

Challenging Quarter; performance to improve from H2

Granules (GIL) posted revenues of INR 8,883mn with 3.5% YoY growth, which was 5.2% above our estimate of INR 8,446mn. Revenue beat was mainly driven by new product launches and increased market share for existing products in the finished dosages (FD) segment. During Q2, FDs grew by 18% (YoY), PFIs grew by 10% (YoY), and API sales dropped by 25% (YoY). Gross margin contracted by 706bps on account of increase in KSM prices (mainly PAP and Acetic acid prices are up by 100%-150%) and loss of MEIS benefit. However, EBITDA Margin witnessed a higher impact (decline of 1286bps to 17% in Q2FY22) due to lower profitability in Para products and higher logistic cost and R&D expenses (5.3% vs 2.6% in Q2FY21). The management expects to pass on some of the increases to their customers from Q3FY22 onwards. GIL reported a PAT of INR 807mn, which was below our estimate of INR 1237mn driven by weak operational performance. As per management, the KSM supply situation is likely to improve with an increase in the number of domestic suppliers. Moreover, the company is now working towards backward integration for most of its key KSMs, focusing on green chemistry to reduce external dependence. The management has stated that it is looking to decrease the share of core molecules from 84% to 60% by FY25, focusing on launching higher-margin products across different geographies.

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

In Q2FY22, the Formulation segment contribution has increased by 7% to 57%, APIs and PFIs contributed 21.5% each vs 30% and 20% a year ago. Geography-wise, the regulated market contributed ~78% to the revenue. During the quarter GIL filed one ANDA (received one ANDA approval), one European Dossier, one US DMF and one CEP. On a cumulative basis, GIL has 46 ANDAs approved (including 2 tentative approvals) with 12 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 FY21-24E 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 24.2% revenue growth in the formulation segment with a revenue share increase (59.7% in FY24E vs 52.5% in FY21).

Valuation & Outlook

Despite near-term challenges related to KSM supply, we remain optimistic about the company's long-term growth prospects on the back of better growth in profitability, a healthy balance sheet, and improving return ratios. At the CMP (INR 311), the stock trades at 9.3x FY24e EPS and 5.6x EV/EBITDA. We believe the stock to witness gradual re-rating on the back of a stronger product pipeline and improved return ratios. However, we trim our earnings estimates for FY22/FY23 by 11.2%/14.9%, respectively, due to higher than anticipated contraction in margins. We reiterate our BUY rating and roll forward our target price to FY24e EPS of INR 33.4 to arrive at a revised target price of INR 400 (earlier INR 425), valuing the stock at 12x P/E.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	311
Target Price (INR)	400
BSE code	532482
NSE Symbol	GRANULES
Bloomberg	GRAN IN
Reuters	GRAN.BO

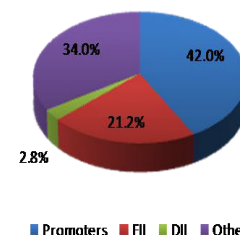
Key Data

Nifty	18,103
52WeekH/L(INR)	438/280
O/s Shares (Mn)	248
Market Cap (INR bn)	77
Face Value (INR)	1

Average volume

3 months	20,45,820
6 months	36,63,350
1 year	30,00,570

Share Holding Pattern (%)



Key Financials (Consolidated)

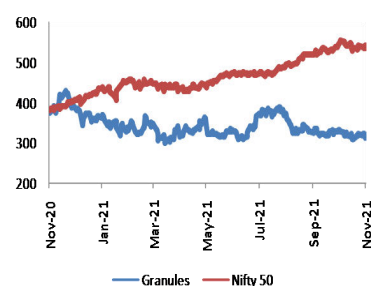
YE March (Inr. mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	25,986	32,375	37,405	45,097	54,463
Growth %	14%	25%	16%	21%	21%
EBITDA	5,253	8,552	7,954	10,241	12,876
Growth%	37%	63%	-7%	29%	26%
Net Profit	3,354	5,495	5,060	6,321	8,264
Growth %	42%	64%	-8%	25%	31%
Diluted EPS	14	22	20	26	33
Growth %	42%	64%	-8%	25%	31%

Profitability & Valuation

EBIDTA (%)	20.2%	26.4%	21.3%	22.7%	23.6%
NPM (%)	12.9%	17.0%	13.5%	14.0%	15.2%
RoE (%)	19.9%	27.4%	21.0%	21.5%	22.9%
RoCE (%)	16.3%	27.1%	21.7%	22.8%	25.1%
P/E (x)	23.0	14.0	15.2	12.2	9.3
EV/EBITDA (x)	15.6	9.6	10.0	7.5	5.6
P/BV (x)	4.2	3.5	2.9	2.4	1.9

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

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Variance Analysis

YE March (INR. Mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %
Net Sales	8,883	8,498	4.5%	8,581	3.5%
Other Operating Income	0	0		0	
Total Revenue	8,883	8,498	4.5%	8,581	3.5%
Less:					
Raw Material Cost	4,366	3,891	12.2%	3,611	20.9%
Operating & Manufacturing Expenses	2,080	1,640	26.9%	1,609	29.3%
Employee Cost	925	954	(3.0%)	797	16.1%
Loss on Foreign Exchange Loan	0	0	0.0%	0	0.0%
Total Expenditure	7,372	6,484	13.7%	6,017	22.5%
EBITDA	1,512	2,014	(24.9%)	2,564	(41.0%)
Less: Depreciation	398	394	1.2%	361	10.5%
EBIT	1,113	1,620	(31.3%)	2,203	(49.5%)
Less: Interest	54.6	67.9	(19.6%)	62.7	(12.9%)
Add: Other income	44	76	(42.9%)	32	35.0%
Exceptional Items	0	0		0	
Profit before tax	1,102	1,629	(32.3%)	2,173	(49.3%)
Adjusted Profit before Tax	1,102	1,629	(32.3%)	2,173	(49.3%)
Less: Total Tax	296	427	(30.7%)	537	(44.9%)
Profit After Tax	807	1,202	(32.9%)	1,636	(50.7%)
Share of Profits	0	0	NA	0	NA
Minority Interest	0	0		0	
Adjusted Profit After Tax	807	1,202	(32.9%)	1,636	(50.7%)
Diluted EPS (INR.)	3.3	4.9	(32.9%)	6.6	(50.7%)
Adjusted Diluted EPS	3.3	4.9	(32.9%)	6.6	(50.7%)
Diluted No of Share (mn)	248	248		248	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	50.9%	54.2%	-337	57.9%	-706
EBITDA Margin %	17.0%	23.7%	-668	29.9%	-1,286
EBIT Margin %	12.5%	19.1%	-653	25.7%	-1,314
NPM %	9.1%	14.1%	-506	19.1%	-999
Effective Tax Rate %	26.8%	26.2%	61	24.7%	211

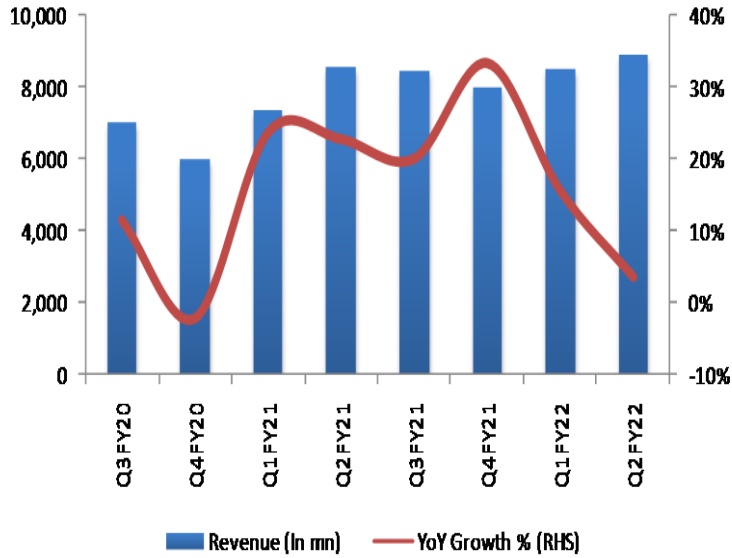
Source: Company, BP Equities Research

Revenue came above our estimate driven by better growth in the FD due to new launches and increased market share for existing products.

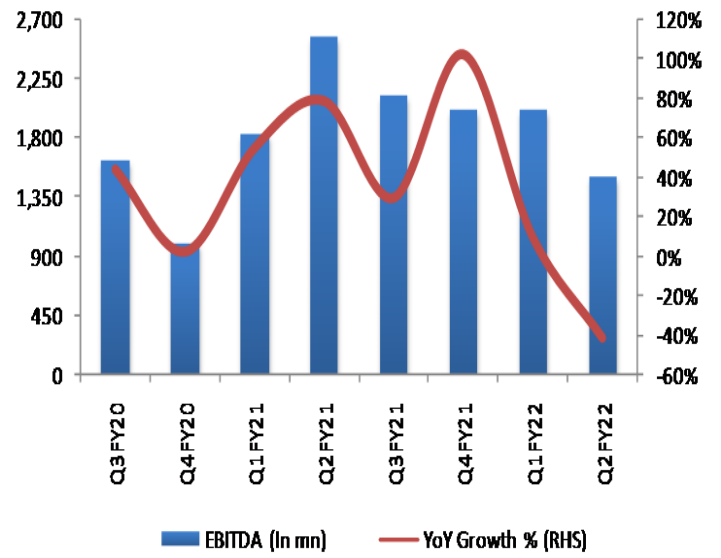
Reported PAT was below our estimate of INR 1,237mn due to operationally weak performance

EBITDA margin came below our estimate of 24.1% due to lower profitability in Para products and higher logistic cost and R&D expenses.

Revenue growth trend

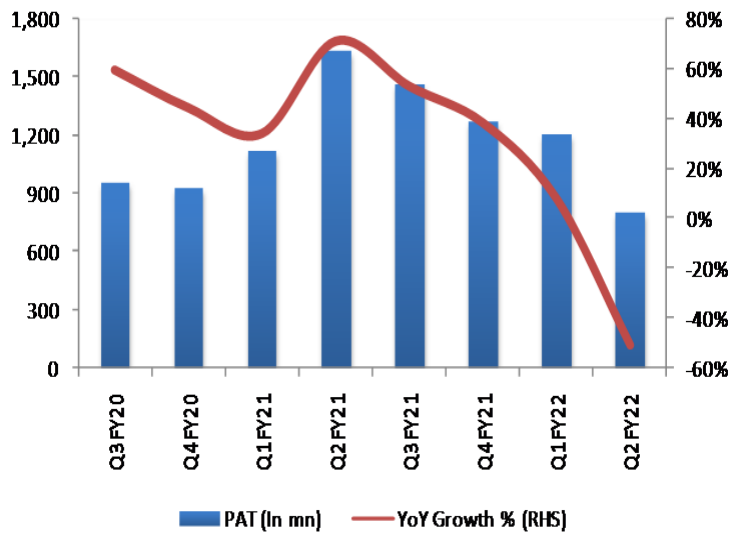


EBITDA growth trend

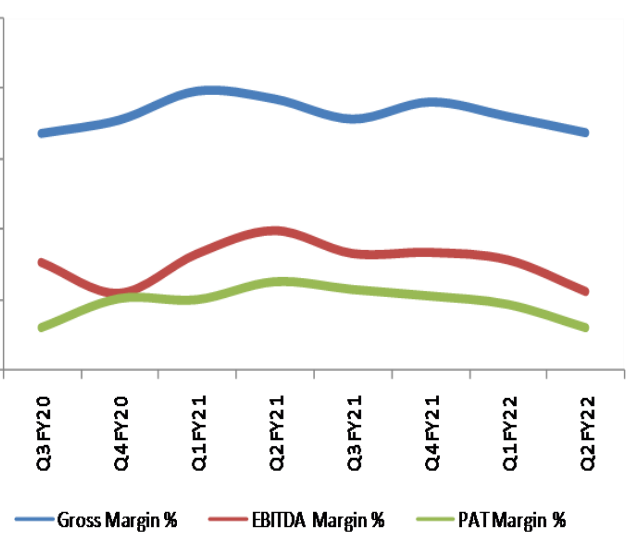


Source: Company, BP Equities Research

PAT growth trend

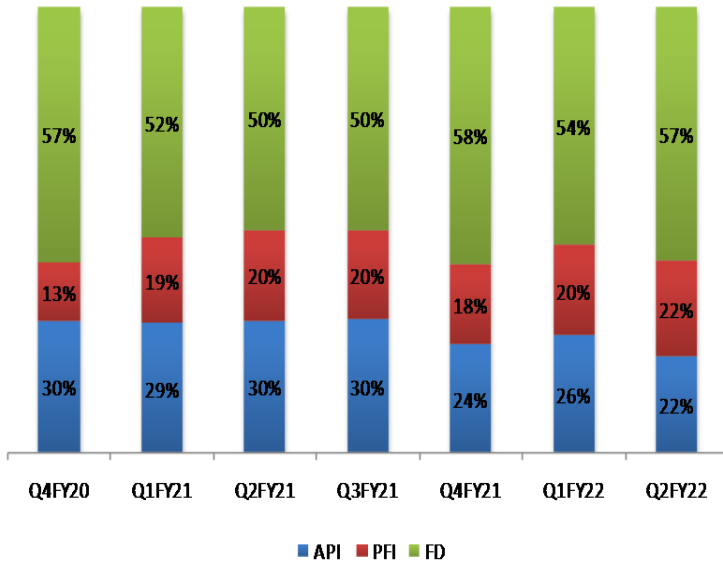


Gross/ EBITDA/ PAT margin trend

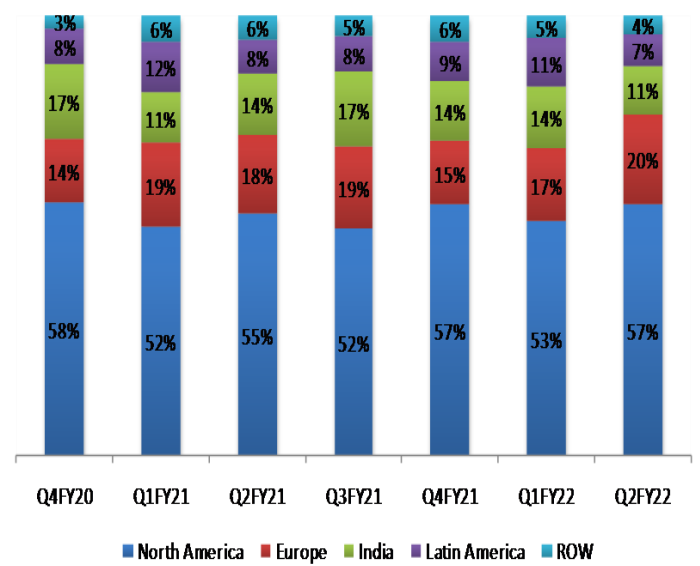


Source: Company, BP Equities Research

Vertical Wise Contribution Trend

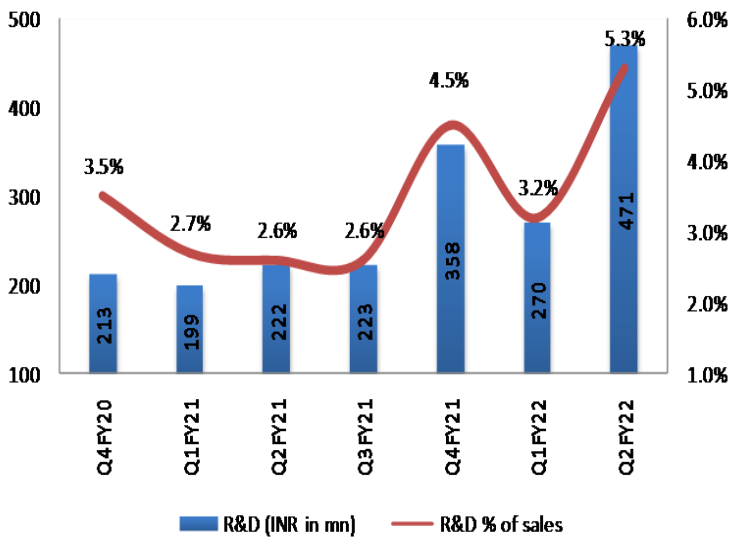


Geography Wise Contribution Trend

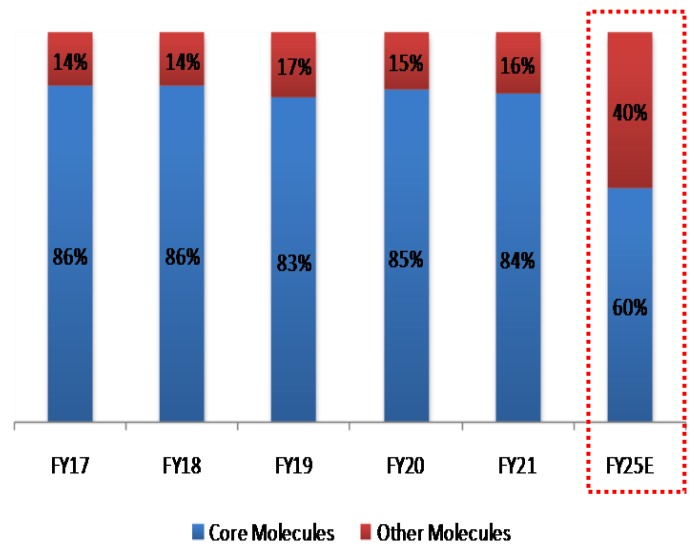


Source: Company, BP Equities Research,

R&D spend trend



Contribution from other molecules to grow substantially



Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)						
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues	22,792	25,986	32,375	37,405	45,097	54,463
Growth %	35.3%	14.0%	24.6%	15.5%	20.6%	20.8%
Total Operating Revenue	22,792	25,986	32,375	37,405	45,097	54,463
Growth %	35.3%	14.0%	24.6%	15.5%	20.6%	20.8%
Less:						
Raw Material Consumed	12,556	12,809	13,913	18,003	21,054	24,918
Employee Cost	2,098	2,590	4,082	4,716	5,686	6,867
Other Expenses	4,298	5,334	5,829	6,732	8,116	9,802
Total Operating Expenditure	18,952	20,733	23,823	29,451	34,856	41,587
EBITDA	3,840	5,253	8,552	7,954	10,241	12,876
Growth %	37.9%	36.8%	62.8%	-7.0%	28.8%	25.7%
Less: Depreciation	1,055	1,370	1,515	1,533	2,284	2,524
EBIT	2,786	3,884	7,038	6,421	7,957	10,352
Growth %	37.7%	39.4%	81.2%	-8.8%	23.9%	30.1%
Interest Paid	285	270	263	245	228	210
Non-operating Income	267	366	269	311	374	452
Profit Before tax	2,768	4,256	7,044	6,486	8,104	10,594
Tax	891	1,157	1,549	1,427	1,782	2,330
Net Profit before Minority	1,877	3,099	5,495	5,060	6,321	8,264
Minority Interest	0	0	0	0	0	0
Net Profit	2,364	3,354	5,495	5,060	6,321	8,264
Adjusted Profit	2,364	3,077	5,495	5,060	6,321	8,264
Reported Diluted EPS Rs	9.5	13.5	22.2	20.4	25.5	33.4
Growth %	78.3%	41.9%	63.8%	-7.9%	24.9%	30.7%
Adjusted Diluted EPS Rs	9.5	12.4	22.2	20.4	25.5	33.4
Growth %	78.3%	30.1%	78.6%	-7.9%	24.9%	30.7%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	2,364	3,354	5,495	5,060	6,321	8,264
Less: Non Operating Income	(267)	(366)	(269)	(311)	(374)	(452)
Add: Depreciation	1,055	1,370	1,515	1,533	2,284	2,524
Add: Interest Paid	285	270	263	245	228	210
Operating Profit before Working Capital Changes	3,437	4,351	7,003	6,527	8,459	10,546
(Inc)/Dec in Current Assets	(513)	(1,705)	357	(1,296)	(1,981)	(2,413)
Inc/(Dec) in Current Liabilities	1,228	1,526	1,690	1,624	1,757	2,173
Changes in Inventory	(1,043)	(542)	(3,437)	(1,215)	(1,858)	(2,263)
Net Cash Generated From Operations	3,109	3,630	5,612	5,641	6,376	8,044
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(2,733)	(4,023)	(2,795)	(4,000)	(3,000)	(3,000)
(Inc)/Dec in Capital Work In Progress	(334)	1,754	(367)	0	0	0
(Inc)/Dec in Investment (Strategic)	520	263	918	0	0	0
(Inc)/Dec in Investment (Others)	(98)	(312)	(487)	1,104	(31)	(38)
Add: Non Operating Income	267	366	269	311	374	452
Net Cash Flow from/(used in) Investing Activities	(2,917)	(41)	(2,458)	(2,585)	(2,657)	(2,586)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(65)	(1,492)	(821)	(500)	(500)	(500)
Inc/(Dec) in Reserves & Surplus	87	(31)	(1,629)	0	0	(0)
Inc/(Dec) in Equity	56	73	(189)	0	0	0
Dividend Paid	(254)	(254)	(381)	(381)	(444)	(508)
Less: Interest Paid	(285)	(270)	(263)	(245)	(228)	(210)
Adjustments	3	56	0	(0)	0	0
Net Cash Flow from Financing Activities	(457)	(1,640)	(3,283)	(1,126)	(1,172)	(1,218)
Net Inc/Dec in cash equivalents	(266)	1,949	(129)	1,930	2,547	4,240
Opening Balance	1,156	890	2,839	2,710	4,640	7,187
Closing Balance Cash and Cash Equivalents	890	2,839	2,710	4,640	7,187	11,427

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(INR. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Liabilities						
Equity Capital	254	254	248	248	248	248
Share application money pending allotment	110	183	0	0	0	0
Reserves & Surplus	14,931	18,000	21,485	26,164	32,041	39,798
Equity	15,295	18,437	21,733	26,412	32,289	40,046
Preference Share Capital	0	0	0	0	0	0
Net Worth	15,295	18,437	21,733	26,412	32,289	40,046
Minority Interest						
Net Deferred tax liability/(Asset)	738	645	252	252	252	252
Total Loans	9,330	7,932	7,504	7,004	6,504	6,004
Capital Employed	25,363	27,014	29,488	33,668	39,045	46,302
Assets						
Gross Block	14,729	18,752	21,547	25,547	28,547	31,547
Less: Depreciation	5,287	6,713	8,227	9,760	12,044	14,568
Net Block	9,442	12,040	13,320	15,787	16,503	16,980
Capital WIP	3,235	1,481	1,848	1,848	1,848	1,848
Long Term Loans & Advances	457	769	1,256	152	183	221
Intangible assets under development	1,725	1,461	543	543	543	543
Non Current Investments	2,104	193	190	190	190	190
Current Assets						
Inventories	3,842	4,384	7,822	9,037	10,895	13,158
Sundry Debtors	6,735	7,352	7,654	8,843	10,662	12,876
Cash and Bank Balance	890	2,839	2,710	4,640	7,187	11,427
Loans and Advances	985	918	100	115	139	168
Other Current Assets	370	426	585	676	815	984
Total Current Assets	12,822	17,018	19,970	24,411	30,797	39,713
Less: Current Liabilities & Provisions						
Sundry Creditors	3,235	4,300	5,410	6,689	7,916	9,445
Provisions	52	117	220	254	307	370
Other Current Liabilities	1,136	1,532	2,008	2,320	2,797	3,377
Total Current Liabilities & Provisions	4,423	5,948	7,638	9,263	11,019	13,193
Capital Applied	25,363	27,014	29,488	33,668	39,045	46,302

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Key Operating Ratios						
EBITDA Margin (%)	16.8%	20.2%	26.4%	21.3%	22.7%	23.6%
Tax / PBT (%)	32.2%	27.2%	22.0%	22.0%	22.0%	22.0%
Net Profit Margin (%)	10.4%	12.9%	17.0%	13.5%	14.0%	15.2%
RoE (%)	16.7%	18.2%	27.4%	21.0%	21.5%	22.9%
RoCE (%)	12.6%	16.3%	27.1%	21.7%	22.8%	25.1%
Current Ratio (x)	2.9x	2.9x	2.6x	2.6x	2.8x	3.0x
Dividend Payout (%)	10.8%	7.6%	6.9%	7.5%	7.0%	6.1%
Book Value Per Share (INR.)	61.8	74.5	87.8	106.7	130.4	161.7
Financial Leverage Ratios						
Net Debt/ Equity (x)	0.6	0.3	0.2	0.1	(0.0)	(0.1)
Interest Coverage (x)	13.5x	19.4x	32.5x	32.4x	45.0x	61.2x
Interest / Debt (%)	3.0%	3.1%	3.4%	3.4%	3.4%	3.4%
Growth Indicators %						
Growth in Gross Block (%)	22.8%	27.3%	14.9%	18.6%	11.7%	10.5%
Sales Growth (%)	35.3%	14.0%	24.6%	15.5%	20.6%	20.8%
EBITDA Growth (%)	37.9%	36.8%	62.8%	(7.0%)	28.8%	25.7%
Net Profit Growth (%)	78.3%	41.9%	63.8%	(7.9%)	24.9%	30.7%
Diluted EPS Growth (%)	78.3%	41.9%	63.8%	(7.9%)	24.9%	30.7%
Turnover Ratios						
Debtors Days	108	103	86	86	86	86
Creditors Days	62	76	83	83	83	83
Inventory Days	62	62	88	88	88	88

Source: Company, BP Equities Research

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