



IMV Equity Report:Granules India

From Research Desk

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<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Target</i>	<i>Stop loss</i>	<i>Time Horizon</i>
GRANULES	Pharmaceuticals	Buy around 127---123	130	160--173	114	3-6 month

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Granules India Ltd. Recommendation: Buy

Granules India Ltd. is a vertically integrated pharmaceutical company, headquartered in Hyderabad, India.

Company manufacture Active Pharmaceutical Ingredients (APIs), Pharmaceutical Formulation Intermediates (PFIs) and Finished Dosages (FDs), distributed to quality conscious customers in both regulated and semi-regulated markets.

Granules is dedicated to excellence in manufacturing, quality and customer service.

Granules business is bucketed into three areas; the Core business which comprises our 'core molecules- Paracetamol, Ibuprofen, Metformin, Guaifenesin and Methocarbamol; the Emerging business that focuses on manufacturing APIs with a focus on vertical integration and the CRAMS segment, which focuses on contract research and manufacturing.

Results highlights:

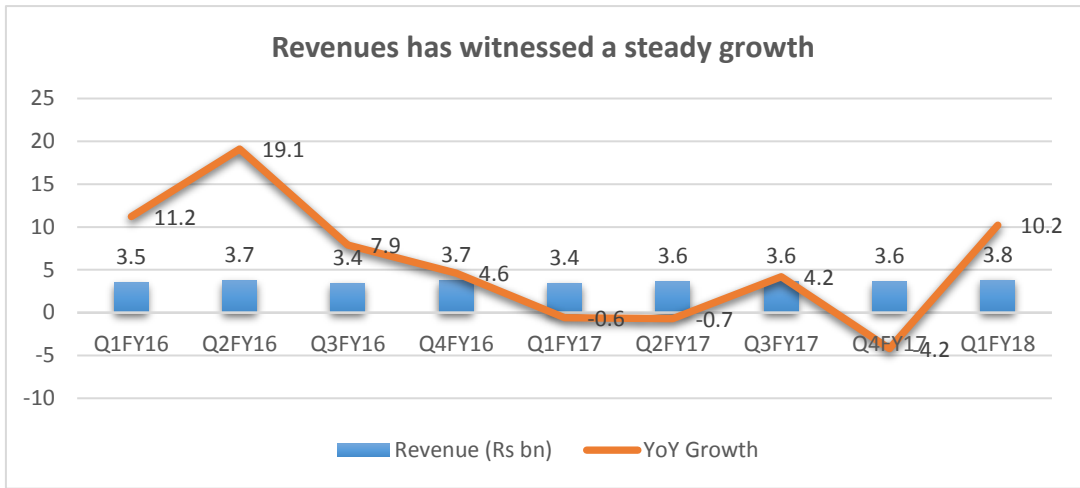
- Revenue rose by 10% yoy to Rs3.86bn in 1Q, on the back of 19.5% yoy growth in formulations business (to Rs1.5bn) and 10% rise in PFI business to Rs926mn, while revenue from API increased marginally by 2% yoy
- Gross profit margin increased by 330bps yoy to 53.4% on better products mix
- EBITDA margin expanded marginally by 14bps yoy to 19.9% despite higher overhead costs
- PBT rose 9% yoy to Rs515mn in 1Q
- However, consolidated PAT declined by 5.5% yoy to Rs368mn, mainly due to 57% yoy decline in profits from associates and 190bps expansion in effective tax rate to 34.4% and
- Revenue and profits from Granules Biocause JV stood at Rs700mn and Rs110mn respectively (at JV level), while Omnicem JV reported a weak flow of revenue at Rs164mn and a net loss of Rs52mn at JV level, as part of the contract was deferred to subsequent quarters.

Stock Info	
BSE Code	532482
NSE Code	GRANULES
CMP	130
Face Value	1.00
Market Cap(Cr.)	2955
Beta	1.03
Book Value	35.17
EPS	7.10
PE Ratio	18.19
52 Week High	157
52 Week Low	19

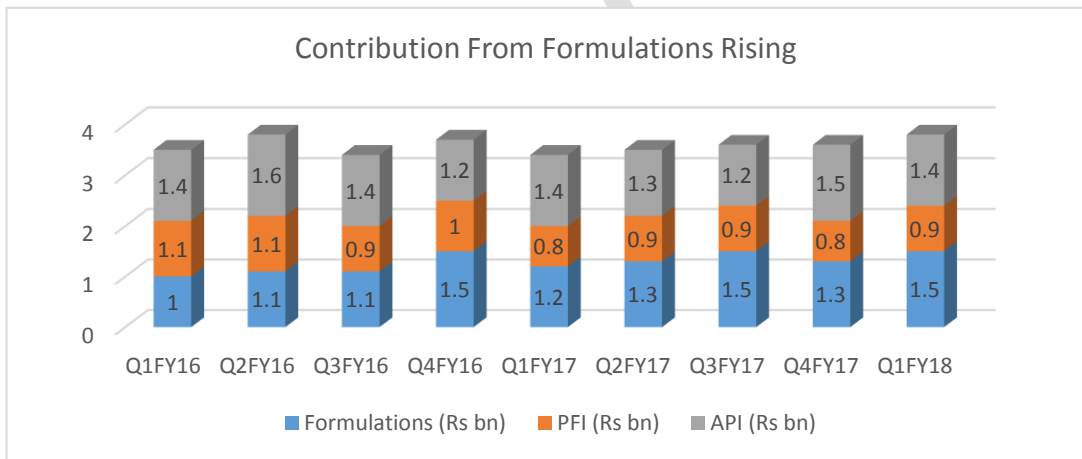
Share Holding Pattern (%)		
Category	No. of shares	Percentage
Promoters	117,038,598	51.17
Foreign Institutions	22,814,010	9.98
General Public	64,886,920	28.37
Financial Institutions	416,587	0.18
Others	15,178,763	6.64
NBFC and Mutual Funds	3,155,485	1.38

Peer Comparison				
Name	Cmp	Market Cap	Sales Turnover	Net Profit
Granules India	129.40	2960.71	1349.48	142.83
Sequent Scienti	119.50	2912.65	378.40	-0.01
ShashunPharma	428.55	2882.23	1078.40	41.34
JB Chemicals	285.50	2421.61	1198.60	172.69
Unichem Labs	244.80	2225.70	1397	103.87

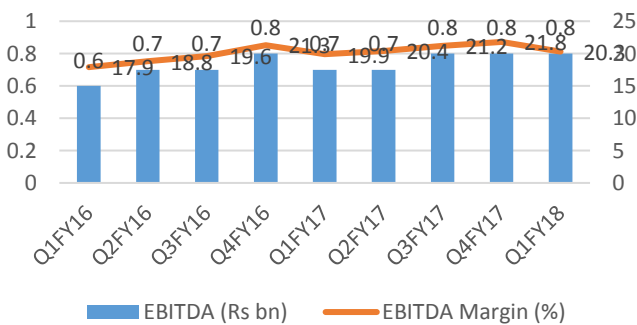
The top-line growth in 1QFY18 was encouraging, after several quarters of stagnant revenues



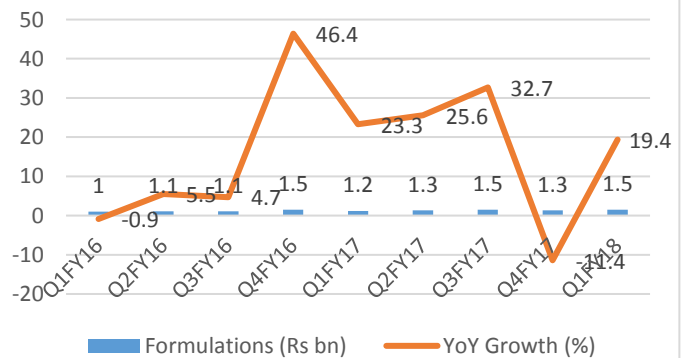
Contribution from formulations is rising, and was at 39% vs 36% YoY



EBITDA Margin: Opex Restricts Expansion



Formulations Continue To Scale Up



Higher freight outward costs and certain one-time expenses on R&D projects restricted EBITDA margin expansion during the quarter. Management is confident of controlling these costs in coming quarters

Formulations:

The finished dosages segment grew ~19%YoY to Rs 1.5bn in 1QFY18. GRAN is on track to begin its scale-up of the US formulations segment starting 2HFY18, with 3-4 products expected to be launched. Two TAD dates in 4QFY18 have provided further visibility on this front. It also expects to launch 4 products from its USPharma tie-up, where we expect GRAN to generate at least US\$ 20mn in FY19E. From this basket, Prasugrel is expected to be the first, with a launch in Oct-17 likely. GRAN is also planning to file 20-22 ANDAs over the next two years, which would take its total ANDA filings by FY19 to ~35. Foresee ~26% rev. CAGR in the formulations business over FY17-20E. Product profile.

API and PFIs: API sales are likely to be muted, owing to the increased need for captive consumption. Overall, we expect both segments to grow at ~8% and 11% CAGR respectively, over FY17-20E.

Margins to scale up: With the ramp-up in formulations and Omnicem JV sales, margins are likely to expand. However, increased R&D spending leads to forecast only a ~225bps expansion over FY17-20E.

Key Con-call Highlights

- Granules have booked sales of INR 8.2 crores and loss of 2.6 crores from its Omnicem JV sales in Q1FY18. The loss during the quarter was due to cyclic fluctuations of sales order. We expect Omnicem JV to post sales in tune of INR 250-300 crores in FY18E.
- Biocause JV sales during the quarters stood at INR 70 crores, EBITDA at 14 crores and PAT at INR 11 crores.
- Sales from AuctusPharma stood at INR 36 crores
- Capex for Q1FY18 was at INR 150 crores
- The management expects to relieve the bottleneck at its API facility in H2FY18E.
- The R&D spend during the quarter was INR 5-6 crores and the management guided the full year R&D cost to be around INR 25 crores.
- The company plans to file products from its US facility which has limited competition and the focus is more skewed towards the drugs which have more technical challenges and are complex in nature.
- The company's OTC business contributes nearly 3-4% to the total revenues of the company. Going ahead the company expects it to be a 100+ crores sustainable business with high profit margins.

Outlook and valuation

Expect a healthy earnings momentum to kick-start on account of Granules moving up the value chain towards high margin business, expanded capacity, improved capacity utilization, additional product offerings from AuctusPharma, ramp-up in high margin CRAMS business, entry into US OTC market and ramp-up in ANDA filing coupled with Para IV launches for which the company has received Target Action Date (TAD) as Jan 2018 and March 2018. Granules has embarked on a journey of high growth and margin sustainability.

Technical Aspect



Granules is having major support around 110 and resistance above 130.

On Daily chart, Granules break and sustain above 130 will see nonstop rally till 160--173++ in weeks to come.

MACD too has given the positive crossover (Buy signal) which indicates that upper side seems certain in it.

Exponential average is also indicating the positive momentum in the stock as it has comfortably crossed the average with closing.

Daily 14 period RSI has turned up from near levels. As per the bullish high low theory of 40-70 levels, the daily RSI is expected to move up to 70- 75 levels from the current reading of 52. This could mean Continuation of upside momentum in the stock price ahead possibly a breakout also this time.

Traders don't go for aggressive or positional selling at all because trend looks positive and we expect rally to remain continue till 160--173+++mark in coming weeks. For positional trade, stop loss seeing below 114 on closing basis which is unlikely to breach in near terms.

Recommendation:

Buy Granules around 127---123 for the initial target of 160--173 with stop loss below 114 on closing basis.

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