

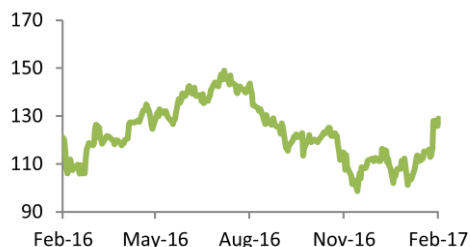
## Granules India Ltd.

Recommendation	HOLD
CMP	Rs. 129
Target Price	Rs. 151
Sector	Pharmaceuticals

## Stock Details

BSE Code	532482
NSE Code	GRANULES
Bloomberg Code	GRAN IN
Market Cap (Rs cr)	2,888
Free Float (%)	48.12%
52- wk HI/Lo (Rs)	164/101
Avg. volume BSE + NSE (Qrly)	12,26,143
Face Value	Re. 1
Dividend (FY 16)	50%
Shares o/s (Cr)	2.0

Relative Performance	1Mth	3Mth	1Yr
GIL	14.9%	13.1%	6.7%
Sensex	5.7%	2.5%	16.5%



## Shareholding Pattern

31<sup>st</sup> Dec 16

Promoters Holding	51.88%
Institutional (Incl. FII)	7.24%
Corporate Bodies	5.27%
Public & others	35.61%

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## Outlook Positive

Granules India's results were broadly in-line with expectations. Sales grew by 10.6% yoy to Rs 360 cr. EBITDA margins improved to 21.2% from 20.1% in Q3FY16 and 20.4% in Q2FY17 on account of favorable product mix and higher regulated sales. Regulated sales' (including US and Europe) has moved up to 68% in Q3FY17 from 63% in Q2FY17 and 65% in Q3FY16. Also, contribution from formulations was higher at 42% as against 37% in Q2FY17 and 34% in Q3FY17. Though we expect formulations contribution to marginally come down in FY18 post commercialization of API and PFI facilities which are expected to come on stream in 1HFY18. The company has guided for Rs 900 cr capex in FY17 and FY18 including Rs 270 cr for greenfield facility in Vizag. On the back of capacity constraints we expect FY17 (5% growth) to be flat however foreseeing healthy FY18 (15% growth) and FY19 (16% growth). We also expect margins to remain strong and forecast ~100 bps improvement every year.

## Key Highlights

- The company underwent 3 Inspections – 2 at Gaglipur (by USFDA and Portugal) and 1 at Vizag (by UKMHRA). UKMHRA has raised few observations on the Omnichem JV facility for which the management has responded. USFDA cleared the site without any observations (EIR is yet to come). Portugal agency had risen few concerns however it cleared the site in its re-inspection (in 1<sup>st</sup> week of Feb). For a month or so, the company had voluntarily stopped exports to Europe. We expect it to have marginal impact in Q4 (Rs 5-10 cr).
- The company plans to file 6 ANDAs by FY17 end including two complex filings from Virginia facility.
- Omnichem JV posted sales of Rs 5.5 cr (Rs 2.5-3cr GIL's 50% share) for the quarter due to cyclical nature of production. For 9MFY17 the JV has reported revenues of Rs 97.5 cr however management maintains its earlier guidance of Rs 200 cr sales for FY17. We have forecasted Rs 190 cr sales at JV for FY17E and Rs 250cr JV sales in FY18E.

## Valuation &amp; Recommendation

As expected earlier FY17 is turned out to be a year of consolidation. However we expect growth to come back from FY18 onwards on back of increased capacities, commercialization of Omnichem JV. We have assigned a multiple of 18x FY18E earnings and based on that we **recommend HOLD on the stock for price target of Rs 151.**

Year Consolidated	Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	P/E (x)	RoE (%)
FY16A	1431.2	10.7%	278.4	19.5%	118.5	8.3%	5.3	24.4	17.8%
FY17A	1508.5	5.4%	304.7	20.2%	164.7	10.9%	7.4	17.5	19.2%
FY18E	1740.7	15.4%	374.2	21.5%	188.3	10.8%	8.4	15.3	18.3%
FY19E	2021.0	16.1%	450.7	22.3%	244.7	12.1%	10.9	11.8	19.5%

## Granules India Ltd.

## Quarterly Result

Consolidated (Rs cr)	Q3FY17	Q2FY17	qoq	Q3FY16	yoy	FY16
<b>Net sales</b>	<b>359.5</b>	<b>363.8</b>	<b>-1.2</b>	<b>325.0</b>	<b>10.6</b>	<b>1431.2</b>
Cost of Materials	173.1	187.4	-7.6	170.7	1.4	758.5
Staff cost	36.1	34.0	6.3	29.6	21.9	125.3
R&D Exps	5.3	6.5	-19.1	3.1	69.8	16.5
Other Exps	68.7	61.7	11.3	56.2	22.1	252.5
<b>Total Expenses</b>	<b>283.1</b>	<b>289.6</b>	<b>-2.2</b>	<b>259.6</b>	<b>9.0</b>	<b>1152.8</b>
<b>EBITDA</b>	<b>76.3</b>	<b>74.2</b>	<b>2.9</b>	<b>65.3</b>	<b>16.8</b>	<b>278.4</b>
<i>margins</i>	<i>21.2%</i>	<i>20.4%</i>		<i>20.1%</i>		<i>19.5%</i>
Depreciation	18.7	18.5	1.2	14.6	27.8	64.3
<b>EBIT</b>	<b>57.6</b>	<b>55.7</b>	<b>3.4</b>	<b>50.7</b>	<b>13.6</b>	<b>214.0</b>
Interest	8.4	8.3	0.9	10.4	-19.9	39.9
Other income	4.3	3.9	10.0	1.4	206.8	6.0
<b>PBT</b>	<b>53.5</b>	<b>51.3</b>	<b>4.3</b>	<b>41.7</b>	<b>28.5</b>	<b>180.1</b>
Tax	17.6	15.6	13.0	12.9	36.5	61.7
<i>Tax rate</i>	<i>32.9%</i>	<i>30.4%</i>		<i>31.0%</i>		<i>34.2%</i>
EO	-3.5	-5.0		0.0		0.0
<b>PAT</b>	<b>39.4</b>	<b>40.7</b>	<b>-3.1</b>	<b>28.8</b>	<b>37.2</b>	<b>118.5</b>
Equity Capital	22.4	22.4		22.4		22.4
FV	1.0	1.0		1.0		1.0
<b>EPS</b>	<b>1.8</b>	<b>1.8</b>	<b>-3.1</b>	<b>1.3</b>	<b>37.2</b>	<b>5.3</b>

## Granules India Ltd.

## Financials (consolidated)

Consol P&L (Rs. Cr)	FY16A	FY17A	FY18E	FY19E	Balance Sheet (Rs. Cr)	FY16A	FY17A	FY18E	FY19E
<b>Net Sales</b>	<b>1431.2</b>	<b>1508.5</b>	<b>1740.7</b>	<b>2021.0</b>	Share Capital	21.7	22.4	22.4	22.4
% change	10.7%	5.4%	15.4%	16.1%	Reserves & Surplus	617.2	837.6	1007.5	1233.9
<b>EBITDA</b>	<b>278.4</b>	<b>304.7</b>	<b>374.2</b>	<b>450.7</b>	<b>Net Worth</b>	<b>666.0</b>	<b>860.0</b>	<b>1029.9</b>	<b>1256.3</b>
EBITDA margin	19.5%	20.2%	21.5%	22.3%	Net Deferred Tax Li	58.0	58.0	58.0	58.0
Depn & Amort	64.3	72.4	91.6	106.3	<b>Total Loans</b>	<b>474.1</b>	<b>547.3</b>	<b>870.5</b>	<b>748.6</b>
<b>Operating Incom</b>	<b>214.0</b>	<b>232.3</b>	<b>282.6</b>	<b>344.4</b>	Trade Payables	179.1	169.7	192.2	223.1
Interest	39.9	33.4	53.1	45.7	Provisions	12.2	12.4	13.1	14.1
Other Income	6.0	15.0	15.0	15.0	Other CL	63.4	60.1	58.3	67.6
<b>PBT</b>	<b>180.1</b>	<b>213.9</b>	<b>244.5</b>	<b>313.7</b>	<b>Total Liabilities</b>	<b>1452.9</b>	<b>1707.4</b>	<b>2222.1</b>	<b>2367.8</b>
Tax	61.7	49.2	56.2	69.0	<b>Net Fixed Assets</b>	<b>668.1</b>	<b>915.7</b>	<b>1374.1</b>	<b>1367.8</b>
MI & EO	0.0	0.0	0.0	0.0	Capital WIP	76.6	76.6	76.6	76.6
<b>PAT</b>	<b>118.5</b>	<b>164.7</b>	<b>188.3</b>	<b>244.7</b>	<b>Investments</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
PAT margin (%)	8.3%	10.9%	10.8%	12.1%	Cash & Bank	141.9	127.5	101.9	147.9
Sh o/s - Diluted	22.4	22.4	22.4	22.4	Inventories	307.1	312.4	353.9	410.8
Adj EPS	5.3	7.4	8.4	10.9	Debtors	152.6	165.3	190.8	221.5
Cash EPS	8.2	10.6	12.5	15.7	Loans & Advances	106.5	109.7	124.8	143.0
<b>Qtrly-Consol</b>	<b>Mar.16</b>	<b>Jun.16</b>	<b>Sept.16</b>	<b>Dec.16</b>	Misc Exp	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>373.3</b>	<b>349.8</b>	<b>363.8</b>	<b>359.5</b>	<b>Total Assets</b>	<b>1452.9</b>	<b>1707.4</b>	<b>2222.1</b>	<b>2367.8</b>
<b>EBITDA</b>	<b>79.3</b>	<b>68.5</b>	<b>74.2</b>	<b>76.3</b>	<b>Cash Flow (Rs. Cr)</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>
Dep & Amoriz	17.4	16.3	18.5	18.7	Op CF before tax	278.4	304.7	374.2	450.7
<b>Op Income</b>	<b>61.9</b>	<b>52.2</b>	<b>55.7</b>	<b>57.6</b>	Change in WC	-88.1	-33.9	-60.4	-64.7
Interest	9.9	7.9	8.3	8.4	Tax	-61.7	-49.2	-56.2	-69.0
Other Inc.	0.4	3.0	3.9	4.3	<b>CF from Operation</b>	<b>128.6</b>	<b>221.6</b>	<b>257.6</b>	<b>317.0</b>
<b>PBT</b>	<b>52.5</b>	<b>47.3</b>	<b>51.3</b>	<b>53.5</b>	Capex	-133.0	-320.0	-550.0	-100.0
Tax	19.3	15.4	15.6	17.6	Oth Inc & Investme	6.0	15.0	15.0	15.0
EO	0.0	-7.1	-5.1	-3.1	<b>CF from Investing</b>	<b>-126.9</b>	<b>-305.0</b>	<b>-535.0</b>	<b>-85.0</b>
<b>PAT</b>	<b>33.2</b>	<b>40.0</b>	<b>40.7</b>	<b>39.4</b>	<b>Financing</b>				
EPS (Rs.)	1.5	1.8	1.8	1.8	Dividend Paid	-16.4	-18.3	-18.3	-18.3
<b>Performance Ra</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	Share Capital	133.0	47.8	0.0	0.0
EBITDA margin (%)	19.5%	20.2%	21.5%	22.3%	Loans	-13.0	73.2	323.2	-122.0
EBIT margin (%)	15.0%	15.4%	16.2%	17.0%	Interest	-39.9	-33.4	-53.1	-45.7
PAT margin (%)	8.3%	10.9%	10.8%	12.1%	Others	11.3	-0.3	0.0	0.0
ROE (%)	17.8%	19.2%	18.3%	19.5%	<b>CF from Financing</b>	<b>74.9</b>	<b>69.0</b>	<b>251.8</b>	<b>-186.0</b>
ROCE (%)	17.9%	15.9%	14.4%	16.7%	Net Chg. in Cash	76.6	-14.4	-25.6	46.0
PAT growth (%)	30.3%	39.0%	14.3%	30.0%	Cash at beginning	65.3	141.9	127.5	101.9
Debt/Equity (x)	0.7	0.6	0.8	0.6	Cash at end	141.9	127.5	101.9	147.9
<b>Valuation Ratio</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>	<b>Per Share Data</b>	<b>FY16A</b>	<b>FY17A</b>	<b>FY18E</b>	<b>FY19E</b>
Price Earnings (x)	24.4	17.5	15.3	11.8	Adj EPS	5.3	7.4	8.4	10.9
Price/BV (x)	0.2	0.2	0.1	0.1	BV per share	29.8	38.4	46.0	56.1
EV / Sales	2.2	2.2	2.1	1.7	Cash per share	6.3	5.7	4.6	6.6
EV / EBITDA	11.6	10.9	9.8	7.7	Dividend per share	0.6	0.7	0.7	0.7

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