

Improved performance; change in revenue mix impacted margins

Granules (GIL) posted revenues of INR 9,968mn with 18% YoY growth, which was 5.2% below our estimate of INR 10,517mn. Revenue miss was mainly due to slower growth in the finished dosages (FD) segment. During Q3, FDs grew by 8.4% (YoY), PFIs grew by 32.4% (YoY), and API sales improved by 24.4% (YoY). GIL has witnessed an increase in key raw material costs along with higher freight costs. Despite taking price increase by renegotiation with some of its customers, continued increasing input cost and lower revenue from FD severely impacted its gross margins by 707bps (YoY), which resulted in 762bps (YoY) contraction in EBITDA margin to 17.4% (est.18.8%) in Q3FY22. The management expects to continue to pass on the RM cost increases to their customers in Q4FY22. GIL reported a PAT of INR 1009mn, which was below our estimate of INR 1192mn due to ordinary operational performance. As per management, the KSM supply situation is likely to improve in the coming quarters with a restart of PAP capacity by the biggest supplier in China. 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 81% to 60% by FY25, focusing on launching higher-margin products across different geographies. GIL to incur capex amounting of INR 3bn/ year for FY23 and F24, which is likely to be entirely funded by internal accruals, thus keeping the debt at similar levels. The management expects the business to grow at a healthy pace over the next three to four years, driven by the healthy ANDA pipeline of 60 products for the FD business in the US, of which 48 were approved (incl two tentative approvals) and 12 pending for approvals till end-Q3FY22. The company expects to continue filing 10-12 ANDAs and launch 8-10 products per year in the US market. GIL filed two ANDA, two Canadian Dossiers, one US DMF, and one CEP during the quarter and received three ANDA approvals. As part of the vertical integration strategy, GIL aims to file ANDAs for several of these APIs to forward integrate into FDs.

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 310), the stock trades at 10.3x FY24e EPS and 6.1x EV/EBITDA. We believe the stock to witness gradual re-rating on the back of a stronger product pipeline coupled with increasing market share in existing molecules. However, we trim our earnings estimates for FY23/FY24 by 8.8%/9.6%, respectively, due to higher than anticipated contraction in margins. We reiterate our BUY rating with a revised target price of INR 393 (earlier INR 400), valuing the stock at 13x P/E.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	310
Target Price (INR)	393
BSE code	532482
NSE Symbol	GRANULES
Bloomberg	GRAN IN
Reuters	GRAN.BO

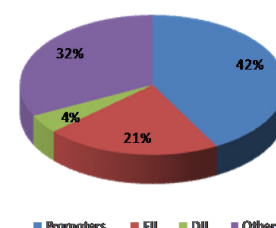
Key Data

Nifty	17,267
52WeekH/L(INR)	404/285
O/s Shares (Mn)	248
Market Cap (INR bn)	77
Face Value (INR)	1

Average volume

3 months	23,61,230
6 months	22,03,530
1 year	31,95,180

Share Holding Pattern (%)



Key Financials (Consolidated)

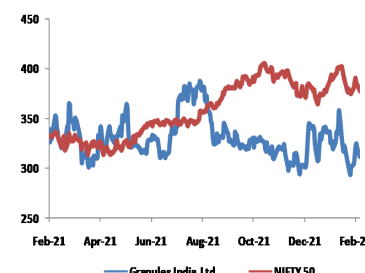
YE March (Inr. mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	25,986	32,375	37,405	45,097	54,463
Growth %	14%	25%	16%	21%	21%
EBITDA	5,253	8,552	7,172	9,552	11,904
Growth%	37%	63%	-16%	33%	25%
Net Profit	3,354	5,495	4,422	5,757	7,479
Growth %	42%	64%	-20%	30%	30%
Diluted EPS	14	22	18	23	30
Growth %	42%	64%	-20%	30%	30%

Profitability & Valuation

EBIDTA (%)	20.2%	26.4%	19.2%	21.2%	21.9%
NPM (%)	12.9%	17.0%	11.8%	12.8%	13.7%
RoE (%)	19.9%	27.4%	18.6%	20.2%	21.6%
RoCE (%)	16.3%	27.1%	18.9%	20.8%	23.1%
P/E (x)	22.9	14.0	17.4	13.3	10.3
EV/EBITDA (x)	15.6	9.5	11.1	8.1	6.1
P/BV (x)	4.2	3.5	3.0	2.5	2.0

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

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Result Update Q3FY22

Variance Analysis

YE March (INR. Mn)	Q3 FY22	Q2 FY22	Q-o-Q change %	Q3 FY21	Y-o-Y change %
Net Sales	9,968	8,883	12.2%	8,445	18.0%
Other Operating Income	0	0		0	
Total Revenue	9,968	8,883	12.2%	8,445	18.0%
Less:					
Raw Material Cost	5,319	4,366	21.8%	3,910	36.0%
Operating & Manufacturing Expenses	1,858	2,080	(10.7%)	1,589	17.0%
Employee Cost	1,053	925	13.8%	831	26.7%
Loss on Foreign Exchange Loan	0	0	0.0%	0	0.0%
Total Expenditure	8,230	7,372	11.7%	6,330	30.0%
EBITDA	1,737	1,512	14.9%	2,116	(17.9%)
Less: Depreciation	392	398	(1.5%)	368	6.5%
EBIT	1,345	1,113	20.8%	1,747	(23.0%)
Less: Interest	45.9	54.6	(16.0%)	72.4	(36.6%)
Add: Other income	49	44	11.8%	164	(70.3%)
Exceptional Items	0	0		0	
Profit before tax	1,348	1,102	22.3%	1,839	(26.7%)
Adjusted Profit before Tax	1,348	1,102	22.3%	1,839	(26.7%)
Less: Total Tax	339	296	14.7%	371	(8.6%)
Profit After Tax	1,009	807	25.0%	1,468	(31.3%)
Share of Profits	0	0	NA	0	NA
Minority Interest	0	0		0	
Adjusted Profit After Tax	1,009	807	25.0%	1,468	(31.3%)
Diluted EPS (INR.)	4.1	3.3	25.0%	5.9	(31.3%)
Adjusted Diluted EPS	4.1	3.3	25.0%	5.9	(31.3%)
Diluted No of Share (mn)	248	248		248	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	46.6%	50.9%	-422	53.7%	-707
EBITDA Margin %	17.4%	17.0%	41	25.1%	-762
EBIT Margin %	13.5%	12.5%	96	20.7%	-719
NPM %	10.1%	9.1%	104	17.4%	-726
Effective Tax Rate %	25.2%	26.8%	-166	20.2%	499

Source: Company, BP Equities Research

Revenue came below our estimate due to slower growth in the Finished dosage segment.

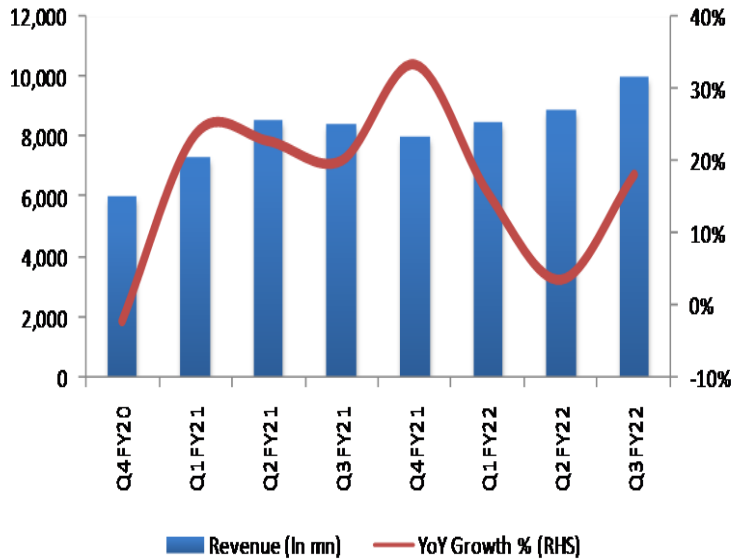
Reported PAT was below our estimate of INR 1,237mn due to ordinary operational performance

EBITDA margin came below our estimate of 18.8% due to reduction in Gross margin and increase in Freight cost by INR 289 mn on account of shortage of containers and R&D cost increased by INR 126 mn as part of future growth strategy

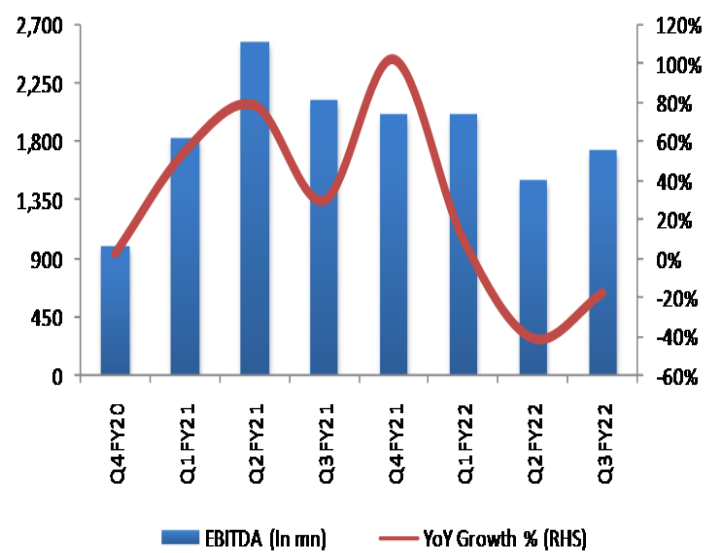
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Result Update Q3FY22

Revenue growth trend

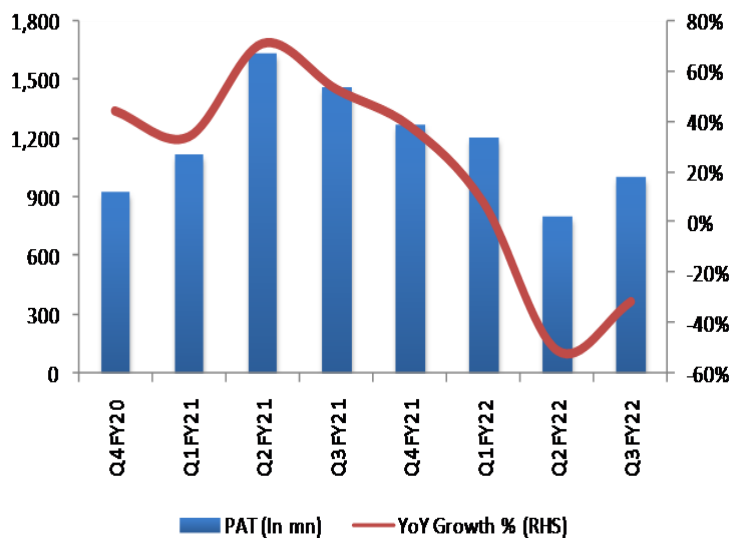


EBITDA growth trend

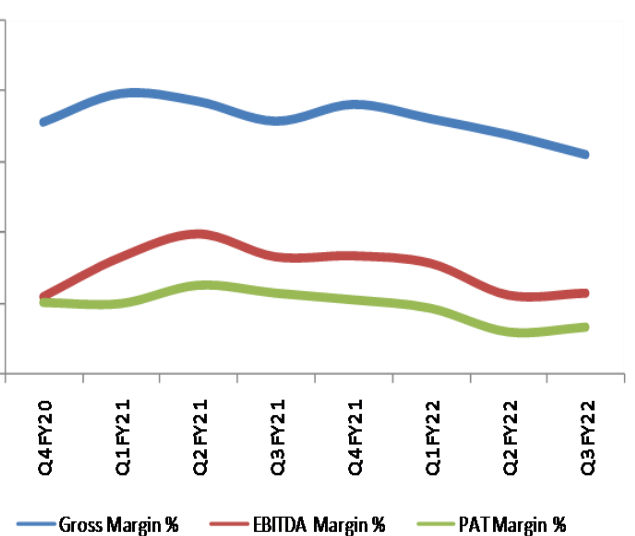


Source: Company, BP Equities Research

PAT growth trend



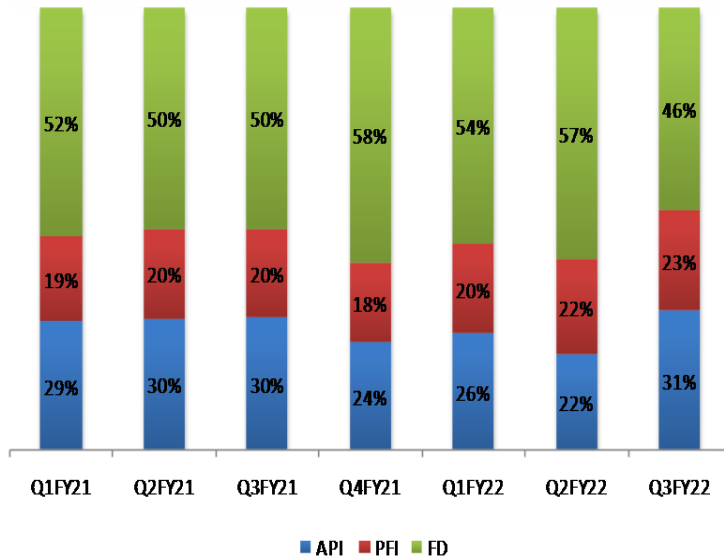
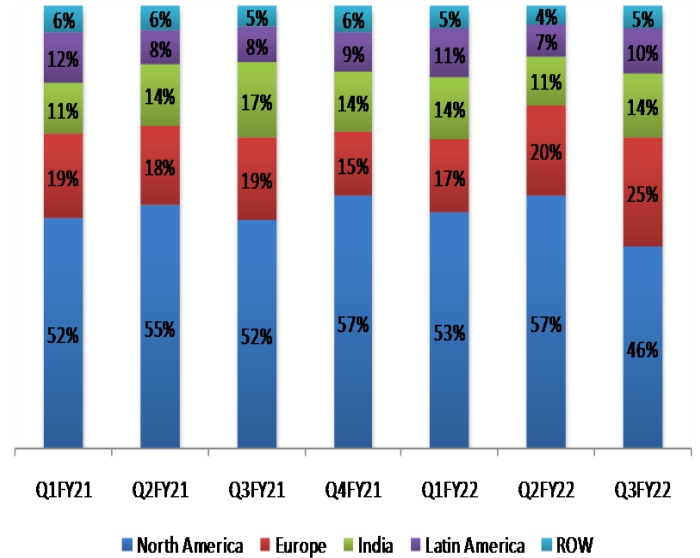
Gross/ EBITDA/ PAT margin trend



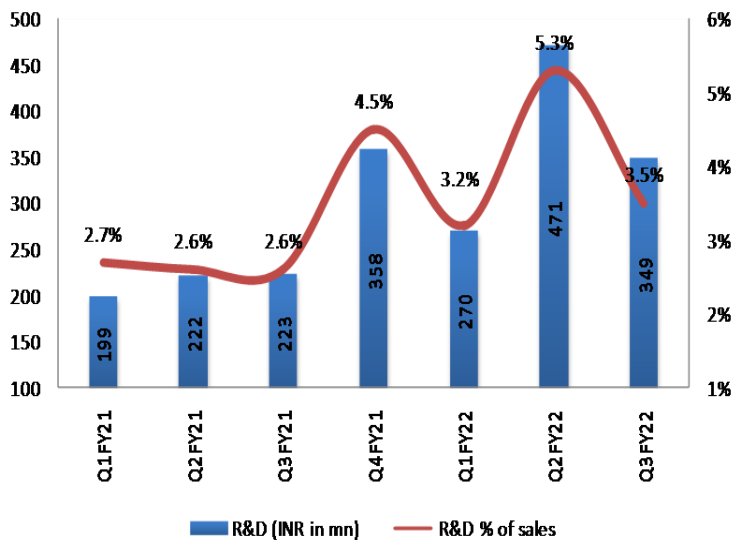
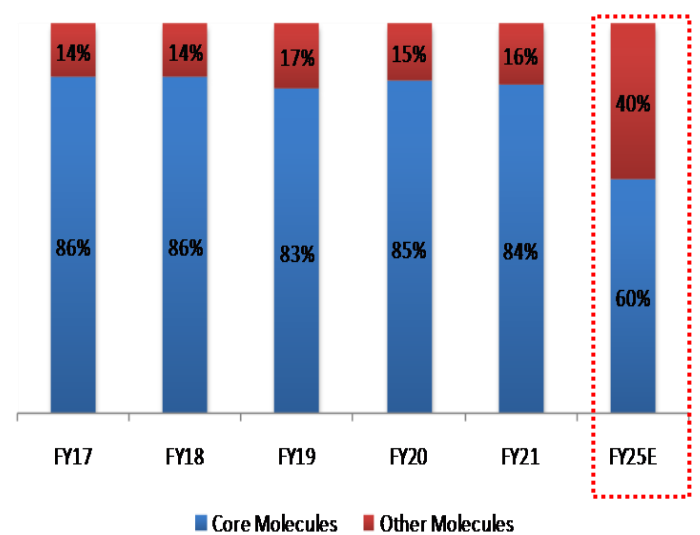
Source: Company, BP Equities Research

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Result Update Q3FY22

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

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Result Update Q3FY22

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	18,807	21,994	26,031
Employee Cost	2,098	2,590	4,082	4,716	5,686	6,867
Other Expenses	4,298	5,334	5,829	6,710	7,865	9,662
Total Operating Expenditure	18,952	20,733	23,823	30,234	35,545	42,559
EBITDA	3,840	5,253	8,552	7,172	9,552	11,904
Growth %	37.9%	36.8%	62.8%	-16.1%	33.2%	24.6%
Less: Depreciation	1,055	1,370	1,515	1,533	2,284	2,524
EBIT	2,786	3,884	7,038	5,639	7,268	9,380
Growth %	37.7%	39.4%	81.2%	-19.9%	28.9%	29.1%
Interest Paid	285	270	263	280	263	245
Non-operating Income	267	366	269	311	374	452
Profit Before tax	2,768	4,256	7,044	5,669	7,380	9,587
Tax	891	1,157	1,549	1,247	1,623	2,108
Net Profit before Minority	1,877	3,099	5,495	4,422	5,757	7,479
Minority Interest	0	0	0	0	0	0
Net Profit	2,364	3,354	5,495	4,422	5,757	7,479
Adjusted Profit	2,364	3,077	5,495	4,422	5,757	7,479
Reported Diluted EPS Rs	9.5	13.5	22.2	17.9	23.2	30.2
Growth %	78.3%	41.9%	63.8%	-19.5%	30.2%	29.9%
Adjusted Diluted EPS Rs	9.5	12.4	22.2	17.9	23.2	30.2
Growth %	78.3%	30.1%	78.6%	-19.5%	30.2%	29.9%

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	4,422	5,757	7,479
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	280	263	245
Operating Profit before Working Capital Changes	3,437	4,351	7,003	5,925	7,929	9,795
(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	1,802	1,736	2,238
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	5,216	5,825	7,358
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)	(280)	(263)	(245)
Adjustments	3	56	0	(0)	0	0
Net Cash Flow from Financing Activities	(457)	(1,640)	(3,283)	(161)	(1,207)	(1,253)
Net Inc/Dec in cash equivalents	(266)	1,949	(129)	2,470	1,961	3,519
Opening Balance	1,156	890	2,839	2,710	5,180	7,141
Closing Balance Cash and Cash Equivalents	890	2,839	2,710	5,180	7,141	10,660

Source: Company, BP Equities Research



Granules India Ltd

Result Update Q3FY22

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	25,527	30,839	37,810
Equity	15,295	18,437	21,733	25,774	31,087	38,058
Preference Share Capital	0	0	0	0	0	0
Net Worth	15,295	18,437	21,733	25,774	31,087	38,058
Minority Interest						
Net Deferred tax liability/(Asset)	738	645	252	252	252	252
Total Loans	9,330	7,932	7,504	8,004	7,504	7,004
Capital Employed	25,363	27,014	29,488	34,030	38,843	45,314
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	5,180	7,141	10,660
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	24,951	30,752	38,946
Less: Current Liabilities & Provisions						
Sundry Creditors	3,235	4,300	5,410	6,866	8,073	9,666
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	9,440	11,176	13,413
Capital Applied	25,363	27,014	29,488	34,030	38,843	45,314

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%	19.2%	21.2%	21.9%
Tax / PBT (%)	32.2%	27.2%	22.0%	22.0%	22.0%	22.0%
Net Profit Margin (%)	10.4%	12.9%	17.0%	11.8%	12.8%	13.7%
RoE (%)	16.7%	18.2%	27.4%	18.6%	20.2%	21.6%
RoCE (%)	12.6%	16.3%	27.1%	18.9%	20.8%	23.1%
Current Ratio (x)	2.9x	2.9x	2.6x	2.6x	2.8x	2.9x
Dividend Payout (%)	10.8%	7.6%	6.9%	8.6%	7.7%	6.8%
Book Value Per Share (INR.)	61.8	74.5	87.8	104.1	125.5	153.7
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	25.6x	36.3x	48.5x
Interest / Debt (%)	3.0%	3.1%	3.4%	3.6%	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%	(16.1%)	33.2%	24.6%
Net Profit Growth (%)	78.3%	41.9%	63.8%	(19.5%)	30.2%	29.9%
Diluted EPS Growth (%)	78.3%	41.9%	63.8%	(19.5%)	30.2%	29.9%
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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