

Granules India

Estimate change



TP change



Rating change



CMP: INR412

TP: INR475 (+15%)

Buy

In-line 3Q; backward integration projects on track

Net debt declines

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	99.8 / 1.2
52-Week Range (INR)	435 / 268
1, 6, 12 Rel. Per (%)	7/25/15
12M Avg Val (INR M)	524

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	45.9	51.7	59.0
EBITDA	9.0	11.0	13.1
Adj. PAT	4.5	6.2	8.0
EBIT Margin (%)	15.1	17.0	18.4
Cons. Adj. EPS (INR)	18.6	25.6	33.0
EPS Gr. (%)	-13.7	37.6	28.9
BV/Sh. (INR)	134.6	159.0	190.9

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	14.8	17.5	18.9
RoCE (%)	12.7	14.6	16.3
Payout (%)	6.5	4.6	3.5

Valuations

P/E (x)	22.1	16.0	12.4
EV/EBITDA (x)	10.4	8.5	6.9
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	0.1	2.0	3.8
EV/Sales (x)	2.0	1.8	1.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	42.0	42.0	42.0
DII	10.2	7.1	4.8
FII	18.8	21.5	23.7
Others	29.1	30.0	29.6

FII Includes depository receipts

■ Granules India (GRAN) delivered an in-line performance in 3QFY24. The inferior performance in the API and intermediates (PFI) segments was offset by superior traction in the formulation (FDF) segment. A higher share of FDF boosted profitability on the YoY/QoQ basis. GRAN said backward integration projects for its core products are on track.

■ We reduce our earnings estimates by 2%/5%/5% for FY24/FY25/FY26, factoring a) inventory corrections implemented by customers in LATAM, and b) increased competition in Paracetamol in Europe. We continue to value GRAN at 14x 12M forward earnings to arrive at a TP of INR475. We remain positive on GRAN given a) the healthy ANDA pipeline for the US market, b) expanding its presence in manufacturing value chain for its core molecules, and c) a higher share of the FDF business. **Maintain BUY.**

Product mix benefits partially offset by higher opex

- Sales were stable YoY at INR11.6b (our estimate: INR12.3b), led by a robust performance in the US (led by both existing and new products).
- FDF sales grew 46% YoY to INR7.6b (66% of sales). PFI sales declined 19% YoY to INR1.7b (15% of sales). API sales declined 47% YoY to INR2b (19% of sales).
- Geography-wise, North America sales grew 21% YoY (66% of sales), while Europe/LATAM sales declined 16%/39% YoY to INR2.2b/INR590m (20%/5% of sales) for the quarter.
- Gross margin expanded 860bp YoY to 57% due to a change in the segmental mix and lower RM costs.
- However, EBITDA margin expanded at a lower rate of 150bp YoY to 21.7% (our est: 19.5%), due to higher employee costs and other expenses (up 320bp/390bp YoY as a % of sales).
- EBITDA grew 8% YoY to INR2.5b (our est: INR2.4b) for the quarter.
- Adjusted PAT was almost flat YoY at INR1.3b (our estimate: INR1.3b).
- In 9MFY24, revenue was flat YoY at INR33.3b, while EBITDA/PAT declined 9%/27% YoY to INR6.2b/INR2.9b.

Highlights from the management commentary

- GRAN expects FY24 revenues to be stable on YoY basis. It expects growth to revive FY25 onward.
- The share of core molecules fell to 72% in 3QFY24 from 84% at FY23 end.
- With 4-5 launches in the US for YTD, GRAN expects to launch 3 products in 4QFY24. Particularly, the g-Toprol launch is being delayed as geo-political issues have affected transportation.

Tushar Manudhane - Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Research Analyst: Sumit Gupta (Sumit.G@MotilalOswal.com) | **Akash Manish Dobhada** (Akash.Dobhada@MotilalOswal.com)

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR m)

Y/E March (Consolidated)	FY23				FY24E				FY23	FY24E	FY24E 3QE	Var. vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	10,196	11,507	11,461	11,955	9,855	11,895	11,556	12,566	45,119	45,872	12,305	-6.1
YoY Change (%)	20.0	29.5	17.0	16.1	-3.3	3.4	0.8	5.1	20.4	1.7	7.4	
EBITDA	2,115	2,429	2,313	2,361	1,579	2,130	2,505	2,777	9,218	8,991	2,399	4.4
YoY Change (%)	5.0	60.7	47.8	22.5	-25.4	-12.3	8.3	17.6	30.8	-2.5	3.7	
Margins (%)	20.7	21.1	20.2	19.8	16.0	17.9	21.7	22.1	20.4	19.6	19.5	
Depreciation	434	441	484	487	492	525	524	544	1,845	2,086	530	
EBIT	1,682	1,988	1,829	1,874	1,086	1,605	1,981	2,233	7,373	6,905	1,869	6.0
YoY Change (%)	3.8	78.6	56.0	22.9	-35.4	-19.3	8.3	19.2	35.0	-6.3	2.2	
Margins (%)	16.5	17.3	16.0	15.7	11.0	13.5	17.1	17.8	16.3	15.1	15.2	
Interest	69	132	170	188	225	260	286	210	559	980	200	
Other Income	47	48	9	34	3	15	7	66	138	92	35	
PBT before EO expense	1,659	1,904	1,669	1,720	865	1,360	1,701	2,090	6,952	6,017	1,704	-0.2
Extra-Ord expense	0	0	0	80	211	0	0	0	80	211	0	
PBT	1,659	1,904	1,669	1,640	654	1,360	1,701	2,090	6,872	5,806	1,704	
Tax	383	453	426	444	176	339	444	492	1,706	1,451	409	
Rate (%)	23.1	23.8	25.5	27.1	26.9	24.9	26.1	23.5	24.8	25.0	24.0	
(Profit)/Loss of JV/Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,276	1,451	1,243	1,196	479	1,021	1,257	1,598	5,166	4,354	1,295	-3.0
Adjusted PAT	1,276	1,451	1,243	1,254	633	1,021	1,257	1,598	5,224	4,510	1,295	-3.0
YoY Change (%)	6.1	79.8	41.3	13.0	-50.4	-29.6	1.1	27.4	30.6	-13.7	4.2	
Margins (%)	12.5	12.6	10.8	10.5	6.4	8.6	10.9	12.7	11.6	9.8	10.5	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E 3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
FD	5,487	5,856	5,226	6,115	5,420	7,375	7,627	8,392	22,684	28,814	7,317
YoY Change (%)	20.7	15.6	14.2	16.4	-1.2	25.9	45.9	37.2	16.7	27.0	40.0
PFI	2,368	2,349	2,132	2,172	1,478	1,427	1,733	1,946	9,021	6,585	1,705
YoY Change (%)	38.0	22.9	-5.6	-15.4	-37.6	-39.2	-18.7	-10.4	6.7	-27.0	-20.0
API	2,341	3,303	4,103	3,667	2,957	2,974	2,196	2,304	13,414	10,430	3,283
YoY Change (%)	4.6	73.4	31.0	48.0	26.3	-10.0	-46.5	-37.2	37.6	-22.2	-20.0
Cost Break-up											
RM Cost (% of Sales)	50.4	50.3	51.6	52.2	48.6	48.3	43.0	44.4	48.9	54.0	48.1
Staff Cost (% of Sales)	10.7	10.2	10.4	10.6	14.2	12.5	13.6	12.7	10.5	13.2	12.0
Other Cost (% of Sales)	18.2	18.4	17.8	17.5	21.1	21.2	21.7	20.8	18.0	21.2	20.4
Gross Margins(%)	49.6	49.7	48.4	47.8	51.4	51.7	57.0	55.6	51.1	46.0	51.9
EBITDA Margins(%)	20.7	21.1	20.2	19.8	16.0	17.9	21.7	22.1	20.4	19.6	19.5
EBIT Margins(%)	16.5	17.3	16.0	15.7	11.0	13.5	17.1	17.8	16.3	15.1	15.2

E: MOFSL Estimates

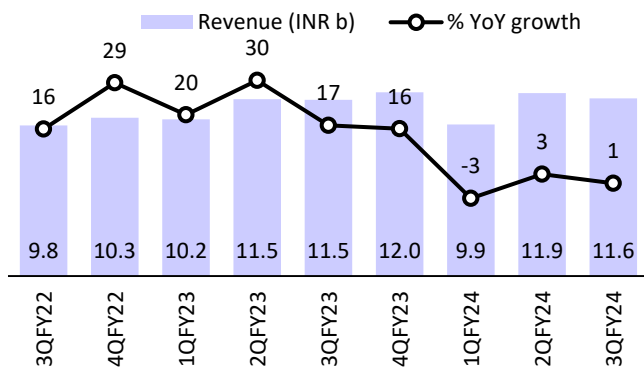


Conference call highlights

- Inventory corrections in the market and the loss of tenders by GRAN’s customer affected its business in LATAM.
- The pilot plant for DCDA is expected to start in Mar’23. The commercial benefits are expected to accrue in FY26.
- The inventory level is expected to build up in 1HFY25 for the Europe market. While sales realization is lower for its product in the Europe market, margins have been intact due to lower raw material prices.
- The US accounts for a significant share of business in the FDF segment currently.
- GRAN incurred capex of INR1b/INR2.8b for 3QFY24/9MFY24.
- Net debt stood at INR9.3b (down INR600m QoQ) and Net Debt to EBITDA at 1.16x.
- R&D spending stood at INR470m, 4% of sales, in 3QFY24.

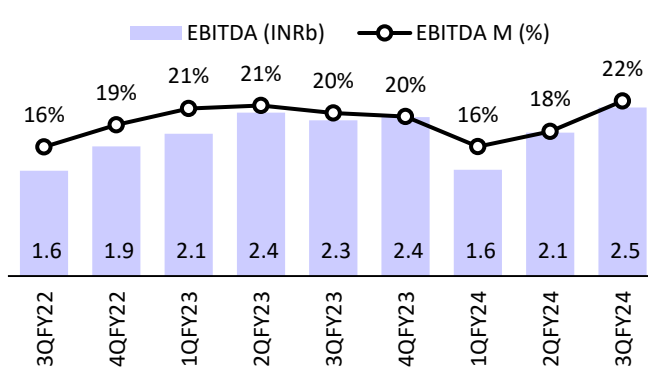
Key exhibits

Exhibit 1: Revenue growth flat in 3QFY24



Source: MOFSL, Company

Exhibit 2: EBITDA margin expanded 150bp YoY in 3QFY24



Source: MOFSL, Company

Building product pipeline and capacity to meet future needs

Work in progress to increase backward integration

- In 9MFY24, overall sales were flat YoY at INR33.3b due to the one-time impact of a cyber security attack. This was offset by strong growth in FDF segment.
- In FY25, GRAN expects to ramp up its Genome capacity (8b tablets) and API capacity. Further, the company would start commercial manufacturing at its DCDA plant in FY26, which would enhance backward integration.
- GRAN is also leveraging its technology alliances with Greenko to reduce carbon emission. GRAN plans to start manufacturing multiple products, besides paracetamol, from this technology.
- Additionally, GRAN is investing heavily in R&D as it plans to get into complex products with limited competition in oncology and non-oncology segments.
- Thus, GRAN is working across the value chain to not only improve sales prospects but also its profitability over the next 3-5 years.

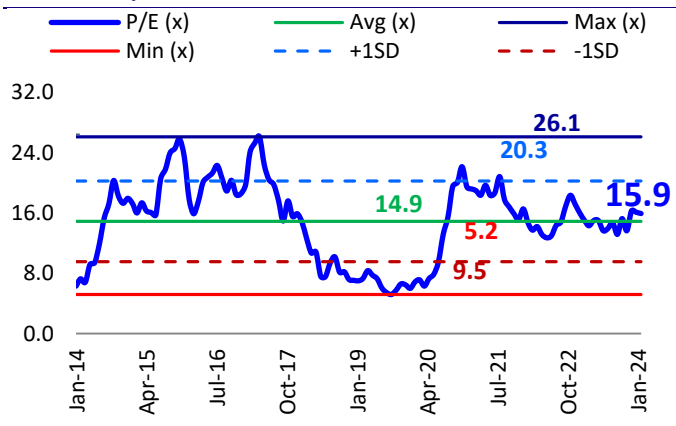
Expansion in Europe/US to drive growth

- In 9MFY24, GRAN reported 14%YoY growth in US to INR21b, largely due to volume growth, which was offset by price erosion. Europe revenue declined 8% YoY to INR6.8b due to price erosion in paracetamol.
- GRAN plans to file several products in the US markets and increase its focus on Para 2-3 filing. Also, the company aims to start FDF business in Europe, which would further boost growth.
- It also plans to increase R&D expenditure going forward as it plans to file complex products in the US and EU markets.
- The management expects to launch a couple of complex products in the regulated market, which would support overall growth for GRAN over the next 12-15 months.

Reiterate BUY

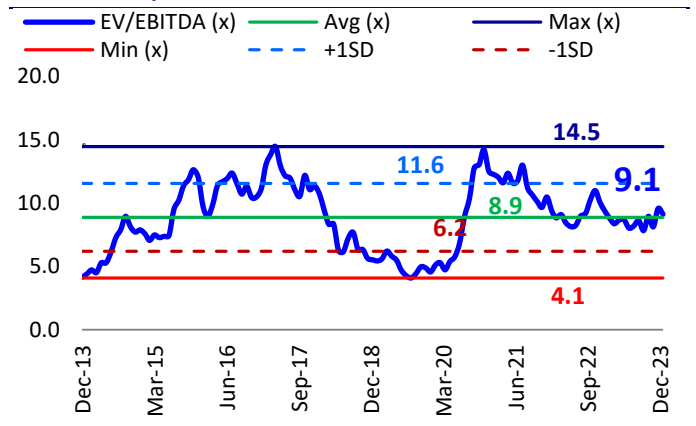
- We reduce our earnings estimates by 2%/5%/5% for FY24/FY25/FY26, factoring in a) inventory corrections implemented by customers in LATAM, and b) increased competition in Paracetamol in Europe. We continue to value GRAN at 14x 12M forward earnings to arrive at a TP of INR475. We remain positive on GRAN on the back of a) a healthy ANDA pipeline for the US market, b) expanding presence in manufacturing value chain for its core molecules, and c) a higher share of FDF business. Maintain BUY.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

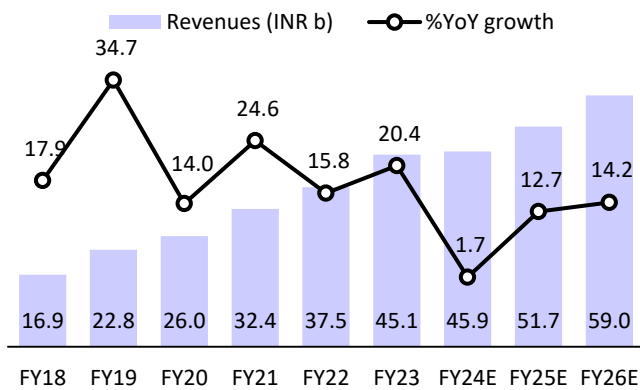
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

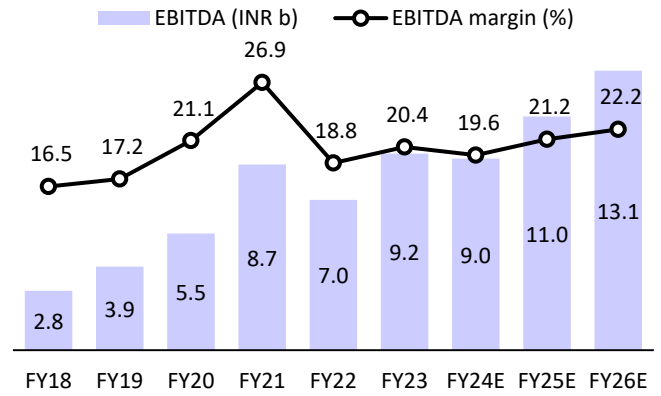
Story in charts

Exhibit 5: Expect revenue CAGR of 13.4% over FY24–26



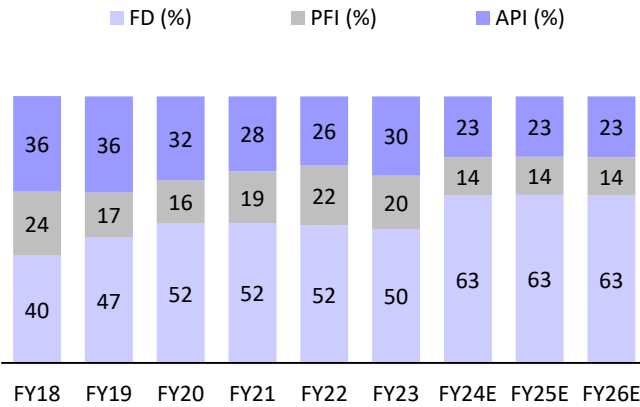
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 260bp over FY24–26



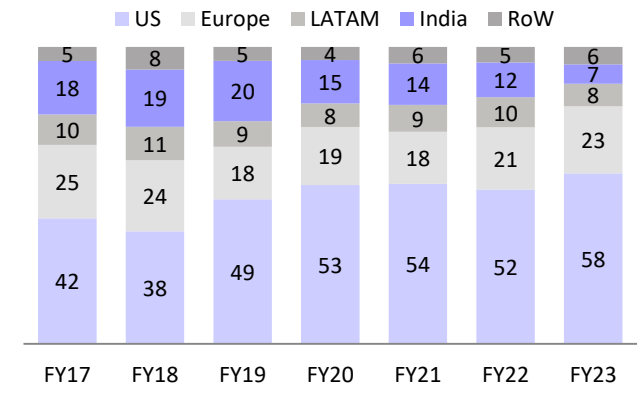
Source: MOFSL, Company

Exhibit 7: FD contribution to remain the highest



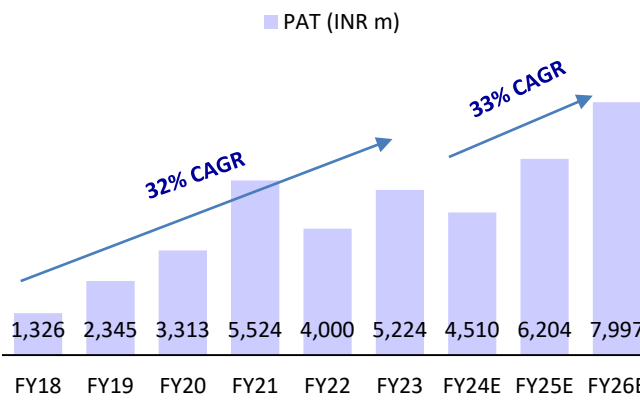
Source: MOFSL, Company

Exhibit 8: US has the highest revenue contribution



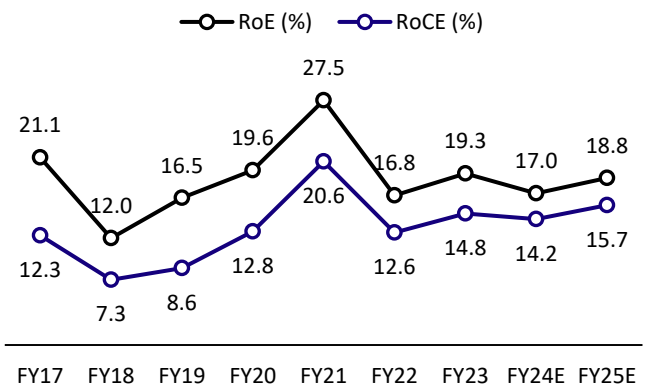
Source: MOFSL, Company

Exhibit 9: PAT to exhibit 33% CAGR over FY24–26



Source: MOFSL, Company

Exhibit 10: Return ratios rising steadily over FY24–26



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	22,792	25,986	32,375	37,477	45,119	45,872	51,689	59,036
Change (%)	34.7	14.0	24.6	15.8	20.4	1.7	12.7	14.2
Total Expenditure	18,872	20,513	23,665	30,427	35,901	36,881	40,731	45,930
% of Sales	82.8	78.9	73.1	81.2	79.6	80.4	78.8	77.8
EBITDA	3,920	5,473	8,710	7,050	9,218	8,991	10,958	13,106
Margin (%)	17.2	21.1	26.9	18.8	20.4	19.6	21.2	22.2
Depreciation	1,055	1,370	1,515	1,586	1,845	2,086	2,183	2,254
EBIT	2,866	4,104	7,195	5,464	7,373	6,905	8,775	10,852
Int. and Finance Charges	285	270	263	232	559	980	606	558
Other Income	267	366	152	176	138	92	103	118
PBT bef. EO Exp.	2,848	4,199	7,085	5,407	6,952	6,017	8,273	10,412
EO Items	-80	57	-40	173	-80	-211	0	0
PBT after EO Exp.	2,768	4,257	7,045	5,580	6,872	5,806	8,273	10,412
Current Tax	891	1,257	1,954	1,382	1,772	1,451	2,068	2,416
Deferred Tax	72	-100	-405	70	-66	0	0	0
Tax Rate (%)	34.8	27.2	22.0	26.0	24.8	25.0	25.0	23.2
Add: Associate income	487	255	0	0	0	0	0	0
Reported PAT	2,292	3,354	5,496	4,128	5,166	4,354	6,204	7,997
Adjusted PAT	2,345	3,313	5,524	4,000	5,224	4,510	6,204	7,997
Change (%)	76.8	41.3	66.8	-27.6	30.6	-13.7	37.6	28.9
Margin (%)	10.2	12.6	17.0	10.6	11.5	9.8	12.0	13.5

Consolidated - Balance Sheet								INRm
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	254	254	248	248	242	242	242	242
Total Reserves	15,040	18,183	21,485	25,617	28,107	32,333	38,254	45,967
Net Worth	15,295	18,437	21,733	25,865	28,349	32,575	38,496	46,209
Minority Interest	0	0	0	6	0	0	0	0
Deferred Liabilities	655	482	11	139	77	77	77	77
Total Loans	9,330	7,932	7,504	10,928	11,292	10,495	9,699	8,903
Capital Employed	25,279	26,851	29,248	36,938	39,718	43,147	48,272	55,189
Gross Block	16,639	21,442	22,220	25,355	30,941	37,441	41,941	46,441
Less: Accum. Deprn.	5,473	6,842	8,357	9,943	11,788	13,851	16,034	18,287
Net Fixed Assets	11,167	14,600	13,863	15,412	19,153	23,590	25,907	28,153
Capital WIP	3,235	1,481	1,848	3,562	2,280	4,587	5,169	5,904
Total Investments	2,104	193	190	197	361	361	361	361
Curr. Assets, Loans&Adv.	13,279	15,957	21,226	25,945	27,168	23,339	26,143	31,256
Inventory	3,842	4,384	7,822	9,786	11,494	9,094	9,820	11,074
Account Receivables	6,735	6,620	7,654	9,250	9,485	9,928	11,471	13,101
Cash and Bank Balance	890	2,839	2,710	4,095	3,128	1,205	1,347	3,077
Loans and Advances	1,811	2,113	3,040	2,815	3,060	3,111	3,506	4,004
Curr. Liability & Prov.	4,548	5,432	7,887	8,191	9,258	8,745	9,323	10,499
Account Payables	3,235	3,569	5,410	6,386	7,821	7,376	7,811	8,809
Other Current Liabilities	1,144	1,589	2,160	1,294	998	1,014	1,143	1,305
Provisions	169	275	317	511	439	354	368	385
Net Current Assets	8,731	10,525	13,340	17,753	17,910	14,594	16,821	20,757
Appl. of Funds	25,279	26,852	29,248	36,938	39,718	43,147	48,272	55,189

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EPS	9.7	13.7	22.8	16.5	21.6	18.6	25.6	33.0
Cash EPS	13.4	18.4	28.4	22.5	29.2	27.3	34.7	42.4
BV/Share	60.2	72.5	87.7	104.3	117.1	134.6	159.0	190.9
DPS	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	13.4	8.9	5.3	7.0	5.5	6.5	4.6	3.5
Valuation (x)								
P/E	42.4	30.0	18.0	24.9	19.0	22.1	16.0	12.4
Cash P/E	30.7	22.3	14.5	18.2	14.1	15.1	11.9	9.7
P/BV	6.8	5.7	4.7	3.9	3.5	3.1	2.6	2.2
EV/Sales	4.1	3.5	2.8	2.4	2.1	2.0	1.8	1.5
EV/EBITDA	23.7	16.4	10.3	13.0	10.1	10.4	8.5	6.9
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Return Ratios (%)								
RoE	16.5	19.6	27.5	16.8	19.3	14.8	17.5	18.9
RoCE	8.6	12.8	20.6	12.6	14.8	12.7	14.6	16.3
RoIC	10.2	14.4	24.0	15.1	17.6	14.6	16.8	19.1
Working Capital Ratios								
Asset Turnover (x)	0.9	1.0	1.1	1.0	1.1	1.1	1.1	1.1
Inventory (Days)	53	58	69	86	86	82	67	65
Debtor (Days)	103	94	80	82	76	77	76	76
Creditor (Days)	56	61	69	71	72	75	68	66
Leverage Ratio (x)								
Current Ratio	2.9	2.9	2.7	3.2	2.9	2.7	2.8	3.0
Interest Cover Ratio	10	15	27	24	13	7	14	19
Debt/Equity	0.6	0.4	0.3	0.4	0.4	0.3	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,848	4,256	7,044	5,580	6,952	6,017	8,273	10,412
Depreciation	1,055	1,370	1,515	1,586	1,845	2,086	2,183	2,254
Interest & Finance Charges	18	207	139	232	559	889	502	440
Direct Taxes Paid	-891	-1,191	-1,914	-1,450	-1,758	-1,451	-2,068	-2,416
(Inc)/Dec in WC	-377	128	-2,749	-2,572	-103	1,393	-2,085	-2,206
CF from Operations	2,652	4,769	4,034	3,376	7,495	8,933	6,805	8,485
Others	0	-7	291	-56	-27	0	0	0
CF from Operating incl EO	2,652	4,762	4,325	3,321	7,467	8,933	6,805	8,485
(inc)/dec in FA	-2,544	-1,843	-2,710	-3,967	-4,107	-8,807	-5,082	-5,235
(Pur)/Sale of Investments	-539	0	-2	0	2,035	0	0	0
Others	267	237	-59	166	158	92	103	118
CF from Investments	-2,816	-1,606	-2,771	-3,801	-1,914	-8,715	-4,978	-5,117
Issue of Shares	195	0	41	37	-3,084	0	0	0
(Inc)/Dec in Debt	-252	-1,534	-719	2,530	-600	-797	-796	-796
Interest Paid	-285	-266	-263	-242	-533	-980	-606	-558
Dividend Paid	-306	-307	-247	-372	-186	-283	-283	-283
CF from Fin. Activity	-102	-2,129	-2,993	1,900	-4,403	-2,141	-1,685	-1,637
Inc/Dec of Cash	-266	1,027	-1,440	1,419	1,151	-1,923	142	1,731
Opening Balance	1,156	890	2,839	2,711	4,095	3,128	1,205	1,347
FX	-30	921	1,312	-35	-2,118	0	0	0
Closing Balance	891	2,839	2,711	4,095	3,128	1,205	1,347	3,077

E: MOFSL Estimates

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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