



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Granules Ltd Q4 FY23 consolidated revenues came in at ₹1,196 Cr, up 16.02% YoY and up 4.3% QoQ.
- Op Profit for Q4FY23 stood at ₹228 Cr, down 0.8% QoQ and up 18.53% YoY.
- Op margins for Q4FY23 came at 19% vs 20% in Q3 fy23.
- PAT for Q4FY23 stood at ₹120 Cr, up 8.1% YoY and down 3.4% QoQ.

### 2. MANAGEMENT COMMENTARY:

- During the Quarter revenue grow 16% despite price erosion in US markets and problem with the missing shipment.
- This revenue is mainly driven by US & European markets.
- Co expects revenue to grow in the range of 10-12% and co is maintaining EBITDA guidance at same levels of FY22.
- Co has successfully introduced its products in selected European markets and planning to expand in other geographies.
- The Co is planning to spend Rs 700 cr Capex in Fy 24.
- Co is also partnering with Greenko to establish an integrated green pharmaceutical zone and has formed a fully owned subsidiary, Granules CZRO.
- The company expects to complete its green chemical initiative project by the end of 2025.
- A new packaging facility in USA, was partially commercialized and received FDA approval, and the management is expecting that this will help to improve working capital.

### 3. CONCALL SUMMARY

- The operating income for the quarter was INR 1196 crore, an increase of 16.02% year-on-year basis. Operating EBITDA was INR 220cr, increase of 18.53% on year on year and EBITDA margin stood at 20%. Net profit after tax reported was INR 120crore, an increase of 8.1% year on year while the PAT margin percentage was 11.0%.
- The co is planning to maintain healthy debt-to-EBITDA ratio, which is currently less than one.
- Gross margins declined due to the price erosion and higher R&D spend. Co is expected to maintain the EBITDA margins in the range of 20-21%.
- Granules India has successfully introduced paracetamol and metformin formulations in selected European countries and planning to launch in other geographies also.
- Company has maintained EBITDA margins in line of 19-21%.

### 4. OTHER DEVELOPMENTS:

- Co is currently focusing to establish an integrated green pharmaceutical zone, which will manufacture products with near-zero carbon footprint, for which capex of 250cr has been allocated out of Rs 2000 cr capex plan.

### 5. VALUATION AND OUTLOOK:

Company has reported Strong quarter led by growth in Europe and API Segment. Co is expected to maintain revenue growth in the range of 10-15% over Fy 23-25. Co. recently has launched new products in new geographies which will lead to improve the sales mix and EBITDA margins in next few quarters.

We initiate a "BUY" rating on the stock and value the stock at 17x FY24E earnings to arrive at the target of ₹391

## RECOMMENDATION - BUY

CMP – 321

TARGET – 391 (22.0%)

Industry	Pharmaceuticals & Drugs
NSE CODE	GRANULES
BSE CODE	532482
Market Cap (₹ Cr)	7798.62
Shares Outstanding (in Cr)	24.20
52 wk High/Low (₹)	381 / 267.75
P/E	15.10
P/BV	2.77
Face Value (₹)	1.00
Book Value (₹)	116.38
EPS (FY23) (₹)	21.3
Dividend Yield (%)	0.52
Total Debt / Equity	0.38
Interest Coverage	13.29

## SHAREHOLDING PATTERN

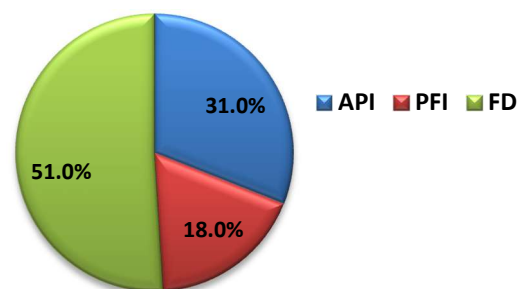
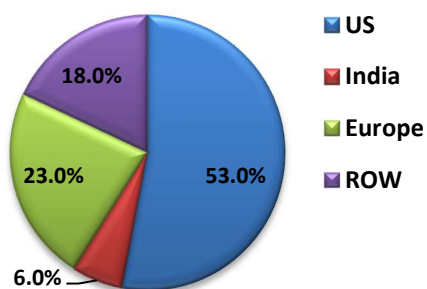
	Jun 23	Mar 23	Dec 22
Promoters	42.02	42.02	42.02
MF/ DII	4.87	3.76	3.91
FII/FPI	21.35	23.90	23.66
Retail & Others	29.95	29.05	29.56
Promoter	4.03	4.03	4.03
Pledging			

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
<b>Creole</b>			
Sales	4511.92	4963	5459
Sales Gr. (%)	19.84	10.0	10.0
EBITDA	913.31	993.0	1146.0
EBITDA %	20.56	20.0	21.0
PAT	516.60	539.0	630.0
EPS (₹)	21.3	22.0	25.0
EPS Gr. (%)	28.24	2.30	17.20
BV/Sh. (₹)	116.38	138.0	163.0
<b>Ratios</b>			
RoE (%)	19.18	20.0	20.5
RoCE (%)	19.63	19.0	20.3
<b>Valuation</b>			
P/E (x)	13.62	17.0	15.6
P/BV (x)	2.50	2.8	2.3
EV/EBITDA	8.39	9.1	9.3

## Historical & Industrial Val Ratios

Historical P/E	15.10
Industry P/E	41.05
Historical P/B	2.77
Industry P/B	4.76

**REVENUE SPLIT (Q4 FY23)**

**Geographical Sales Mix**
**Product Sales Mix**
**QUARTERLY PERFORMANCE (CONSOLIDATED)**

(₹ Cr)

Y/E March	FY22			FY23			FY24		FY23	FY24E
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E*		
Net sales	888	997	1,030	1,020	1,151	1,146	1,196	1,255	4,512	4963
YoY change (%)	3.52	18.03	28.86	19.97	29.54	14.98	16.07	23.02	20	10
Total Expenditures	<b>737</b>	<b>823</b>	<b>837</b>	<b>808</b>	<b>908</b>	<b>915</b>	<b>967</b>	<b>1004</b>	<b>3,599</b>	<b>3970</b>
EBITDA	<b>151</b>	<b>174</b>	<b>193</b>	<b>212</b>	<b>243</b>	<b>231</b>	<b>228</b>	<b>251</b>	<b>913</b>	<b>993</b>
Margins (%)	17	17	19	21	21	20	19	20	21	20
Depreciation	40	39	40	43	44	48	49	51	184	220
Interest	5	5	6	7	13	17	19	20	56	72
Other income	4	5	4	5	5	1	3	6	14	18
<b>PBT</b>	<b>110</b>	<b>135</b>	<b>150</b>	<b>166</b>	<b>190</b>	<b>167</b>	<b>164</b>	<b>174</b>	<b>687</b>	<b>719</b>
Tax	30	34	39	38	45	43	44	43	171	180
<b>Adjusted PAT</b>	<b>81</b>	<b>101</b>	<b>111</b>	<b>128</b>	<b>145</b>	<b>124</b>	<b>120</b>	<b>131</b>	<b>517</b>	<b>539</b>
<b>EPS in Rs</b>	<b>4.85</b>	<b>4.07</b>	<b>4.48</b>	<b>5.14</b>	<b>5.84</b>	<b>5.01</b>	<b>4.82</b>	<b>5.28</b>	<b>21.3</b>	<b>22</b>

**Key Performance Indicators**

Raw Mat cost as % of revenue	49	53	51	50	50	52	52	52	57	57
Employee cost as % of revenue	10	11	10	11	10	10	11	11	11	11
<b>Op profit Margin</b>	17	17	19	21	21	20	19	20	20	20
<b>Net profit margin</b>	9	10	11	13	13	11	10	11	11	11

Source: Company, Hem Securities Research.

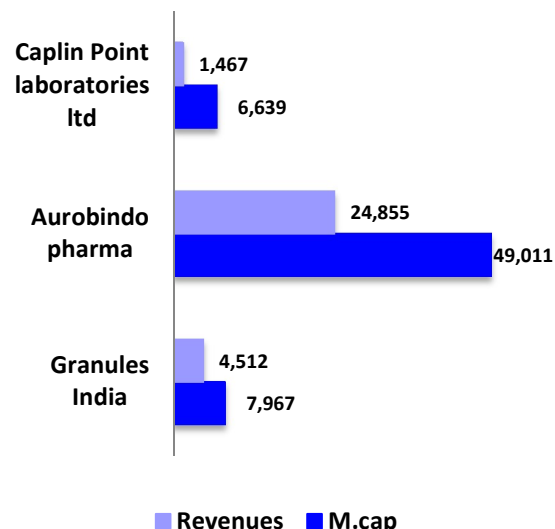
**\*Insights into the assumptions:**

- We expect margins to improve in upcoming quarters on account of new product launches.
- Revenue is expected to grow in the range of 10-15%

## INDUSTRY OVERVIEW

- India is the largest provider of generic medicines globally with 20% share by volume and global vaccine supplier with 62% share. India is home to more than 3,000 pharmaceutical companies with a strong network of over 10,500 manufacturing facilities. The sector is significant contributor to India's economic growth and employs over 2.7 million people
- The Indian pharmaceutical market is currently valued at US\$ 42 billion and expected to grow 3x in the next decade to ~US\$ 120-130 billion by 2030. Exports market stood at US\$ 24.44 billion in FY22. India is the 12th largest exporter of medical goods in the world. The country's pharmaceutical sector contributes 6.6% to the total merchandise exports.
- Medicine spending in India is projected to grow 9-12% over the next five years, leading India to become one of the top 10 countries in terms of medicine spending.
- Indian pharmaceutical companies are expected to play a major role in global market too, being a low cost producer. Rising R&D spend by pharmaceuticals companies, increasing penetration of health insurance,

## Key Players in Pharma Segment



## PEER PERFORMANCE

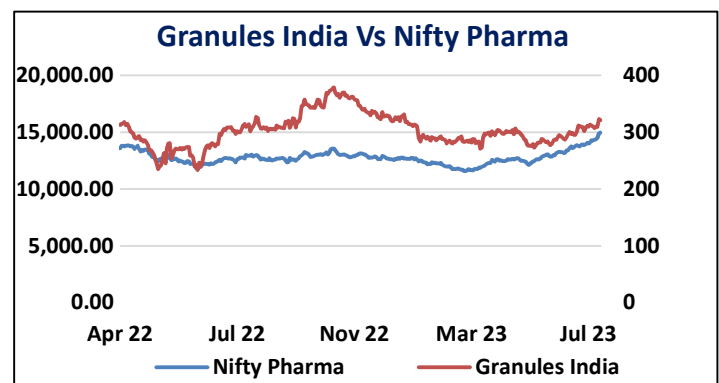
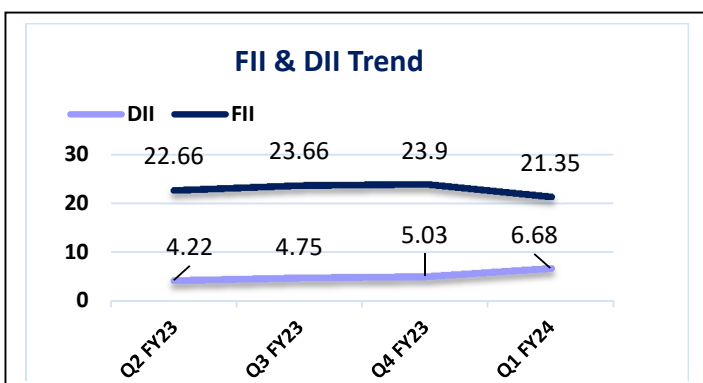
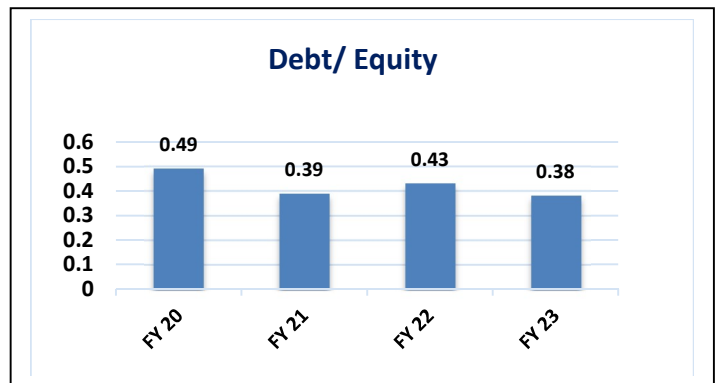
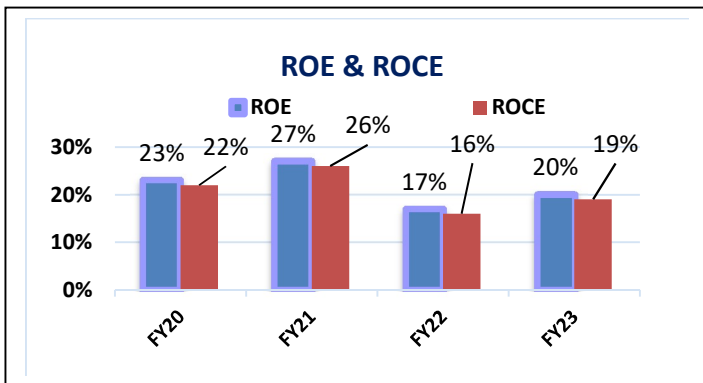
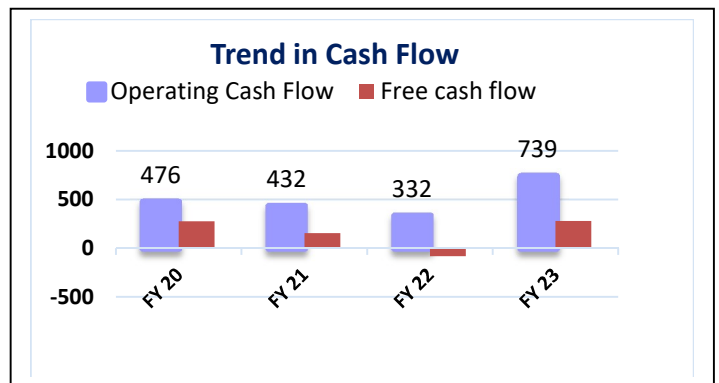
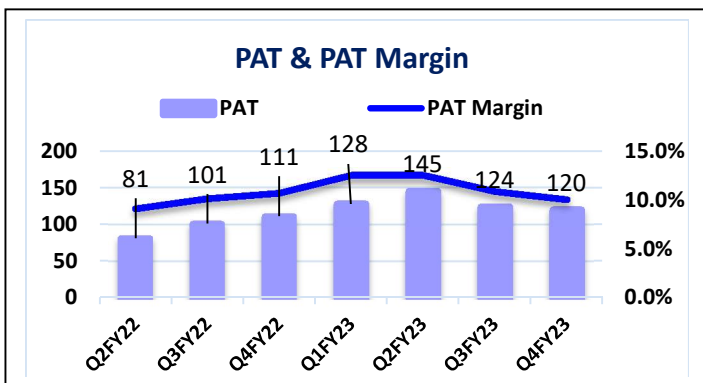
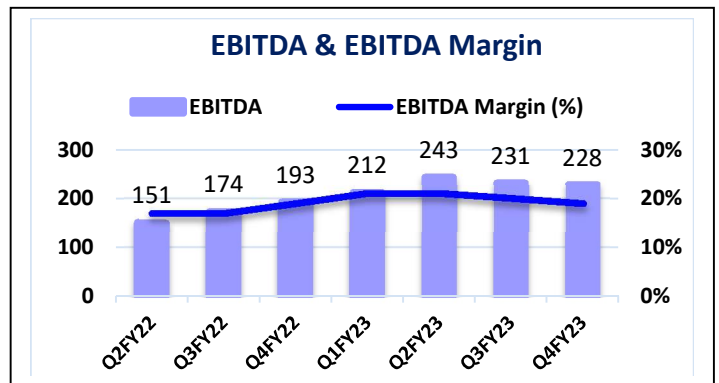
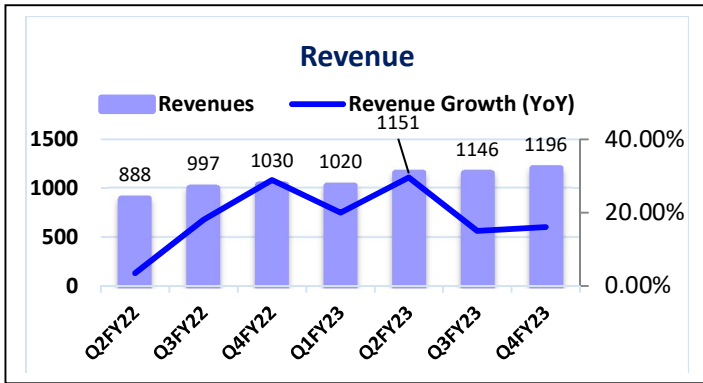
(₹ Cr)

Particulars	Granules India	Aurobindo Pharma	Caplin point laboratories
Market Cap	7,967	49,011	6,639
Net Sales	4,512	23,855	1,467
EBITDA	913.3	4,384.5	394.5
PAT	516.6	2,648.2	299.8
EPS(₹)	21.3	45.2	39.6
EBITDA MARGIN %	20.6	9.8	34.1
PAT MARGIN %	11.4	5.5	24.3
ROCE %	19.0	12.7	28.8
ROE %	20.0	11.4	24.7
P/E TTM	15.1	25.4	17.3
P/B TTM	2.8	1.8	3.5
EV/EBITDA	9.4	12.1	12.4
Dividend Yield %	0.5	1.1	0.2
MCap/ Sales TTM	1.7	2.0	4.4

Source: Company, Hem Securities Research.



**STORY IN CHARTS**





## INVESTMENT RATIONALE:

- Co is delivering decent revenue growth in last few quarters and expected to maintain the same in upcoming quarters
- Co. is witnessing strong demand from US markets and co is expected to grow at the CAGR of 10% over FY23-25.
- A new packaging facility in USA, was partially commercialized and received FDA approval, and the management is expecting that this will help to improve working capital and reduce uncertainty in sales.
- Op margin are stable from last 2-3 Quarters at 19-20% and expected to improve margins in near term.
- Co. has planned total Capex of Rs 2000 cr over the next 5 years which will improve their revenue and op margins.
- Co is also partnering with Greenko to establish an integrated green pharmaceutical zone and has formed a fully owned subsidiary, Granules CZRO.
- Co is currently having ROE of 19%, ROCE of 18.5%.
- Co is planning to reduce its debt in next few quarters. Current Debt to equity ratio stood at 0.4
- Co. 3y Sales CAGR stood at 20%.
- Co. 3y profit CAGR stood at 18%.
- DII has increase shareholding in Qtr ended June 2023. DII holding stood at 6.68%.

## RISK / NEGATIVE FACTORS:

- Entry of new player could reduce market share or create pressure on margins or impact growth.
- Regulator actions, audits could adversely impact operations.
- Logistic issues could impact delivery timeline and dent margins.

## COMPANY RECAP

- Granules India Ltd and its subsidiaries are primarily involved in the manufacturing and selling of Active Pharma Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) and Finished Dosages.
- The company is one of the global leaders in the manufacturing of paracetamol, metformin, guaifenesin, and Methocarbamol.
- The company has a presence in 60+ countries across the world.
- The company has 5 API and 1 Finished Dosage manufacturing facilities Located in Andhra Pradesh and Telangana.
- Co is continuously investing in research and development across entire value chain, from finished formulations to active pharmaceutical ingredients (APIs) and even chemical intermediates.
- The company expects to complete its green chemical initiative project by the end of 2025.
- Company is continuously expanding its operations in Europe, Canada, Latin America etc.

## ANNUAL PERFORMANCE

### Financials & Valuations

#### Income Statement

Y/E March	2020	2021	2022	2023	2024E	2025E
<b>Revenue from operations</b>	<b>2,599</b>	<b>3,238</b>	<b>3,765</b>	<b>4,512</b>	<b>4,963</b>	<b>5459</b>
Growth YoY (%)	14	25	16	20	10	10
<b>Total Expenditure</b>	<b>2,073</b>	<b>2,382</b>	<b>3,043</b>	<b>3,599</b>	<b>3,970</b>	<b>4,313</b>
(%) of sales	81	78	80	79	80	79
<b>EBITDA</b>	<b>525</b>	<b>855</b>	<b>722</b>	<b>913</b>	<b>993</b>	<b>1146</b>
EBITDA Growth (%)	37	57	-16	25	9	15
EBITDA Margin (%)	19	22	20	21	20	21
Depreciation	137	151	159	184	220	260
<b>EBIT</b>	<b>453</b>	<b>731</b>	<b>581</b>	<b>743</b>	<b>773</b>	<b>886</b>
EBIT Growth (%)	48	61	-20	28	4	14
Net Interest Expenses	27	26	23	56	72	68
Other Income	37	27	18	14	18	22
<b>Earnings before Taxes</b>	<b>426</b>	<b>704</b>	<b>558</b>	<b>687</b>	<b>719</b>	<b>840</b>
EBT Margin (%)	15	18	15	15	14	15
Tax-Total	116	155	145	171	180	210
Rate of tax (%)	27	22	26	25	25	25
<b>Net Profit</b>	<b>310</b>	<b>549</b>	<b>413</b>	<b>517</b>	<b>539</b>	<b>630</b>
PAT Growth (%)	65	77	-25	25	4	17
PAT Margin (%)	11	14	11	11	11	11
Minority Interest	0	0	0	0	0	0
<b>Adjusted PAT</b>	<b>335</b>	<b>549</b>	<b>413</b>	<b>517</b>	<b>539</b>	<b>630</b>
<b>EPS</b>	<b>13</b>	<b>22</b>	<b>17</b>	<b>21</b>	<b>22</b>	<b>25</b>
EPS Growth (%)	42	68	-25	28	2	17

#### Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Share Capital	25	25	25	22	24
Reserves	1504	1818	2149	2562	2811
<b>Net Worth</b>	<b>1529</b>	<b>1843</b>	<b>2164</b>	<b>2584</b>	<b>2835</b>
Borrowings	991	892	849	1106	1,136
Other Liabilities	458	487	690	819	932
<b>Total Liabilities &amp; Equity</b>	<b>2979</b>	<b>3223</b>	<b>3713</b>	<b>4512</b>	<b>4903</b>
Fixed Assets	944	1204	1332	1541	1,911
CWIP	496	294	239	356	239
Investments	210	19	19	20	21
Other Assets	1328	1706	2123	2594	2,732
<b>Total Assets</b>	<b>2979</b>	<b>3223</b>	<b>3713</b>	<b>4512</b>	<b>4903</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March (Basic (INR))</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	8	11	14	11	11
EBITDA margin (%)	17	19	22	20	21
EBIT margin (%)	13	15	18	15	16
ROE (%)	13	19	28	17	19
ROCE (%)	13	17	25	17	20
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)					
Inventory (Days)	51	51	56	85	86
Receivables (Days)	100	83	66	82	76
Current Ratio (x)	1	2	2	2	1
<b>Valuations Ratios</b>					
EV/sales (x)	2	2	2	2	2
EV/EBITDA (x)	9	8	9	11	8
P/E (x)	12	11	14	18	14
P/BV (x)	2	2	3	3	2
Dividend Yield (%)	1	1	0	0	1
<b>Leverage Ratio</b>					
Debt/Equity (x)	1.0	0.49	0.39	0.43	0.38

### Cash Flow Statement

<b>Y/E March</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>CF from Operating activities (A)</b>	<b>262</b>	<b>476</b>	<b>432</b>	<b>332</b>	<b>739</b>
<b>CF from Investing Activities (B)</b>	<b>-270</b>	<b>-161</b>	<b>-277</b>	<b>-380</b>	<b>-191</b>
<b>CF from Financing Activities (C)</b>	<b>-17</b>	<b>-213</b>	<b>-299</b>	<b>190</b>	<b>-440</b>
Net Cash Flow	-25	103	-144	142	107
Add: Opening Bal.	116	83	186	42	185
<b>Closing Balance</b>	<b>83</b>	<b>186</b>	<b>42</b>	<b>185</b>	<b>292</b>

Source: Company, Hem Securities Research.



## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
28-07-2023	Buy	391

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Name of the Research Analyst: Chinmay Bhandari

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

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1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.