

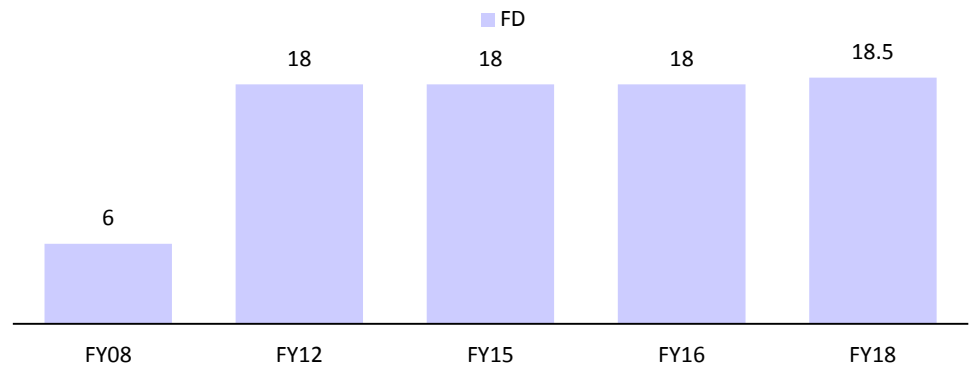






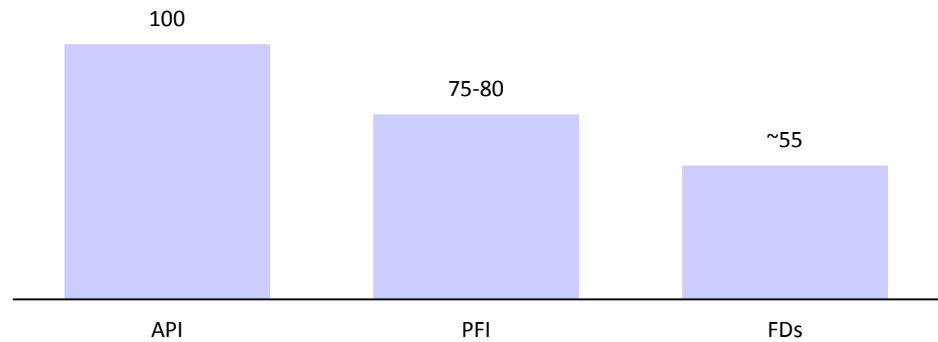


**Exhibit 6: Finished dosage capacity at 18b tablets**



Source: Company, MOSL

**Exhibit 7: Utilization levels of the base business (%)**



Source: Company, MOSL

**Exhibit 8: API capacities of top five molecules**

Paracetamol Regulated Market Suppliers (MTPA)	
<b>Mallinckrodt</b>	<b>25,000</b>
Granules	18,000
Novocel	6,000
Ibuprofen Suppliers (MTPA)	
Shasun	6,000
IOL Chemicals	6,000
Albemarle	5,200
BASF	5,000
Granules Biocause	4,800
Metformin Suppliers (MTPA)	
Granules	2,000
USV Ltd	10,100
Wanbury	9,000
Harman	6,000
Methocarbamol Suppliers (MTPA)	
Granules	360
Synthochem	250
Guaifenesin Suppliers (MTPA)	
Granules	1,200
Synthochem	800

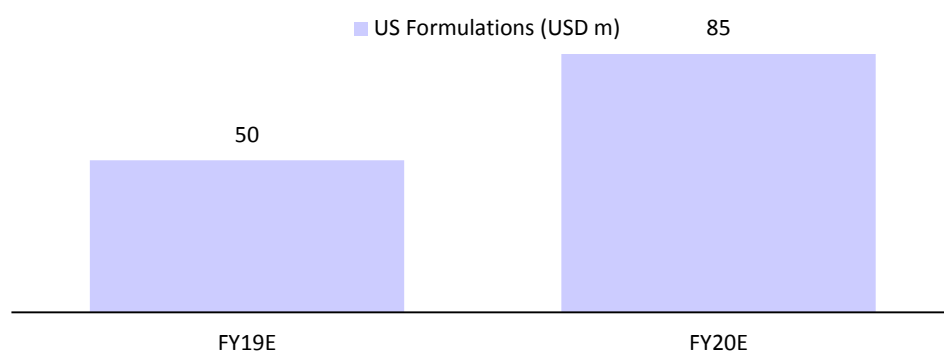
Source: Company, MOSL

## US business: Plans niche foray into Rx business

### Full potential will be visible in FY20

- GRAN is planning to file ~25-30 ANDAs in the US till FY19. Of these, ~10 complex ANDAs will be filed from its US-based Virginia facility and the rest of them from the India-based facility in Gagilapur. In FY18, GRAN plans to file 10-12 ANDAs, of which six will be filed from Gagilapur and the rest from Virginia.
- **Virginia facility – focus on complex filings:** GRAN acquired the Virginia-based facility for a consideration of USD1.5m. Through this plant, GRAN can focus on products with specific release properties, ODTs and DEA-controlled substances. The company plans to invest ~USD70m in this facility toward capacity expansion (currently capacity of 0.5b tablets), R&D and employee addition.
- The company has already filed two complex generic ANDAs from its Virginia facility in March/April-17 (market size of USD660m), where it expects to be 3<sup>rd</sup>/4<sup>th</sup> player at the time of launch (2HFY19). We expect own new filings for GRAN to contribute USD50-60m in FY20E.
- **US Pharma product acquisition to drive growth from FY19:** GRAN has also acquired marketing rights from US Pharma for four ANDAs (scheduled to be launched from late-FY18 to FY19). The market size of these products is >USD5b, with revenue potential of USD30-35m in FY19E.
- **Costs to be built in P&L from FY19E, but revenue potential to be visible from FY20:** Although we are already building in R&D spend of ~USD12m for FY19E, full-year revenue from own filings will start only FY20 onward. Despite this, we estimate an improvement in the consolidated EBITDA margins of 100bp due to traction in the base business and a shift in the product mix toward formulations.

### Revenues from US formulation business will start contributing from FY19 (~20% of sales)



Source: Company, MOSL

## Omnichem CRAMs JV – entry into high-value APIs

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**Partner profile:** Hubei Biocause is a public listed company involved in the pharmaceuticals, chemicals and new energy fuel businesses. Biocause's pharmaceuticals business involves contract research, contract manufacturing and production of APIs, intermediates and formulations, including tablets, granules and capsules. Biocause is one of the leading pharmaceutical product producers and exporters to China, with a strong production, R&D and quality system. The company has eight APIs registered with the FDA and four APIs with CEP.

**Joint venture details:** The JV between Biocause and GRAN had set up a facility in Wuhan, China to manufacture Ibuprofen for the regulated markets. Currently, it is operating at 4,800MTPA capacity, making it among the five largest Ibuprofen suppliers in the world.

### Granules-Omnichem JV: Established in FY15

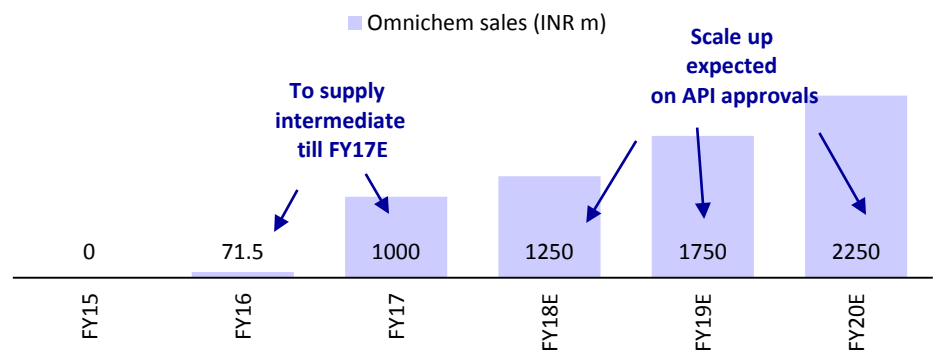
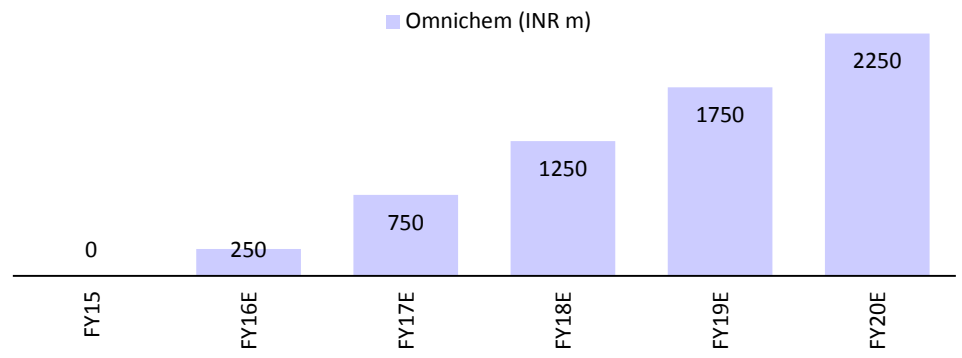
**Partner profile:** Ajinomoto-Omnichem is a Belgium-based company specializing in the manufacture of pharmaceutical products and fine chemicals. It is a wholly owned subsidiary of Japan-based Ajinomoto Co Inc (known for amino acids and food products). Omnichem, a division of Ajinomoto-Omnichem, focuses on development and manufacture of intermediates and active ingredients for the pharmaceutical industry (CRAMs). Each project is supported by an R&D team of ~80 people, who work on integrating the first lab experiments and pilot trials to full industrial production while maintaining confidentiality.

### Omnichem JV sales expected to reach INR4.5b by FY20

Granules-Omnichem is a 50:50 JV between GRAN and Ajinomoto-Omnichem, Belgium. Omnichem would be transferring large-scale production of intermediates and APIs to Granules-Omnichem JV. It will also provide full support for quality, engineering, tech transfer, procurement, sales and management-related matters. Inspection at this facility is already completed in 3QFY17, and we expect EIR to come in 1HFY18. API supply to developed markets will start from FY19. Till the time FDA approval is not granted, the JV will continue to manufacture various intermediates for Omnichem. Once approvals are in place, the JV would start manufacturing high-value APIs for Omnichem's CRAMs customers. These APIs are likely to be sold to innovators and MNCs, helping them compete with generic players.

In FY17, this business generated revenue of ~INR2b. However, upon required regulatory approvals for products, Omnichem JV sales are expected to reach a peak of INR4.5b by FY20. These product approvals should kick in from FY18. Until then, the JV would continue supplying intermediates to Omnichem from this facility, which reported sales of INR1,000m in FY17. It is likely to achieve >30% EBITDA margin by selling high-value APIs (Oncology, CVS, etc.) to innovators.

**Exhibit 9: Expect significant ramp-up in FY19**



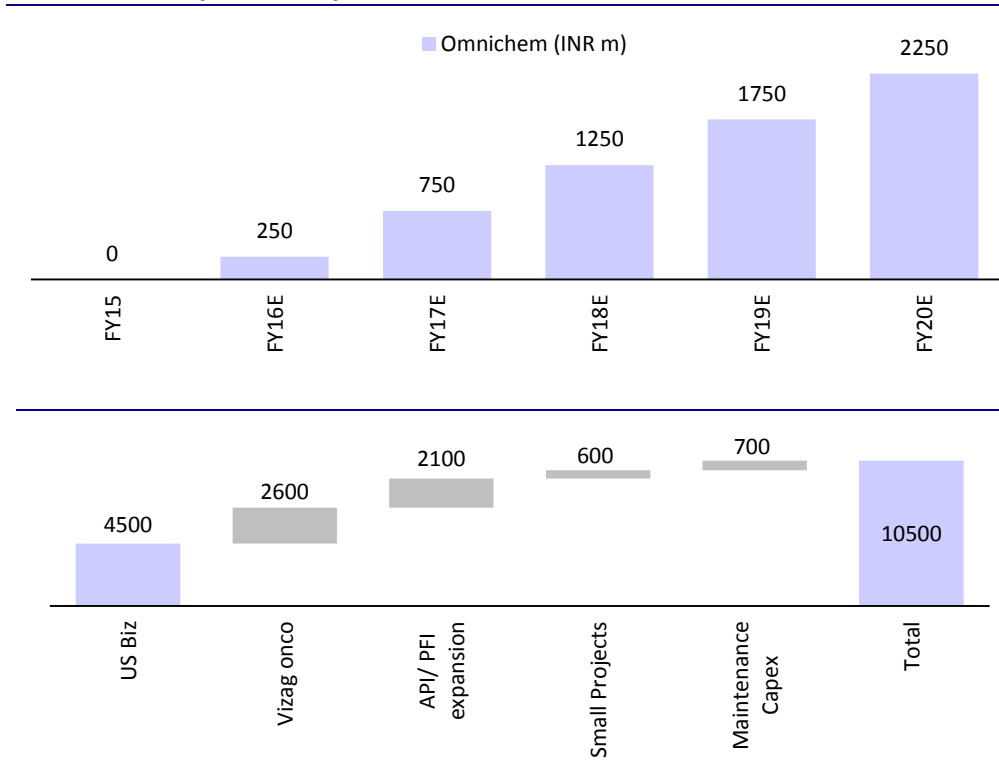
Source: Company, MOSL



## Return from investments visible; adding legs to growth

- GRAN plans to invest INR10.5b over three years starting FY16. In FY16 and FY17, it incurred capex of ~INR1.3b and INR3.4b, respectively. Although full-scale benefits of these investments will be visible from FY19/20E, FY18E will be a critical year as: 1) revenue contribution from capacity expansion in traditional business will kick in, 2) filings from the US (already done 2, and ~8 by FY18E-end) will provide visibility on areas of investment in that country, 3) FDA approval to Omnicem JV plant will provide visibility on API sales from this plant (and, in turn, lead to margin improvement to >30% from ~21% currently) and 4) oncology plant should be ready.
- The company plans to incur capex of INR5.5-6.0b in FY18. It plans to invest ~INR4.5b in the US (USD10m in FY16, USD18m in FY17 and ~USD40m in FY18), mainly on R&D (~60-65% of total) and the rest on expanding capacity and buying equipment. Capex of INR2.1b has been incurred on traditional business capacity expansion (revenue contribution to start from 2QFY18), while INR2.6b will be spent on developing the oncology API/formulations plant (to get commissioned by FY19 beginning).

**Exhibit 10: Total planned capex of ~INR10.5b over FY16-19E (INR m)**



Source: Company, MOSL

### Already secured line of credit to fund investments; equity raising is another

**option:** GRAN plans to invest ~INR5.5-6.0b in FY18E and ~INR2.5b in FY19E. It will generate ~INR3.5b through internal accruals, while the rest can be funded via debt/equity. The company has already has a line of credit of ~USD60m at an attractive rate of EURIBOR+2%.

## Strong regulatory history

- At present, the company conducts business via six API/intermediate facilities, two PFI facilities and two formulation facilities. There is also one API facility under construction for multi-product APIs in Vizag.
- Historically, GRAN has demonstrated a strong regulatory record, with no warning letter or import alert for any facility in last eight FDA inspections.

### Exhibit 11: List of plants and recent inspections outcome

Locations	Products	Approvals
<b>API facilities</b>		
Jeedimetla	Metformin,	USFDA, KFDA, TGA, EDQM
Bothapally 1	Paracetamol	USFDA, WHO, GMP, EDQM, Infarmed (EU) approved
Bothapally 2	Intermediate (Auctus)	
Wuhan	Ibuprofen	USFDA, EDQM, TPD – Canada, MCC approved
Vizag 1	Multiproduct (Auctus)	US FDA approved
Vizag 2	Oncology (Omnichem JV)	Yet to approve
Vizag 3	Multiproduct (Granules)	Under Development
<b>PFI facilities</b>		
Jeedimetla	Multiproduct small scale	USFDA, Australian TGA, German HA approved
Gagilapur	Multiproduct large scale	USFDA, German HA, Australian TGA approved
<b>FD facilities</b>		
Gagilapur	Tablets	Infarmed (EU), USFDA
US	Complex product filings	

Source: Company, MOSL

## Building a strong management team

**Granule is building a strong management team as it enters the US generic space.**

Name	Designation	Hired in	Previous Company
Mr. Sreekanth Muttineni	COO	16-Sep	Aurobindo Pharma
Mr. Ganesh K	CFO	17-May	Dr. Reddy
Mr M Gopi Reddy	Sr. VP - Quality	16-Sep	Cipla
Mr. Jaishokan Velusami	Hear - R&D (Granules Pharma Inc.)	16-Apr	Actavis & Par Pharma Inc.

## Management team profile

### Mr C. Krishna Prasad – Chairman and Managing Director

Mr Prasad is the founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up a Paracetamol manufacturing facility, focused on capital and process efficiency. Pharmaceutical Formulations Intermediates (PFIs) as a cost-efficient product for global formulations manufacturers is a concept pioneered and popularized by him.

### Dr. Prasada Raju – Executive Director

Dr Raju has over two decades of techno commercial experience in the global pharmaceutical space. His previous experience at Dr Reddy's encompasses new product development, fostering strategic partnerships, driving synergies between Industry and Academia, expanding into newer geographies, IP-driven early product portfolio development and program management.

### Mr Sreekanth Muttineni – Chief Operating Officer

Mr Muttineni joined Granules India in September 2016. During his nine-year tenure at Lupin Ltd, he was responsible for manufacturing operations. Prior to that, Mr Muttineni worked at Aurobindo Pharma as general manager – operations, and led the establishment of generic pharmaceutical facilities and commercialization.

### Mr. Ganesh K – Chief Financial Offer

Mr. Ganesh joined Granules India in May 2017. Before joining Granules, he was associated with Dr Reddy's for a span of 12 years as senior vice president – corporate finance. Mr Ganesh is a chartered accountant, having professional experience of more than 27 years. He specializes in leading large-scale M&A and treasury operations, with skills in executing business/financial management strategies and strengthening fiscal efficiency.

### Mr M Gopi Reddy – Sr. Vice President (Quality)

Mr Reddy joined Granules India in September 2016. He started his career 1995 as assistant manager production at GSK Pharma, where he worked for six years. He has 21 years of experience in corporate quality assurance, working with some of the biggest pharma companies in India. In his previous stint in Cipla as head quality compliance, he was responsible for developing systems and skills to ensure compliance at all the company's manufacturing sites globally.

**Mr Jaishokan Velusami – Head R&D (Granules Pharmaceuticals Inc.)**

Mr Velusami has over 15 years of extensive multi-disciplinary expertise in drug development and portfolio management across a broad range of therapeutic areas, drug delivery systems and novel platform technologies. His extensive experience includes technology transfer, commercializing R&D assets, strategic planning and optimizing operation strategy across cross-functional teams. Prior to Granules, he led R&D programs at Actavis and Par Pharmaceutical Inc., and has also laid the foundation for successful start-ups (Novel and Kali Laboratories) in drug development and operational strategy.

**Mr. Stefan Lohle – Chief Marketing Officer**

Mr Lohle has over two decades of experience in the pharmaceutical industry. He has been associated with Granules since 2001, and previously was head of Latin American operations, where he primarily focused on the PFI business. Mr Lohle has also served at Kimberly Clark Corporation for new project development.

Story in charts

Exhibit 12: Revenues to exhibit 27% CAGR over FY17-20E

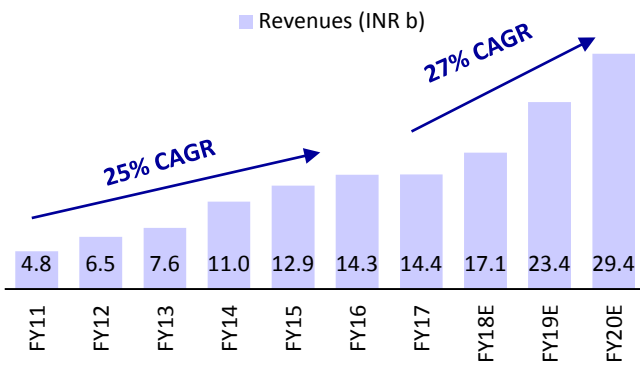


Exhibit 13: Revenues from US biz to drive growth

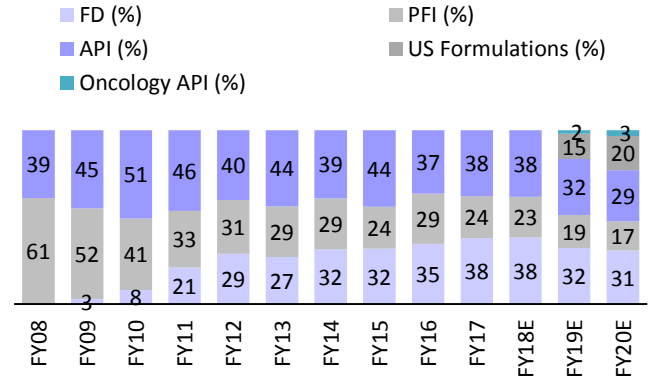


Exhibit 14: EBITDA margins to expand to 23% by FY20E

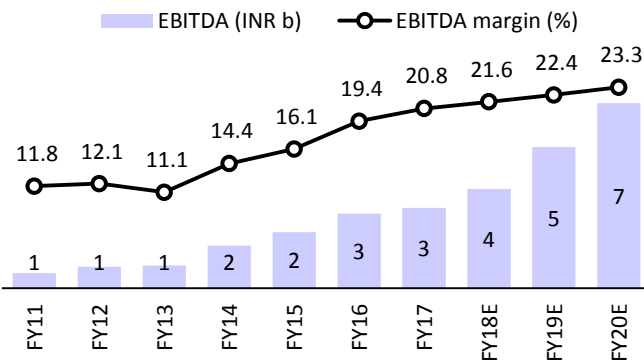


Exhibit 15: PAT to exhibit 35% CAGR over FY17-20E

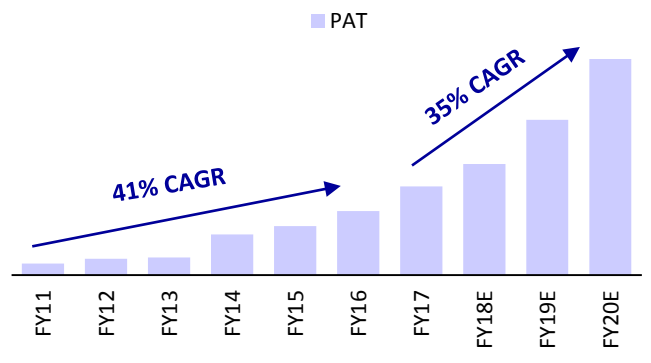


Exhibit 16: Geo-graph- wise revenue break-up

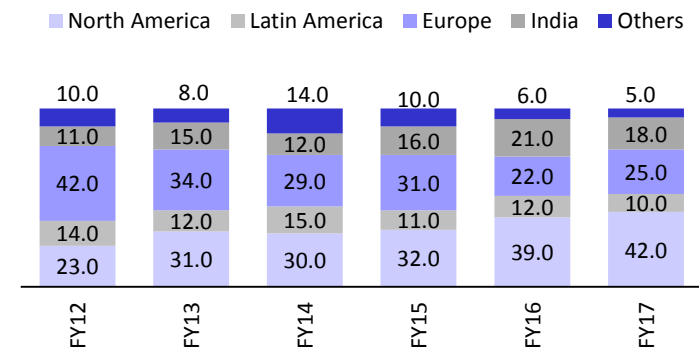


Exhibit 17: Product mix changing (%)

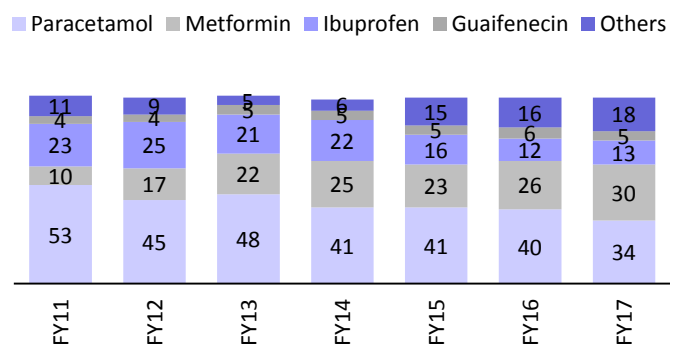


Exhibit 18: Capex needs to continue with growth

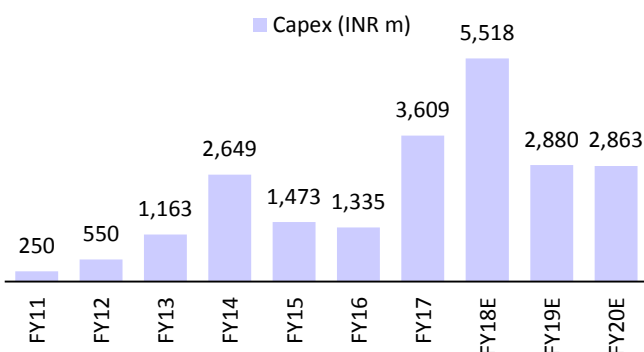
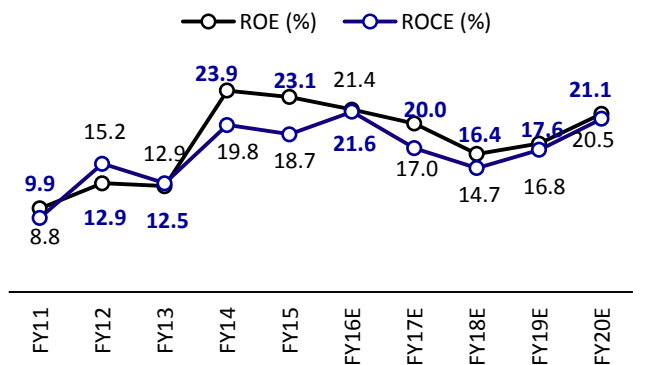


Exhibit 19: Return ratios to improve post FY18



Source: Company, MOSL

Source: Company, MOSL

## Valuation and view

Over last six years, GRAN reported a 39% earnings CAGR, led by improved profitability, higher operating leverage and a superior business mix. The company expanded its finished dosages business at a CAGR of 36% over FY11-16, leading to higher profitability and improved utilization of the existing capacity of 18b tablets. Profitability of the PFI business has also improved substantially, with the implementation of 6MT order capacity. As a result, GRAN has expanded its EBITDA margin from 11.8% in FY11 to ~21% in FY17.

We expect ~35% PAT CAGR to continue till FY20E, supported by ~27% revenue CAGR and ~250bp margin expansion. Our target price of INR200 discounts FY19E EPS at 18x, which (a) is at a 5-10% premium to peers and (b) implies a PEG of 0.5x (FY17-20E EPS CAGR of ~30%).

GRAN is trading at ~13x FY19E EPS. We argue for a P/E re-rating for GRAN, given (a) strong PAT growth outlook and (b) expansion in its high-margin CRAMs and US generic business.

Exhibit 20: Peer comparison

	CMP	Mkt. CAP (USD m)	P/E		EV/EBITDA		RoE (%)	
			FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<b>Granules India</b>	<b>149</b>	<b>535</b>	<b>13.1</b>	<b>9.4</b>	<b>8.9</b>	<b>6.6</b>	<b>16.3</b>	<b>17.2</b>
Marksans Pharma	50	314	25.4	17.7	14.2	10.6	16.0	19.8
Shilpa Medicare	718	889	32.9	22.8	22.2	16.5	19.2	23.0
Dishman Pharma	299	743	18.6	14.8	11.1	9.6	14.1	15.9
IPCA	530	1040	21.0	15.8	11.8	9.5	12.4	14.4
Suven	184	363	20.2	17.6	13.2	11.4	16.2	16.5
Neuland	1450	199	24.7	16.8	11.9	9.0	23.4	27.1

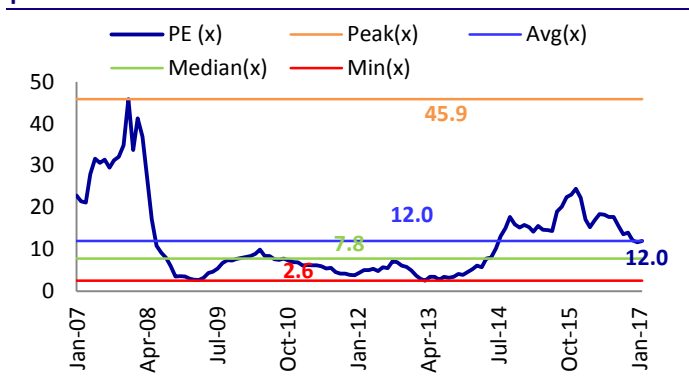
### Key catalysts to drive stock performance over medium term

- Finished dosage product approvals from regulated markets
- Commercialization of new capacity
- Higher-than-expected realizations from Omnicem JV

### Risks to our investment thesis

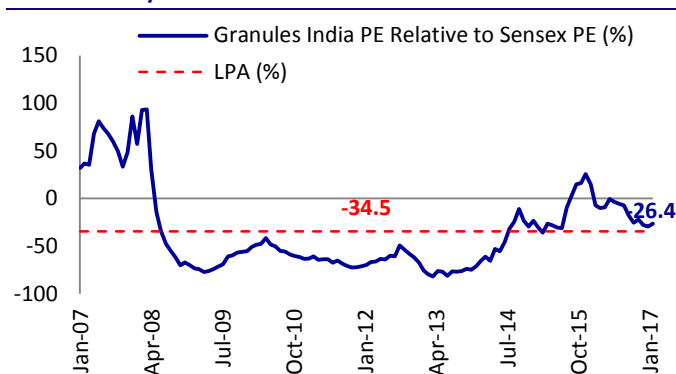
- Pricing pressure on existing products
- Regulatory risks related to already approved manufacturing facilities

Exhibit 21: P/E band – significant re-rating over past 30 months



Source: MOSL, Company

Exhibit 22: P/E relative to Sensex



Source: MOSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Net Sales</b>	<b>6,540</b>	<b>7,644</b>	<b>10,959</b>	<b>12,929</b>	<b>14,295</b>	<b>14,353</b>	<b>17,051</b>	<b>23,390</b>
Change (%)	37.6	16.9	43.4	18.0	10.6	0.4	18.8	37.2
<b>EBITDA</b>	<b>793</b>	<b>851</b>	<b>1,583</b>	<b>2,086</b>	<b>2,767</b>	<b>2,988</b>	<b>3,683</b>	<b>5,239</b>
EBITDA Margin (%)	12.1	11.1	14.4	16.1	19.4	20.8	21.6	22.4
Depreciation	207	231	298	527	643	715	1,018	1,481
<b>EBIT</b>	<b>586</b>	<b>620</b>	<b>1,285</b>	<b>1,560</b>	<b>2,124</b>	<b>2,273</b>	<b>2,664</b>	<b>3,759</b>
Interest	170	177	204	323	399	323	326	541
Other Income	14	21	43	43	77	99	140	140
Extraordinary items	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>430</b>	<b>464</b>	<b>1,124</b>	<b>1,280</b>	<b>1,802</b>	<b>2,050</b>	<b>2,479</b>	<b>3,358</b>
Tax	130	138	371	371	617	643	793	1,074
Tax Rate (%)	30.3	29.7	33.0	29.0	34.2	31.4	32.0	32.0
Min. Int. & Assoc. Share	0	0	0	0	0	-247	-375	-600
<b>Reported PAT</b>	<b>300</b>	<b>326</b>	<b>753</b>	<b>909</b>	<b>1,185</b>	<b>1,654</b>	<b>2,060</b>	<b>2,883</b>
<b>Adjusted PAT</b>	<b>300</b>	<b>326</b>	<b>753</b>	<b>909</b>	<b>1,185</b>	<b>1,654</b>	<b>2,060</b>	<b>2,883</b>
Change (%)	43.3	8.8	130.8	20.8	30.3	39.6	24.6	39.9

Balance Sheet							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	201	201	203	204	217	228	253	253
Reserves	2,250	2,547	3,357	4,107	6,444	9,683	15,035	17,241
<b>Net Worth</b>	<b>2,451</b>	<b>2,749</b>	<b>3,560</b>	<b>4,312</b>	<b>6,660</b>	<b>9,911</b>	<b>15,288</b>	<b>17,494</b>
Debt	2,036	2,705	4,417	4,872	4,767	6,517	6,517	7,017
Deferred Tax	230	245	303	493	580	580	580	580
<b>Total Capital Employed</b>	<b>4,717</b>	<b>5,698</b>	<b>8,280</b>	<b>9,676</b>	<b>12,008</b>	<b>17,008</b>	<b>22,386</b>	<b>25,092</b>
Gross Fixed Assets	3,545	3,874	6,539	8,438	9,622	12,992	18,492	20,992
Less: Acc Depreciation	1,041	1,240	1,714	2,272	2,941	3,656	4,674	6,155
<b>Net Fixed Assets</b>	<b>2,504</b>	<b>2,635</b>	<b>4,825</b>	<b>6,166</b>	<b>6,681</b>	<b>9,336</b>	<b>13,818</b>	<b>14,837</b>
Capital WIP	293	1,088	1,246	620	766	1,005	1,023	1,403
Investments	2	97	2	2	2	2	2	2
<b>Current Assets</b>	<b>2,914</b>	<b>3,007</b>	<b>3,848</b>	<b>5,184</b>	<b>7,080</b>	<b>9,120</b>	<b>10,398</b>	<b>12,539</b>
Inventory	1,099	1,365	1,742	2,245	3,071	2,802	3,296	4,475
Debtors	950	710	1,109	1,326	1,526	3,932	4,671	6,088
Cash & Bank	320	417	418	653	1,419	1,317	1,160	233
Loans & Adv, Others	545	515	580	959	1,065	1,069	1,270	1,742
<b>Curr Liabs &amp; Provns</b>	<b>996</b>	<b>1,128</b>	<b>1,640</b>	<b>2,295</b>	<b>2,521</b>	<b>2,455</b>	<b>2,854</b>	<b>3,689</b>
Curr. Liabilities	934	1,061	1,517	2,120	2,399	2,167	2,373	2,984
Provisions	62	68	123	175	122	288	481	706
<b>Net Current Assets</b>	<b>1,918</b>	<b>1,879</b>	<b>2,208</b>	<b>2,888</b>	<b>4,559</b>	<b>6,665</b>	<b>7,543</b>	<b>8,850</b>
<b>Total Assets</b>	<b>4,717</b>	<b>5,698</b>	<b>8,280</b>	<b>9,676</b>	<b>12,008</b>	<b>17,008</b>	<b>22,386</b>	<b>25,092</b>

## Financials and Valuations

### Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Basic (INR)</b>								
EPS	1.5	1.6	3.7	4.5	5.5	7.3	8.1	11.4
Cash EPS	2.5	2.8	5.2	7.0	8.4	10.4	12.2	17.2
Book Value	12.2	13.7	17.6	21.1	30.7	43.5	60.4	69.1
DPS	0.2	0.2	0.4	0.5	0.6	1.0	1.5	2.2
Payout (incl. Div. Tax.)	15.6	14.4	11.0	13.6	13.9	16.2	22.2	23.5
<b>Valuation(x)</b>								
P/E				33.4	27.2	20.5	18.3	13.1
Price / Book Value				7.0	4.8	3.4	2.5	2.2
EV/Sales				2.4	2.1	2.2	1.9	1.4
EV/EBITDA				15.0	11.0	10.8	8.8	6.5
Dividend Yield (%)				0.3	0.4	0.7	1.0	1.5
<b>Profitability Ratios (%)</b>								
RoE	12.9	12.5	23.9	23.1	21.6	20.0	16.4	17.6
RoCE	15.2	12.9	19.8	18.7	21.4	17.0	14.7	16.8
RoIC	10.8	10.6	15.9	14.6	15.2	12.7	10.3	11.7
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	1.4	1.3	1.3	1.3	1.2	0.8	0.8	0.9
Debtors (No. of Days)	52	33	36	36	38	98	98	93
Inventory (No. of Days)	61	65	58	63	78	71	71	70
Creditors (No. of Days)	67	72	77	92	86	84	75	67
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.7	0.8	1.1	1.0	0.5	0.5	0.4	0.4

### Cash Flow Statement

(INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Adjusted EBITDA	793	851	1,583	2,086	2,767	2,988	3,683	5,239
Non cash opr. exp (inc)	7	8	29	29	25	0	0	0
(Inc)/Dec in Wkg. Cap.	-436	146	-310	-363	-915	-2,208	-872	-2,030
Tax Paid	-115	-112	-238	-317	-490	-652	-793	-1,074
Other operating activities	7	19	16	18	51	0	-163	-203
<b>CF from Op. Activity</b>	<b>256</b>	<b>912</b>	<b>1,080</b>	<b>1,453</b>	<b>1,438</b>	<b>128</b>	<b>1,855</b>	<b>1,932</b>
(Inc)/Dec in FA & CWIP	-550	-1,163	-2,649	-1,473	-1,335	-3,609	-5,518	-2,880
<b>Free cash flows</b>	<b>-294</b>	<b>-251</b>	<b>-1,570</b>	<b>-20</b>	<b>103</b>	<b>-3,481</b>	<b>-3,663</b>	<b>-948</b>
(Pur)/Sale of Invt	2	-95	95	0	0	0	0	0
Others	3	-20	8	17	53	99	140	140
<b>CF from Inv. Activity</b>	<b>-545</b>	<b>-1,278</b>	<b>-2,546</b>	<b>-1,456</b>	<b>-1,281</b>	<b>-3,510</b>	<b>-5,378</b>	<b>-2,740</b>
Inc/(Dec) in Net Worth	0	6	11	11	1,059	1,873	3,775	0
Inc / (Dec) in Debt	691	682	1,709	628	191	1,750	0	500
Interest Paid	-168	-178	-205	-319	-406	-323	-326	-541
Divd Paid (incl Tax) & Others	-35	-47	-47	-83	-234	-21	-83	-77
<b>CF from Fin. Activity</b>	<b>489</b>	<b>463</b>	<b>1,467</b>	<b>238</b>	<b>609</b>	<b>3,280</b>	<b>3,367</b>	<b>-119</b>
<b>Inc/(Dec) in Cash</b>	<b>200</b>	<b>97</b>	<b>0</b>	<b>236</b>	<b>766</b>	<b>-102</b>	<b>-157</b>	<b>-927</b>
Add: Opening Balance	120	320	417	417	653	1,419	1,317	1,160
<b>Closing Balance</b>	<b>320</b>	<b>417</b>	<b>417</b>	<b>653</b>	<b>1,419</b>	<b>1,317</b>	<b>1,160</b>	<b>233</b>



**NOTES**

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