	188	(1)	262	485	462	560
(inc)/Dec in FA & CWIP	(148)	(162)	(317)	(446)	(279)	(184)	(302)	(300)
Free Cashflow	2	(11)	(128)	(447)	(17)	301	160	260
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	3	1	(9)	(16)	10	24	(11)	-
CF from Inv. Activities	(146)	(162)	(326)	(462)	(270)	(161)	(313)	(300)
inc/(dec) in NW	1	133	83	293	1	-	-	-
inc/(dec) in Debt	58	13	27	296	40	(153)	-	-
Int. Paid	(32)	(37)	(32)	(31)	(28)	(27)	(26)	(26)
Div Paid (inc tax)	(8)	(23)	(22)	(29)	(31)	(31)	(25)	(25)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	19	86	56	529	(17)	(211)	(51)	(51)
Inc(Dec) in Cash	24	75	(82)	66	(25)	103	209	209
Add: Opening Balance	42	55	124	42	108	83	284	492
Closing Balance	65	130	42	108	83	186	492	701

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