

## Satisfactory performance despite operational challenges

Granules (GIL) posted revenues of INR 8498mn with 15.5% YoY growth, which was 4.4% above our estimate of INR 8138mn. Revenue growth was mainly driven by new product launches in finished dosages and increased market penetration of PFIs. During Q1, FDs grew by 18% (YoY), PFIs grew by 24% (YoY) and API sales were up by 5%(YoY). Gross margin dropped by 533bps on account of increase in KSM prices (mainly PAP) and loss of MEIS benefit (~150bps). Favourable forex and Air freight collected from customers was part of Sales which was added to Gross margin in Q1FY21. However, EBITDA Margin managed lesser impact (decline of 126bps to 23.7% in Q1FY22) due to lower other expenses (-4%YoY). GIL reported a PAT of INR 1202mn, which was above our estimate of INR 1018mn driven by ordinary operational performance. As per management, the KSM supply situation is likely to improve with an increase in the number of domestic suppliers and the re-commencement of supply from the Chinese source. The management has stated that it is looking to decrease the share of core molecules from 84% currently to 60% by FY25 with focusing on launching higher-margin products across different geographies.

## Strong product pipeline coupled with geographic expansion to drive the FD growth

In Q1FY22, Formulation segment contribution remained at similar levels (~53%), APIs and PFIs contributed ~26% and ~20% respectively vs ~29% and ~19% a year ago. Geography-wise the regulated market contributed ~70% to the revenue. During the quarter GIL filed one ANDA, two EU dossiers, one UK dossier and one South African dossier. The company has received one ANDA approval and launched one ANDA in the US. On a cumulative basis, GIL has 45 ANDAs approved (including 2 tentative approvals) with 21 pending approvals. The company has guided for 7 to 8 ANDA filings on an annual basis. The company's focus on developing differentiated products such as controlled substances, modified & extended-release, and oral suspensions/solutions garner better profitability. We believe FY21-23E to be healthy on a revenue front, on the back of ramping up of fresh capacities and expected 7-8 (including limited competition products) US generic launches every year. We modeled 26.2% revenue growth in the formulation segment with a revenue share increase (58.6% in FY23E vs. 52.5% in FY21).

### Stock Rating

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

### Sector Outlook

Positive

### Stock

CMP (INR)	370
Target Price (INR)	425
BSE code	532482
NSE Symbol	GRANULES
Bloomberg	GRAN IN
Reuters	GRAN.BO

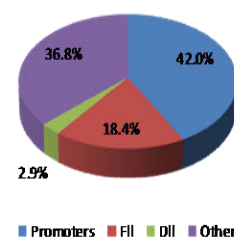
### Key Data

Nifty	15,710
52WeekH/L(INR)	438/271
O/s Shares (Mn)	248
Market Cap (INR bn)	92.0
Face Value (INR)	1

### Average volume

3 months	48,20,010
6 months	39,19,350
1 year	35,49,030

### Share Holding Pattern (%)



### Key Financials (Consolidated)

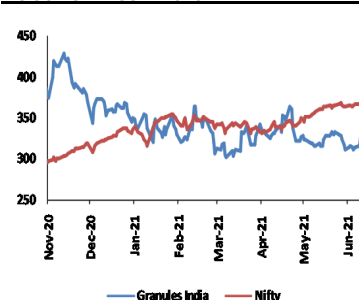
YE March (Inr. mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	22,792	25,986	32,375	37,405	46,138
Growth %	35%	14%	25%	16%	23%
EBIDTA	3,840	5,253	8,552	8,677	11,769
Growth%	38%	37%	63%	1%	36%
Net Profit	2,364	3,354	5,495	5,624	7,520
Growth %	78%	42%	64%	2%	34%
Diluted EPS	10	14	22	23	30
Growth %	78%	42%	64%	2%	34%

### Profitability & Valuation

EBIDTA (%)	16.8%	20.2%	26.4%	23.2%	25.5%
NPM (%)	10.4%	12.9%	17.0%	15.0%	16.3%
RoE (%)	16.7%	19.9%	27.4%	23.1%	24.6%
RoCE (%)	12.6%	16.3%	27.1%	23.9%	26.3%
P/E (x)	38.8	27.3	16.7	16.3	12.2
EV/EBITDA (x)	26.1	18.4	11.3	10.8	7.6
P/BV (x)	6.0	5.0	4.2	3.4	2.7

Source: Company, BP Equities Research

### Relative Price Chart



Research Analyst  
Nikhil Shetty

nikhilshetty@bpwealth.com

**Variance Analysis**

YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	8,498	7,993	6.3%	7,356	15.5%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>8,498</b>	<b>7,993</b>	<b>6.3%</b>	<b>7,356</b>	<b>15.5%</b>
Less:					
Raw Material Cost	3,891	3,416	13.9%	2,976	30.7%
Operating & Manufacturing Expenses	1,640	1,559	5.2%	1,708	(4.0%)
Employee Cost	954	999	(4.5%)	837	14.0%
Loss on Foreign Exchange Loan	0	0	0.0%	0	0.0%
<b>Total Expenditure</b>	<b>6,484</b>	<b>5,973</b>	<b>8.6%</b>	<b>5,520</b>	<b>17.5%</b>
<b>EBITDA</b>	<b>2,014</b>	<b>2,020</b>	<b>(0.3%)</b>	<b>1,836</b>	<b>9.7%</b>
Less: Depreciation	394	445	(11.5%)	341	15.6%
<b>EBIT</b>	<b>1,620</b>	<b>1,575</b>	<b>2.9%</b>	<b>1,495</b>	<b>8.4%</b>
Less: Interest	67.9	68.2	(0.4%)	59.5	14.1%
Add: Other income	76	33	132.5%	56	35.4%
Exceptional Items	0	0		0	
<b>Profit before tax</b>	<b>1,629</b>	<b>1,540</b>	<b>5.8%</b>	<b>1,492</b>	<b>9.2%</b>
<b>Adjusted Profit before Tax</b>	<b>1,629</b>	<b>1,540</b>	<b>5.8%</b>	<b>1,492</b>	<b>9.2%</b>
Less: Total Tax	427	264	61.5%	377	13.1%
<b>Profit After Tax</b>	<b>1,202</b>	<b>1,276</b>	<b>(5.8%)</b>	<b>1,114</b>	<b>7.9%</b>
Share of Profits	0	0	NA	0	NA
Minority Interest	0	0		0	
<b>Adjusted Profit After Tax</b>	<b>1,202</b>	<b>1,276</b>	<b>(5.8%)</b>	<b>1,114</b>	<b>7.9%</b>
Diluted EPS (Rs.)	4.9	5.2	(5.8%)	4.5	7.9%
Adjusted Diluted EPS	4.9	5.2	(5.8%)	4.5	7.9%
Diluted No of Share (mn)	248	248		248	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>Gross Margin %</b>	<b>54.2%</b>	<b>57.3%</b>	<b>-305</b>	<b>59.5%</b>	<b>-533</b>
<b>EBITDA Margin %</b>	<b>23.7%</b>	<b>25.3%</b>	<b>-157</b>	<b>25.0%</b>	<b>-126</b>
<b>EBIT Margin %</b>	<b>19.1%</b>	<b>19.7%</b>	<b>-64</b>	<b>20.3%</b>	<b>-126</b>
NPM %	14.1%	16.0%	-182	15.2%	-101
<b>Effective Tax Rate %</b>	<b>26.2%</b>	<b>17.2%</b>	<b>904</b>	<b>25.3%</b>	<b>90</b>

Revenue came above our estimate led by better growth in PFI due to increased market penetration

Reported PAT was above our estimate of INR 1,018mn

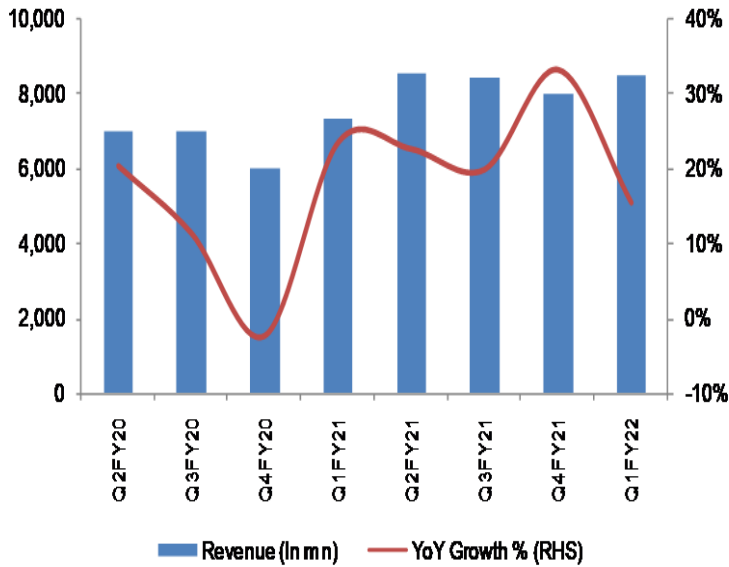
EBITDA margin came above our estimate of 21.8% due to lower other expense

Source: Company, BP Equities Research

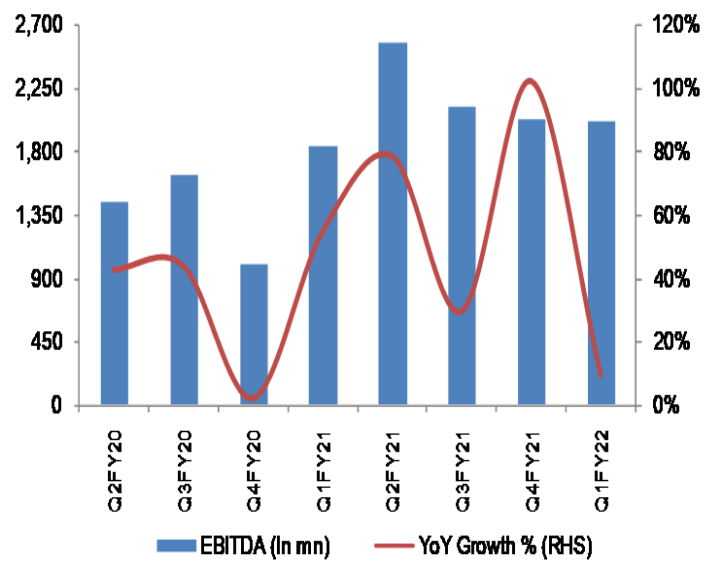
**Valuation & Outlook**

Over FY21-23E, GIL is expected to post 19.4%/17.3%/17% Revenue/EBITDA/PAT CAGR with >24% return ratios. Despite near-term challenges related to KSM supply, we remain optimistic about the long-term growth prospects of the company on the back of better growth in profitability, a healthy balance sheet, and improving return ratios. At the CMP (INR 370), the stock trades at 12.2x FY23e EPS and 7.6x EV/EBITDA. We believe the stock to witness gradual re-rating on the back of a stronger product pipeline and improved return ratios. We maintain our 'BUY' rating with a target price of INR 425 per share, valuing the company at 14x of its FY23e earnings.

### Revenue growth trend

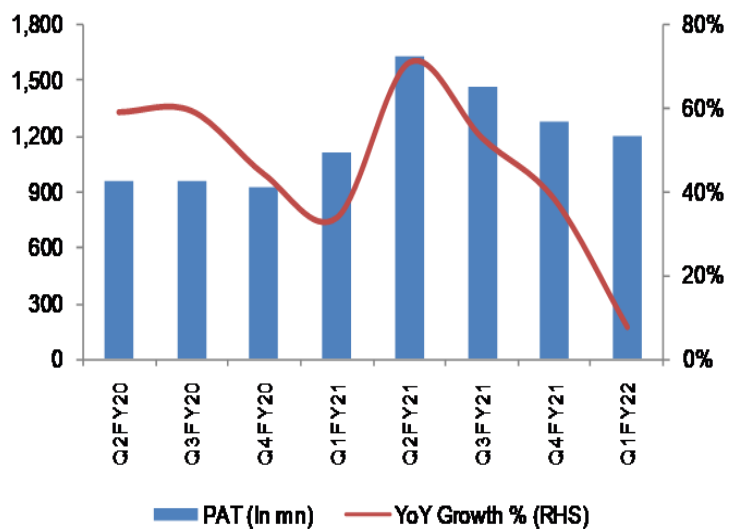


### EBITDA growth trend

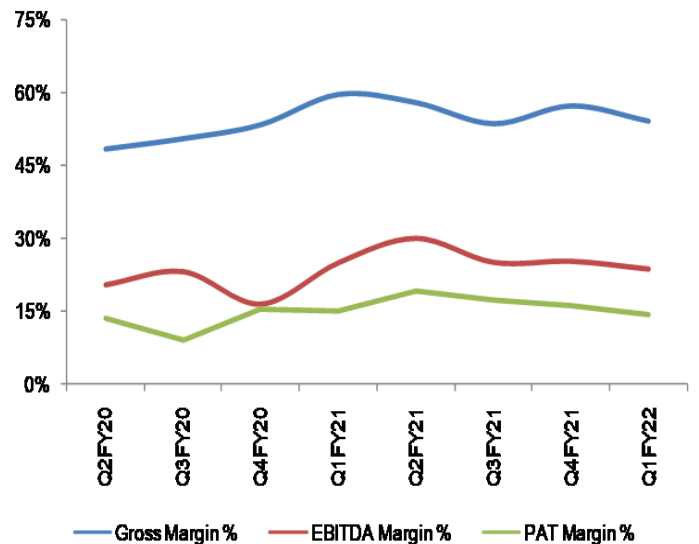


Source: Company, BP Equities Research

### PAT growth trend

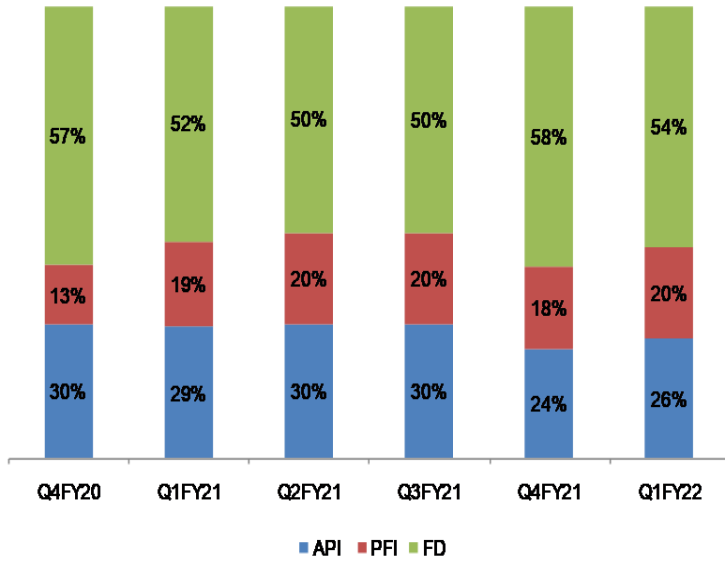


### EBITDA and PAT margin trend

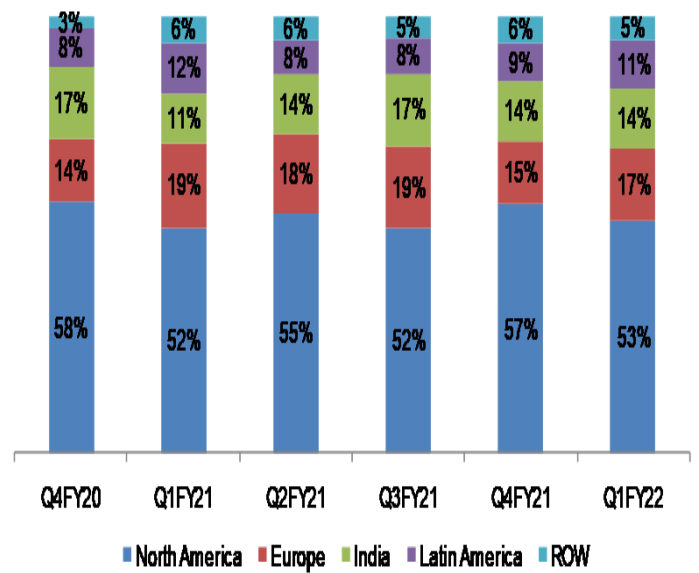


Source: Company, BP Equities Research

### Vertical Wise Contribution Trend

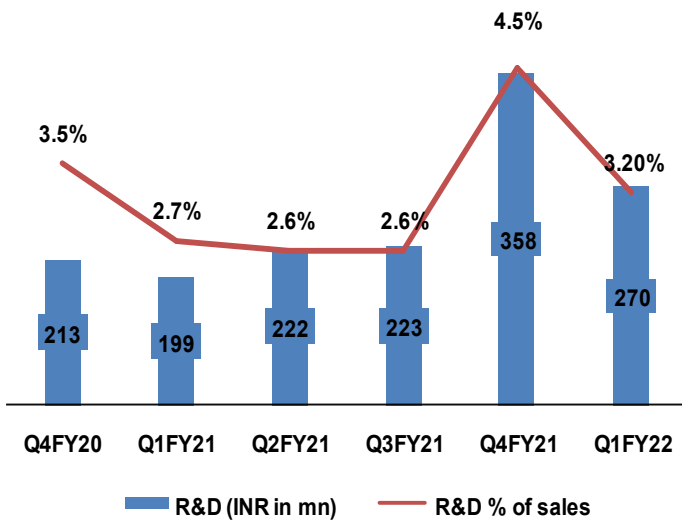


### Geography Wise Contribution Trend

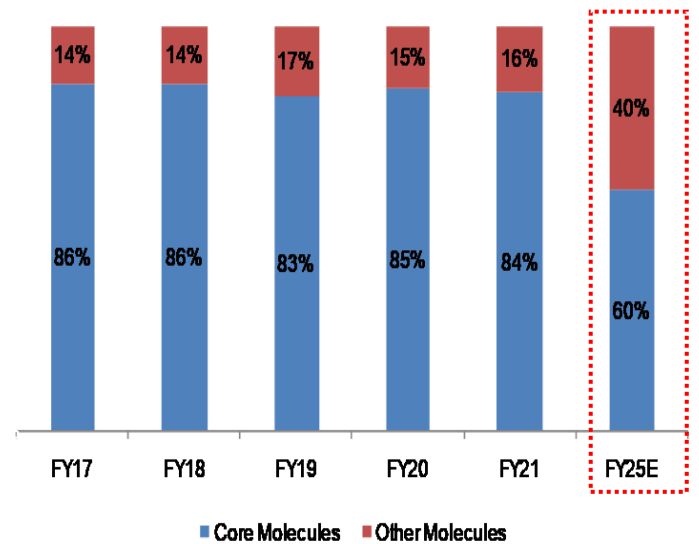


Source: Company, BP Equities Research,

### R&D spend trend



### Contribution from other molecules to grow substantially



Source: Company, BP Equities Research



## Profit &amp; Loss A/c ( Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenues</b>	<b>16,846</b>	<b>22,792</b>	<b>25,986</b>	<b>32,375</b>	<b>37,405</b>	<b>46,138</b>
Growth %	19.4%	35.3%	14.0%	24.6%	15.5%	23.3%
<b>Total Operating Revenue</b>	<b>16,846</b>	<b>22,792</b>	<b>25,986</b>	<b>32,375</b>	<b>37,405</b>	<b>46,138</b>
Growth %	19.4%	35.3%	14.0%	24.6%	15.5%	23.3%
<b>Less:</b>						
Raw Material Consumed	8,963	12,556	12,809	13,913	17,280	20,248
Employee Cost	1,652	2,098	2,590	4,082	4,716	5,817
Other Expenses	3,447	4,298	5,334	5,829	6,732	8,303
<b>Total Operating Expenditure</b>	<b>14,062</b>	<b>18,952</b>	<b>20,733</b>	<b>23,823</b>	<b>28,728</b>	<b>34,369</b>
<b>EBIDTA</b>	<b>2,784</b>	<b>3,840</b>	<b>5,253</b>	<b>8,552</b>	<b>8,677</b>	<b>11,769</b>
Growth %	-6.8%	37.9%	36.8%	62.8%	1.5%	35.6%
Less: Depreciation	762	1,055	1,370	1,515	1,533	2,284
<b>EBIT</b>	<b>2,022</b>	<b>2,786</b>	<b>3,884</b>	<b>7,038</b>	<b>7,144</b>	<b>9,485</b>
Growth %	-11.0%	37.7%	39.4%	81.2%	1.5%	32.8%
Interest Paid	331	285	270	263	245	228
Non-operating Income	108	267	366	269	311	383
<b>Profit Before tax</b>	<b>1,800</b>	<b>2,768</b>	<b>4,256</b>	<b>7,044</b>	<b>7,210</b>	<b>9,640</b>
Tax	634	891	1,157	1,549	1,586	2,120
<b>Net Profit before Minority</b>	<b>1,166</b>	<b>1,877</b>	<b>3,099</b>	<b>5,495</b>	<b>5,624</b>	<b>7,520</b>
Minority Interest	0	0	0	0	0	0
<b>Net Profit</b>	<b>1,326</b>	<b>2,364</b>	<b>3,354</b>	<b>5,495</b>	<b>5,624</b>	<b>7,520</b>
<b>Adjusted Profit</b>	<b>1,326</b>	<b>2,364</b>	<b>3,077</b>	<b>5,495</b>	<b>5,624</b>	<b>7,520</b>
<b>Reported Diluted EPS Rs</b>	<b>5.4</b>	<b>9.5</b>	<b>13.5</b>	<b>22.2</b>	<b>22.7</b>	<b>30.4</b>
Growth %	-19.4%	78.3%	41.9%	63.8%	2.4%	33.7%
<b>Adjusted Diluted EPS Rs</b>	<b>5.4</b>	<b>9.5</b>	<b>12.4</b>	<b>22.2</b>	<b>22.7</b>	<b>30.4</b>
Growth %	-19.4%	78.3%	30.1%	78.6%	2.4%	33.7%

Source: Company, BP Equities Research

## Cash Flows ( Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>PAT</b>	<b>1,325.9</b>	<b>2,364.1</b>	<b>3,354.0</b>	<b>5,494.6</b>	<b>5,624.2</b>	<b>7,520.2</b>
Less: Non Operating Income	(108.4)	(266.8)	(365.6)	(268.8)	(310.6)	(383.1)
Add: Depreciation	762.0	1,054.8	1,369.5	1,514.6	1,532.8	2,283.8
Add: Interest Paid	330.6	284.6	270.2	262.8	245.3	227.8
<b>Operating Profit before Working Capital Changes</b>	<b>2,310.1</b>	<b>3,436.7</b>	<b>4,350.8</b>	<b>7,003.2</b>	<b>7,091.7</b>	<b>9,648.7</b>
(Inc)/Dec in Current Assets	(2,484.6)	(513.4)	(1,704.8)	356.9	(1,295.7)	(2,249.3)
Inc/(Dec) in Current Liabilities	61.8	1,228.0	1,525.7	1,689.8	1,460.0	1,882.0
Changes in Inventory	(107.7)	(1,042.7)	(542.2)	(3,437.5)	(1,215.3)	(2,109.8)
<b>Net Cash Generated From Operations</b>	<b>(220.4)</b>	<b>3,108.6</b>	<b>3,629.6</b>	<b>5,612.4</b>	<b>6,040.8</b>	<b>7,171.6</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(2,159.8)	(2,733.1)	(4,022.9)	(2,794.8)	(4,000.0)	(3,000.0)
(Inc)/Dec in Capital Work In Progress	(1,598.1)	(334.3)	1,754.3	(367.0)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	(872.8)	519.9	263.2	918.2	0.0	0.0
(Inc)/Dec in Investment (Others)	(53.5)	(98.2)	(311.7)	(487.2)	1,104.3	(35.4)
Add: Non Operating Income	108.4	266.8	365.6	268.8	310.6	383.1
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(5,059.0)</b>	<b>(2,917.4)</b>	<b>(40.8)</b>	<b>(2,458.5)</b>	<b>(2,585.1)</b>	<b>(2,652.3)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	3,514.6	(64.5)	(1,491.6)	(821.0)	(500.0)	(500.0)
Inc/(Dec) in Reserves & Surplus	2,904.3	87.2	(30.8)	(1,629.0)	0.0	(0.0)
Inc/(Dec) in Equity	54.8	55.9	73.2	(189.4)	0.0	0.0
Dividend Paid	(279.2)	(254.2)	(253.8)	(380.8)	(380.8)	(380.8)
Less: Interest Paid	(330.6)	(284.6)	(270.2)	(262.8)	(245.3)	(227.8)
Adjustments	73.8	3.0	56.2	0.0	(0.0)	0.0
<b>Net Cash Flow from Financing Activities</b>	<b>5,937.8</b>	<b>(457.2)</b>	<b>(1,639.8)</b>	<b>(3,282.9)</b>	<b>(1,126.1)</b>	<b>(1,108.6)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>658.4</b>	<b>(266.0)</b>	<b>1,949.0</b>	<b>(129.0)</b>	<b>2,329.6</b>	<b>3,410.7</b>
<b>Opening Balance</b>	<b>498.0</b>	<b>1,156.4</b>	<b>890.4</b>	<b>2,839.4</b>	<b>2,710.4</b>	<b>5,040.1</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>1,156.4</b>	<b>890.4</b>	<b>2,839.4</b>	<b>2,710.4</b>	<b>5,040.1</b>	<b>8,450.8</b>

Source: Company, BP Equities Research



## Balance Sheet ( Consolidated)

YE March( INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>						
Equity Capital	254	254	254	248	248	248
Share application money pending allotment	54	110	183	0	0	0
Reserves & Surplus	12,734	14,931	18,000	21,485	26,728	33,868
<b>Equity</b>	<b>13,042</b>	<b>15,295</b>	<b>18,437</b>	<b>21,733</b>	<b>26,976</b>	<b>34,116</b>
Preference Share Capital	0	0	0	0	0	0
<b>Net Worth</b>	<b>13,042</b>	<b>15,295</b>	<b>18,437</b>	<b>21,733</b>	<b>26,976</b>	<b>34,116</b>
Minority Interest						
Net Deferred tax liability/(Asset)	551	738	645	252	252	252
<b>Total Loans</b>	<b>9,582</b>	<b>9,330</b>	<b>7,932</b>	<b>7,504</b>	<b>7,004</b>	<b>6,504</b>
<b>Capital Employed</b>	<b>23,175</b>	<b>25,363</b>	<b>27,014</b>	<b>29,488</b>	<b>34,232</b>	<b>40,871</b>
<b>Assets</b>						
Gross Block	11,996	14,729	18,752	21,547	25,547	28,547
Less: Depreciation	4,229	5,287	6,713	8,227	9,760	12,044
<b>Net Block</b>	<b>7,767</b>	<b>9,442</b>	<b>12,040</b>	<b>13,320</b>	<b>15,787</b>	<b>16,503</b>
Capital WIP	2,901	3,235	1,481	1,848	1,848	1,848
<b>Long Term Loans &amp; Advances</b>	<b>359</b>	<b>457</b>	<b>769</b>	<b>1,256</b>	<b>152</b>	<b>187</b>
Intangible assets under development	2,244	1,725	1,461	543	543	543
Non Current Investments	1,566	2,104	193	190	190	190
<b>Current Assets</b>						
Inventories	2,799	3,842	4,384	7,822	9,037	11,147
Sundry Debtors	6,171	6,735	7,352	7,654	8,843	10,908
Cash and Bank Balance	1,156	890	2,839	2,710	5,040	8,451
Loans and Advances	918	985	918	100	115	142
Other Current Assets	488	370	426	585	676	834
<b>Total Current Assets</b>	<b>11,532</b>	<b>12,822</b>	<b>17,018</b>	<b>19,970</b>	<b>24,811</b>	<b>32,580</b>
<b>Less: Current Liabilities &amp; Provisions</b>						
Sundry Creditors	2,522	3,235	4,300	5,410	6,524	7,806
Provisions	86	52	117	220	254	314
Other Current Liabilities	587	1,136	1,532	2,008	2,320	2,861
<b>Total Current Liabilities &amp; Provisions</b>	<b>3,195</b>	<b>4,423</b>	<b>5,948</b>	<b>7,638</b>	<b>9,098</b>	<b>10,980</b>
<b>Capital Applied</b>	<b>23,175</b>	<b>25,363</b>	<b>27,014</b>	<b>29,488</b>	<b>34,232</b>	<b>40,871</b>

Source: Company, BP Equities Research

## Key Ratios ( Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	16.5%	16.8%	20.2%	26.4%	23.2%	25.5%
Tax / PBT (%)	35.2%	32.2%	27.2%	22.0%	22.0%	22.0%
Net Profit Margin (%)	7.9%	10.4%	12.9%	17.0%	15.0%	16.3%
RoE (%)	12.0%	16.7%	18.2%	27.4%	23.1%	24.6%
RoCE (%)	11.4%	12.6%	16.3%	27.1%	23.9%	26.3%
Current Ratio (x)	3.6x	2.9x	2.9x	2.6x	2.7x	3.0x
Dividend Payout (%)	21.1%	10.8%	7.6%	6.9%	6.8%	5.1%
Book Value Per Share (INR.)	52.7	61.8	74.5	87.8	108.9	137.8

## Financial Leverage Ratios

Net Debt/ Equity (x)	0.6	0.6	0.3	0.2	0.1	(0.1)
Interest Coverage (x)	8.4x	13.5x	19.4x	32.5x	35.4x	51.7x
Interest / Debt (%)	4.2%	3.0%	3.1%	3.4%	3.4%	3.4%

## Growth Indicators %

Growth in Gross Block (%)	22.0%	22.8%	27.3%	14.9%	18.6%	11.7%
Sales Growth (%)	19.4%	35.3%	14.0%	24.6%	15.5%	23.3%
EBITDA Growth (%)	(6.8%)	37.9%	36.8%	62.8%	1.5%	35.6%
Net Profit Growth (%)	(19.4%)	78.3%	41.9%	63.8%	2.4%	33.7%
Diluted EPS Growth (%)	(19.4%)	78.3%	41.9%	63.8%	2.4%	33.7%

## Turnover Ratios

Debtors Days	134	108	103	86	86	86
Creditors Days	65	62	76	83	83	83
Inventory Days	61	62	62	88	88	88

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
BP Wealth Management Pvt. Ltd.  
CIN No: U67190MH2005PTC154591  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392