

Granules India Ltd.

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Aug 17, 2018

Company Background

Granules India (GI) was incorporated as a private Ltd company in 1991, later on it was converted into a public ltd in 1993. It commenced its operations in April 1991 as a merchant exporter of bulk drugs like paracetamol, guaifenesin & chloro pheniramine maleate. GI has total eight plants, four plants in Hyderabad (Jeedimetla, Bonthapally I, II and Gagillapur), two in Vizag, one in China (Jingmen) and one more in USA (Chantilly). It produces Finished Dosages (FDs), Pharmaceutical Formulation Intermediates (PFIs) & Active Pharmaceutical Ingredients (APIs) which gives the customers flexibility and choice. It's global presence extends to over 250 customers in 60 countries through offices in India, USA & UK. Company has three subsidiaries, such as Granules USA Inc. for front end marketing in USA, Granules Pharmaceuticals Inc. manufacturing for Advanced Formulation development, plant at Chantilly, USA and third one is Granules Europe Ltd. for front end marketing in Europe. Company has 100% holding in all three subsidiaries. It has two Joint ventures namely, Granules Omnicem 50-50 JV with Ajinomoto OmniChem, to focus on High-value, low-volume APIs and Intermediates for the latter's existing customers with a manufacturing facility at Vizag SEZ & Granules Biocause 50-50 JV with Chinese-based Hubei Biocause, manufactures ibuprofen API at a plant located in central China.

Key Highlights

- ➔ For FY 17 Net sales were improved by 22% to ₹ 16,466.4 mn, operating profit rose by 2.2% to ₹ 3,173 mn finally net profit was declined by 2.6% on yearly basis. Due to high cost of raw materials net profit was declined.
- ➔ GI proceed into specialty business by initiating the construction of a greenfield oncology oral solid dosage and high potent API manufacturing facility at Vizag. This construction work is going to be complete by the end of FY18.
- ➔ It's products divided into three verticals such as, FDs, APIs & PFIs each vertical contributes 40%, 35% & 25% respectively of its revenue for FY18.
- ➔ During the Q1FY19 Granules Pharmaceuticals, Inc., the wholly owned subsidiary of Granules India Ltd., launched generic Methylergonovine tablets in partnership with Hikma.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	13,597.8	13,886.9	16,776.4
Rev. growth (%)	8.67	2.13	20.81
EBITDA (INR mn)	2,762.6	3,103.2	3,173.0
Net profit (INR mn)	1,207.8	1,428.3	1,391.6
Shares outstanding (mn)	216.7	228.7	253.8
EPS (INR)	5.4	6.3	5.5
EPS growth (%)	18.20	15.96	0.00
P/E (x)	22.25	0.00	18.89
RONW (%)	22.16	18.44	12.87
ROCE (%)	20.26	16.71	12.66

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Info Codes

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

Market Data

52 Wk Range (₹)	: 72/151
Shares in Issue (mn)	: 253.8
Market. Cap (bn)	: 28.16
BSE 2 Wk Avg Vol	: 277000

Share Holding Pattern (%)

Promoters Holding	: 44.89
Public & Others	: 31.06
Corporate Holding	: 06.85
Foreign Institution	: 11.01
Institutions	: 06.19

Investment Theme

India is the third largest manufacturer of pharmaceutical products in terms of volume and it is growing steadily. Growth trajectory for the pharmaceutical industry is likely to be moderate, in single digit, according to rating agency ICRA, on the back of slowing growth from the US given the relatively moderate proportion of large-size drugs going off patent and increased competition leading to price erosion in low double digit. But demand prospect for the domestic market is expected to remain healthy. Company is plans to commercialise Methocarbamol Tablet 500 & 750 mg shortly. The US FDA has approved the ANDA filed by Granules India Ltd for Methocarbamol Tablet 500 & 750 mg. The approved ANDA is the bioequivalent and therapeutically equivalent to Reference Listed Drug (RLD) of Robaxin 500 & 750 mg of Auxilium Pharmaceuticals. LLC. Newly launched products will improve topline item.

Changing lives...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Sales	13,277.3	13,494.8	1.6	16,466.4	22.0
Other Income	62.9	145.2	130.8	237.7	63.7
Change in Stocks	218.0	122.0	(44.0)	(128.9)	(205.7)
Raw Material Con.	7,514.5	6,707.8	(10.7)	8,902.0	32.7
Employee Exp.	1,063.4	1,258.1	18.3	1,479.2	17.6
Indirect Taxes	257.6	246.9	(4.2)	72.3	(70.7)
Other Exp.	1,960.2	2,446.0	24.8	2,948.7	20.6
Operating Exp.	10,795.7	10,658.8	(1.3)	13,402.2	25.7
Operating Profit	2,762.5	3,103.2	12.3	3,173.0	2.2
Total Interest	370.5	321.6	(13.2)	329.3	2.4
Gross Profit	2,392.0	2,781.6	16.3	2,843.7	2.2
Net Dep.	582.5	713.5	22.5	759.2	6.4
Total Taxation	601.7	639.8	6.3	692.9	8.3
Net Profit/Loss	1,207.8	1,428.3	18.3	1,391.6	(2.6)

4 Years Balance Sheet

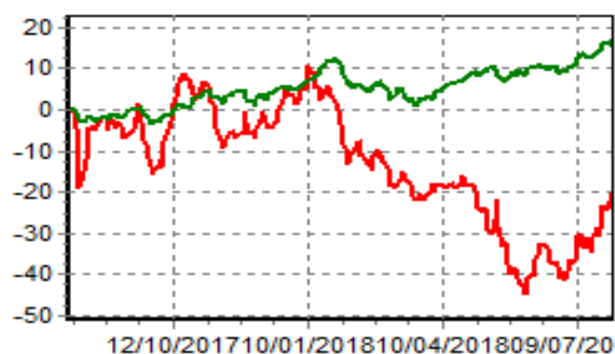
(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	8,409.3	13,114.9	15,481.1	22,643.4
Equity Share capital	204.3	216.7	228.7	253.8
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	4,049.8	6,428.3	8,614.9	12,528.1
Secured Loans	4,109.3	6,407.7	6,559.3	8,970.0
Unsecured Loans	45.9	62.2	78.2	891.5
USES OF FUNDS	8,409.3	13,114.9	15,481.1	22,643.4
Gross Block	7,256.9	7,845.3	9,373.6	10,656.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,035.3	2,612.4	3,317.8	4,055.0
Net Block	5,221.6	5,232.9	6,055.8	6,601.5
Capital Work in Progress	185.0	352.8	1,323.1	2,860.3
Investments	724.7	889.5	751.2	751.2
Current Assets	4,730.6	8,200.9	8,335.0	11,451.6
Less : Current Liabilities	2,125.0	1,932.8	2,428.4	2,783.0
Total Net Current Assets	2,605.6	6,268.1	5,906.6	8,668.6
Misc. Expenses not writtenoff	(327.6)	371.6	1,444.4	3,761.8
NOTE				
Book Value of Unquoted Investments	724.7	889.5	751.2	751.2
Market Value of Quoted Investments	0.2	0.2	0.2	0.2
Contingent Liabilities	3,520.6	1,403.2	1,290.1	1,495.4
Dividend (%)	50.0	65.0	90.0	100.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 17	Dec 17	Mar 18	Jun 18
Net Sales	3,735.3	4,126.5	4,733.3	4,403.4
Cost Of Sales	3,011.5	3,384.4	4,088.9	3,707.0
Operating Profit	723.8	742.1	644.4	696.4
Other Income	101.1	41.2	134.5	180.2
Adjusted PBDIT	824.9	783.3	778.9	876.6
Financial Expenses	104.0	81.6	61.8	65.2
Depreciation	185.2	195.3	203.5	218.7
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	535.7	506.4	513.6	592.7
Tax Charges	179.3	168.0	171.8	197.0
Reported Profit	356.4	338.4	341.8	395.7
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	356.4	338.4	341.8	395.7

52 Week Index Relative Percentage Appreciation

Granules India vs SENSEX
Risks Associated

- ➔ Dependence on USFDA for approval is a big challenge for Indian pharma sector. USFDA approval is important because the largest consumer of pharma products is the USA and India is a major exporter. The opinion of the USFDA is considered to be the standard in the sector as well.

Scope of Growth

- ➔ North America & Europe regulated markets are generating nearly 67% of the company's total turnover. Domestic market contributes around 18% of the business driven APIs.
- ➔ During the Q1FY19, company filed one ANDA, two JVs have jointly contributed ₹ 146 mn to PAT for the quarter and added new supplier for a key raw material to diversify its supply risk.
- ➔ Received the approval from US FDA for the ANDA filed by Granules Pharmaceuticals, Inc., a wholly owned foreign subsidiary of Granules India Ltd and the subsidiary launched generic Methylergonovine tablets in partnership with Hikma for Q1FY19.
- ➔ In FY18, India pharmaceutical products exports increased by 2.91% to \$ 17.27 billion, with the number expected to reach \$ 40 billion by 2020. India is likely to be among the top three pharmaceutical markets by 2020 by incremental growth and 6th largest market globally in absolute size.
- ➔ Granules Pharmaceuticals Inc., has entered into an agreement to acquire 12.5% stake in U.S. based drug maker USpharma. This investment will enable Granules India to participate in product selection and have right of first refusal to market the select products which are under development by USpharm.

Granules India

In a Nutshell

Granules India (GI) was incorporated in 1991. It produces Finished Dosages (FDs), Pharmaceutical Formulation Intermediates (PFIs) & Active Pharmaceutical Ingredients (APIs). Company has eight plants, four plants in Hyderabad (Jeedimetla, Bonthapally I, II and Gagillapur), two in Vizag, one in China (Jingmen) and one more in USA (Chantilly). Its has a capacity of 34,560 TPA of API, 24,400 TPA of PFI, its JV capacity of 4,800 TPA of API and 18 bn dosages of FD. It has three subsidiaries, such as Granules USA Inc., Granules Pharmaceuticals Inc. and Granules Europe Ltd. And also has two Joint ventures namely, Granules Omnicem 50-50 JV with Ajinomoto OmniChem and Granules Biocause 50-50 JV with Chinese-based Hubei Biocause, plant located in central China. Company's net sales was improved by 22% but net profit was declined by 2.6% for FY18. On Consolidated basis, the Active Pharmaceutical Ingredients, Pharmaceutical Finished Intermediates & Finished Dosages were contributed at 35%, 25% and 40% respectively for FY18 while it was 38%, 24% and 38% for API, PFI and Finished Dosages respectively for FY17. FD was largest revenue contributor for FY18. The profitability outpaced revenue growth due to several reasons. It's continuous efforts on operational excellence, process innovation, yield improvement and lower raw material cost resulted in improved earnings. Company is doing expansion of API capacities in Bonthapally for Paracetamol, Metformin and Guaifenesin. PFI capacity enhancement in Gagillapur up to 4,000 TPA is under progress and expected to complete by Q2FY19. This expansion and launching new product will increase the company's core business revenue in the future.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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