

Better operational performance with higher earnings from JVs: Maintain buy

Granules (GIL) posted revenues of INR 5,953mn with 31.3% YoY increase, which was slightly below our estimate of INR 6,235mn. Revenue growth was mainly driven by the Formulation (FD) (57.6% YoY growth) segments, led by gMethergine along with new product launches and better pricing in existing products in the regulated market. FD revenue contribution stood at 48% vs 40% in Q1FY19. EBITDA margin expanded by 391bps to 19.9% level, was 323bps higher than our estimate due to 490 bps improvement in gross margin led by improved product mix and easing RM costs. Adj. PAT came above our estimate at INR832mn (est INR650mn) supported by higher profits from the JVs (INR 255mn vs INR 146mn(YoY) vs INR 190mn (QoQ) due to cyclical nature of the business. Tax expense for the quarter stands at 32.9% compared to 34% same quarter last year.

Formulation contribution to increase on the back of acceleration in product approvals and launches

Formulation segment contribution accelerated from 40% to 48% (YoY) in Q1FY20. APIs and PFIs contributed 36% and 16% respectively vs 40% and 20% a year ago. Geography-wise the regulated market contributed 72% to the revenue. The management maintains its revenue guidance of 18-20% growth for next three years. We believe FY20/21 to be much better on revenue front, on the back of commissioning and ramping up of fresh capacities and expected 3-5 products launch in next 12 months. We modeled ~19.7% top-line growth for GIL over FY19-21E as we believe most of the benefits from capacity addition and ANDA approval would be seen in FY20-21E. The company plans to file 20-22 ANDA filings from India and Virginia facility put together over the next two years.

Valuation & Outlook

For FY19-21E we expect the company's earnings deliver CAGR of 29% with 200bps improvement in EBITDA margin over FY19-21E. Improvement in EBITDA margins to be led by operational efficiency, moving up the value chain towards high margin business, improved capacity utilization, commitment to reduction in debt and gaining traction in JVs. At CMP of INR 91 stock trades at 7.9x FY20E and 5.9x FY21E EPS. We maintain our Buy rating with target price of INR155@10x (10% discount to 5 yr average P/E) FY21E EPS.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

Stock

CMP (INR)	91
Target Price (INR)	155
BSE code	532482
NSE Symbol	GRANULES
Bloomberg	GRAN IN
Reuters	GRAN.BO

Key Data

Nifty	11,085
52WeekH/L(INR)	123/79
O/s Shares (Mn)	254
Market Cap (INR bn)	23.1
Face Value (INR)	1

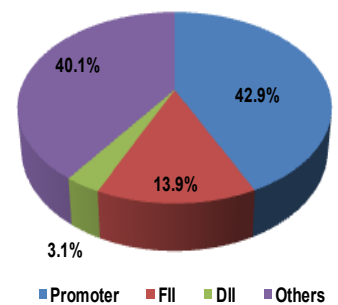
Average volume

3 months	5,49,712
6 months	9,75,436
1 year	22,35,445

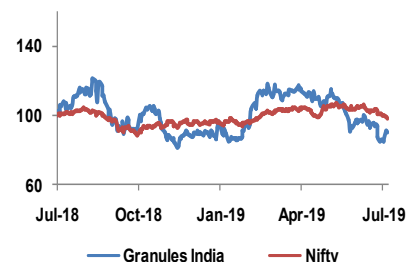
Key Financials (Consolidated)					
YE March (INR mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	14,106	16,846	22,792	27,075	32,673
Growth %	-1%	19%	35.3%	19%	21%
EBIDTA	2,988	2,784	3,840	4,785	6,129
Growth%	7%	-7%	38%	25%	28%
Net Profit	1,645	1,326	2,364	2,933	3,937
Growth %	39%	-19%	78%	24%	34%
Diluted EPS	6	5	9	12	15
Growth %	39%	-19%	78%	24%	34%

Profitability & Valuation					
EBIDTA (%)	21%	17%	17%	18%	19%
NPM (%)	12%	8%	10%	11%	12%
RoE (%)	21%	12%	17%	18%	20%
RoCE (%)	18%	11%	13%	16%	19%
P/E (x)	14.0	17.4	9.8	7.9	5.9
EV/EBITDA (x)	9.6	11.3	8.2	6.4	4.7
P/BV (x)	2.6	1.8	1.5	1.3	1.1

Share Holding Pattern (%)



Relative Price Chart



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Source: Company, BP Equities Research

Granules India Ltd Q1FY20 Quarterly Result

YE March (Rs. mn)	Q1 FY20	Q4 FY19	Q-o-Q change %	Q1 FY19	Y-o-Y change %
Net Sales	5,953	6,133	(2.9%)	4,532	31.3%
Other Operating Income	0	0		0	
Total Revenue	5,953	6,133	(2.9%)	4,532	31.3%
Less:					
Raw Material Cost	2,954	3,316	(10.9%)	2,471	19.5%
Operating & Manufacturing Expenses	1,242	1,328	(6.5%)	832	49.2%
Employee Cost	570	513	11.1%	503	13.5%
Loss on Foreign Exchange Loan	0	0	0.0%	0	0.0%
Total Expenditure	4,767	5,157	(7.6%)	3,806	25.2%
EBIDTA	1,186	976	21.5%	726	63.4%
Less: Depreciation	287	274	4.6%	245	16.9%
EBIT	900	702	28.2%	481	87.1%
Less: Interest	68.7	68.5	0.4%	65.4	5.0%
Add: Other income	19	19	(1.4%)	147	(87.4%)
Profit before tax	849	652	30.2%	563	50.9%
Adjusted Profit before Tax	849	652	30.2%	563	50.9%
Less: Total Tax	272	202	34.7%	191	42.3%
Profit After Tax	578	450	28.2%	372	55.4%
Share of Profits	255	190	34.2%	146	74.2%
Minority Interest	0	0		0	
Adjusted Profit After Tax	832	640	30.0%	518	60.7%
Diluted EPS (Rs.)	3.3	2.5	30.0%	2.0	60.7%
Adjusted Diluted EPS	3.3	2.5	30.0%	2.0	60.7%
Diluted No of Share (mn)	254.3	254.3		254.3	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	19.9%	15.9%	401	16.0%	391
EBIT Margin %	15.1%	11.4%	367	10.6%	450
NPM %	9.7%	7.3%	236	8.2%	150
Effective Tax Rate %	32.0%	30.9%	106	34.0%	(195)

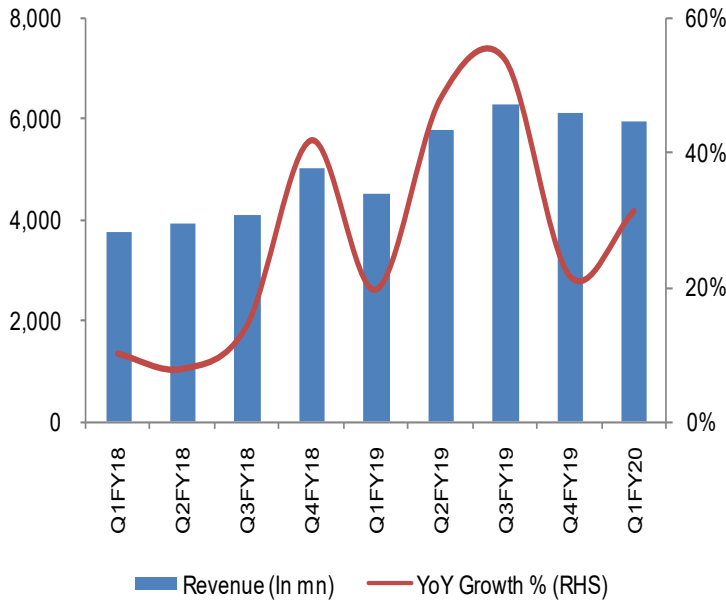
Strong revenue growth were driven by FD and API sales

Adj. PAT came above our estimate led by higher earning contribution from JVs and superior operational performance

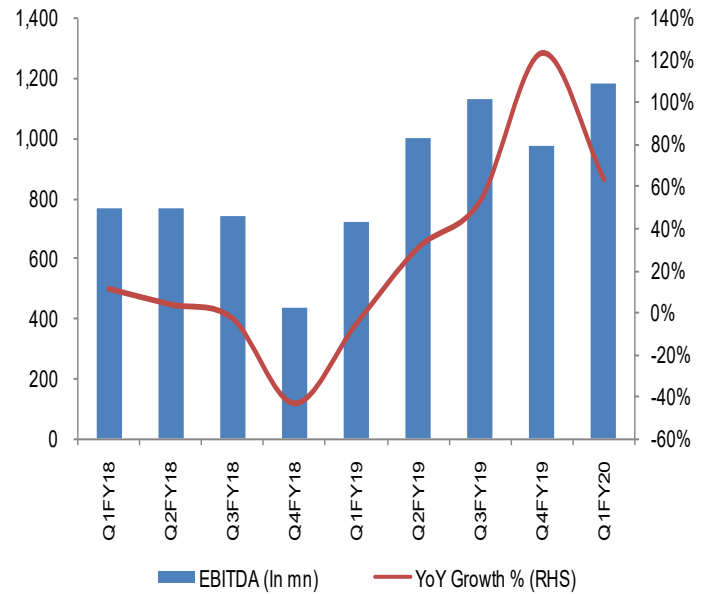
Margin improvement is driven by better product mix and easing RM costs

Source: Company, BP Equities Research

Strong revenue growth of ~31% YoY

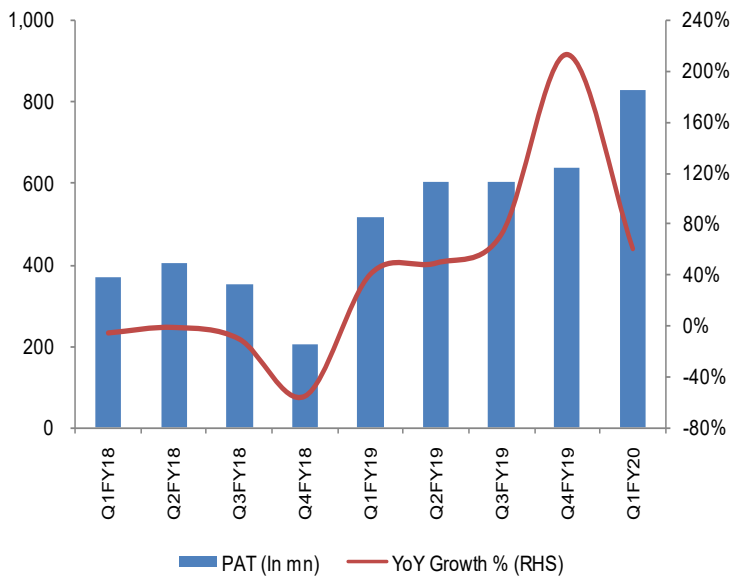


EBITDA surged significantly due to better product mix

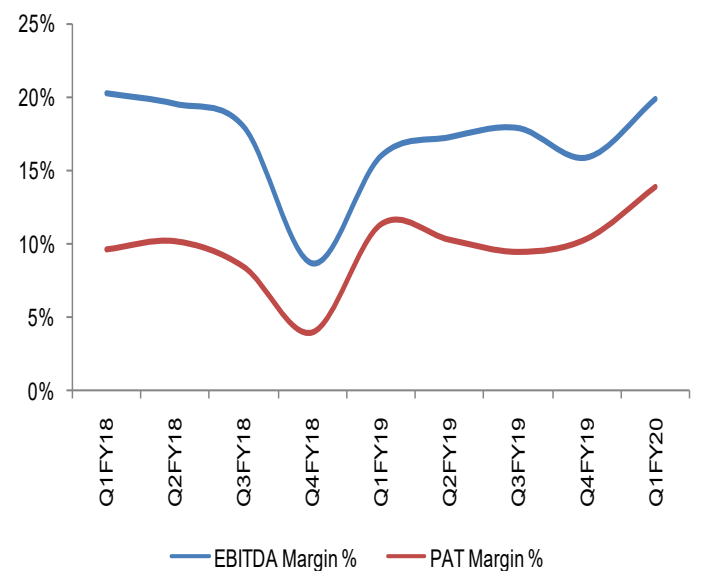


Source: Company, BP Equities Research

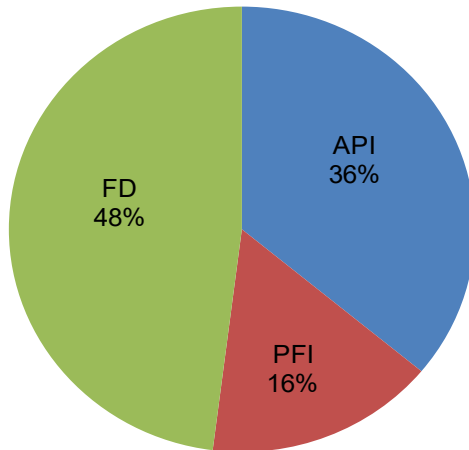
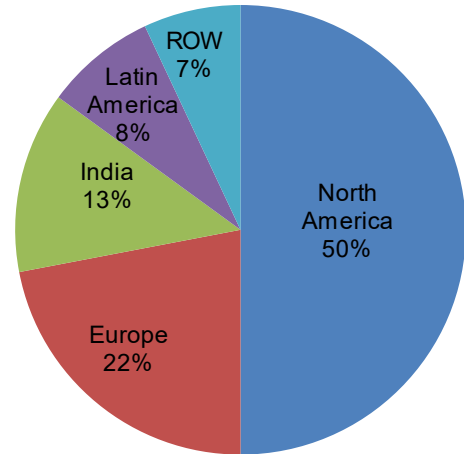
PAT showed higher growth led by excessive JV contribution



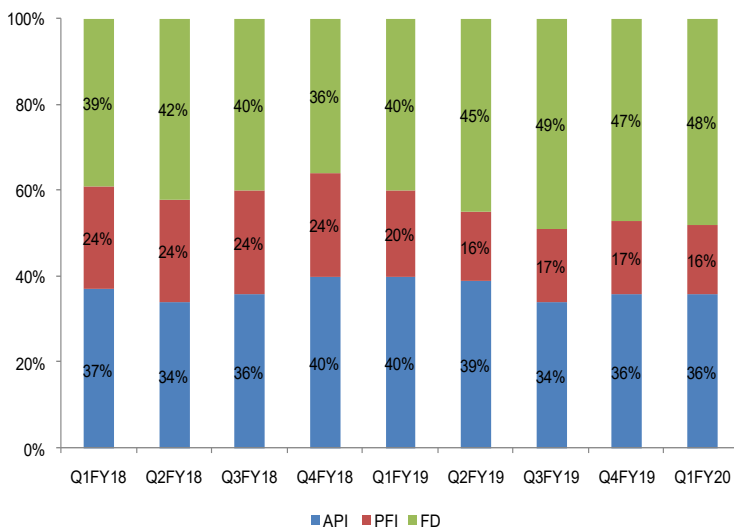
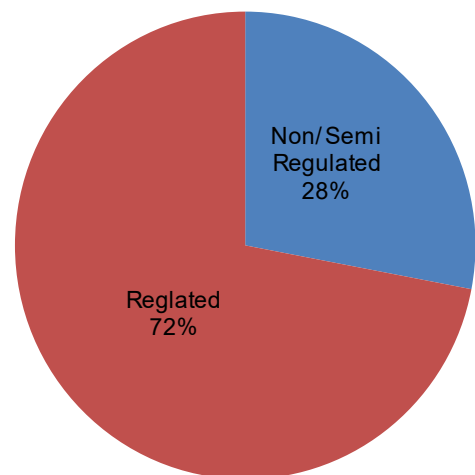
EBITDA and PAT margin trend



Source: Company, BP Equities Research

Break-up of Q1 FY20 Consolidated Revenue
Vertical Wise

Geography Wise


Source: Company, BP Equities Research,

Vertical Wise Contribution Trend

Market Wise


Source: Company, BP Equities Research

Facilities and Installed capacity

Value Chain	Facility Location	Installed Capacity
API	Bonthapally	33,000 TPA
	Jeedimetla	3,560 TPA
	Jingmen, China (Biocause JV)	4,800 TPA
	Vizag	285 KL
PFI	Vizag SEZ (OmniChem - CRAMs JV)	152 KL
	Gagillapur	23,200 TPA
FD	Jeedimetla	1,200 TPA
	Gagillapur	18 Bn
API Intermediates	Virginia, USA	0.5 Bn
	Bonthapally (Auctus)	61.5 KL



Profit & Loss A/c (Consolidated)							
YE March (INR. mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenues	12,929	14,312	14,106	16,846	22,792	27,075	32,673
Growth %	18.0%	10.7%	-1.4%	19.4%	35.3%	18.8%	20.7%
Total Operating Revenue	12,929	14,312	14,106	16,846	22,792	27,075	32,673
Growth %	18.0%	10.7%	-1.4%	19.4%	35.3%	18.8%	20.7%
Less:							
Raw Material Consumed	7,470	7,585	6,796	8,963	12,556	14,691	17,375
Employee Cost	1,070	1,253	1,402	1,652	2,098	2,493	3,008
Other Expenses	2,304	2,690	2,919	3,447	4,298	5,105	6,161
Total Operating Expenditure	10,843	11,528	11,117	14,062	18,952	22,289	26,544
EBIDTA	2,086	2,784	2,988	2,784	3,840	4,785	6,129
Growth %	31.8%	33.4%	7.4%	-6.8%	37.9%	24.6%	28.1%
Less: Depreciation	527	643	715	762	1,055	1,058	1,096
EBIT	1,560	2,140	2,273	2,022	2,786	3,727	5,034
Growth %	21.4%	37.2%	6.2%	-11.0%	37.7%	33.8%	35.1%
Interest Paid	323	399	323	331	285	269	254
Non-operating Income	43	60	99	108	267	317	383
Profit Before tax	1,280	1,801	2,050	1,800	2,768	3,775	5,162
Tax	371	617	652	634	891	1,246	1,704
Net Profit before Minority	909	1,185	1,398	1,166	1,877	2,529	3,459
Minority Interest	0	0	0	0	0	0	0
Net Profit	909	1,185	1,645	1,326	2,364	2,933	3,937
Adjusted Profit	909	1,185	1,645	1,326	2,364	2,933	3,937
Reported Diluted EPS Rs	3.6	4.7	6.5	5.2	9.3	11.5	15.5
Growth %	20.8%	30.3%	38.9%	-19.4%	78.0%	24.0%	34.3%
Adjusted Diluted EPS Rs	3.6	4.7	6.5	5.2	9.3	11.5	15.5
Growth %	20.8%	30.3%	38.9%	-19.4%	78.0%	24.0%	34.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)							
YE March (INR. Mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PAT	909.1	1,184.7	1,645.2	1,325.9	2,364.1	2,932.5	3,936.9
Less: Non Operating Income	(43.4)	(60.3)	(99.3)	(108.4)	(266.8)	(317.0)	(382.5)
Add: Depreciation	526.5	643.3	715.1	762.0	1,054.8	1,058.2	1,095.7
Add: Interest Paid	323.5	399.2	322.6	330.6	284.6	269.4	254.1
Operating Profit before Working Capital Changes	1,715.6	2,166.9	2,583.6	2,310.1	3,436.7	3,943.1	4,904.2
(Inc)/Dec in Current Assets	(439.2)	(377.1)	(2,665.4)	(2,484.6)	(513.4)	(1,520.2)	(1,987.2)
Inc/(Dec) in Current Liabilities	867.5	410.1	(60.9)	61.8	1,228.0	792.9	1,018.0
Changes in Inventory	(503.5)	(825.4)	378.7	(107.7)	(1,042.7)	(722.0)	(943.8)
Net Cash Generated From Operations	1,640.5	1,374.5	236.0	(220.4)	3,108.6	2,493.8	2,991.2
Cash Flow from Investing Activities							
(Inc)/Dec in Fixed Assets	(1,898.6)	(1,184.3)	(214.7)	(2,159.8)	(763.1)	(1,350.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	625.2	(145.5)	(536.8)	(1,598.1)	(334.3)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	0.0	0.0	(1,371.7)	(872.8)	(1,447.0)	0.0	0.0
(Inc)/Dec in Investment (Others)	(166.1)	58.0	(154.1)	(53.5)	(98.2)	(85.9)	(112.3)
Add: Non Operating Income	43.4	60.3	99.3	108.4	266.8	317.0	382.5
Net Cash Flow from/(used in) Investing Activities	(1,360.6)	(1,211.5)	(3,258.5)	(5,059.0)	(2,914.4)	(1,119.0)	(229.8)
Cash Flow from Financing Activities							
Inc/(Dec) in Total Loans	431.7	(201.5)	1,943.8	3,514.6	(64.5)	(500.0)	(500.0)
Inc/(Dec) in Reserves & Surplus	(47.4)	1,021.1	1,168.6	2,904.3	196.9	0.0	0.0
Inc/(Dec) in Equity	(1.1)	284.1	(235.2)	54.8	(53.7)	0.0	0.0
Dividend Paid	(108.6)	(141.2)	(203.1)	(279.2)	(254.2)	(380.8)	(456.9)
Less: Interest Paid	(323.5)	(399.2)	(322.6)	(330.6)	(284.6)	(269.4)	(254.1)
Adjustments	31.3	25.3	(262.6)	73.8	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(17.6)	588.7	2,089.0	5,937.8	(460.2)	(1,150.1)	(1,211.0)
Net Inc/Dec in cash equivalents	262.3	751.7	(933.4)	658.4	(266.0)	224.7	1,550.4
Opening Balance	417.5	679.7	1,431.4	498.0	1,156.4	890.4	1,115.1
Closing Balance Cash and Cash Equivalents	679.7	1,431.4	498.0	1,156.4	890.4	1,115.1	2,665.5

Source: Company, BP Equities Research



Balance Sheet (Consolidated)							
YE March(INR. mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Liabilities							
Equity Capital	204	217	229	254	254	254	254
Share application money pending allotment	0	272	24	54	0	0	0
Reserves & Surplus	4,107	6,172	8,783	12,734	15,040	17,592	21,072
Equity	4,312	6,660	9,036	13,042	15,295	17,846	21,326
Preference Share Capital	0	0	0	0	0	0	0
Net Worth	4,312	6,660	9,036	13,042	15,295	17,846	21,326
Minority Interest							
Net Deferred tax liability/(Asset)	545	633	637	551	738	738	738
Total Loans	4,331	4,041	5,981	9,582	9,330	8,830	8,330
Capital Employed	9,188	11,335	15,654	23,175	25,363	27,415	30,395
Assets							
Gross Block	8,438	9,622	9,837	11,996	12,759	14,109	14,609
Less: Depreciation	2,272	2,941	3,393	4,229	5,284	6,342	7,438
Net Block	6,166	6,681	6,443	7,767	7,476	7,767	7,172
Capital WIP	620	766	1,303	2,901	3,235	3,235	3,235
Long Term Loans & Advances	209	151	306	359	457	543	655
Intangible assets under development	0	0	1,372	2,244	3,691	3,691	3,691
Non Current Investments	2	2	1,082	1,566	2,104	2,104	2,104
Current Assets							
Inventories	2,245	3,071	2,692	2,799	3,842	4,564	5,508
Sundry Debtors	1,326	1,526	4,177	6,171	6,735	8,001	9,656
Cash and Bank Balance	680	1,431	498	1,156	890	1,115	2,666
Loans and Advances	265	289	517	918	884	1,050	1,268
Other Current Assets	458	612	398	488	470	559	674
Total Current Assets	4,974	6,928	8,282	11,532	12,822	15,289	19,771
Less: Current Liabilities & Provisions							
Sundry Creditors	1,887	1,791	2,160	2,522	3,235	3,804	4,531
Provisions	123	69	39	86	43	52	62
Other Current Liabilities	774	1,334	934	587	1,145	1,360	1,641
Total Current Liabilities & Provisions	2,784	3,194	3,133	3,195	4,423	5,216	6,234
Capital Applied	9,188	11,335	15,654	23,175	25,363	27,415	30,395

Source: Company, BP Equities Research

Key Ratios (Consolidated)							
YE March (INR. mn)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Key Operating Ratios							
EBITDA Margin (%)	16.1%	19.5%	21.2%	16.5%	16.8%	17.7%	18.8%
Tax / PBT (%)	29.0%	34.2%	31.8%	35.2%	32.2%	33.0%	33.0%
Net Profit Margin (%)	7.0%	8.3%	11.7%	7.9%	10.4%	10.8%	12.0%
RoE (%)	23.1%	21.6%	21.0%	12.0%	16.7%	17.7%	20.1%
RoCE (%)	18.5%	21.2%	17.9%	11.4%	12.6%	15.7%	19.2%
Current Ratio (x)	1.8x	2.2x	2.6x	3.6x	2.9x	2.9x	3.2x
Dividend Payout (%)	11.9%	11.9%	12.3%	21.1%	10.8%	13.0%	11.6%
Book Value Per Share (Rs.)	17.0	26.2	35.6	51.4	60.2	70.2	83.9
Financial Leverage Ratios							
Net Debt/ Equity (x)	0.8	0.4	0.6	0.6	0.6	0.4	0.3
Interest Coverage (x)	6.4x	7.0x	9.3x	8.4x	13.5x	17.8x	24.1x
Interest / Debt (%)	7.7%	9.5%	6.4%	4.2%	3.0%	3.0%	3.0%
Growth Indicators %							
Growth in Gross Block (%)	29.0%	14.0%	2.2%	22.0%	6.4%	10.6%	3.5%
Sales Growth (%)	18.0%	10.7%	(1.4%)	19.4%	35.3%	18.8%	20.7%
EBITDA Growth (%)	31.8%	33.4%	7.4%	(6.8%)	37.9%	24.6%	28.1%
Net Profit Growth (%)	20.8%	30.3%	38.9%	(19.4%)	78.3%	24.0%	34.3%
Diluted EPS Growth (%)	20.8%	30.3%	38.9%	(19.4%)	78.0%	24.0%	34.3%
Turnover Ratios							
Debtors Days	37	39	107	134	108	108	108
Creditors Days	64	57	71	65	62	62	62
Inventory Days	63	78	69	61	62	62	62

Source: Company, BP Equities Research

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