

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	GRAN IN
Equity Shares (m)	229
M.Cap.(INRb)/(USDb)	69.7 / 0.8
52-Week Range (INR)	381 / 227
1, 6, 12 Rel. Per (%)	-6/-20/4
12M Avg Val (INR M)	428

Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	45.1	49.5	56.4
EBITDA	9.2	10.4	12.3
Adj. PAT	5.2	6.0	7.3
EBIT Margin (%)	16.3	16.8	17.7
Cons. Adj. EPS (INR)	21.6	24.6	30.1
EPS Gr. (%)	30.6	14.0	22.3
BV/Sh. (INR)	117.1	140.6	169.5
Ratios			
Net D:E	0.4	0.3	0.2
RoE (%)	19.3	19.1	19.4
RoCE (%)	14.8	15.6	16.3
Payout (%)	5.5	4.8	3.9
Valuations			
P/E (x)	13.4	11.7	9.6
EV/EBITDA (x)	8.1	7.3	6.0
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	5.1	-1.3	4.5
EV/Sales (x)	1.6	1.5	1.3

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	42.0	42.0	42.0
DII	5.0	4.8	4.0
FII	23.9	23.7	23.2
Others	29.1	29.6	30.9

FII Includes depository receipts

CMP: INR288
TP: INR350 (+22%)
Buy

FD and API propel earnings for the quarter

Work-in-progress for capex of key intermediates/green energy

- Granules India (GRAN) delivered operationally in-line 4QFY23, with healthy off-take of finished dosages (FD) as well as API. GRAN exited FY23 on a strong note with ~30% YoY EBITDA/PAT growth each. It has lined up capex for not only capacity addition but also backward integration to improve sales as well as profitability.
- We cut our EPS by 3%/2% for FY24E/FY25E, to factor in: a) higher R&D spent on ANDAs/DMFs, and b) higher interest cost. We value GRAN at 13x 12M forward earnings to arrive at our TP of INR350.
- GRAN is strengthening its core business through development of backward integration process for Paracetamol/Metformin and subsequent commercialization. It is also working on enhancing its product pipeline for regulated markets. Further, carbon-free energy, green hydrogen and other chemical derivatives are expected to not only improve profitability but also improve business scope. **Reiterate BUY.**

Higher sales-led operating leverage offset by segmental mix for the quarter

- GRAN's sales grew 16% YoY to INR12b (our estimate: INR11.4b), primarily driven by 16.4%/48.0% YoY increase in FD (51% of sales)/API sales (31%) in 4QFY23. However, Intermediates (PFI) sales declined 15.4% YoY to INR2.2b.
- Product wise, Paracetamol sales (47% of sales) grew 38% YoY, while Ibuprofen sales (8%) declined 26% YoY for the quarter. Metformin sales (21% of sales) grew 7% YoY in 4QFY23.
- Gross Margin (GM) contracted 110bp YoY to 47.8% largely due to change in segmental mix.
- However, EBITDA margin expanded 100bp YoY to 19.1% (our est: 20%), due to lower other expenses (down 220bp YoY as a % of sales).
- EBITDA was up 22.5% YoY to INR2.4b (our est: INR2.3b) for the quarter.
- Adjusted PAT grew at a lower rate of 13% YoY to INR1.2b (our est.: INR1.4b) due to increase in finance cost and tax expense.
- FY23 revenue/EBITDA/PAT rose 20%/31%/31% to INR45b/INR9b/INR5b.

Highlights from the management commentary

- Management indicated capex of INR7b in FY24, comprising INR2.5b for Greenko project, INR2.5b for formulation facility in Genome valley and INR2b regular capex.
- The phase I of Genome Valley project would be completed by Oct'23. Overall, Genome Valley project is likely to add 8b tablets capacity in FD segment.
- The project related to commercialization of RM required for Paracetamol/ Metformin is expected to be completed by end-FY25.
- The Multi-unit Pellet System (MUPS)'s gross block has been INR2.4b and has achieved asset turn of 1x. It is expected to achieve asset turn of 2x in FY24.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (INR m)												
Y/E March (Consolidated)	FY22				FY23				FY22	FY23	FY23E	Var. 4QE vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	8,498	8,883	9,795	10,300	10,196	11,507	11,461	11,955	37,477	45,119	11,355	5.3
YoY Change (%)	15.5	3.5	16.0	28.9	20.0	29.5	17.0	16.1	15.8	20.4	10.2	
EBITDA	2,014	1,512	1,565	1,927	2,115	2,429	2,313	2,361	7,050	9,218	2,269	4.0
YoY Change (%)	1.4	-39.3	-29.3	-4.6	5.0	60.7	47.8	22.5	-19.1	30.8	17.8	
Margins (%)	23.7	17.0	16.0	18.7	20.7	21.1	20.2	19.8	18.8	20.4	20.0	
Depreciation	394	398	392	402	434	441	484	487	1,586	1,845	441	
EBIT	1,620	1,113	1,173	1,525	1,682	1,988	1,829	1,874	5,464	7,373	1,828	2.5
YoY Change (%)	-1.6	-47.7	-36.4	-3.2	3.8	78.6	56.0	22.9	-24.1	35.0	19.9	
Margins (%)	19.1	12.5	12.0	14.8	16.5	17.3	16.0	15.7	14.6	16.3	16.1	
Interest	68	55	46	64	69	132	170	188	232	559	176	
Other Income	76	44	49	40	47	48	9	34	176	138	141	
PBT before EO expense	1,629	1,102	1,175	1,501	1,659	1,904	1,669	1,720	5,407	6,952	1,793	-4.1
Extra-Ord expense	0	0	-173	0	0	0	0	80	-173	80	0	
PBT	1,629	1,102	1,348	1,501	1,659	1,904	1,669	1,640	5,580	6,872	1,793	
Tax	427	296	339	391	383	453	426	444	1,452	1,706	389	
Rate (%)	26.2	26.8	25.2	26.1	23.1	23.8	25.5	27.1	26.0	24.8	21.7	
(Profit)/Loss of JV/Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	1,202	807	1,009	1,110	1,276	1,451	1,243	1,196	4,128	5,166	1,404	-14.8
Adjusted PAT	1,202	807	880	1,110	1,276	1,451	1,243	1,254	4,000	5,224	1,404	-10.7
YoY Change (%)	-2.1	-48.9	-38.9	-13.0	6.1	79.8	41.3	13.0	-27.6	30.6	26.5	
Margins (%)	14.1	9.1	9.0	10.8	12.5	12.6	10.8	10.5	10.7	11.6	12.4	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

Y/E March	FY22				FY23				FY22	FY23	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
FD	4,545	5,066	4,577	5,254	5,487	5,856	5,226	6,115	19,442	22,684	5,612
YoY Change (%)	17.9	17.8	8.4	14.0	20.7	15.6	14.2	16.4	14.4	16.7	6.8
PFI	1,716	1,912	2,259	2,568	2,368	2,349	2,132	2,172	8,456	9,021	2,284
YoY Change (%)	24.4	10.5	32.4	78.3	38.0	22.9	-5.6	-15.4	35.0	6.7	-11.1
API	2,237	1,905	3,132	2,478	2,341	3,303	4,103	3,667	9,751	13,414	3,417
YoY Change (%)	5.5	-25.3	24.4	27.7	4.6	73.4	31.0	48.0	7.3	37.6	37.9
Cost Break-up											
RM Cost (% of Sales)	45.8	49.1	54.3	51.1	50.4	50.3	51.6	52.2	49.7	48.9	51.3
Staff Cost (% of Sales)	11.2	10.4	10.8	10.5	10.7	10.2	10.4	10.6	10.7	10.5	10.7
Other Cost (% of Sales)	19.3	23.4	19.0	19.7	18.2	18.4	17.8	17.5	20.2	18.0	18.0
Gross Margin (%)	54.2	50.9	45.7	48.9	49.6	49.7	48.4	47.8	50.3	51.1	48.7
EBITDA Margin (%)	23.7	17.0	16.0	18.7	20.7	21.1	20.2	19.8	18.8	20.4	20.0
EBIT Margin (%)	19.1	12.5	12.0	14.8	16.5	17.3	16.0	15.7	14.6	16.3	16.1

E: MOFSL Estimates

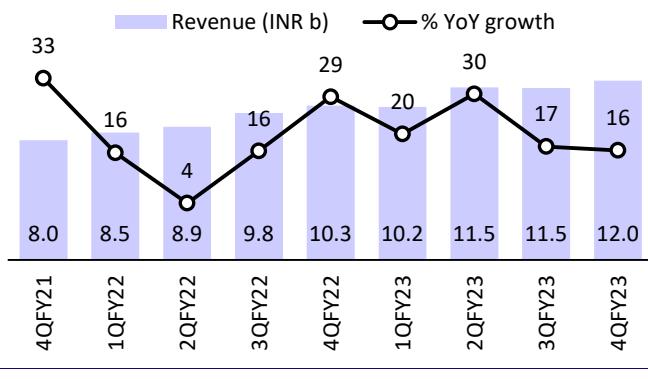


Conference call highlights

- The failure to supply penalty has been at INR80m for 4QFY23.
- Paracetamol price has been trending down in-line with RM prices. GRAN has been able to garner business, largely led by volume.
- GRAN filed 7/6 DMFs/ANDAs in 4QFY23. It expects ramp-up in filings in FY24.
- R&D spend is expected to be 3.0%-3.5% of sales for FY24.

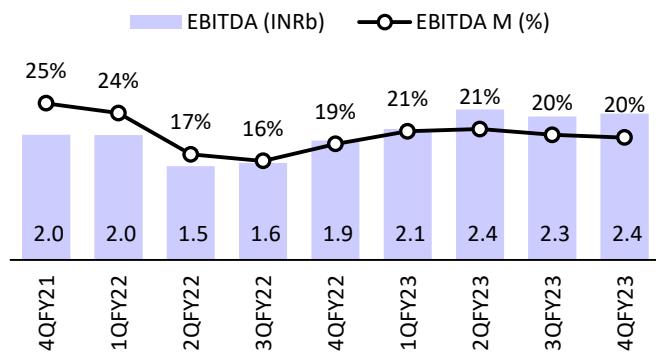
Key exhibits

Exhibit 1: Revenue grew 16% YoY in 4QFY23



Source: MOFSL, Company

Exhibit 2: EBITDA margin expanded 100bp YoY in 4QFY23



Source: MOFSL, Company

Capacity expansion/innovation to drive the growth

Paracetamol and Guenfenesin lead the growth in core molecules

- In FY23, GRAN's core molecule sales delivered 20% YoY growth, with Paracetamol (46% of core molecules sales) growing 44% YoY. Paracetamol's demand is improving led by favorable seasonality and increased inclination of customers towards GRAN for consistent supply. Guenfenesin (4% of core molecules sales) sales surged 47% YoY.
- Moreover, GRAN delivered 6%/18% YoY growth in sales of Metformin/ Methocarbamol in FY23. Ibuprofen (10% of core molecules sales) underperformed the pack and its sales dropped 8% YoY in FY23.

Capacity expansion/backward integration/Green Chemistry to drive growth over medium-to-long term

- GRAN is leveraging its technology alliances to achieve backward integration for some of the key raw materials, including Para-amino Phenol (PAP) and Dicyandiamide (DCDA).
- It is adding 8b tablet FD capacity by investing INR2.5b at Genome Valley.
- Additionally, GRAN is getting into Green Chemistry with Greenko's partnership. This partnership will help the company manufacture the KSM for its key molecule with reduced pollution.
- Thus, GRAN is working across value chain to not only improve sales prospects but also better its profitability over the next 3-5 years.

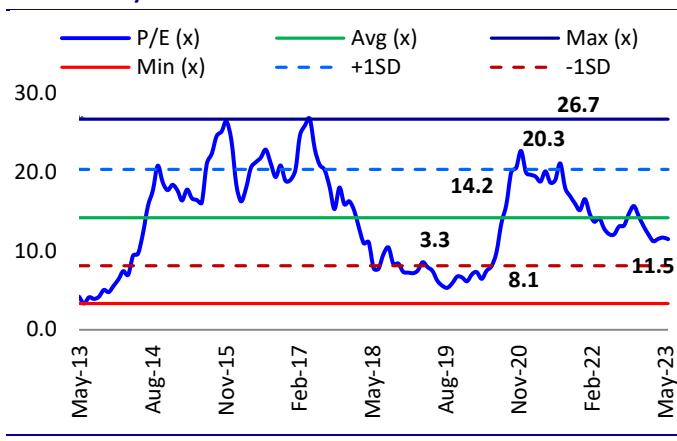
New product launches in the US to drive growth

- GRAN's US sales grew 30% YoY to INR23.8b for FY23, led by robust traction in core molecules as well as ANDA-related business.
- To date, GRAN has filed 40 ANDA in the US out of which 29 are approved and one has tentative approval.
- The company has indicated to raise R&D spend for product development in the regulated markets.
- All in all, management expects to launch a couple of products in the US, which would support overall growth for GRAN over the next 12-15M.

Reiterate BUY

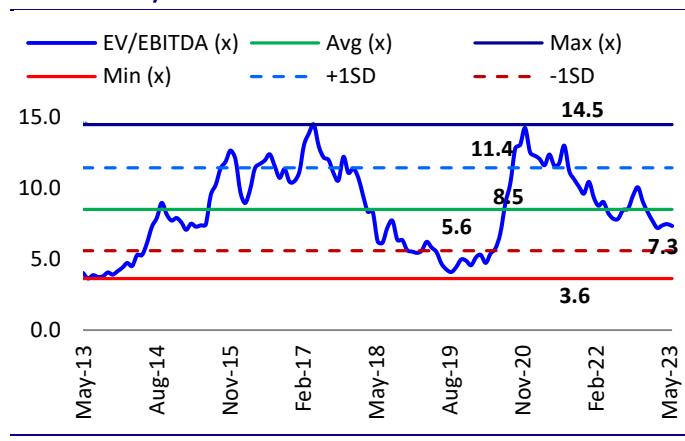
- We cut our EPS by 3%/2% for FY24E/FY25E, to factor in: a) higher R&D spent on ANDAs/DMFs, and b) higher interest cost. We value GRAN at 13x 12M forward earnings to arrive at our TP of INR350.
- GRAN is strengthening its core business through development of backward integration process for Paracetamol/Metformin and subsequent commercialization. It is also working on enhancing its product pipeline for regulated markets. Further, carbon-free energy, green hydrogen and other chemical derivatives are expected to not only improve profitability but also improve business scope. **Reiterate BUY.**

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

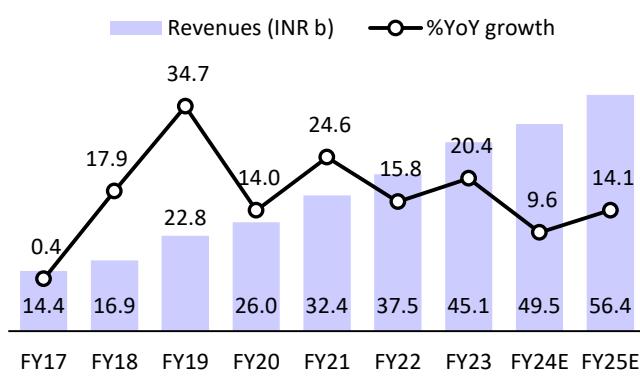
Exhibit 4: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

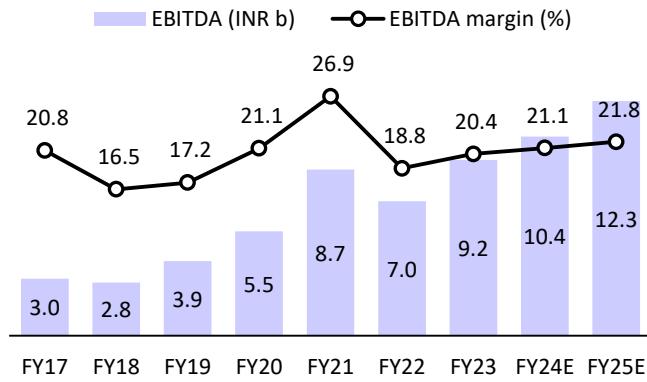
Story in charts

Exhibit 5: Expect revenue CAGR of 12% over FY23–25



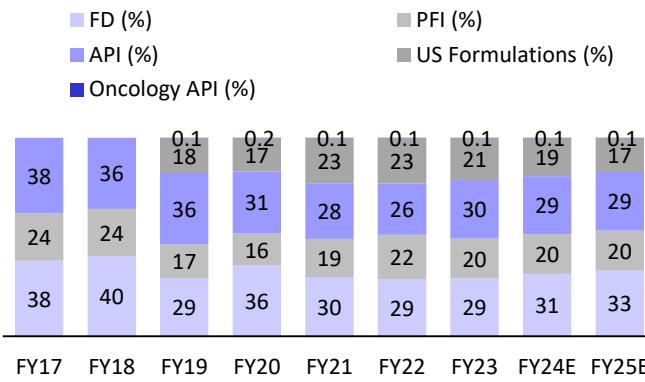
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand 140bp over FY23–25



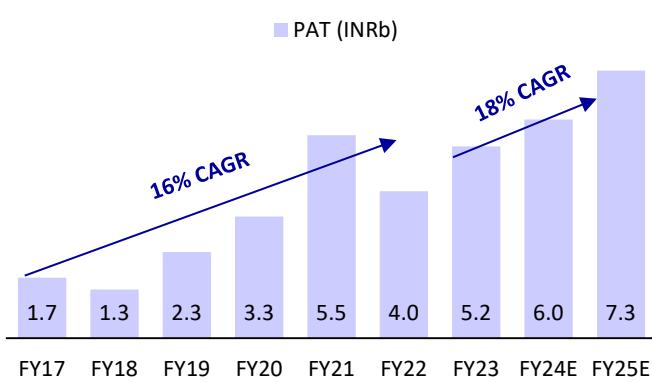
Source: MOFSL, Company

Exhibit 7: FD contribution to remain the highest



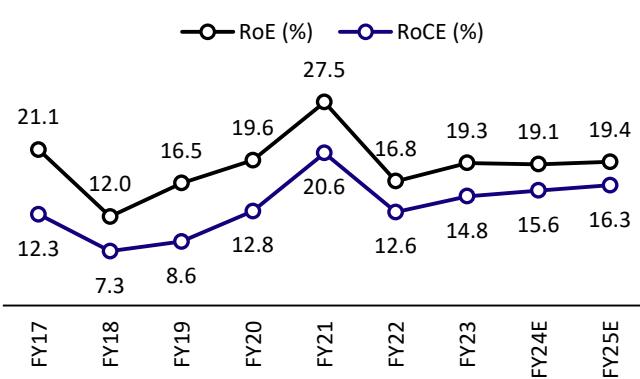
Source: MOFSL, Company

Exhibit 8: PAT to exhibit 18% CAGR over FY23–25



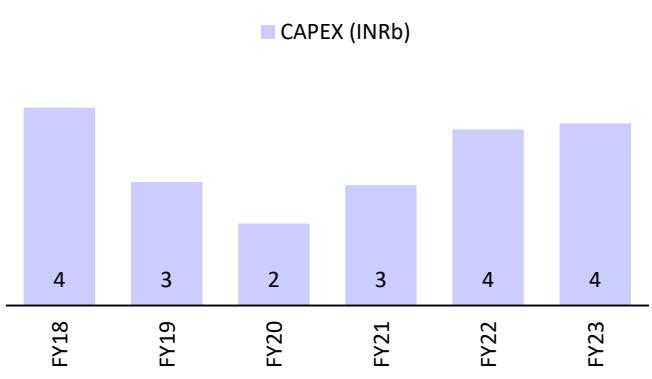
Source: MOFSL, Company

Exhibit 9: Return ratios to be stable over FY23–25



Source: MOFSL, Company

Exhibit 10: Rising capex post-Covid



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								
	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	16,918	22,792	25,986	32,375	37,477	45,119	49,460	56,412
Change (%)	17.9	34.7	14.0	24.6	15.8	20.4	9.6	14.1
Total Expenditure	14,134	18,872	20,513	23,665	30,427	35,901	39,024	44,114
% of Sales	83.5	82.8	78.9	73.1	81.2	79.6	78.9	78.2
EBITDA	2,784	3,920	5,473	8,710	7,050	9,218	10,436	12,298
Margin (%)	16.5	17.2	21.1	26.9	18.8	20.4	21.1	21.8
Depreciation	762	1,055	1,370	1,515	1,586	1,845	2,135	2,291
EBIT	2,022	2,866	4,104	7,195	5,464	7,373	8,301	10,007
Int. and Finance Charges	331	285	270	263	232	559	763	606
Other Income	108	267	366	152	176	138	198	226
PBT bef. EO Exp.	1,800	2,848	4,199	7,085	5,407	6,952	7,736	9,627
EO Items	0	-80	57	-40	173	-80	0	0
PBT after EO Exp.	1,800	2,768	4,257	7,045	5,580	6,872	7,736	9,627
Current Tax	659	891	1,257	1,954	1,382	1,772	1,779	2,339
Deferred Tax	-25	72	-100	-405	70	-66	0	0
Tax Rate (%)	35.2	34.8	27.2	22.0	26.0	24.8	23.0	24.3
Add: Associate income	160	487	255	0	0	0	0	0
Reported PAT	1,326	2,292	3,354	5,496	4,128	5,166	5,957	7,288
Adjusted PAT	1,326	2,345	3,313	5,524	4,000	5,224	5,957	7,288
Change (%)	-19.8	76.8	41.3	66.8	-27.6	30.6	14.0	22.3
Margin (%)	7.8	10.2	12.6	17.0	10.6	11.5	12.0	12.9

Consolidated - Balance Sheet								
	(INR m)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	254	254	254	248	248	242	242	242
Total Reserves	12,788	15,040	18,183	21,485	25,617	28,107	33,781	40,785
Net Worth	13,042	15,295	18,437	21,733	25,865	28,349	34,023	41,027
Minority Interest	0	0	0	0	6	0	0	0
Deferred Liabilities	543	655	482	11	139	77	77	77
Total Loans	9,582	9,330	7,932	7,504	10,928	11,292	10,495	9,699
Capital Employed	23,167	25,279	26,851	29,248	36,938	39,718	44,594	50,802
Gross Block	14,430	16,639	21,442	22,220	25,355	30,941	37,941	42,441
Less: Accum. Deprn.	4,418	5,473	6,842	8,357	9,943	11,788	13,923	16,214
Net Fixed Assets	10,012	11,167	14,600	13,863	15,412	19,153	24,017	26,226
Capital WIP	2,901	3,235	1,481	1,848	3,562	2,280	4,946	5,641
Total Investments	1,566	2,104	193	190	197	361	361	361
Curr. Assets, Loans&Adv.	11,891	13,279	15,957	21,226	25,945	27,168	25,365	29,845
Inventory	2,799	3,842	4,384	7,822	9,786	11,494	10,692	11,361
Account Receivables	6,171	6,735	6,620	7,654	9,250	9,485	10,705	12,519
Cash and Bank Balance	1,156	890	2,839	2,710	4,095	3,128	613	2,139
Loans and Advances	1,765	1,811	2,113	3,040	2,815	3,060	3,355	3,826
Curr. Liability & Prov.	3,272	4,548	5,432	7,887	8,191	9,258	10,108	11,285
Account Payables	2,522	3,235	3,569	5,410	6,386	7,821	8,660	9,669
Other Current Liabilities	646	1,144	1,589	2,160	1,294	998	1,094	1,247
Provisions	104	169	275	317	511	439	354	368
Net Current Assets	8,620	8,731	10,525	13,340	17,753	17,910	15,257	18,560
Appl. of Funds	23,167	25,279	26,852	29,248	36,938	39,718	44,594	50,802

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EPS	5.5	9.7	13.7	22.8	16.5	21.6	24.6	30.1
Cash EPS	8.2	13.4	18.4	28.4	22.5	29.2	33.4	39.6
BV/Share	51.4	60.2	72.5	87.7	104.3	117.1	140.6	169.5
DPS	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Payout (%)	21.9	13.4	8.9	5.3	7.0	5.5	4.8	3.9
Valuation (x)								
P/E	52.8	29.8	21.1	12.7	17.5	13.4	11.7	9.6
Cash P/E	35.1	21.6	15.7	10.2	12.8	9.9	8.6	7.3
P/BV	5.6	4.8	4.0	3.3	2.8	2.5	2.1	1.7
EV/Sales	4.4	3.3	2.7	2.2	1.9	1.6	1.5	1.3
EV/EBITDA	26.8	19.0	13.0	8.1	10.3	8.1	7.3	6.0
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Return Ratios (%)								
RoE	12.0	16.5	19.6	27.5	16.8	19.3	19.1	19.4
RoCE	7.3	8.6	12.8	20.6	12.6	14.8	15.6	16.3
RoIC	9.1	10.2	14.4	24.0	15.1	17.6	17.6	18.6
Working Capital Ratios								
Asset Turnover (x)	0.7	0.9	1.0	1.1	1.0	1.1	1.1	1.1
Inventory (Days)	60	53	58	69	86	86	82	71
Debtor (Days)	111	103	94	80	82	76	74	75
Creditor (Days)	60	56	61	69	71	72	77	76
Leverage Ratio (x)								
Current Ratio	3.6	2.9	2.9	2.7	3.2	2.9	2.5	2.6
Interest Cover Ratio	6	10	15	27	24	13	11	17
Debt/Equity	0.7	0.6	0.4	0.3	0.4	0.4	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,800	2,848	4,256	7,044	5,580	6,952	7,736	9,627
Depreciation	762	1,055	1,370	1,515	1,586	1,845	2,135	2,291
Interest & Finance Charges	222	18	207	139	232	559	565	380
Direct Taxes Paid	-634	-891	-1,191	-1,914	-1,450	-1,758	-1,779	-2,339
(Inc)/Dec in WC	-2,511	-377	128	-2,749	-2,572	-103	139	-1,778
CF from Operations	-360	2,652	4,769	4,034	3,376	7,495	8,795	8,181
Others	0	0	-7	291	-56	-27	0	0
CF from Operating incl EO	-360	2,652	4,762	4,325	3,321	7,467	8,795	8,181
(Inc)/dec in FA	-4,626	-2,544	-1,843	-2,710	-3,967	-4,107	-9,666	-5,195
(Pur)/Sale of Investments	-483	-539	0	-2	0	2,035	0	0
Others	108	267	237	-59	166	158	198	226
CF from Investments	-5,001	-2,816	-1,606	-2,771	-3,801	-1,914	-9,468	-4,970
Issue of Shares	2,970	195	0	41	37	-3,084	0	0
(Inc)/Dec in Debt	3,602	-252	-1,534	-719	2,530	-600	-797	-796
Interest Paid	-331	-285	-266	-263	-242	-533	-763	-606
Dividend Paid	-290	-306	-307	-247	-372	-186	-283	-283
CF from Fin. Activity	6,019	-102	-2,129	-2,993	1,900	-4,482	-1,843	-1,685
Inc/Dec of Cash	658	-266	1,027	-1,440	1,419	1,072	-2,515	1,526
Opening Balance	498	1,156	890	2,839	2,711	4,095	3,128	613
FX	0	-30	921	1,312	-35	-2,039	0	0
Closing Balance	1,156	891	2,839	2,711	4,095	3,128	613	2,139

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NOTES

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

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