

Granules India Ltd.**₹89****Always Caring here...!!! Accumulate**

Dec 28, 2018

Company Background

Granules India was incorporated in 1991, commenced its operations in April 1991 as a merchant exporter of bulk drugs like paracetamol, guaifenesin & chloro pheniramine maleate. It 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 the USA (Chantilly). Granules produce Finished Dosages (FDs), Pharmaceutical Formulation Intermediates (PFIs) & Active Pharmaceutical Ingredients (APIs). Company's global presence extends to over 250 customers in 60 countries through offices in India, USA & UK. It has three subsidiaries, namely Granules USA Inc. for front end marketing in the USA, Granules Pharmaceuticals Inc. manufacturing for Advanced Formulation development, plant at Chantilly, the USA and the 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 & Intermediates for the latter's existing customers with a manufacturing facility at Vizag SEZ and Granules Biocause 50-50 JV with Chinese-based Hubei Biocause, manufactures ibuprofen API at a plant located in central China.

Key Highlights

- Company's products are divided into three verticals like; Active Pharmaceutical Ingredients (API), Pharmaceutical Formulation Intermediates (PFI) and Finished Dosages (FDs). For FY18, the consolidated revenues 35%, 25% and 40% for API, PFI and FDs respectively.
- Molecule wise consolidated revenue; Paracetamol was highest revenue with ₹ 5,790 million, Metformin ₹ 4,846 million, Ibuprofen ₹ 2,852 million, Guaifenesin ₹ 871 million, Methocarbamol ₹ 244 million and others ₹ 2,317 million, total revenue earned ₹ 16,920 million for FY18.
- Recently, US FDA has approved the ANDA filed by Granules Pharmaceuticals, Inc., a subsidiary of Granules India Ltd, for Methylphenidate Hydrochloride Extended-Release Tablets USP, 10 mg and 20 mg. It shall market and distribute the product shortly.

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	(12.32)
P/E (x)	22.25	22.17	18.89
RONW (%)	22.16	18.44	12.87
ROCE (%)	20.26	16.71	12.66

Nishant Chopra

nishantc@indiratrade.com

Info Codes

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

Market Data

52 Wk Range (₹)	: 72/150
Shares in Issue (mn)	: 253.8
Market. Cap (bn)	: 22.80
BSE 2 Wk Avg Vol	: 51000

Share Holding Pattern (%)

Promoters Holding	: 44.88
Public & Others	: 30.20
Corporate Holding	: 06.70
Foreign Institution	: 11.77
Institutions	: 06.45

Investment Theme

During the year, the US FDA has approved the ANDA filed by Granules India Ltd for Methocarbamol Tablet 500 & 750 mg. The approved ANDA is the bioequivalent & therapeutically equivalent to Reference Listed Drug of Robaxin 500 & 750 mg of Auxilium Pharmaceuticals LLC. This product will commercialize shortly. US FDA has issued EIR for its Jeedimetla facility located at Hyderabad, India. This facility was inspected by US FDA in March 2018 and there was one observation during the inspection. The company has responded to the observation within the stipulated timeframe. The company, successfully passed, its raw material prices to the majority of its customers. Company's both JVs have reported a combined profit of ₹ 13 crore for Q2FY19. One of its subsidiaries, successfully launched Metformin XR & Methocarbamol under its own label during the current year.

Because your Life Matters...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	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)
Fuel Charges	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	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	4,126.5	4,733.3	4,403.4	5,159.4
Cost Of Sales	3,384.4	4,088.9	3,707.0	4,275.5
Operating Profit	742.1	644.4	696.4	883.9
Other Income	41.2	134.5	180.2	34.6
Adjusted PBDIT	783.3	778.9	876.6	918.5
Financial Expenses	81.6	61.8	65.2	75.9
Depreciation	195.3	203.5	218.7	226.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	506.4	513.6	592.7	616.1
Tax Charges	168.0	171.8	197.0	208.0
Reported Profit	338.4	341.8	395.7	408.1
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	338.4	341.8	395.7	408.1

52 Week Index Relative Percentage Appreciation

Granules vs SENSEX
Risks Associated

- ➔ USFDA approval is important because of the largest consumer of pharma products is USA, so that the ongoing rumors from the United States Food and Drug Administration is trying to block the growth of the companies.
- ➔ The companies sight that the reforms of the Government for the essential medicines has caused, the companies to lower the price of drugs, this leads to lower the margins.

Scope of Growth

- ➔ Recently, the US FDA has approved the ANDA filed by Granules Pharmaceuticals, Inc., a subsidiary of Granules India Ltd, for Methylphenidate Hydrochloride Extended-Release Tablets USP, 10 mg and 20 mg. Granules Pharmaceuticals, Inc. shall market and distribute the product shortly.
- ➔ Core business will able to grow due to the inherent stability of the molecules along with a non-stopping focus on efficient manufacturing. Company's core molecules are Paracetamol, Metformin HCl, Ibuprofen, Guaifenesin and Methocarbamol, contributing 86% of its total revenue.
- ➔ In March 2018, the Drug Controller General of India announced its plans to start a single window facility to provide consent, approvals and other information. The move is good for Pharma sector.
- ➔ The Government of India is planning to set up an electronic platform to regulate online pharmacies under a new policy, in order to stop any misuse due to easy availability.
- ➔ Company began the commercial production of additional API capacity of Metformin and Paracetamol at the Bonthapally facility and PFI capacity at Gagillapur facility. This will helped debottleneck capacity constraints and seize business opportunities.

In a Nutshell

Granules India Ltd is a vertically integrated pharmaceutical company, headquartered in Hyderabad, India. It manufactures APIs, FPIs and FDs distributed to regulated and semi-regulated markets. Its core molecules-Paracetamol, Ibuprofen, Metformin, Guaifenesin & Methocarbamol are contributing 86% of its total revenue. Company serves customers in more than 65 countries, with offices in India, U.S., U.K., Colombia and China. It has total eight plants, three subsidiaries and two Joint ventures. Company delivered revenue growth of 17.87% from ₹14,353 million in FY17 to ₹ 16,918 million in FY18. It had growth across all product verticals, with APIs registered a 9% increase; PFIs grew by 22% and FDs rose by 24%. Business grew on account of its expanded capacities in Bonthapally for APIs and Gagillapur for PFIs. Surge in oil prices impacted its profitability, resulting in EBIDTA and PAT being reduced by 6% and 19%, respectively. It maintains a positive outlook on its joint venture Granules OmniChem, it set the foundation of growth for the next five years. Company is optimistic about recording double-digit growth from CRAMS segment in the coming years. In FY18, it reported revenue of ₹ 1,470 million with an EBIDTA of ₹ 281 million on a joint-venture entity level. Granules Biocause, which supplies Ibuprofen API, reported revenue of ₹ 2,621 million on a joint venture basis. As of March 31, 2018, it has filed 20 ANDAs with the USFDA of which seven have been approved. Of the total ANDAs, it filed 10 in the last financial year and it expects to file the same number of ANDAs in the FY19 between India and the US. Launching of new products and capacities expansion will boost the top and bottom line items in the future.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224202 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Administrative Office : 204-205 “Amardarshan” 28/2 Old Palasia, Indore (MP) 452018

Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007

Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

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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