

**Granules India Ltd.**

₹ 127

*Slow and Steady wins the Race !***Buy**

Apr 22, 2016

**Company Background**

Incorporated in 1991, Granules India (GIL) started as a merchant exporter of bulk drugs like paracetamol, guaifenesin and chloro pheniramine maleate. In 1994, GIL took over Triton Laboratories and one more sick unit in Andhra Pradesh. Currently GIL has three facilities in Hyderabad, India and a fourth facility in Jingmen, China. A fifth factory is nearing completion in Vizag, India through a JV Company, Granules OmniChem. Most of its facilities meet the requirements of some of the most stringent regulatory agencies in the world including the U.S. FDA, MHRA, EDQM, TGA and others. GIL possess the largest PFI facility in the world with an industry-leading batch size of six tons and one of the largest single-site FD facilities in the world. It also has among the largest API capacities for the regulated markets for its products. GIL has sales offices in India, the U.S., UK, Colombia and China to service its customers across 60 countries. The company exports to the US, Europe, Mexico and Hongkong.

**Key Highlights**

- ➔ GIL's wholly owned subsidiary, Granules USA has entered into an agreement with Par Pharmaceutical Inc., a subsidiary of Endo International PLC to market the generic version of OTC Omeprazole and Sodium bicarbonate in North America following approval by USFDA. The product is expected in July 2016.
- ➔ Company is also expanding Metformin API capacity at Bonthapally to 9000 tonnes from current 2000 tonnes. Management expects Phase 1 of expansion to complete by August 2016.
- ➔ Company has entered into the high margin CRAMS business through JV (50:50) with Ajinomoto Omnicem. Management has highlighted that the plant has commissioned & guided revenues to be around INR 650-700mn at JV level. Peak sales are expected to be around INR 5,500mn through this JV & operating margins expected to be 20%.
- ➔ Recently acquired Auctus pharma contributed around INR 300mn to revenues during the last quarter. GIL's strategy appears to produce API in house and then gradually shift into formulation of same molecule. For this, company will be filing 3-4 ANDAs in next 12 months & 10 ANDAs by FY17.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	6,815.2	10,053.3	12,162.9
Rev. growth (%)	20.86	47.51	20.98
EBITDA (INR mn)	807.9	1,666.6	2,127.6
Net profit (INR mn)	301.8	810.1	952.3
Shares outstanding (mn)	20.1	20.3	204.3
EPS (INR)	15.0	39.9	4.7
EPS growth (%)	10.12	166.44	(88.33)
P/E (x)	0.63	0.64	18.22
RONW (%)	11.87	26.30	25.08
ROCE (%)	6.73	13.79	12.77

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**Info Codes**

Reuters	: GRAN.BO
Bloomberg	: GRAN@IN
NSE	: GRANULES
BSE	: 532482

**Market Data**

52 Wk Range (₹)	: 75 / 164
Shares in Issue (mn)	: 204.3
Mkt. Cap (₹ bn)	: 26.62
BSE 2 Wk Avg Vol	: 152000

**Share Holding Pattern (%)**

Promoters	: 51.15
Public	: 48.85
Others	: 00.00

**Investment Theme**

From a humble beginning in 1991 GIL has grown to be one of the largest Generic manufacturers in India. It has the privilege to be the first Indian Pharma Company to export drugs to the US. Over the period till today GIL focussed on Quality and Size by which it reached its current stage. possess the largest PFI facility in the world with an industry-leading batch size of six tons and one of the largest single-site FD facilities in the world. It has around 5 manufacturing units and all of them are following stringent norms to such an extent that Most of its facilities meet the requirements of most stringent agencies in the world including U.S. FDA, MHRA, EDQM, TGA and others. Recently GIL has planned to diversify, It has established Granules-OmniChem, a JV with Ajinomoto OmniChem. The business focuses on the CRAMS space. The company has been steadily seeing growth all these years.

**Indian Generic Giant !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	6,995.7	10,221.0	46.1	12,498.4	22.3
Other Income	10.8	26.2	142.6	9.0	(65.6)
Change in Stocks	74.0	23.8	(67.8)	105.7	344.1
Raw Material Con.	4,279.5	5,915.1	38.2	7,233.8	22.3
Employee Exp.	525.4	825.0	57.0	1,037.4	25.7
Indirect Taxes	201.7	238.8	18.4	385.2	61.3
Other Exp.	1,266.0	1,651.3	30.4	1,829.1	10.8
Operating Exp.	6,198.6	8,606.4	38.8	10,379.8	20.6
Operating Profit	797.1	1,614.6	102.6	2,118.6	31.2
Total Interest	165.0	189.3	14.7	309.3	63.4
Gross Profit	642.9	1,451.5	125.8	1,818.3	25.3
Net Dep.	202.1	238.2	17.9	495.6	108.1
Total Taxation	139.0	403.2	190.1	370.4	(8.1)
Net Profit/Loss	301.8	810.1	168.4	952.3	17.6

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 12	Mar 13	Mar 14	Mar 15
<b>SOURCES OF FUNDS</b>	<b>4,077.0</b>	<b>4,977.8</b>	<b>6,682.7</b>	<b>8,369.7</b>
Equity Share capital	200.6	201.3	202.8	204.3
Share Application Money	0.0	3.2	2.5	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	2,246.7	2,503.8	3,240.3	4,049.8
Long Term Loans	1,008.0	1,502.4	2,462.2	2,966.9
Short Term Loans	621.7	767.1	774.9	1,148.7
<b>USES OF FUNDS</b>	<b>4,077.0</b>	<b>4,977.8</b>	<b>6,682.7</b>	<b>8,369.7</b>
Gross Block	3,298.0	3,564.7	4,735.3	7,256.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	926.6	1,116.2	1,378.4	2,035.2
Net Block	2,371.4	2,448.5	3,356.9	5,221.7
Capital Work in Progress	290.8	916.0	391.4	185.0
Investments	328.0	527.1	1,454.5	724.7
Current Assets	2,079.0	2,238.1	3,336.5	4,872.8
Less : Current Liabilities	998.7	1,199.3	1,893.6	2,663.6
Total Net Current Assets	1,080.3	1,038.8	1,442.9	2,209.2
Misc. Expenses not writtenoff	6.5	47.4	37.0	29.1
<b>NOTE</b>				
Bk Val Unquoted Investments	328.0	432.5	1,454.5	724.7
Mkt Val. Quoted Investments	0.0	94.6	0.0	0.0
Contingent Liabilities	1,426.8	1,662.7	2,142.7	3,693.5
Dividend (%)	20.0	20.0	35.0	50.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	3,172.2	3,253.2	3,325.8	3,172.7
Cost Of Sales	2,622.2	2,611.1	2,704.2	2,495.3
Operating Profit	550.0	642.1	621.6	677.4
Other Income	14.2	16.3	13.5	20.0
Adjusted PBDIT	564.2	658.4	635.1	697.4
Financial Expenses	73.4	80.7	88.0	104.2
Depreciation	133.7	139.1	143.7	145.9
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	357.1	438.6	403.4	447.3
Tax Charges	71.9	135.1	135.5	143.1
Adjusted PAT	285.2	303.5	267.9	304.2
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	285.2	303.5	267.9	304.2

## 52 Week Index Relative Percentage Appreciation



GIL vs SENSEX

## Risks Associated

- The Company has operations in many countries around the world. Each such country poses its own challenges in terms of the economic and political conditions of that country. Any adverse political and/or economic development in these countries may affect the business of the Company in those countries.
- The Company is present in the generics segment of pharmaceutical markets. This market is characterized by the presence of a large number of players who compete with each other to increase their respective market shares. This competition puts constant pressure on prices which Company charges to its customers. Apart from this, the governments of different countries apply periodic price cuts on pharmaceutical products to keep healthcare cost under control.
- Stringent regulations and quality standards are prescribed by the regulatory authorities across the globe for the pharmaceutical products and their manufacturing and supply chain processes in order to protect the interests of the patients. Any deviation from the prescribed regulations or any variation in the quality from the prescribed standards may lead to punitive actions by the regulatory authorities.
- Competitors & innovator pharmaceutical companies holding patents for products and processes may sue the Company if the Company's products or processes are claimed to be infringing upon their intellectual property rights

**In a Nutshell**

GIL is a Large size Pharma Generic Manufacturer in India who is trying now to break out of its image. It has entered into a partnership agreement with Par Pharmaceuticals to market generic version of Merck's Zegerid OTC, the current market size for which is USD 40mn, and patent expiry on July 15, 2016. We feel revenues in tune of USD 4-5mn can be generated from this product. Focussing on Quality GIL has been targeting revenues from regulated markets which contributed 59% with US contributing 34% followed by Europe (19%) and Canada (6%). At the same time the company is also favouring expansions and is ramping up its Metformin Capacity to around 5 times its size. GILs recent JVs and Acquisitions are also working well. The Company has also targetted new Drug entries and has many DMF's and ANDA's in process. It has also entered into a JV with Omnicem to cater to the lucrative CRAMS market. GIL has been showing good growth figures and has achieved a whopping 28% CAGR in revenues & 36% CAGR in earnings over the past 10 years. With a lot of new developments coming up. We expect a healthy earnings momentum to kick-start on account of GIL moving up the value chain towards high margin business, improved capacity utilization & additional product offerings from Auctus Pharma. The overall future of the Indian Pharma Sector seems good and GIL is bound to get its share out of it. We expect the company to keep growing at a steady pace as it has been doing all these years and therefore recommend to buy the scrip.

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**Rating Interpretation**

<b>Buy</b> : Expected to appreciate 20% or more over 12-months	<b>Reduce</b> : Expected to depreciate up to 10% over 12-months
<b>Accumulate</b> : Expected to appreciate 10% to 20% over 12-months	<b>Sell</b> : Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b> : Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b> : Expected to depreciate more than 10% over 45-days

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