10 May 2019

4QFY19 Results Update | Sector: Healthcare

Granules India

BSE SENSEX	S&P CNX
37,463	11,279

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	28 / 0.4
52-Week Range (INR)	123 / 72
1, 6, 12 Rel. Per (%)	1/-2/8
12M Avg Val (INR M)	320
Free float (%)	57.1

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	22.8	26.6	30.7
EBITDA	3.9	5.0	5.8
PAT	2.3	2.7	3.2
EPS (INR)	9.2	10.5	12.7
Gr. (%)	76.5	14.0	20.6
BV/Sh (INR)	60.2	66.8	75.5
RoE (%)	16.5	16.6	17.8
RoCE (%)	8.6	10.1	11.5
P/E (x)	11.9	10.5	8.7
P/BV (x)	1.8	1.6	1.5

Estimate change	↑
TP change	↑
Rating change	↔

CMP: INR110 TP: INR150 (+36%) Buy

Strong end to FY19, momentum to sustain over next 2-3 years

- **Formulation-driven growth:** Sales increased 22% YoY to INR6.1b (our estimate: INR6.5b) in 4QFY19. Gross margin (GM) improved 740bp YoY (+270bp QoQ) to 46%, led by a superior product mix. Sales were largely driven by a 43%/22% YoY increase in FD /API sales, partly offset by a 14% decline in intermediates sales.
- **Profitability supported by a superior product mix:** EBITDA margin expanded 850bp YoY to 17.9% (our estimate: 16.8%), largely on account of an improvement in GM. Other expenses and staff cost as a percentage of sales were stable YoY. We, however, note that the EBITDA margin shrank 70bp sequentially, mainly due to a steep increase in other expenses (20.4% v/s 16.7% in 3QFY19). Absolute EBITDA increased 142% YoY to INR1b (our estimate: INR1.1b). PAT of INR720m exceeded our estimate of INR577m owing to a lower tax rate.
- For FY19, sales/EBITDA/PAT grew 35%/41%/77% YoY to INR22.7b/INR3.9b/INR2.3b.
- **Key concall highlights:** (a) GRAN guided for CAGR of 20% in sales and 25% in PAT over next three years. (b) The company aims to reduce net debt of INR9.1b by at least INR500m in FY20. (c) R&D spend to be INR1.8b (~60% to be expensed through P&L) in FY20. (d) FY20 capex guided at ~INR1.5b
- **Valuation and view:** We raise our FY20/21 EPS estimate by 2.5%/4.3% to INR10.5/INR12.7 to factor in growth in the formulation business and enhanced API opportunity. We continue valuing GRAN at 13x 12M forward earnings to arrive at a TP of INR150 (prior: INR139). We re-iterate our **Buy** rating, as growth drivers appear to be in place to deliver 17% earnings CAGR over FY19-21. The improvement in asset turnover, the gradual expansion in margins and the completion of capex phase are likely to drive the return ratios as well over the next 2-3 years.

Quarterly Performance **(INR Million)**

Y/E March	FY18				FY19						Est.	Var.
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	4QE	vs Est
Net Sales	**3,860**	**3,926**	**4,107**	**5,038**	**4,532**	**5,809**	**6,318**	**6,133**	**16,918**	**22,792**	**6,518**	-5.9%
YoY Change (%)	10.3	7.9	14.3	38.7	17.4	48.0	53.8	21.7	17.9	34.7		
EBITDA	**842**	**769**	**740**	**436**	**726**	**1,005**	**1,133**	**1,056**	**2,784**	**3,920**	**1,122**	-5.9%
Margins (%)	21.8	19.6	18.0	8.7	16.0	17.3	17.9	17.2	16.5	17.2		
Depreciation	176	186	196	204	245	265	270	274	762	1,055		
Interest	82	104	82	62	65	76	75	68	331	285		
Other Income	4	68	9	97	147	42	59	19	108	267		
PBT	**515**	**547**	**471**	**267**	**563**	**706**	**847**	**652**	**1,800**	**2,768**	**784**	-6.6%
Tax	177	193	169	95	191	234	265	202	634	891		
Rate (%)	34.4	35.2	35.9	35.6	34.0	33.1	31.2	27.5	35.2	34.8		
(Profit)/Loss of JV/Asso. Cos.	-30	-49	-49	-32	-146	-130	-21	-190	-160	-487		
Reported PAT	**338**	**355**	**302**	**172**	**518**	**602**	**603**	**569**	**1,166**	**2,292**	**575**	-7.7%
Adjusted PAT	**368**	**403**	**350**	**204**	**518**	**602**	**603**	**622**	**1,326**	**2,345**	**577**	24.8%
YoY Change (%)	-5.5	-1.2	-10.1	-55.3	40.7	49.4	72.3	252.5	-19.4	84.3		
Margins (%)	9.5	10.3	8.5	4.1	11.4	10.4	9.5	11.7	7.8	10.7		

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Other concall highlights

- Management guided for promoter pledge reduction to zero by end of FY21.
- Core molecules contributed ~86% of revenue in FY19. The share is likely to remain stable on the back of an increase in utilization of the recently added capacity.
- Raw material prices are stable now with gradual downtrend.
- Higher formulation sales led by new launches in 2HFY20 to drive gross margin over the medium term.
- R&D spend for FY19 was INR1.3b, with INR570m capitalized.
- Capex in FY19 was INR2.7b.
- GRAN has 32 ANDAs filed till date (9 in FY19) with 15 from India and 17 from Granules Pharma INC.
- GRAN guided for 3-5 approvals in FY20.
- New capacity of Metformin is at 15% utilization. There is USFDA inspection scheduled in July 2019. Successful inspection and subsequent approval are likely to enhance capacity utilization.
- GRAN had income of INR490m from JV and guided for a similar amount in FY20.
- Losartan API is an interesting opportunity for GRAN, and it intends to double capacity to cater to rising demand on account of regulatory issues with peers.
- Granules Pharma INC (GPI) recorded sales/EBITDA/PAT of INR2b/INR760m/INR400m for FY19.

JV performance

Exhibit 1: Omnichem

(INR m)	1QFY19	2QFY19	3QFY19	4QFY19
Sales	970	170	120	930
EBITDA	194	-14	-18	180
PAT	155	-53	-58	44

Source: Company, MOFSL

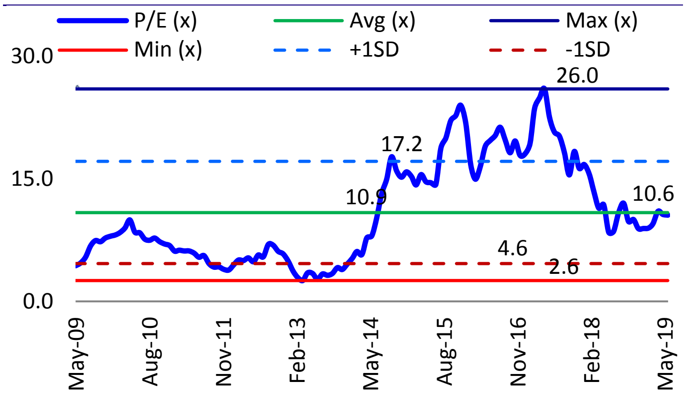
Exhibit 2: Biocause JV

(INR m)	FY18	FY19
Sales	2,802	3,650
EBITDA	381	1,066
PAT	303	887

Source: Company, MOFSL

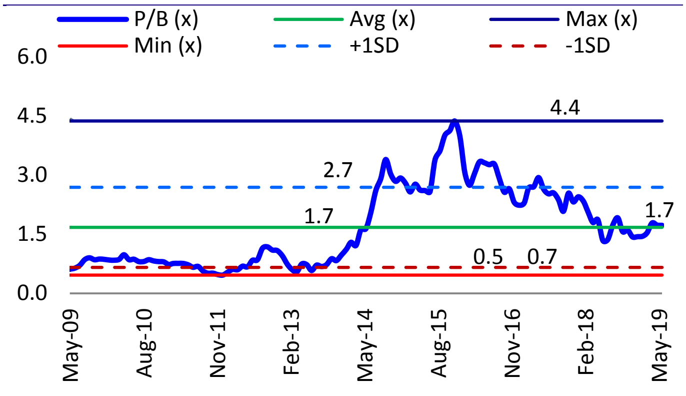
Valuation and view: We raise our FY20/21 EPS estimate by 2.5%/4.3% to INR10.5/INR12.7 to factor in growth in the formulation business and enhanced API opportunity. We continue valuing GRAN at 13x 12M forward earnings to arrive at a TP of INR150 (prior: INR139). We re-iterate our **Buy** rating, as growth drivers appear to be in place to deliver 17% earnings CAGR over FY19-21. The improvement in asset turnover, the gradual expansion in margins and the completion of capex phase are likely to drive the return ratios as well over the next 2-3 years.

Exhibit 3: P/E chart



Source: Company, MOFSL

Exhibit 4: P/B chart



Source: Company, MOFSL

Story in Charts

Exhibit 5: 22% YoY growth in revenue (4QFY19)

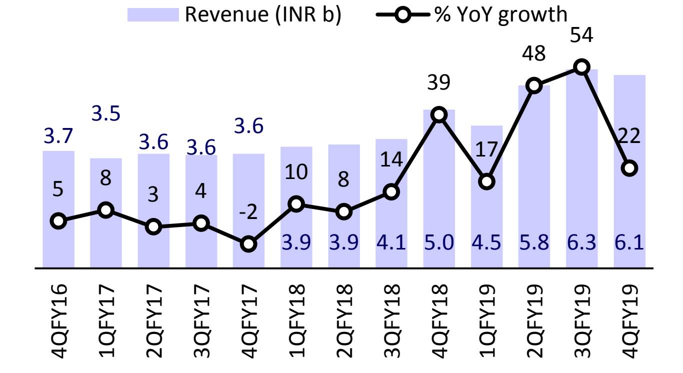


Exhibit 6: Higher R&D expense hurts EBITDA margin QoQ

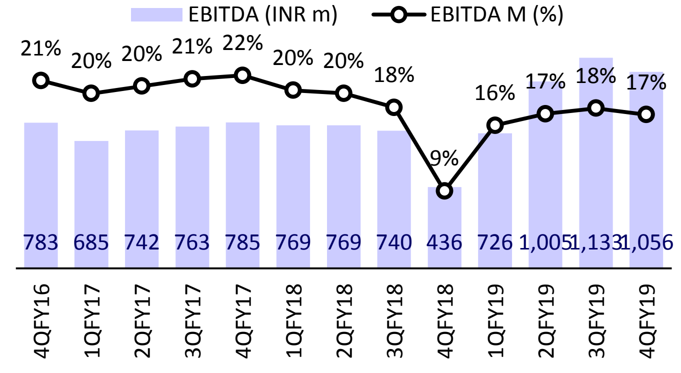


Exhibit 7: Revenues to exhibit 16% CAGR over FY19-21

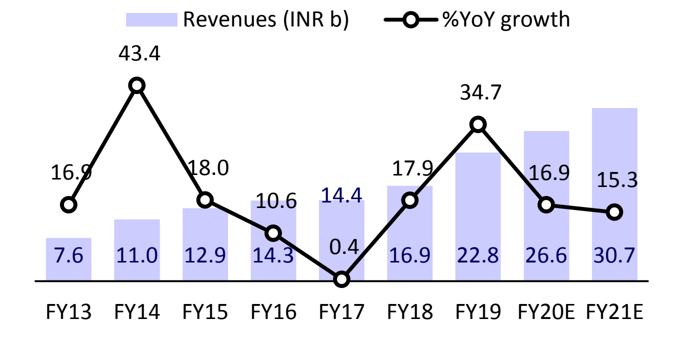


Exhibit 8: EBITDA margin to improve gradually

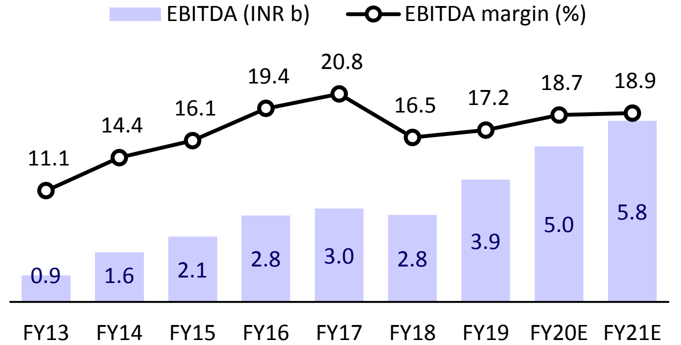


Exhibit 9: Formulation contribution to rise gradually

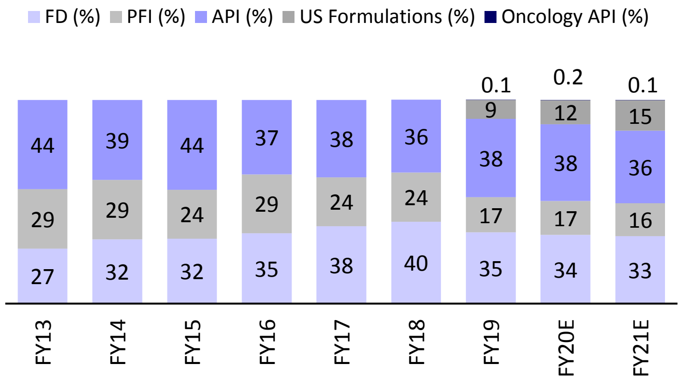


Exhibit 10: PAT to grow at ~17% CAGR over FY19-21

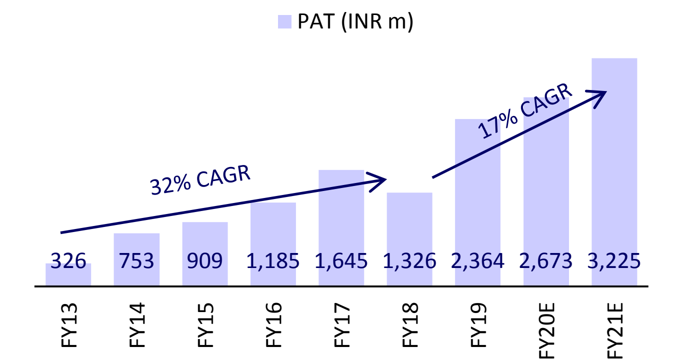


Exhibit 11: RoE to pick up gradually as capex cycle ends

Source: Company, MOFSL

Financials and Valuations

Consolidated - Income Statement								(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Total Income from Operations	**10,959**	**12,929**	**14,295**	**14,353**	**16,918**	**22,792**	**26,638**	**30,707**
Change (%)	43.4	18.0	10.6	0.4	17.9	34.7	16.9	15.3
Total Expenditure	**9,376**	**10,843**	**11,528**	**11,364**	**14,134**	**18,872**	**21,657**	**24,903**
% of Sales	85.6	83.9	80.6	79.2	83.5	82.8	81.3	81.1
EBITDA	**1,583**	**2,086**	**2,767**	**2,988**	**2,784**	**3,920**	**4,981**	**5,804**
Margin (%)	14.4	16.1	19.4	20.8	16.5	17.2	18.7	18.9
Depreciation	298	527	643	715	762	1,055	1,217	1,312
EBIT	**1,285**	**1,560**	**2,124**	**2,273**	**2,022**	**2,866**	**3,764**	**4,492**
Int. and Finance Charges	204	323	399	323	331	285	273	254
Other Income	43	43	77	99	108	267	160	184
PBT bef. EO Exp.	**1,124**	**1,280**	**1,802**	**2,050**	**1,800**	**2,848**	**3,651**	**4,422**
EO Items	0	0	0	0	0	-80	0	0
PBT after EO Exp.	**1,124**	**1,280**	**1,802**	**2,050**	**1,800**	**2,768**	**3,651**	**4,422**
Current Tax	305	287	535	652	659	891	1,278	1,548
Deferred Tax	66	83	82	-9	-25	72	0	0
Tax Rate (%)	33.0	29.0	34.2	31.4	35.2	34.8	35.0	35.0
Add: Associate income	0	0	0	247	160	487	300	350
Reported PAT	**753**	**909**	**1,185**	**1,654**	**1,326**	**2,292**	**2,673**	**3,225**
Adjusted PAT	**753**	**909**	**1,185**	**1,654**	**1,326**	**2,345**	**2,673**	**3,225**
Change (%)	130.8	20.8	30.3	39.6	-19.8	76.8	14.0	20.6
Margin (%)	6.9	7.0	8.3	11.5	7.8	10.3	10.0	10.5

Consolidated - Balance Sheet								(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Equity Share Capital	203	204	217	229	254	254	254	254
Total Reserves	3,357	4,107	6,444	8,807	12,788	15,040	16,717	18,945
Net Worth	**3,560**	**4,312**	**6,660**	**9,036**	**13,042**	**15,295**	**16,971**	**19,199**
Minority Interest	0	0	0	0	0	0	0	0
Deferred Liabilities	403	549	646	565	543	655	655	655
Total Loans	4,417	4,872	4,767	5,981	9,582	9,330	8,830	8,030
Capital Employed	**8,380**	**9,732**	**12,074**	**15,582**	**23,167**	**25,279**	**26,456**	**27,884**
Gross Block	6,539	8,438	9,622	10,099	14,430	16,639	18,139	19,339
Less: Accum. Deprn.	1,714	2,272	2,941	3,656	4,418	5,473	6,690	8,002
Net Fixed Assets	**4,825**	**6,166**	**6,681**	**6,443**	**10,012**	**11,167**	**11,450**	**11,338**
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	1,246	620	766	2,605	2,901	3,235	3,197	3,071
Total Investments	**2**	**2**	**2**	**1,082**	**1,566**	**2,104**	**2,104**	**2,104**
Curr. Assets, Loans&Adv.	**3,848**	**5,184**	**7,080**	**8,633**	**11,891**	**13,279**	**15,744**	**18,177**
Inventory	1,742	2,245	3,071	2,761	2,799	3,842	4,409	5,070
Account Receivables	1,109	1,326	1,526	4,177	6,171	6,735	6,568	7,572
Cash and Bank Balance	418	653	1,419	498	1,156	890	2,649	3,095
Loans and Advances	580	959	1,065	1,198	1,765	1,811	2,117	2,440
Curr. Liability & Prov.	**1,640**	**2,295**	**2,521**	**3,183**	**3,272**	**4,548**	**6,080**	**6,848**
Account Payables	1,355	1,887	1,791	2,160	2,522	3,235	3,712	4,269
Other Current Liabilities	162	233	608	934	646	1,144	1,338	1,542
Provisions	123	175	122	89	104	169	1,031	1,038
Net Current Assets	**2,208**	**2,888**	**4,559**	**5,451**	**8,620**	**8,731**	**9,663**	**11,329**
Appl. of Funds	**8,379**	**9,732**	**12,074**	**15,582**	**23,167**	**25,279**	**26,456**	**27,884**

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	**3.7**	**4.5**	**5.5**	**7.2**	**5.6**	**9.2**	**10.5**	**12.7**
Cash EPS	5.2	7.0	8.4	10.4	8.2	13.4	15.3	17.8
BV/Share	17.6	21.1	30.7	39.5	51.4	60.2	66.8	75.5
DPS	0.4	0.5	0.6	1.0	1.0	1.0	3.3	3.3
Payout (%)	11.0	13.6	13.9	16.2	22.4	13.0	37.3	30.9
Valuation (x)								
P/E	29.6	24.7	20.1	15.2	19.8	11.9	10.5	8.7
Cash P/E	21.2	15.7	13.0	10.6	13.4	8.2	7.2	6.2
P/BV	6.3	5.2	3.6	2.8	2.1	1.8	1.6	1.5
EV/Sales	2.7	2.3	2.0	2.2	2.0	1.5	1.2	1.0
EV/EBITDA	18.9	14.4	10.5	10.5	12.3	8.7	6.4	5.3
Dividend Yield (%)	0.3	0.5	0.6	0.9	0.9	0.9	3.0	3.0
Return Ratios (%)								
RoE	23.9	23.1	21.6	21.1	12.0	16.5	16.6	17.8
RoCE	13.2	13.3	14.0	12.3	7.3	8.6	10.1	11.5
RoIC	15.9	14.6	15.2	14.7	9.1	10.2	13.0	15.3
Working Capital Ratios								
Asset Turnover (x)	1.3	1.3	1.2	0.9	0.7	0.9	1.0	1.1
Inventory (Days)	58	63	78	70	60	62	60	60
Debtor (Days)	36	36	38	104	133	108	90	90
Creditor (Days)	53	64	57	69	65	63	63	63
Leverage Ratio (x)								
Current Ratio	2.3	2.3	2.8	2.7	3.6	2.9	2.6	2.7
Interest Cover Ratio	6	5	5	7	6	10	14	18
Debt/Equity	1.2	1.1	0.7	0.7	0.7	0.6	0.5	0.4

Consolidated - Cash Flow Statement **(INR Million)**

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	1,124	1,280	1,801	2,050	1,800	2,848	3,651	4,422
Depreciation	298	527	643	715	762	1,055	1,217	1,312
Interest & Finance Charges	190	309	347	278	222	18	113	69
Direct Taxes Paid	-238	-317	-490	-595	-634	-891	-1,278	-1,548
(Inc)/Dec in WC	-310	-363	-915	-557	-2,511	-377	826	-1,220
CF from Operations	**1,064**	**1,435**	**1,387**	**1,891**	**-360**	**2,652**	**4,530**	**3,036**
Others	16	18	51	43	0	0	0	0
CF from Operating incl EO	**1,080**	**1,453**	**1,438**	**1,934**	**-360**	**2,652**	**4,530**	**3,036**
(inc)/dec in FA	-2,649	-1,473	-1,335	-3,088	-4,626	-2,544	-1,462	-1,074
(Pur)/Sale of Investments	95	0	0	0	-483	-539	0	0
Others	8	17	53	-90	108	267	160	184
CF from Investments	**-2,546**	**-1,456**	**-1,281**	**-3,178**	**-5,001**	**-2,816**	**-1,302**	**-890**
Issue of Shares	11	11	1,059	829	2,977	186	0	0
(Inc)/Dec in Debt	1,709	628	191	151	3,602	-252	-500	-800
Interest Paid	-205	-319	-406	-319	-331	-285	-273	-254
Dividend Paid	-47	-83	-234	-223	-297	-297	-996	-996
Others	0	0	0	0	68	547	300	350
CF from Fin. Activity	**1,467**	**238**	**609**	**438**	**6,019**	**-102**	**-1,470**	**-1,700**
Inc/Dec of Cash	**0**	**236**	**766**	**-805**	**658**	**-266**	**1,758**	**446**
Opening Balance	417	417	653	1,303	498	1,156	891	2,649
Closing Balance	**417**	**653**	**1,419**	**498**	**1,156**	**890**	**2,649**	**3,095**

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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