

Granules India

Estimate change

TP change

Rating change



Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	78 / 0.9
52-Week Range (INR)	381 / 268
1, 6, 12 Rel. Per (%)	2/2/-9
12M Avg Val (INR M)	465

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	45.1	47.2	53.8
EBITDA	9.2	9.5	11.7
Adj. PAT	5.2	5.3	6.9
EBIT Margin (%)	16.3	15.8	17.5
Cons. Adj. EPS (INR)	21.6	21.7	28.4
EPS Gr. (%)	30.6	0.6	30.7
BV/Sh. (INR)	117.1	137.7	164.9

Ratios

Net D:E	0.4	0.3	0.2
RoE (%)	19.3	17.0	18.8
RoCE (%)	14.8	14.2	15.7
Payout (%)	5.5	5.5	4.1

Valuations

P/E (x)	14.9	14.8	11.3
EV/EBITDA (x)	8.0	7.9	6.3
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	5.1	-0.6	3.3
EV/Sales (x)	1.6	1.6	1.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	42.0	42.0	42.0
DII	6.7	5.0	3.0
FII	21.4	23.9	23.1
Others	30.0	29.1	31.9

FII Includes depository receipts

CMP: INR322

TP: INR370 (+15%)

Buy

IT issue adversely impacted earnings

On track to implement green project/backward integration

- Granules India (GRAN) delivered a miss on earnings in 1QFY24, as the company's financial performance was adversely impacted by the cyber security breach that occurred in May'23. GRAN remains on track to build process for backward integration for core molecules (paracetamol/Metformin).
- We cut our earnings estimates by 12%/4% for FY24/FY25, factoring in a) the adverse impact of IT interruption (which might be extended for two more quarters), and b) the delay in product launches. We value GRAN at 13x 12M forward earnings to arrive at a price target of INR370.
- While the FY24 performance has been adversely impacted by the IT issue, leading to reduced revenue and increased working capital requirements, GRAN remains on track to a) building a product pipeline for regulated markets, b) improving profitability once the KSM plant for paracetamol and Metformin is commercialized in FY25 and additional capacity for core molecules as well as differentiated molecules. We reiterate our BUY rating on the stock.

Superior geography mix more than offset by higher opex YoY/QoQ

- GRAN's sales declined 3.3% YoY to INR9.9b (our estimate: INR9.9b) on account of the business interruption that occurred due to the IT incident this quarter, resulting in a volume decline. Intermediates (PFI) sales declined 37.6% YoY to INR1.5b (15% of sales). Formulation (FDF) remained flat YoY at INR5.4b (55% of sales). API sales were up 26% YoY to INR2.9b (30% of sales)
- Gross Margin (GM) expanded 170bp YoY to 51.4%, due to a change in the segmental mix and lower raw material cost.
- However, EBITDA margin contracted 470bp YoY to 16% (our est: 17.5%), due to an increase in employee cost and other cost (up 360bp/290bp YoY as a percentage of sales).
- EBITDA declined 25.4% YoY to INR1.6b (Our est: INR1.7b) for the quarter.
- Adjusted for one-off expense of INR211m, PAT declined 50.4% YoY to INR633m (our estimate: INR859m), due to an increase in finance cost and lower 'other income'.

Highlights from the management commentary

- The loss of sales due to the IT incident in 1QFY24 stood at ~INR1.5b.
- While GRAN has addressed the IT ransomware attack, the business is expected to normalize from 3QFY24 onwards.
- GRAN is on track to add formulation capacity (8b units per year) at Genome valley and is expected to start commercial benefit from May'24 onwards.
- GRAN is currently in the process of constructing a pilot plant for DCDA (key raw material for Metformin), with plans for commercialization expected to commence from FY25 onwards.
- Likewise, it is currently in the process of building a pilot plant for PAP (key raw material for Metformin) with plans for commercialization expected to commence from FY25/FY26 onwards.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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	FY23				FY24E				FY23	FY24E	FY24E	Var.
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	vs Est
Net Sales	10,196	11,507	11,461	11,955	9,855	10,620	12,262	14,462	45,119	47,199	9,930	-0.8
YoY Change (%)	20.0	29.5	17.0	16.1	-3.3	-7.7	7.0	21.0	20.4	4.6	-2.6	
EBITDA	2,115	2,429	2,313	2,361	1,579	1,848	2,587	3,473	9,218	9,487	1,738	-9.1
YoY Change (%)	5.0	60.7	47.8	22.5	-25.4	-23.9	11.9	47.1	30.8	2.9	-17.8	
Margins (%)	20.7	21.1	20.2	19.8	16.0	17.4	21.1	24.0	20.4	20.1	17.5	
Depreciation	434	441	484	487	492	494	510	536	1,845	2,032	490	
EBIT	1,682	1,988	1,829	1,874	1,086	1,354	2,077	2,937	7,373	7,455	1,248	-12.9
YoY Change (%)	3.8	78.6	56.0	22.9	-35.4	-31.9	13.6	56.7	35.0	1.1	-25.8	
Margins (%)	16.5	17.3	16.0	15.7	11.0	12.7	16.9	20.3	16.3	15.8	12.6	
Interest	69	132	170	188	225	210	200	182	559	817	195	
Other Income	47	48	9	34	3	25	35	31	138	94	35	
PBT before EO expense	1,659	1,904	1,669	1,720	865	1,169	1,912	2,786	6,952	6,732	1,088	-20.4
Extra-Ord expense	0	0	0	80	211	0	0	0	80	211	0	
PBT	1,659	1,904	1,669	1,640	654	1,169	1,912	2,786	6,872	6,521	1,088	
Tax	383	453	426	444	176	275	438	531	1,706	1,419	228	
Rate (%)	23.1	23.8	25.5	27.1	26.9	23.5	22.9	19.1	24.8	21.8	21.0	
(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	894	1,474	2,255	5,166	5,102	859	-44.3
Adjusted PAT	1,276	1,451	1,243	1,254	633	894	1,474	2,255	5,224	5,257	859	-26.3
YoY Change (%)	6.1	79.8	41.3	13.0	-50.4	-38.4	18.6	79.8	30.6	0.6	-32.6	
Margins (%)	12.5	12.6	10.8	10.5	6.4	8.4	12.0	15.6	11.6	11.1	8.7	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE
FD	5,487	5,856	5,226	6,115	5,420	5,622	5,853	6,891	22,684	23,787	5,268
YoY Change (%)	20.7	15.6	14.2	16.4	-1.2	-4.0	12.0	12.7	16.7	4.9	-4.0
PFI	2,368	2,349	2,132	2,172	1,478	1,926	2,388	2,868	9,021	8,660	2,368
YoY Change (%)	38.0	22.9	-5.6	-15.4	-37.6	-18.0	12.0	32.0	6.7	-4.0	0.0
API	2,341	3,303	4,103	3,667	2,957	3,072	4,021	4,660	13,414	14,709	2,294
YoY Change (%)	4.6	73.4	31.0	48.0	26.3	-7.0	-2.0	27.1	37.6	9.7	-2.0
Cost Break-up											
RM Cost (% of Sales)	50.4	50.3	51.6	52.2	48.6	49.6	49.4	50.1	48.9	50.5	51.0
Staff Cost (% of Sales)	10.7	10.2	10.4	10.6	14.2	13.0	11.5	9.8	10.5	11.9	12.0
Other Cost (% of Sales)	18.2	18.4	17.8	17.5	21.1	20.0	18.0	16.0	18.0	18.5	19.5
Gross Margins(%)	49.6	49.7	48.4	47.8	51.4	50.4	50.6	49.9	51.1	49.5	49.0
EBITDA Margins(%)	20.7	21.1	20.2	19.8	16.0	17.4	21.1	24.0	20.4	20.1	17.5
EBIT Margins(%)	16.5	17.3	16.0	15.7	11.0	12.7	16.9	20.3	16.3	15.8	12.6

E: MOFSL Estimates

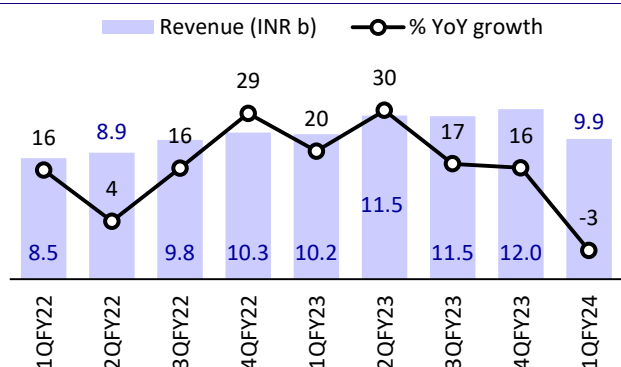


Conference call highlights

- The inventory correction affected the performance of emerging markets for the quarter.
- The price erosion continued for GRAN products, albeit at a lower intensity in regulated markets.
- The API business growth was primarily driven by higher volume offtake of Paracetamol.
- It incurred a capex of INR740m in 1QFY24 and remains on track to implement a capex of INR7b for FY24.
- Net debt as on 1QFY24 stood at INR8.6b.
- The IT incident expense is INR50m till date.
- GRAN expects debt to increase in FY24, driven by an increase in working capital requirement and the ongoing CAPEX cycle.
- GRAN expects R&D expense to increase in the remaining FY24. In 2QFY24, it will be ~INR0.5b and in 3Q/4QFY24, it will be more than INR0.5b. Moreover, GRAN expects employee expenses to increase in 2Q/3QFY24.

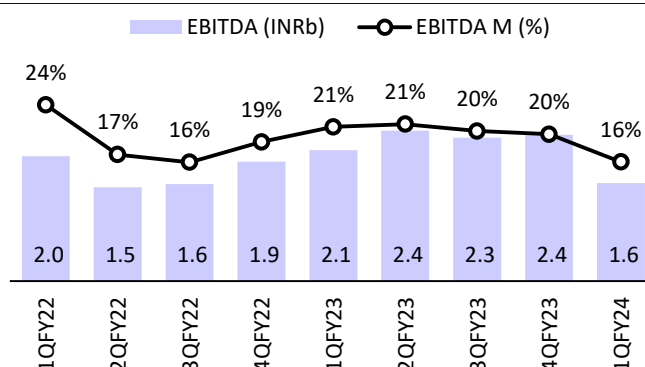
Key exhibits

Exhibit 1: Revenue declined 3% YoY in 1QFY24



Source: MOFSL, Company

Exhibit 2: EBITDA margin contracted 470bp YoY in 1QFY24



Source: MOFSL, Company

Complex product launches/backward integration to drive profitability

Capacity expansion/investing in complex product to fuel growth

- In 1QFY24, overall sales declined 3.3% YoY to INR9.9b, due to cyber security attack and a decline in volume of sales. As a result of this isolated incident, it is anticipated that both revenue and profitability will decline for FY24.
- However, GRAN expects to ramp up the Genome capacity in FY25 (8b tablets) and also ramp up the API capacity.
- Besides this, GRAN is leveraging its technology alliances with Greenko to reduce the carbon emission. Separately, it is working to manufacture some of the key raw materials, including Para-amino Phenol (PAP) and Dyciandiamide (DCDA).
- Furthermore, GRAN is making substantial investments in research and development (R&D), driven by its strategic intention to enter the realm of intricate products with minimal competition, such as oncology treatments.

- Thus, GRAN is working across value chain to not only improve sales prospects but also better its profitability over the next three to five years.

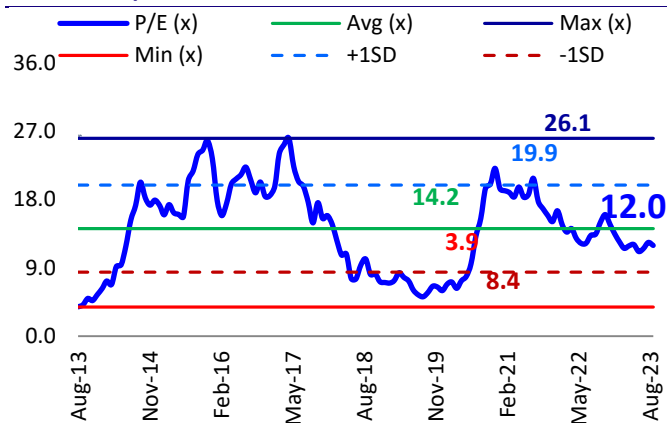
Expansion in Europe/US to drive growth

- During 1QFY24, GRAN reported 10%/3% YoY growth in the US and Europe to INR6b/INR2.4b, largely due to volume growth.
- Till date, GRAN has launched 35-36 ANDA particularly in the US. This has resulted in revenue share gain from US/European market from 53%/19% in FY20 to 58%/23% in FY23.
- Further, it plans to enhance its revenue share from the regulated market by filing complex products and increasing focus on enzyme and fermentation technology.
- All in all, the management expects to launch a couple of complex products in the regulated market, which would support overall growth for GRAN over the next 12-15M.

Reiterate BUY

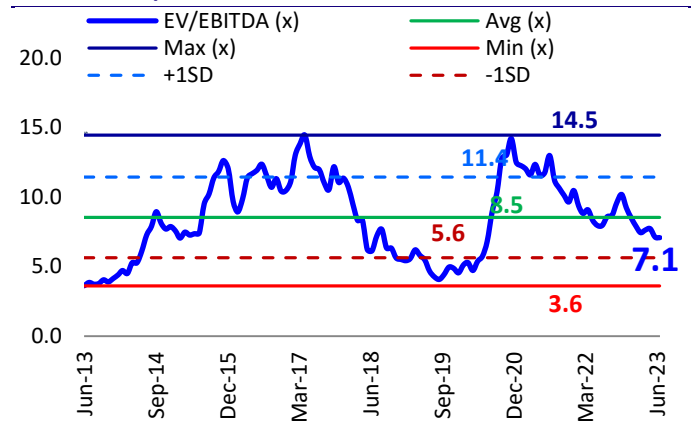
- We cut our earnings estimates by 12%/4% for FY24/FY25 factoring a) adverse impact of IT interruption (which might be extended for two more quarters), and b) delay in product launches. We value GRAN at 13x 12M forward earnings to arrive at a price target of INR370.
- While the FY24 performance has been adversely impacted by the IT issue, leading to reduced revenue and increased working capital requirements, GRAN remains on track to a) building a product pipeline for regulated markets, b) improving profitability once the KSM plant for paracetamol and Metformin is commercialized in FY25 and additional capacity for core molecules as well as differentiated molecules. We reiterate our BUY rating on the stock.

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

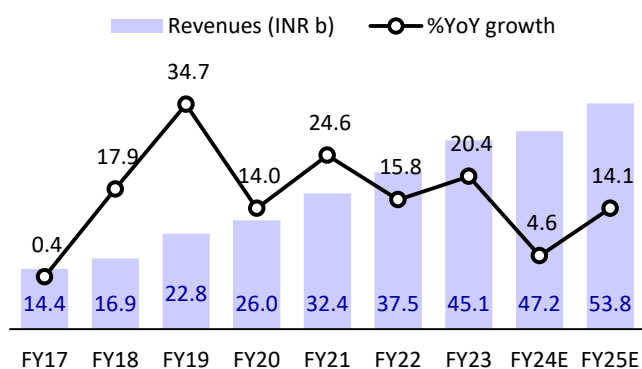
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

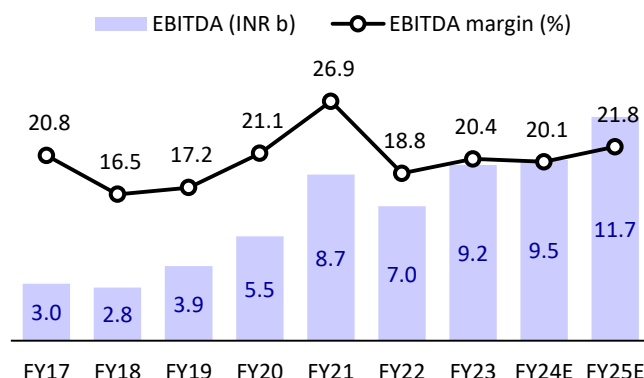
Story in charts

Exhibit 5: Expect revenue CAGR of 9.2% over FY23–25



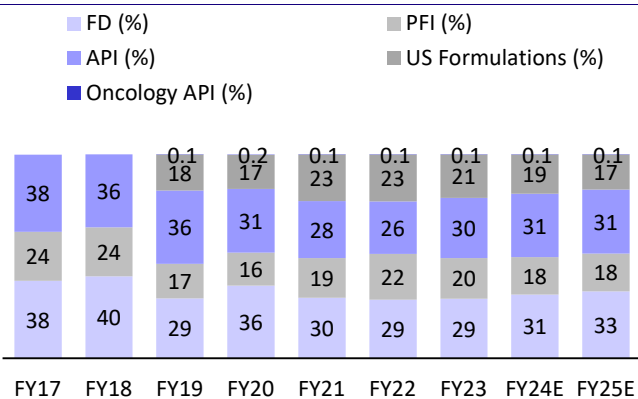
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 140bp over FY23–25



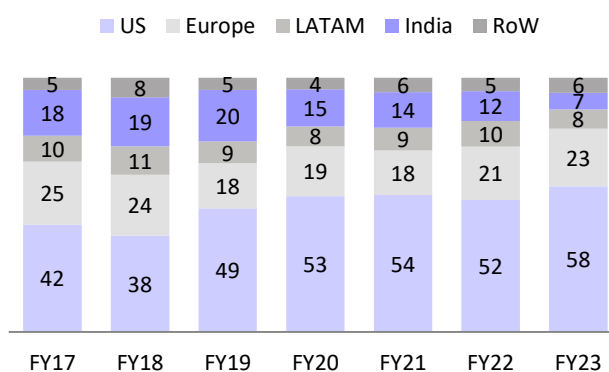
Source: MOFSL, Company

Exhibit 7: FD contribution to remain the highest



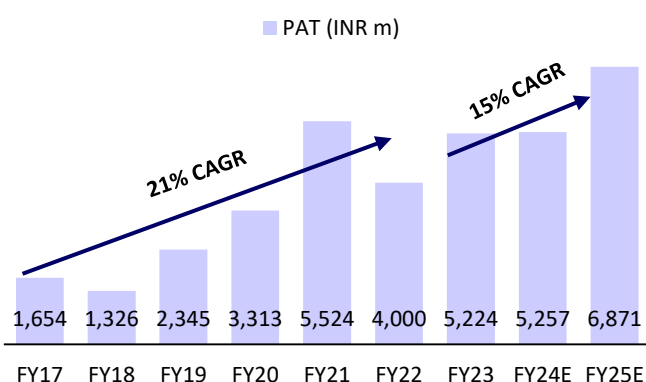
Source: MOFSL, Company

Exhibit 8: US has the highest revenue contribution



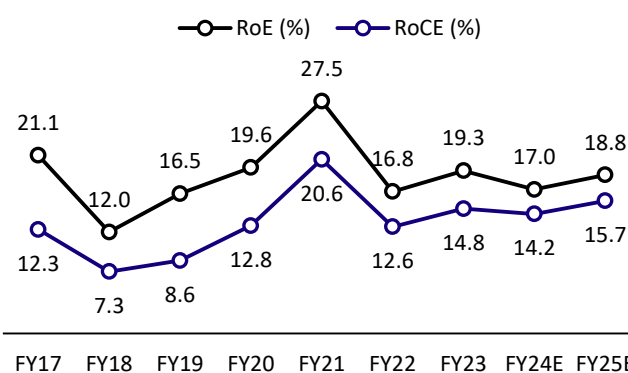
Source: MOFSL, Company

Exhibit 9: PAT to exhibit 15% CAGR over FY23–25



Source: MOFSL, Company

Exhibit 10: Return ratios rising steadily over FY23-25



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

INRm

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	14,353	16,918	22,792	25,986	32,375	37,477	45,119	47,199	53,834
Change (%)	0.4	17.9	34.7	14.0	24.6	15.8	20.4	4.6	14.1
Total Expenditure	11,364	14,134	18,872	20,513	23,665	30,427	35,901	37,712	42,098
% of Sales	79.2	83.5	82.8	78.9	73.1	81.2	79.6	79.9	78.2
EBITDA	2,988	2,784	3,920	5,473	8,710	7,050	9,218	9,487	11,736
Margin (%)	20.8	16.5	17.2	21.1	26.9	18.8	20.4	20.1	21.8
Depreciation	715	762	1,055	1,370	1,515	1,586	1,845	2,032	2,291
EBIT	2,273	2,022	2,866	4,104	7,195	5,464	7,373	7,455	9,445
Int. and Finance Charges	323	331	285	270	263	232	559	817	606
Other Income	99	108	267	366	152	176	138	94	108
PBT bef. EO Exp.	2,050	1,800	2,848	4,199	7,085	5,407	6,952	6,732	8,947
EO Items	0	0	-80	57	-40	173	-80	-211	0
PBT after EO Exp.	2,050	1,800	2,768	4,257	7,045	5,580	6,872	6,521	8,947
Current Tax	652	659	891	1,257	1,954	1,382	1,772	1,419	2,076
Deferred Tax	-9	-25	72	-100	-405	70	-66	0	0
Tax Rate (%)	31.4	35.2	34.8	27.2	22.0	26.0	24.8	21.8	23.2
Add: Associate income	247	160	487	255	0	0	0	0	0
Reported PAT	1,654	1,326	2,292	3,354	5,496	4,128	5,166	5,102	6,871
Adjusted PAT	1,654	1,326	2,345	3,313	5,524	4,000	5,224	5,257	6,871
Change (%)	39.6	-19.8	76.8	41.3	66.8	-27.6	30.6	0.6	30.7
Margin (%)	11.4	7.8	10.2	12.6	17.0	10.6	11.5	11.1	12.7

Consolidated - Balance Sheet

INRm

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	229	254	254	254	248	248	242	242	242
Total Reserves	8,807	12,788	15,040	18,183	21,485	25,617	28,107	33,080	39,668
Net Worth	9,036	13,042	15,295	18,437	21,733	25,865	28,349	33,322	39,910
Minority Interest	0	0	0	0	0	6	0	0	0
Deferred Liabilities	565	543	655	482	11	139	77	77	77
Total Loans	5,981	9,582	9,330	7,932	7,504	10,928	11,292	10,495	9,699
Capital Employed	15,582	23,167	25,279	26,851	29,248	36,938	39,718	43,894	49,686
Gross Block	10,099	14,430	16,639	21,442	22,220	25,355	30,941	37,941	42,441
Less: Accum. Deprn.	3,656	4,418	5,473	6,842	8,357	9,943	11,788	13,820	16,111
Net Fixed Assets	6,443	10,012	11,167	14,600	13,863	15,412	19,153	24,121	26,330
Capital WIP	2,605	2,901	3,235	1,481	1,848	3,562	2,280	4,720	5,383
Total Investments	1,082	1,566	2,104	193	190	197	361	361	361
Curr. Assets, Loans&Adv.	8,633	11,891	13,279	15,957	21,226	25,945	27,168	23,618	27,230
Inventory	2,761	2,799	3,842	4,384	7,822	9,786	11,494	9,299	10,150
Account Receivables	4,177	6,171	6,735	6,620	7,654	9,250	9,485	10,216	11,947
Cash and Bank Balance	498	1,156	890	2,839	2,710	4,095	3,128	902	1,482
Loans and Advances	1,198	1,765	1,811	2,113	3,040	2,815	3,060	3,201	3,651
Curr. Liability & Prov.	3,183	3,272	4,548	5,432	7,887	8,191	9,258	8,940	9,632
Account Payables	2,160	2,522	3,235	3,569	5,410	6,386	7,821	7,542	8,074
Other Current Liabilities	934	646	1,144	1,589	2,160	1,294	998	1,044	1,190
Provisions	89	104	169	275	317	511	439	354	368
Net Current Assets	5,451	8,620	8,731	10,525	13,340	17,753	17,910	14,678	17,597
Appl. of Funds	15,582	23,167	25,279	26,852	29,248	36,938	39,718	43,894	49,686

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	6.8	5.5	9.7	13.7	22.8	16.5	21.6	21.7	28.4
Cash EPS	10.4	8.2	13.4	18.4	28.4	22.5	29.2	30.1	37.9
BV/Share	39.5	51.4	60.2	72.5	87.7	104.3	117.1	137.7	164.9
DPS	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	13.5	21.9	13.4	8.9	5.3	7.0	5.5	5.5	4.1
Valuation (x)									
P/E	47.1	58.8	33.2	23.5	14.1	19.5	14.9	14.8	11.3
Cash P/E	31.1	39.1	24.1	17.5	11.3	14.3	11.0	10.7	8.5
P/BV	8.1	6.3	5.4	4.4	3.7	3.1	2.7	2.3	2.0
EV/Sales	4.9	4.4	3.2	2.7	2.2	1.9	1.6	1.6	1.4
EV/EBITDA	23.7	26.5	18.8	12.9	8.1	10.2	8.0	7.9	6.3
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)									
RoE	21.1	12.0	16.5	19.6	27.5	16.8	19.3	17.0	18.8
RoCE	12.3	7.3	8.6	12.8	20.6	12.6	14.8	14.2	15.7
RoIC	14.7	9.1	10.2	14.4	24.0	15.1	17.6	16.2	18.1
Working Capital Ratios									
Asset Turnover (x)	0.9	0.7	0.9	1.0	1.1	1.0	1.1	1.1	1.1
Inventory (Days)	74	60	53	58	69	86	86	80	66
Debtor (Days)	71	111	103	94	80	82	76	76	75
Creditor (Days)	63	60	56	61	69	71	72	74	68
Leverage Ratio (x)									
Current Ratio	2.7	3.6	2.9	2.9	2.7	3.2	2.9	2.6	2.8
Interest Cover Ratio	7	6	10	15	27	24	13	9	16
Debt/Equity	0.7	0.7	0.6	0.4	0.3	0.4	0.4	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	2,050	1,800	2,848	4,256	7,044	5,580	6,952	6,732	8,947
Depreciation	715	762	1,055	1,370	1,515	1,586	1,845	2,032	2,291
Interest & Finance Charges	278	222	18	207	139	232	559	723	498
Direct Taxes Paid	-595	-634	-891	-1,191	-1,914	-1,450	-1,758	-1,419	-2,076
(Inc)/Dec in WC	-524	-2,511	-377	128	-2,749	-2,572	-103	1,006	-2,340
CF from Operations	1,925	-360	2,652	4,769	4,034	3,376	7,495	9,074	7,320
Others	-42	0	0	-7	291	-56	-27	0	0
CF from Operating incl EO	1,882	-360	2,652	4,762	4,325	3,321	7,467	9,074	7,320
(inc)/dec in FA	-3,157	-4,626	-2,544	-1,843	-2,710	-3,967	-4,107	-9,440	-5,163
(Pur)/Sale of Investments	0	-483	-539	0	-2	0	2,035	0	0
Others	-205	108	267	237	-59	166	158	94	108
CF from Investments	-3,362	-5,001	-2,816	-1,606	-2,771	-3,801	-1,914	-9,345	-5,056
Issue of Shares	829	2,970	195	0	41	37	-3,084	0	0
(Inc)/Dec in Debt	272	3,602	-252	-1,534	-719	2,530	-600	-797	-796
Interest Paid	-319	-331	-285	-266	-263	-242	-533	-817	-606
Dividend Paid	-223	-290	-306	-307	-247	-372	-186	-283	-283
CF from Fin. Activity	559	6,019	-102	-2,129	-2,993	1,900	-4,403	-1,955	-1,685
Inc/Dec of Cash	-921	658	-266	1,027	-1,440	1,419	1,151	-2,226	579
Opening Balance	1,419	498	1,156	890	2,839	2,711	4,095	3,128	902
FX	0	0	-30	921	1,312	-35	-2,118	0	0
Closing Balance	498	1,156	891	2,839	2,711	4,095	3,128	902	1,482

E: MOFSL Estimates

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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