

Pharmaceuticals | Q4FY24 Result Update

Higher FD sales drives earnings

- GRAN's Q4FY24 results were above our estimates mainly on account of better than expected gross margin led by higher FD sales and lower raw material costs, while sales were in-line.
- The company expects to launch 14 new products in the US, EU and other ROW markets in FY25; Guided gross margin of ~55-58%. Paracetamol prices are expected to stabilize by FY26.
- We upgrade our FY25E/FY26E EBITDA estimates by 2.4%/1.2% on assuming higher gross margin which will lead to higher EBITDA margin profile led by 1) significant shift towards high-value products, with FD segment's contribution rising to 70% (50% in FY23 & 65% in FY24) in the medium term and 2) decline in contribution from core molecules with high volume low value products with new product launches. Maintain 'Accumulate' rating with TP of Rs459 (earlier Rs460) at 15x FY26 P/E. Key risks: Compliance issue on any facility, higher input cost.

Volume growth in the US drives FD sales

FD segment showed a strong growth of 41.3%/28.2% YoY in Q4/FY24 on account of significant volume growth in the US, driven by CNS/ADHD portfolio and other new products. The company expects to launch 14 new products in US/EU and other geographies in FY25. With ramp up in new launches in the US and other geographies coupled with improved volumes, we expect FD segment revenue CAGR of 23% over FY24-26E.

Lower demand impacts API and PFI sales

APIs declined by 55.4%/26.4% YoY in Q4/FY24, primarily led by lower demand and reduction in prices for its key product-paracetamol, which reduced in-line with key raw material prices. API prices are expected to recover from H2FY25. PFI segment declined 31.8%/32.3% YoY in Q4/FY24 on account of more customers converting into FDs from PFIs. Management believes the PFI segment sales will continue to decline due to a shift in portfolio towards FD.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	11,758	11,955	(1.6)	11,556	1.7
Total Expense	9,201	9,674	(4.9)	9,051	1.7
EBITDA	2,557	2,281	12.1	2,505	2.1
Depreciation	532	487	9.2	524	1.5
EBIT	2,025	1,794	12.9	1,981	2.2
Other Income	19	34	(44.6)	7	187.1
Interest	288	188	53.0	286	0.4
EBT	1,756	1,640	7.1	1,701	3.3
Tax	460	444	3.6	444	3.5
RPAT	1,296	1,196	8.4	1,257	3.2
APAT	1,296	1,196	8.4	1,257	3.2
			(bps)		(bps)
Gross Margin (%)	60.1	47.8	1221	57.0	310
EBITDA Margin (%)	21.7	19.1	267	21.7	7
NPM (%)	11.0	10.0	102	10.9	15
Tax Rate (%)	26.2	27.1	(88)	26.1	6
EBIT Margin (%)	17.2	15.0	222	17.1	8

CMP	Rs 397
Target / Upside	Rs 459 / 16%
NIFTY	22,201

Scrip Details

Equity / FV	Rs 242mn / Rs 1
Market Cap	Rs 96bn
	USD 1.2bn
52-week High/Low	Rs 480/ 272
Avg. Volume (no)	11,60,550
Bloom Code	GRAN IN

Price Performance	1M	3M	12M
Absolute (%)	(3)	(9)	36
Rel to NIFTY (%)	(3)	(10)	15

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	42.0	42.0	42.0
MF/Banks/FIs	7.1	10.2	10.7
FIIIs	21.5	18.8	19.6
Public / Others	29.5	29.1	27.8

Valuation (x)

	FY24A	FY25E	FY26E
P/E	23.7	16.0	13.0
EV/EBITDA	12.3	9.2	7.6
ROE (%)	13.4	17.2	17.9
RoACE (%)	11.9	14.8	15.6

Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	45.1	52.3	60.9
EBITDA	8.6	11.5	13.8
PAT	4.1	6.0	7.4
EPS (Rs.)	16.7	24.9	30.6

VP Research: Rashmi Shetty
 Tel: +9122 40969724
 E-mail: rashmis@dolatcapital.com

Associate: Candice Pereira
 Tel: +9122 61764808
 E-mail: candicep@dolatcapital.com

Associate: Zain Gulam Hussain
 Tel: +9122 40969790
 E-mail: zain@dolatcapital.com

Exhibit 1: uarterly revenue mix

Particular (Rs mn)	Q4FY24	Q3FY24	YoY (%)	Q3FY24	QoQ%	FY23	FY24	YoY(%)
API	1,633	3,664	(55.4)	2,212	(26.2)	13,414	9,866	(26.4)
PFI	1,482	2,174	(31.8)	1,686	(12.1)	9,021	6,107	(32.3)
FD	8,642	6,117	41.3	7,658	12.8	22,684	29,090	28.2
Total	11,757	11,955	(1.7)	11,556	1.7	45,119	45,063	(0.1)

Source: Company, DART

Exhibit 2: Actual vs DART estimates

Particulars (Rs mn)	Q4FY24	Q4FY24E	Variance (%)	Comments
Revenue	11758	12026	(2.2)	In-line with estimates
EBITDA	2557	2375	7.6	Above estimate due to better than expected gross margin
EBITDA margin (%)	21.7	19.8	200bps	
PAT	1296	1162	11.6	Above estimate on account of higher operating performance
EPS (Rs)	5.3	4.8	11.6	

Source: Company, DART

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	Old	New	Chg (%)	Old	New	Chg (%)
Revenue	52,446	52,261	(0.4)	60,996	60,922	(0.1)
EBITDA	11,223	11,497	2.4	13,602	13,768	1.2
EBITDA Margin (%)	21.4	22.0	60bps	22.3	22.6	30bps
PAT	5,943	6,023	1.3	7,409	7,405	(0.1)
EPS (Rs)	24.5	24.9	1.3	30.6	30.6	(0.1)

Source: Company, DART

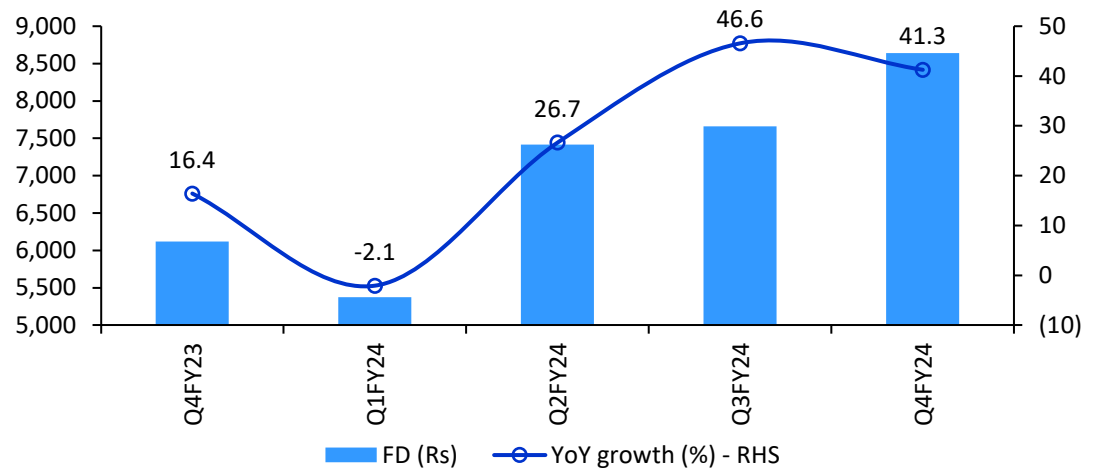
Exhibit 4: Annual revenue assumption

Rs Mn	FY22	FY23	FY24	FY25E	FY26E
API	9,751	13,414	9,866	9,965	10,463
% of revenue	25.9	29.7	21.9	19.1	17.2
% growth	6.9	37.6	(26.4)	1.0	5.0
PFI	8,456	9,021	6,107	6,168	6,230
% of revenue	22.5	20.0	13.6	11.8	10.2
% growth	35.0	6.7	(32.3)	1.0	1.0
FD	19,442	22,684	29,090	36,128	44,230
% of revenue	51.6	50.3	64.6	69.1	72.6
% growth	14.4	16.7	28.2	24.2	22.4
Total Revenue	37,649	45,119	45,063	52,261	60,922

Source: Company, DART

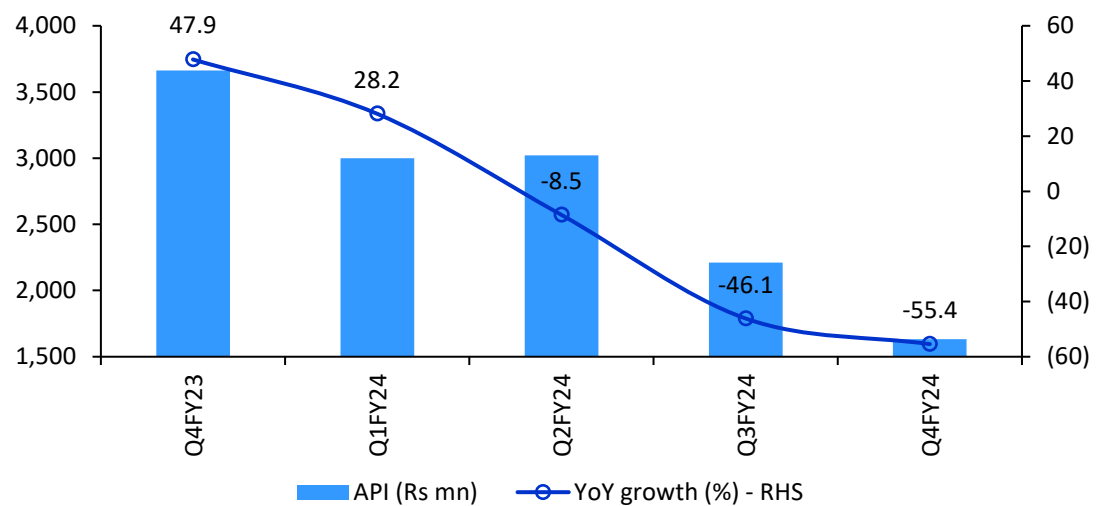
Story in Charts

Exhibit 5: Increased volumes in US & new launches drives FD sales



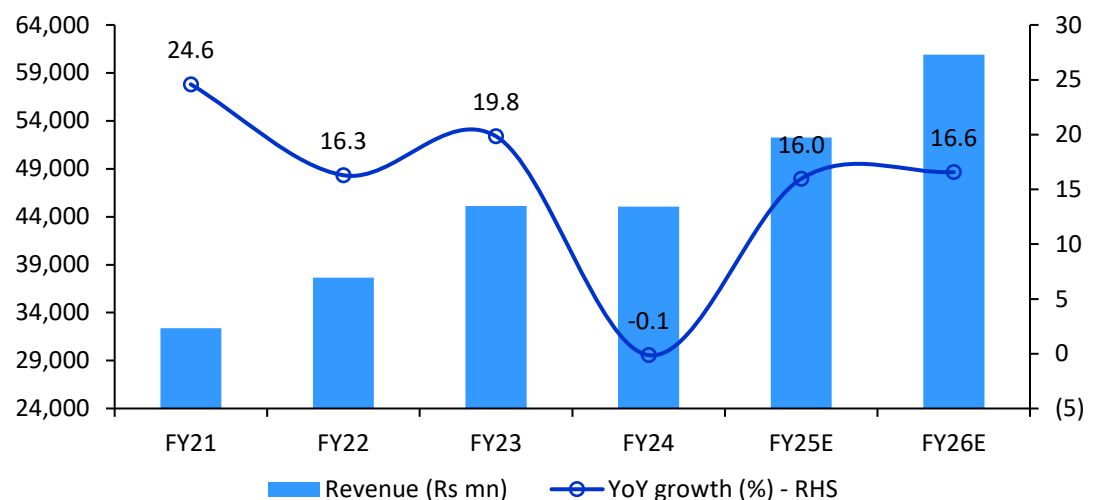
Source: Company, DART

Exhibit 6: Higher price erosion & lower demand led to decline in API segment



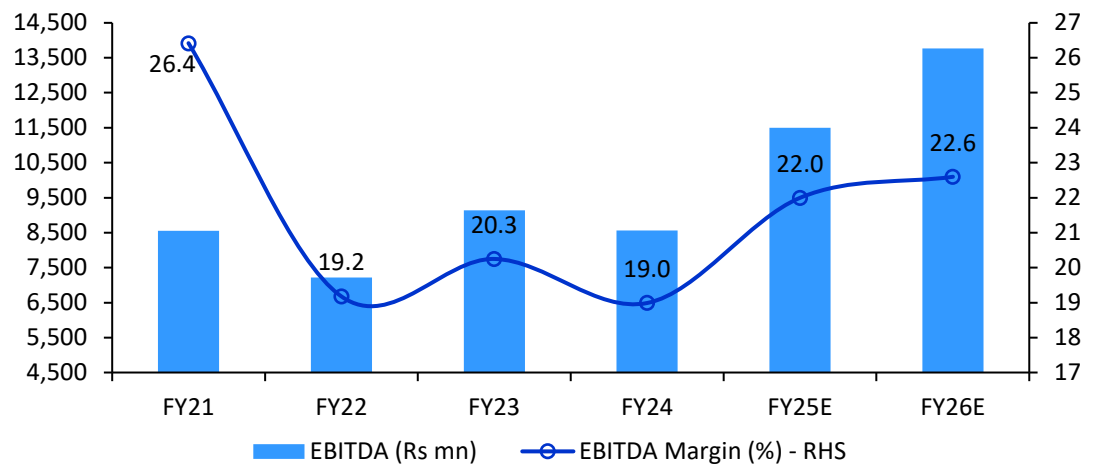
Source: Company, DART

Exhibit 7: Expect revenue CAGR of 16% over FY24-26E on low base



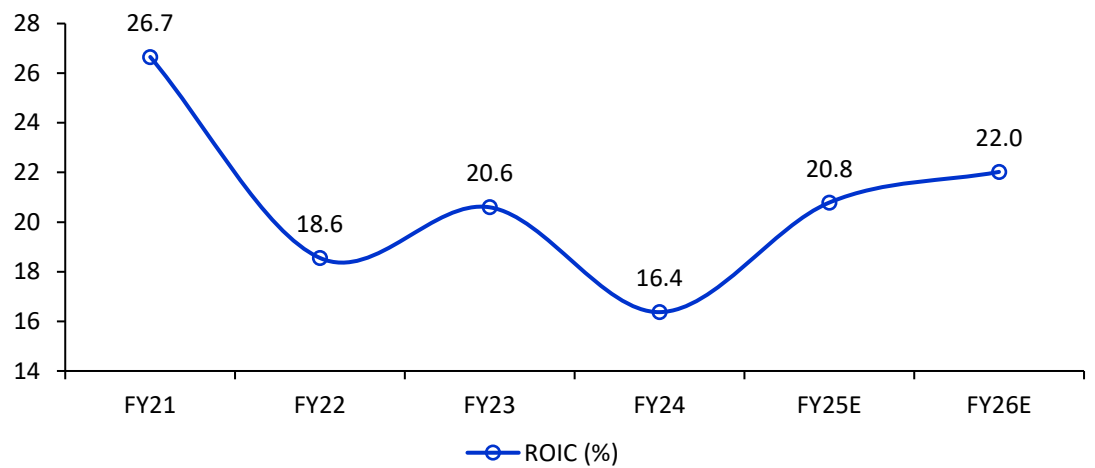
Source: Company, DART

Exhibit 8: EBITDA margin to expand with rise in FD contribution



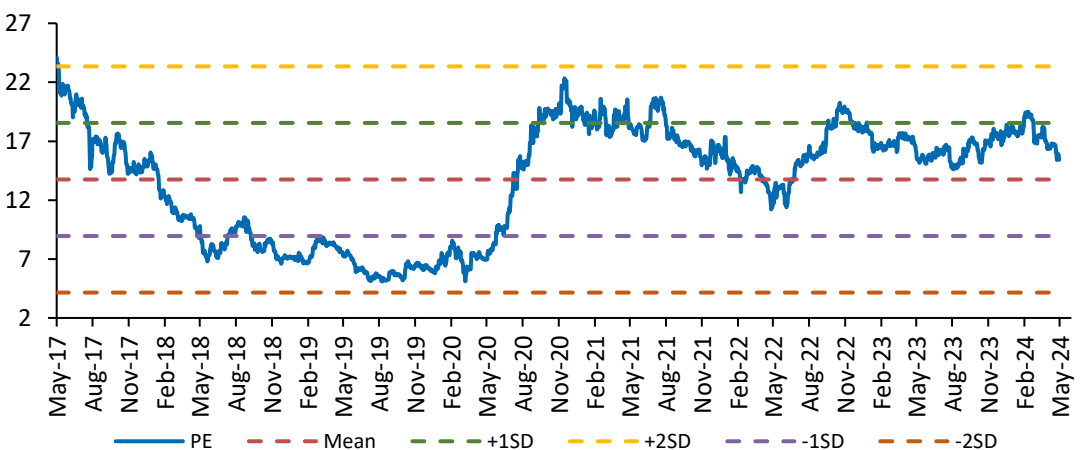
Source: Company, DART

Exhibit 9: Expect ROIC to expand with improving profitability



Source: Company, DART

Exhibit 10: One year forward P/E band



Source: Company, DART

Earnings call KTAs

Guidance

- EBITDA margin of 22-23% for FY25.
- In FY25, 16-18 product launches are expected to combine US & Europe and other markets.
- Expect capex of Rs6.0bn in FY25, 50% of which will be incurred toward Granules Life Science and remaining 50% will be incurred towards other projects & maintenance capex.
- Gross margin is expected to be in the range of 55-58% depending upon product mix and lower raw material prices.

CZRO (Greenko) update

- Granules CZRO has initiated a pilot DCDA plant in Visakhapatnam. The pilot plant has commenced operations in Mar'24.
- The company is focused on strengthening core business through backward integration of paracetamol and metformin in a sustainable manner.
- Kakinada plant has capacity of 108 tons per annum.
- Plans are being worked out for a larger commercial facility at Kakinada.

API, PFI & KSM

- Para API prices are declining due to overstocking by some large brand leaders, which is expected to start stabilising from Q3FY25. Also, excess capacity built up issue post covid is causing price erosion. The company expects Paracetamol prices to stabilise by FY26.
- The growth in Ibuprofen is expected to ramp up only by volume increase and will not be driven by value. Currently Ibuprofen value is at its lowest and will continue for a while. The market for products like paracetamol and Ibuprofen grows by 1-2%. Management believes that they can achieve growth only by cannibalizing market share from other players. The company has done it successfully in the past and expects to improve market share going forward mainly in the US.
- The company has also received European approval and has already tied up some sales contracts with some customers.
- Management sees good demand for all its products. Company sees very healthy demand, except for Paracetamol, in all the geographies.

Formulation

- Strong growth in formulations including GPI manufactured products was offset by decline in Para API sales volume and price erosion.
- GPI sales for FY24 is Rs1.62bn and Rs4.77bn for Q4FY24.
- Growth in Europe was driven by key partnerships and dossier sales/ BD Deals on existing and new products.
- Management expects formulation business to continue to drive growth in FY25.
- The company expects new products to contribute 7-10% of total sales post Apr'25.
- MUPS block – capacity utilization currently is 40-50% but expects to go up to 70% by end of FY25.
- MUPS products are expected to contribute heavily from Q1FY25; to drive growth in FY25.
- Metoprolol expects to have very good potential and management is ramping up production for US market. The company has also received EU market approval for Metoprolol. In FY26, company will start sales in Europe.

- No drastic change in Metoprolol price erosion in FY24.

Facility inspection update

- Granules Life Sciences (GLS), with planned FD capacity of 8 Bn dosage, successfully commenced operations in March 24. The company expects the plant to ramp up in production from Jul'24, touching 100mn dosage per month in Aug'25 and will touch 4 to 5 bn dosage (annual capacity) by next fiscal year.
- Continued prioritization and investment in R&D, towards building product development capabilities and product pipeline in identified segments.

Other highlights

- Net debt during the quarter stood at Rs8.4bn.
- Net debt to EBITDA for Q4FY24 was at 0.98x.
- Active Pharmaceuticals Ingredients (API), Pharmaceutical Formulation Intermediates (PFI), and Finished dosages contribute 14%, 13%, and 73% of revenue from operations respectively for Q4FY24.
- Capex for FY24 stood at Rs 3.8bn vs Rs4.1bn in FY23.
- Cash to cash cycle as of Mar'24 was 161 days.
- Cashflow from operation for Q4FY24 was Rs2.15bn and Rs4.4bn for FY24.
- New capacity addition led to an increase in employee cost and R&D cost. The company has invested a lot in global marketing team, have people with high calibre. In FY25, the company expects this cost to be under control.
- GPI fixed asset turnover is better (excess of 5x) compared to intangible asset turnover. Some of the launches which are expected in FY25, will lead to increase in overall asset turnover.

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Revenue	45,119	45,064	52,261	60,922
Total Expense	35,981	36,504	40,764	47,154
COGS	23,073	20,213	22,995	26,745
Employees Cost	4,722	5,979	6,689	7,493
Other expenses	8,186	10,313	11,079	12,916
EBIDTA	9,138	8,560	11,497	13,768
Depreciation	1,845	2,073	2,253	2,625
EBIT	7,293	6,486	9,245	11,144
Interest	559	1,058	1,152	1,186
Other Income	138	44	46	49
Exc. / E.O. items	0	0	0	0
EBT	6,872	5,472	8,139	10,007
Tax	1,706	1,419	2,116	2,602
RPAT	5,166	4,053	6,023	7,405
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	5,166	4,053	6,023	7,405

Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	242	242	242	242
Minority Interest	0	0	0	0
Reserves & Surplus	28,107	32,013	37,673	44,714
Net Worth	28,349	32,255	37,915	44,956
Total Debt	11,577	13,151	13,551	13,951
Net Deferred Tax Liability	949	(53)	(53)	(53)
Total Capital Employed	40,876	45,353	51,413	58,854

Applications of Funds

Net Block	19,109	20,956	21,704	25,079
CWIP	2,394	2,717	5,705	5,694
Investments	1,675	1,824	1,867	1,918
Current Assets, Loans & Advances	25,741	29,050	32,628	38,157
Inventories	11,494	13,005	15,083	17,582
Receivables	9,485	9,858	11,217	13,076
Cash and Bank Balances	3,128	3,864	3,948	5,109
Loans and Advances	0	0	58	68
Other Current Assets	1,634	2,323	2,323	2,323
Less: Current Liabilities & Provisions	8,044	9,194	10,490	11,994
Payables	7,821	7,495	8,712	10,133
Other Current Liabilities	223	1,699	1,778	1,861
<i>sub total</i>				
Net Current Assets	17,697	19,857	22,138	26,163
Total Assets	40,876	45,353	51,413	58,854

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	48.9	55.1	56.0	56.1
EBIDTA Margin	20.3	19.0	22.0	22.6
EBIT Margin	16.2	14.4	17.7	18.3
Tax rate	24.8	25.9	26.0	26.0
Net Profit Margin	11.4	9.0	11.5	12.2
(B) As Percentage of Net Sales (%)				
COGS	51.1	44.9	44.0	43.9
Employee	10.5	13.3	12.8	12.3
Other	18.1	22.9	21.2	21.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.4	0.4	0.3
Interest Coverage	13.0	6.1	8.0	9.4
Inventory days	93	105	105	105
Debtors days	77	80	78	78
Average Cost of Debt	5.0	8.6	8.6	8.6
Payable days	63	61	61	61
Working Capital days	143	161	155	157
FA T/O	2.4	2.2	2.4	2.4
(D) Measures of Investment				
AEPS (Rs)	21.3	16.7	24.9	30.6
CEPS (Rs)	28.9	25.3	34.1	41.4
DPS (Rs)	0.8	1.5	1.5	1.5
Dividend Payout (%)	3.6	9.0	6.0	4.9
BVPS (Rs)	117.0	133.1	156.4	185.5
RoANW (%)	19.1	13.4	17.2	17.9
RoACE (%)	14.7	11.9	14.8	15.6
RoAIC (%)	20.6	16.4	20.8	22.0
(E) Valuation Ratios				
CMP (Rs)	397	397	397	397
P/E	18.6	23.7	16.0	13.0
Mcap (Rs Mn)	96,172	96,172	96,172	96,172
MCap/ Sales	2.1	2.1	1.8	1.6
EV	1,04,622	1,05,459	1,05,775	1,05,014
EV/Sales	2.3	2.3	2.0	1.7
EV/EBITDA	11.4	12.3	9.2	7.6
P/BV	3.4	3.0	2.5	2.1
Dividend Yield (%)	0.2	0.4	0.4	0.4
(F) Growth Rate (%)				
Revenue	19.8	(0.1)	16.0	16.6
EBITDA	26.5	(6.3)	34.3	19.8
EBIT	29.4	(11.1)	42.5	20.5
PBT	23.1	(20.4)	48.7	22.9
APAT	25.2	(21.5)	48.6	22.9
EPS	25.2	(21.5)	48.6	22.9

E – Estimates

Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
Profit before tax	6,734	5,428	8,093	9,958
Depreciation & w.o.	1,845	2,073	2,253	2,625
Net Interest Exp	559	1,058	1,152	1,186
Direct taxes paid	(1,772)	(1,652)	(2,116)	(2,602)
Change in Working Capital	(1,487)	(2,368)	(2,197)	(2,864)
Non Cash	0	0	0	0
(A) CF from Operating Activities	5,880	4,539	7,184	8,302
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(4,374)	(4,243)	(5,988)	(5,989)
Free Cash Flow	1,506	296	1,196	2,313
(Inc.)/ Dec. in Investments	0	0	0	0
Other	138	44	46	49
(B) CF from Investing Activities	(4,236)	(4,199)	(5,942)	(5,941)
Issue of Equity/ Preference	(6)	0	0	0
Inc./(Dec.) in Debt	650	1,573	400	400
Interest exp net	(559)	(1,058)	(1,152)	(1,186)
Dividend Paid (Incl. Tax)	(186)	(364)	(364)	(364)
Other	(2,508)	245	(43)	(52)
(C) CF from Financing	(2,610)	397	(1,158)	(1,201)
Net Change in Cash	(967)	736	84	1,161
Opening Cash balances	4,095	3,128	3,864	3,948
Closing Cash balances	3,128	3,864	3,948	5,109

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History

Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Reduce	302	288
Aug-23	SELL	277	322
Nov-23	SELL	320	370
Jan-24	Accumulate	460	412

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
--------------------	--------------------------	--------------------------------	------------------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
--------------------------	-------------------------	------------------------------	------------------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. persons only: This research report is a product of Dolat Capital Market Private Limited, under Marco Polo Securities 15a-6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be affected through Marco Polo or another U.S. registered broker dealer.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
