



**REGISTERED OFFICE**

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CIN: L24110TG1991PLC012471

**Dated August 14, 2017**

To,  
National Stock Exchange of India Limited  
Bombay Stock Exchange Limited  
Symbol: NSE: GRANULES; BSE: 532482

Dear Sir,

**Sub: Presentation to the Analysts/Investors**

We refer to Un-audited financial results for the first quarter ended June 30, 2017 submitted to you today, 14<sup>th</sup> August 2017.

We are now enclosing the presentation in this regard to the Analysts/Investors which is also being uploaded on our website.

This is pursuant to Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly take the above information on record.

Thanking you.

Yours faithfully,

**FOR, GRANULES INDIA LIMITED**

*Chaitanya Tummala*

**(CHAITANYA TUMMALA)  
COMPANY SECRETARY &  
COMPLIANCE OFFICER**

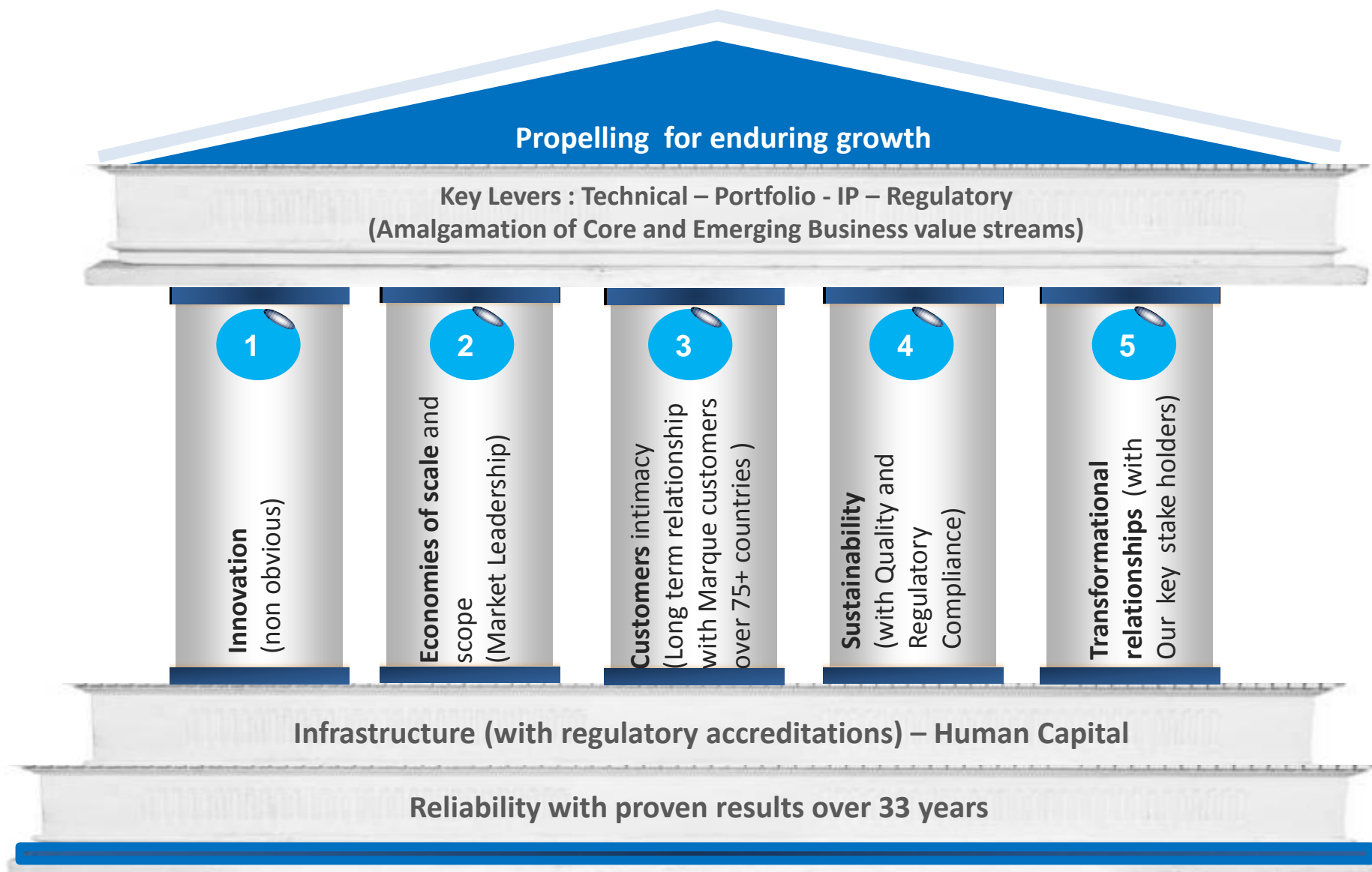


# GRANULES

**Investor Presentation: Q1FY18**



# “What we stand for”



*Propelling Growth while strengthening and leveraging our core...*

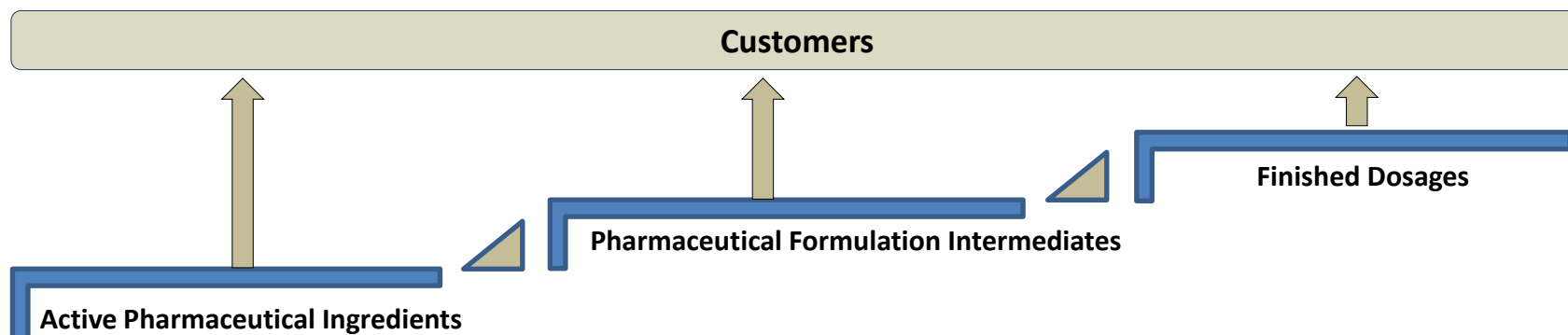
- Present across the entire pharmaceutical manufacturing value chain from active pharmaceutical ingredients (API) to pharmaceutical formulation intermediates (PFI) to finished dosages (FD) manufacturing.
- Manufacturing facilities with approvals from the US, Europe and other regulatory Agencies.
- Regulated markets of North America and Europe account for **67%** of overall revenue, while the balance comes from customers in Latin America, India and ROW countries.

Listing information : NSE	
Market Cap (INR mn) as on June'17	30,522
Outstanding Equity Shares (mn)	228.80
Face value of equity (INR/share)	1.0
Bloomberg code	GRAN:IN
Sector	Pharmaceuticals

Share Holding Pattern	Sept'16	Dec'16	Mar'17	June'17
Promoters Group (%)	51.0	51.9	53.4	53.4
Public (%)	49.0	48.1	46.6	46.6

- Entered potentially higher margin products through establishing in house API and Formulation research centers located at Hyderabad and in Virginia
- Acquired Auctus Pharma in 2014 with focus on development of new APIs through in-house R&D for organic ANDA filling and customers' formulation development
- Presence in potentially higher margin CRAMS business through 50-50 JV with Ajinomoto Omnicem.
- Ventured into manufacturing and marketing of OTC products to the retail chains in the US Markets
- Acquired Formulation facility in Virginia, USA to introduce value added products
- Started construction of green field manufacturing site in Vizag to enter into Oncology and specialty Business

- ❑ **Vertically integrated** across the entire value chain from active pharmaceutical ingredients (API) to pharmaceutical formulation intermediates (PFI) to finished dosages (FD) manufacturing of “**High Volume Products**”
- ❑ Strong presence in ‘**first line of defense**’ products such as **Paracetamol, Ibuprofen, Metformin and Guaifenesin**.



- ❑ **Future Growth** from existing portfolio
  - **Increasing emphasis on finished dosages** will increase revenue and profitability
  - Improving **efficiencies and yields**
  - Growth will be driven by **larger wallet share from existing customers** as well as **new customers** additions
  - Enhancing the product basket with **new ANDA filling**
- ❑ Capacity augmentation of APIs in base molecules: **(under implementation)**
  - Addition of **7,000 TPA in Metformin capacity** to reach to **9,000 TPA**
  - Addition of **2,000 TPA in Guaifenesin capacity** to reach to **3,200 TPA**
  - Addition of **6,000 TPA in Paracetamol capacity** to reach to **24,000 TPA**
- ❑ Addition of **6,000 TPA PFI capacity** : **(under implementation)**

## New API Division

- Auctus Acquisition – High-potential New API business.
- Significant saving; capacities with regulatory approvals for Granules **growth strategy**.
- USFDA approved multipurpose API manufacturing facility in Vizag and an intermediate manufacturing facility in Hyderabad

## Granules Research Centre

- Established in house R&D division in Hyderabad, to develop new generic products
- Presently over **70 scientists** are working

## Granules Pharmaceuticals Inc.

- Acquired Formulation facility in Virginia, USA to introduce value added products.
- Working towards limited competition space.
- Created resources for development of 5-6 ANDAs per year.

## Granules Consumer Health

- Marketing of store brand OTC products with direct relationship with retail outlets in the US (B→B→C)
- Extension of core business with existing products in the initial stage and thereafter continuously increasing product offering by introducing new OTC products .





☐ **Foray into Contract Research And Manufacturing Services**

- Set up in **July 2011 as a 50-50 JV company** with Belgium based Omnicem, a part of the Ajinomoto Group. The JV has set up a facility in Vizag SEZ for manufacturing of high-value APIs for Innovators and Brand Leaders on a contract manufacturing basis.

☐ **JV strategy**

- To provide a **cost effective manufacturing base to innovators for their products.**

☐ **Progress**

- FY 16-17 is the first full year of operations with INR 2,003 Mn with INR Rs 249 Mn profit
- Planning Capacity expansion

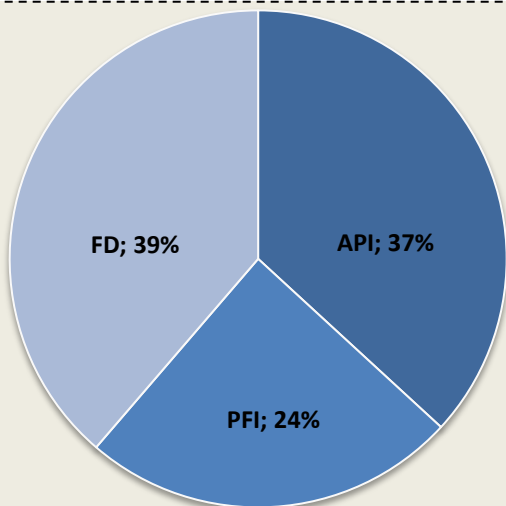
☐ **Growth from CRAMS business**

- USFDA inspected the facility with 7 observations. Response was submitted and EIR is awaited.
- Healthy Business pipeline with Innovator products



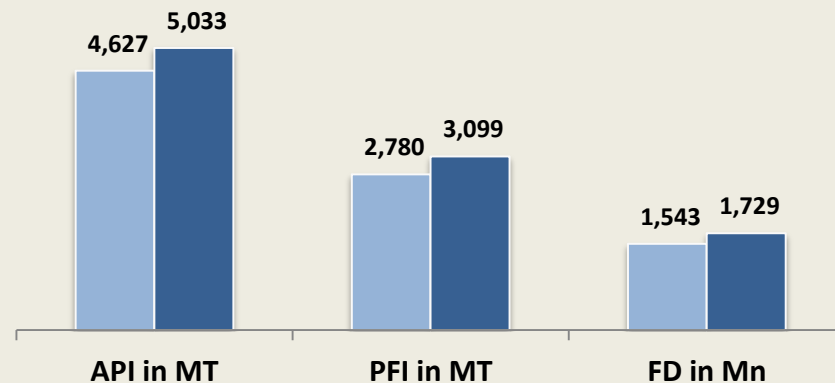
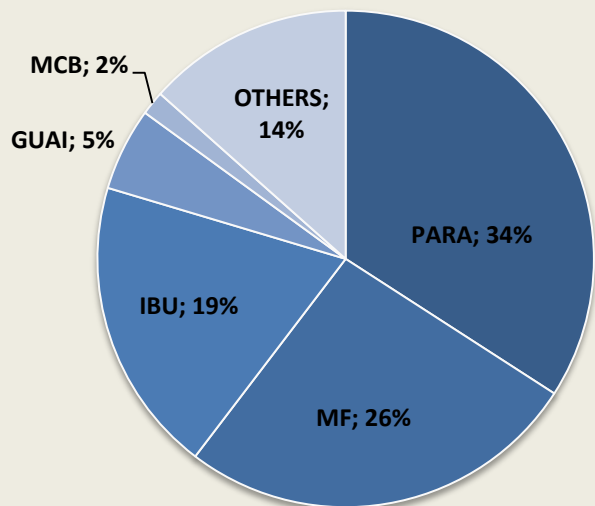
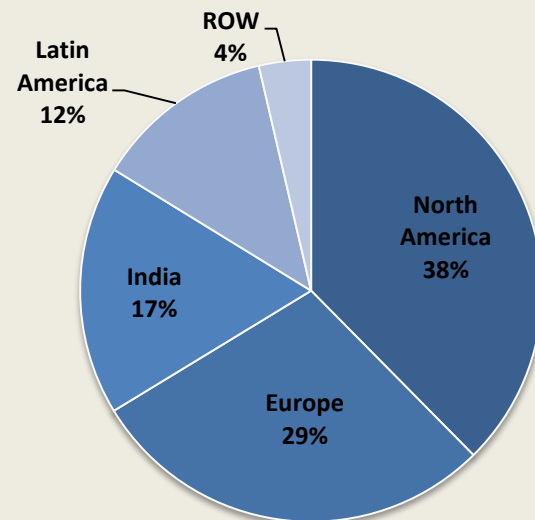
Value Chain	Facility Location	Installed Capacity	Approvals
<b>API</b>	Bonthapally	18,000 TPA	U.S. FDA, EDQM, WHO GMP
	Jeedimetla	3,560 TPA	U.S. FDA, EDQM, COFEPRIS, WHO GMP, HALAL
	Jingmen, China (Biocause JV)	4,800 TPA	U.S. FDA, MHRA, CFDA
	Vizag	285 KL	U.S. FDA, KFDA, EU GMP, WHO GMP
	Vizag SEZ (OmniChem - CRAMs JV)	152 KL	
<b>PFI</b>	Gagillapur	17,200 TPA	U.S. FDA, COFEPRIS, TGA
	Jeedimetla	1,200 TPA	HALAL
<b>FD</b>	Gagillapur	18 Bn	U.S. FDA, MCC, COFEPRIS, TGA
	Virginia, USA	0.5 Bn	
<b>API Intermediates</b>	Bonthapally	61.5 KL	



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## PRODUCTION DETAILS

Q1FY17 Q1FY18

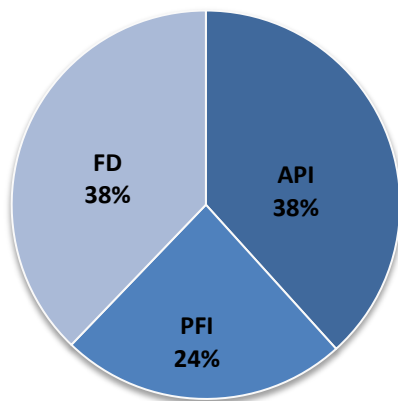
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# PARA – Paracetamol; MF – Metformin; IBU – Ibuprofen; GUAI – Guaifenesin; MCB – Methocarbamol;

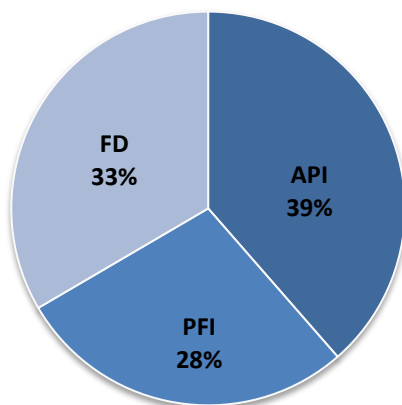
## Break up of Revenue as per IND AS

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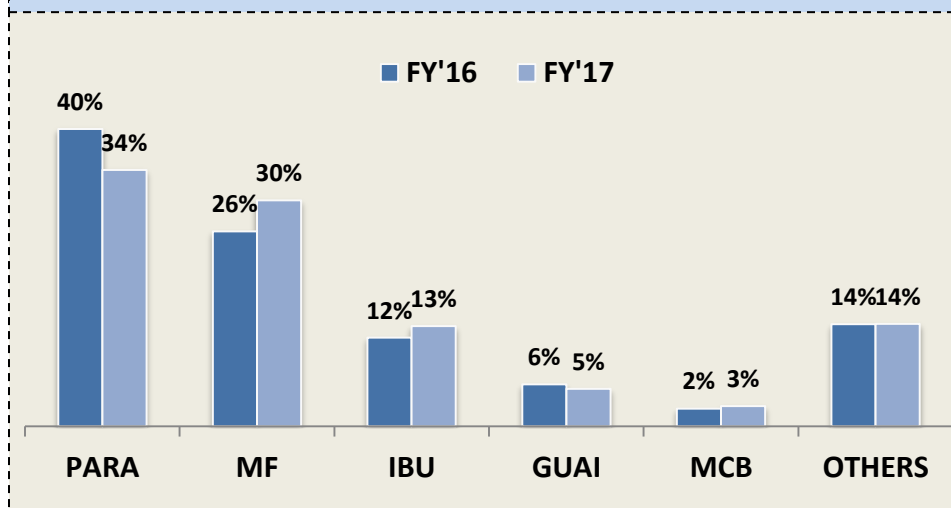
FY17



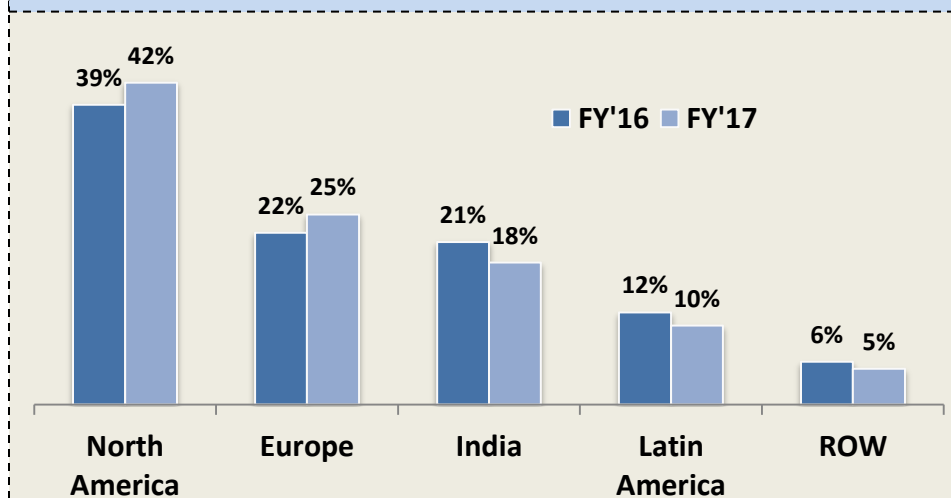
FY16



MOLECULE WISE



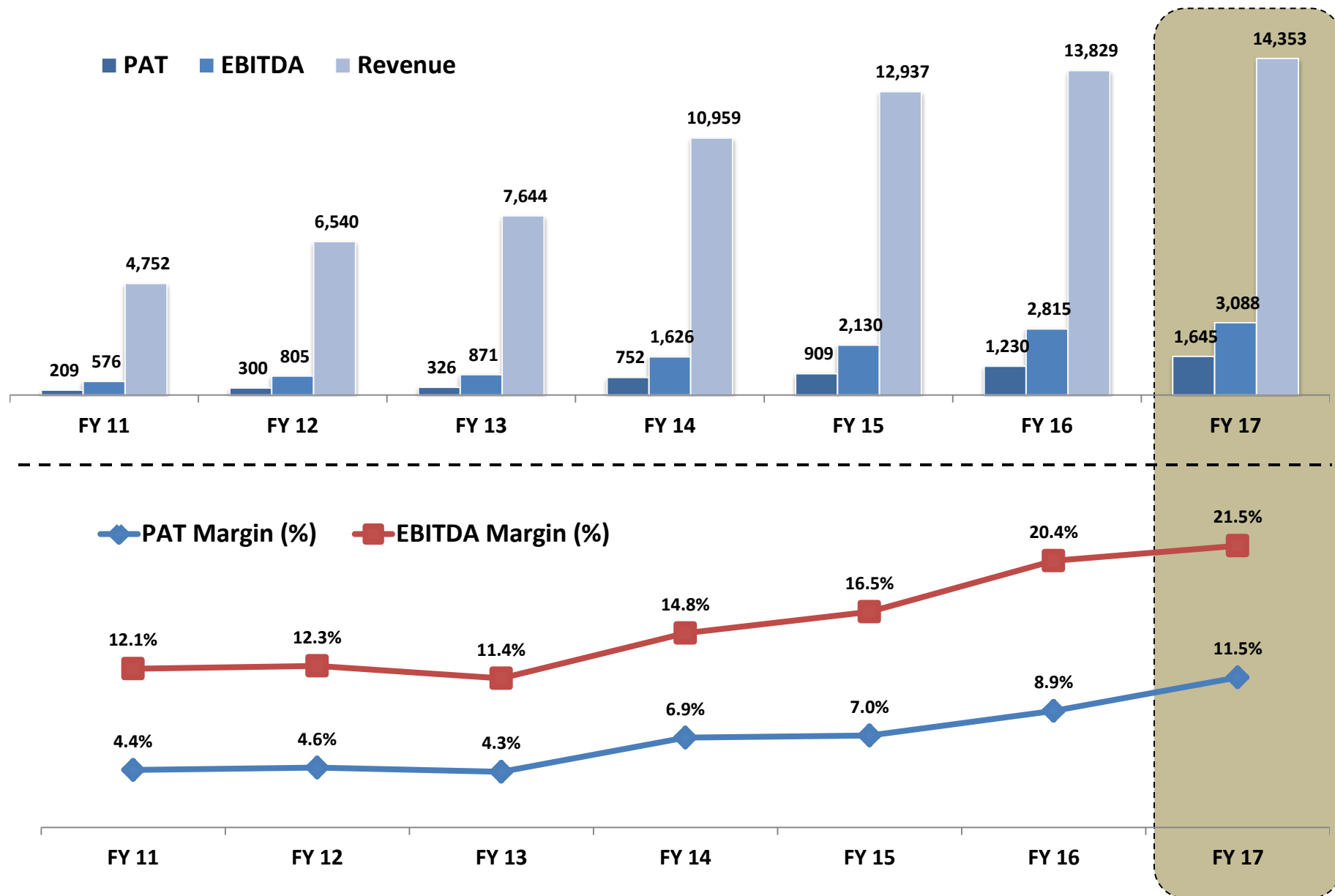
GEOGRAPHY WISE



# PARA – Paracetamol; MF – Metformin; IBU – Ibuprofen; GUAI – Guaifenesin; MCB – Methocarbamol

## Break up of Revenue as per IND AS

# Financial Overview – Trends

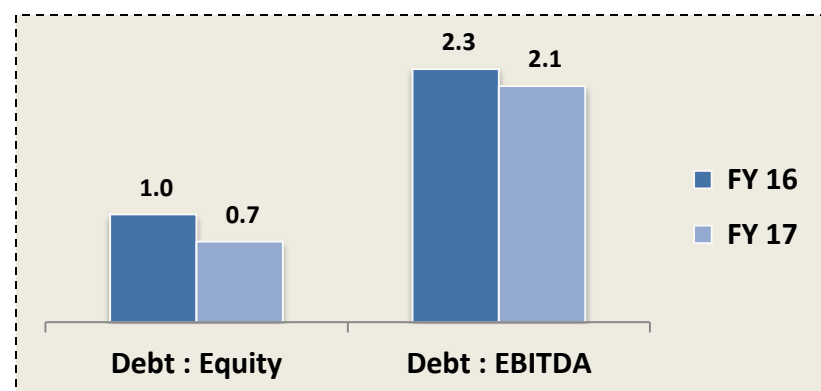
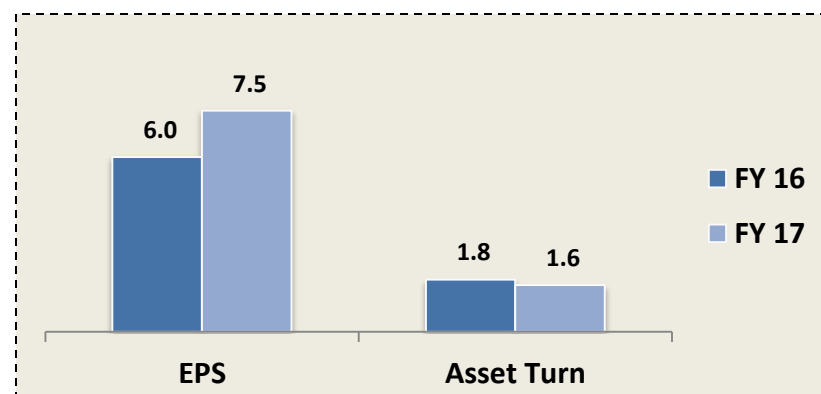
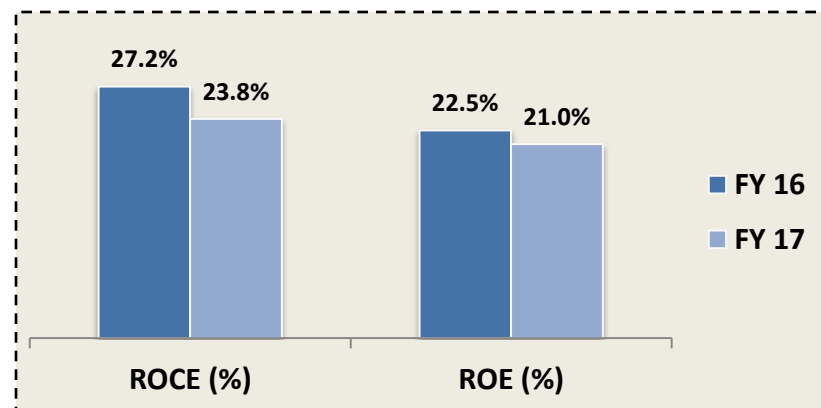


# All numbers are in INR Mn

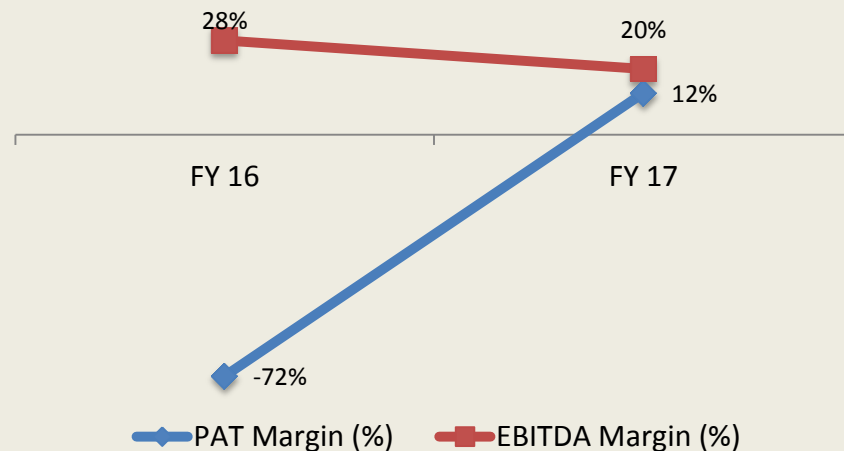
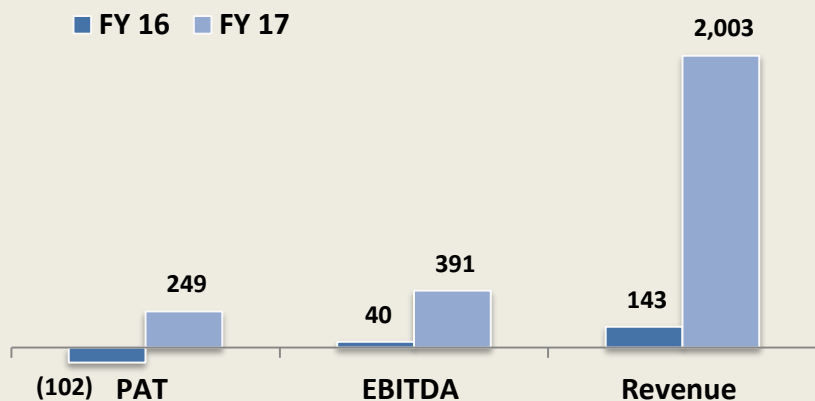
##All the numbers for FY'16 and FY'17 are as per Ind AS. Numbers from FY11 to FY15 are based on I Gaap.

## Consolidated Financial Snapshot (INR Mn)

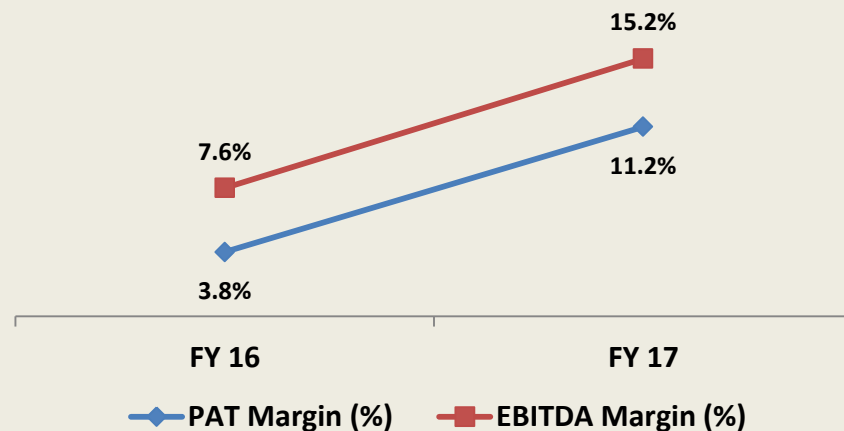
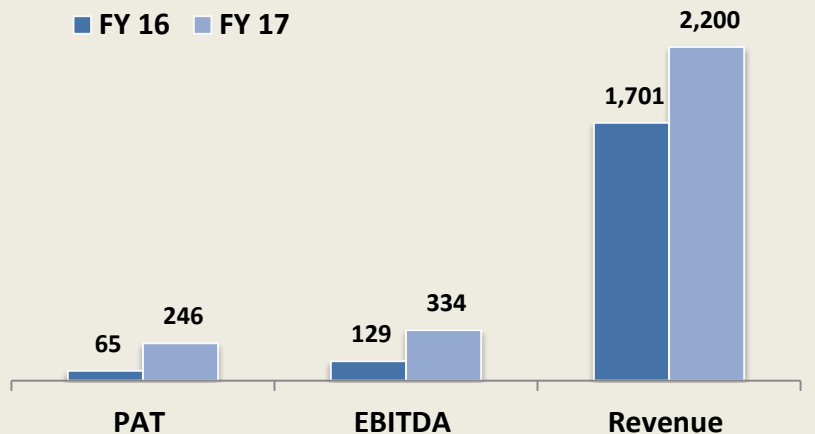
	FY16	FY17
Income from Operation	13,829	14,353
Material Cost	7,250	6,796
Other Operating Exp.	3,816	4,568
Other Income	52	99
EBITDA	2,815	3,088
EBITDA Margin (%)	20.4%	21.5%
EBITDA Growth (Y-o-Y)		10%
Depreciation	584	715
Finance Cost	371	323
Tax	611	652
PAT	1,230	1,645
PAT Margin (%)	8.9%	11.5%
PAT Growth (Y-o-Y)		34%
	Mar'16	Mar'17
Net Worth	6,616	9,036
Debt:		
Long-term Debt	2,485	1,827
Short-term Debt	3,929	4,738
Gross Block	8,230	9,836
CWIP	766	2,605
Total Current Assets	8,180	8,351
Total Current Liabilities	6,547	7,848



## Granules Omnichem



## Granules Biocause



Granules has 50% equity share in both the JVs.



**Mr. C. Krishna Prasad** - Chairman and Managing Director

Mr. Prasad is the Founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up a Paracetamol manufacturing facility, focused on capital and process efficiency. Pharmaceutical Formulations Intermediates (PFIs) as a cost efficient product for global formulations manufacturers, a concept pioneered and popularized by him.



**Mrs. Uma Devi Chigurupati** - Executive Director

Mrs. Uma has rich experience of 30 years in various fields. Mrs. Uma with Mr. C. Krishna Prasad had co-founded Triton Laboratories Private Limited in the year 1984, which was later amalgamated with Granules India Limited. Presently, she is spear heading CSR activities and HR initiatives.



**Dr. Prasada Raju** - Executive Director

Dr. Prasada Raju has over two decades of techno commercial experience in Global pharmaceutical space. His previous experience at Dr. Reddy's encompasses new product development, foster strategic partnerships, drive synergies between Industry and Academia, new geography expansions, IP driven early Product Portfolio Development and Program Management.



**Mr. Karuppannan Ganesh** - Chief Financial Officer

Mr. Ganesh is a Chartered Accountant with post qualification experience of 30 years. He has worked on cross border M&A activities, international treasury & taxation, corporate development and control. Prior to joining Granules India, Mr. Ganesh worked in Dr Reddy's Laboratories as Sr Vice President - Corporate Finance. He also worked with Philips India, Coca Cola, ABB and Manali Petrochemical on various capacities



**Mr. Sreekanth Muttineni** - Chief Operating Officer

Mr Sreekanth Muttineni joined Granules India in September 2016. During nine year tenure with Lupin Ltd, he was responsible for manufacturing operations. Prior to that, Mr. Muttineni had worked at Aurobindo Pharma Ltd as General Manager – Operations and led the establishment of generic pharmaceutical facilities and commercialization.



**Mr. Stefan Lohle** - Chief Marketing Officer

Mr. Lohle has over two decades of experience in the Pharmaceutical industry. Mr Lohle has been associated with Granules since 2001 and previously was Head of Latin American Operations, where he primarily focused on the PFI Business. Mr Lohle previously served at Kimberly Clark Corporation for New Project Development.



The Presentation is to provide the general background information about the Company's activities as at the date of the Presentation. The information contained herein is for general information purposes only and based on estimates and should not be considered as a recommendation that any investor should subscribe / purchase the company shares. The Company makes no representation or warranty, express or implied, as to, and does not accept any responsibility or liability with respect to, the fairness, accuracy, completeness or correctness of any information contained herein.

This presentation may include certain "forward looking statements". These statements are based on current expectations, forecasts and assumptions that are subject to risks and uncertainties which could cause actual outcomes and results to differ materially from these statements. Important factors that could cause actual results to differ materially from our expectations include, amongst others general economic and business conditions in India, ability to successfully implement our strategy, our research and development efforts, our growth and expansion plans and technological changes, changes in the value of the Rupee and other currencies, changes in the Indian and international interest rates, change in laws and regulations that apply to the Indian and global pharmaceuticals industries, increasing competition, changes in political conditions in India or any other country and changes in the foreign exchange control regulations in India. Neither the company, nor its directors and any of the affiliates or employee have any obligation to update or otherwise revise any forward-looking statements. The readers may use their own judgment and are advised to make their own calculations before deciding on any matter based on the information given herein.

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For Further information, please visit:

[www.granulesindia.com](http://www.granulesindia.com)

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# Granules India Ltd: Q1FY18 Result Update

**Strong quarter aided with improved product mix**

**CMP INR 121**

**Target INR 228**

**Rating: BUY**

**Upside: 88%**

Granules India Limited (GIL) reported revenues of INR 386 cr, showing an annual growth of 10%. The strong uptick in numbers has been primarily on account of higher formulations (FD) sales (especially Ibuprofen) by the company. Geographically, regulated markets of North America and Europe continued to contribute nearly two-third to the overall topline with Europe growing at a stronger 21% y-o-y. Improving product mix due to higher formulations sales led to improvement in gross margins by 332 bps to 53%. The management continues to guide for higher FD sales while leveraging upon backward integration into APIs for margins improvement. In view of this strategy, the company is undergoing expansion in its key APIs which are expected to generate incremental inflows from H2FY18. Further, GIL continues to benefit from contract manufacturing and direct formulation sales in regulated markets through multiple joint-ventures (JV) and acquisitions. Although, profits from its Omni-chem JV has been muted this quarter, GIL is certain to compensate for it in the subsequent quarter leaving the annual targets unchanged. In a nutshell, we believe the management's clear vision of growth coupled with operational efficiency, supported by growing order inflows and strong brand reputation of the company, will contribute substantially to GIL's future growth strategy.

## Augmented formulations sales to usher overall expansion

Formulation revenues have grown by 22% to contribute 39% to Q1FY18 revenues from 36% earlier. This is largely attributable to higher Ibuprofen sales which nearly doubled y-o-y to INR 73 cr in the current quarter. Going forward, we estimate similar increase in formulations sales and corresponding uptick in gross margins with major contribution from Ibuprofen and Metformin. With new expanded capacity in Metformin becoming operational from FY18, we estimate steep growth in its sales as well.

## JVs business miss in Q1; to compensate in subsequent quarters

GIL gets profit share from two of its joint-ventures i.e. Biocause and Omni-chem. Revenues and profit share from Biocause JV has been higher than estimates due soaring Ibuprofen demand globally. The company received INR 5.5 cr from Biocause JV as against INR 3 cr y-o-y. However, from the Omni-chem JV of contract manufacturing, it incurred a loss share of INR (2.6) cr as dispatches scheduled for the quarter shifted to subsequent quarter resulting in postponement of revenue accounting. Resultantly, we estimate contributions from Omni-chem JV for the entire fiscal to remain in line with our estimates of INR 16 cr.

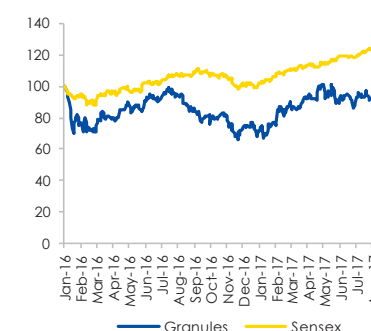
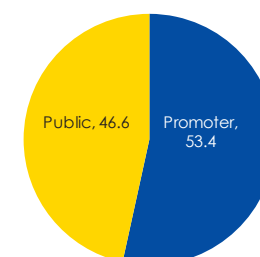
## Valuation:

In our view, Granules India is at the cusp of a new growth story backed by the above stated factors. Ergo, we expect strong cash flows, improving margins and steady growth across its business segments. Our earnings estimates per share for FY18E and FY19E are INR 7.9 and INR 11.6 respectively. We value the company's base business at 17x FY19E earnings of INR 11.6/share, whilst the value from in-licensed opportunities and new filings at INR 30/share. We maintain our 'BUY' recommendation on the stock, with a target price of INR 228/share.

Year to March	Q1FY18	Q1FY17	% Change	Q4FY17 % Change	FY17	FY18E	FY19E	
Net Revenue (INR. Cr)	379	344	10.3	355	6.6	1,411	1,653	2,093
Growth (%)					3.9%	17.2%	26.6%	
EBITDA (INR Cr)	77	68	12.8	77	(0.5)	297	383	527
Growth (%)					7.8%	29.1%	37.5%	
Adj. Net Profit (INR Cr)	37	39	(4.9)	46	(19.4)	163	210	311
Growth (%)					33.2%	29.2%	48.0%	
Adj. Diluted EPS (INR)	1	1		2		7	8	12
Diluted P/E (x)					17.2	15.5	10.5	
EV/EBITDA (x)					11.2	9.7	6.9	
RoE (%)					20.8	16.6	17.7	

**Neha Agarwal**  
Research Analyst  
Neha.agarwal@edelweissfin.com

Bloomberg:	GRAN:IN
52-week range (INR):	157 / 92
Share in issue (cr):	27
M cap (INR cr):	2,657
Avg. Daily Vol.	1746
BSE/NSE :('000):	



Date: 16<sup>th</sup> August 2017

## Q1FY18 Result Highlights

(INR Cr)	Q1FY18	Q1FY17	% Change	Q4FY17	%Change	FY17	FY18E	FY19E
Net Revenues	379	344	10.3	355	6.6	1,411	1,653	2,093
Raw Materials Cost	180	175	3.1	156	15.2	680	780	966
Gross Profit	199	169	17.7	199	(0.1)	731	873	1,126
Employee Expenses	39	34	15.2	36	7.8	140	164	187
Other Expenses	83	67	24.1	86	(3.2)	294	326	412
Operating Expenses	122	101	21.1	122	0.1	434	490	599
EBITDA	77	68	12.8	77	(0.5)	297	383	527
EBITDA margin	20.3%	19.9%		21.8%		21.0%	23.2%	25.2%
Depreciation	18	16	7.7	18	(2.2)	72	89	97
Other income	0	3	(87.8)	1	(68.6)	10	10	10
Exceptional Expenses	-	-				-	-	-
Net finance expense	8	8	3.3	8	7.0	32	36	37
Profit before tax	52	47	9.7	53	(2.5)	203	269	403
Provision for taxes	18	15	15.5	17	7.0	65	87	131
Reported net profit	34	32	6.9	36	(6.8)	138	181	272
Profit/Loss of Associate Company	3	7	(57.4)	9	(67.8)	25	29	39
Adj net profit (incl minority int.)	37	39	(4.9)	46	(19.4)	163	210	311
As % of net revenues	9.7%	11.3%		12.9%				
COGS	48	51		44		48	47	46
Employee cost	10	10		10		10	10	9
Other Expenses	22	19		24		21	20	20
Operating expenses	32	29		34		31	30	29
EBITDA	20	20		22		21	23	25
Reported net profit	9	9		10		10	11	13
Tax rate (% of PBT)	34	33		31		32	33	33

### Key Takeaways from the Concall

- Increase in other expenses had significant share of higher lab consumables and freight charges, most of which is one-off
- Raw material prices, especially PAP, have increased in Q1FY18 with most of it getting passed on to consumers due to contracts
- The company expects to file 5-6 new ANDAs from its US unit and 5-6 from Hyderabad in the current fiscal
- GIL had very low impact of US pricing pressure with its price correction being lowest among peers due to pre-existing competitive pricing policy of the company
- PAT margins from Biocause JV have increased to 16% from 11% earlier; GIL reasoned it with high global demand outweighing capacities and expects the trend to continue
- The company incurred capex of nearly INR 150 cr in Q1FY18 in line with its annual capex estimate of ~INR 550 cr
- Incremental API capacity will become operational from H2FY18 with full utilization levels expected to be reached by FY21 across molecules
- Share of capex funding from debt, equity and internal accruals along with proposed QIP timeline has yet not been finalized
- GIL has appointed a new CFO, Mr. Ganesh, who comes with 30 years of experience in M&A, treasury and corporate with his last stint being with Dr. Reddy's Lab

## Company Description

Established in 1984, Granules India Ltd (GIL) is a fully integrated pharmaceutical manufacturing company with presence across the entire value chain of API's, pharmaceutical formulation intermediates (PFI's) and finished dosage formulations (FDF). The company has largest PFI facility in the world along with one of the largest single-site FD facilities in the world. GIL caters to customers across 60 countries with exports contributing ~82% of the company's revenues.

### Investment Theme

Granules India Limited (GIL) is one of the largest manufacturers of Paracetamol, Metformin, Ibuprofen and Guaifenesin globally with presence across the value chain in each of these. While the company supplies APIs and PFIs to global clients on contracts, its FD sales comprise of both direct market sale and contract manufacturing. High quality standards and cost advantage has aided GIL in retaining global clientele and generic-generic presence in FDs has insulated it from increasing price competition in regulated markets. GIL plans to enter the next phase of growth through higher FD sales while leveraging upon backward integration into APIs for margins improvement. In view of this strategy, the company is undergoing expansion in its key APIs which are currently fully utilized. Further, GIL is venturing into contract manufacturing and direct formulation sales in regulated markets through multiple joint-ventures and acquisitions. We believe the management's clear vision of growth coupled with operational efficiency, supported by growing order inflows and strong brand reputation of the company, will contribute substantially to GIL's growth going forward.

## Key Risks

**Regulatory Risk:** The recent detailed scrutiny and the resultant adverse outcome for several players in the industry continues to be the biggest risk in the pharma sector; this implies to Granules too. However, annual audits of its facilities by global pharmaceutical companies with which GIL has contracts, ensures high facility standards at all times and reduces the risk of deviation from global regulatory standards.

**Foreign exchange Risk:** Much of GIL's revenue accrues from exports (82% in FY17), but at the same time around 40% of its raw material requirements is imported. Hence, the company enjoys a natural hedge. Also, much of GIL's debt is in foreign currency. Additionally, GIL has clauses in most of its contracts, wherein it adjusts the selling price based on the forex rate.

**Limited disclosure Risk:** Agreements between Granules and its partners/customers are confidential allowing limited visibility on the product or client level information. However, considering that limited disclosure in the contract manufacturing business is a feature of the business model, it indicates the maintenance of healthy client confidentiality.

**Concentration Risk:** In the generics and API businesses, the companies have high dependency on select products. Incidentally, Granules derives around 85% of revenue from its five key molecules. However, the growth plan of the company involves diversification across product classes and gaining a higher share from multiple products in US generic formulations.

## Financials

Income statement (Standalone)						Balance sheet (Standalone)						Ratios					
(INR Cr)						(INR Cr)											
Year to March	FY15	FY16R	FY17R	FY18E	FY19E	As on 31st March	FY15	FY16R	FY17R	FY18E	FY19E	Year to March	FY15	FY16R	FY17R	FY18E	FY19E
Income from operations	1,294	1,357	1,411	1,653	2,093	Equity share capital	20	22	22.87	27	27	ROAE (%)	23.1	18.8	20.8	16.6	17.7
Direct costs	793	725	680	780	966	Reserves & surplus	411	640	881	1,596	1,860	ROACE (%)	17.5	17.4	15.8	15.0	17.3
Employee costs	107	118	140	164	187	Shareholders funds	431	662	904	1,623	1,886	Debtors (days)	39	101	108	120	120
Other expenses	185	239	294	326	412	Borrowings	482	577	598	698	648	Current ratio	2.1	3.1	2.7	3.3	3.3
Total operating expenses	1,084	1,082	1,114	1,270	1,566	Sources of funds	913	1,239	1,502	2,321	2,534	Debt/Equity	1.1	0.9	0.7	0.4	0.3
EBITDA	209	275	297	383	527	Gross block	844	747	897	1,147	1,357	Inventory (days)	63	68	71	70	70
Depreciation and amortisation	53	58	72	89	97	Depreciation	227	181	253	342	439	Payable (days)	63	70	80	80	80
EBIT	157	217	225	294	430	Net block	617	566	644	805	919	Cash conversion cycle (days)	39	99	99	110	110
Interest expenses	32	37	32	36	37	Capital work in progress	62	77	261	611	500	Debt/EBITDA	2.3	2.1	2.0	1.8	1.2
Other income	4	5	10	10	10	Total fixed assets	679	642	905	1,416	1,419	Adjusted debt/Equity	1.0	0.7	0.6	0.3	0.2
Profit before tax	128	185	203	269	403	Investments	0	70	116	116	116	Valuation parameters					
Provision for tax	37	61	65	87	131	Inventories	225	254	276	317	401	Year to March	FY15	FY16R	FY17R	FY18E	FY19E
Core profit	91	124	138	181	272	Sundry debtors	137	375	418	543	688	Diluted EPS (INR)	4.4	5.6	7.1	7.9	11.6
Profit after tax	91	126	136	181	272	Cash and equivalents	65	130	50	241	290	Y-o-Y growth (%)	18.4	26.5	26.2	10.6	48.0
Share from associates	0	-2	25	29	39	Loans and advances	74	59	91	107	136	CEPS (INR)	7.0	8.3	10.2	11.2	15.3
Adjusted net profit	91	125	161	210	311	Total current assets	500	818	835	1,208	1,515	Diluted P/E (x)	27.4	21.7	17.2	15.5	10.5
Equity shares outstanding (mn)	20	22	23	27	27	Sundry creditors and others	223	260	309	362	459	Price/BV (x)	5.8	4.0	3.1	2.0	1.7
EPS (INR) basic	4.4	5.6	7.1	7.9	11.6	Total CL & provisions	236	260	309	362	459	EV/Sales (x)	2.2	2.3	2.4	2.2	1.7
Diluted shares (Cr)	20.4	21.7	22.9	26.7	26.7	Net current assets	264	558	526	846	1,057	EV/EBITDA (x)	13.9	11.2	11.2	9.7	6.9
EPS (INR) fully diluted	4.4	5.6	7.1	7.9	11.6	Net Deferred tax	-49	-57	-57	-57	-57	Diluted shares O/S	20.4	21.7	22.9	26.7	26.7
Dividend per share	0.5	0.6	0.9	1.2	1.8	Uses of funds	913	1,239	1,502	2,321	2,534	Basic EPS	4.4	5.6	7.1	7.9	11.6
Dividend payout (%)	11.2	11.2	12.7	15.2	15.2	Book value per share (INR)	21	31	40	61	71	Basic PE (x)	27.4	21.7	17.2	15.5	10.5
Common size metrics- as % of net revenues						Cash flow statement						(INR Cr)					
Year to March	FY15	FY16R	FY17R	FY18E	FY19E	Year to March	FY15	FY16R	FY17R	FY18E	FY19E	Dividend yield (%)					
Operating expenses	83.8	79.7	79.0	76.8	74.8	Net profit	91	120	164	210	311	0.4	0.5	0.7	1.0	1.4	
Depreciation	4.1	4.3	5.1	5.4	4.6	Add: Depreciation	53	58	72	89	97						
Interest expenditure	2.5	2.7	2.3	2.2	1.8	Add: Misc expenses written off	-16	-14	13	12	0						
EBITDA margins	16.2	20.3	21.0	23.2	25.2	Gross cash flow	147	163	248	311	408						
Net profit margins	7.0	9.2	11.4	12.7	14.9	Less: Changes in W. C.	24	127	48	130	161						
Growth metrics (%)						Operating cash flow	123	35	200	181	247						
Year to March	FY15	FY16R	FY17R	FY18E	FY19E	Less: Capex	124	-44	334	600	100						
Revenues	18.1	4.9	3.9	17.2	26.6	Free cash flow	-1	79	-134	-419	147						
EBITDA	32.3	31.5	7.8	29.1	37.5												
PBT	13.9	44.6	9.7	32.3	50.0												
Net profit	20.6	36.8	29.3	30.4	48.0												
EPS	18.4	26.5	26.2	10.6	48.0												



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**Vinay Khattar**

Head Research

vinay.khattar@edelweissfin.com

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

**Granules 5 years price chart**



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# Granules India

BSE SENSEX

30,465

S&amp;P CNX

9,429

**CMP: INR149**
**TP: INR200 (+34%)**
**Buy**


## Stock Info

Bloomberg	GRAN IN
Equity Shares (m)	229
52-Week Range (INR)	157/91
1, 6, 12 Rel. Per (%)	4/28/-6
M.Cap. (INR b)	33.8
M.Cap. (USD b)	0.5
Avg Val, INRm	197.0
Free float (%)	46.5

## Financials Snapshot (INR b)

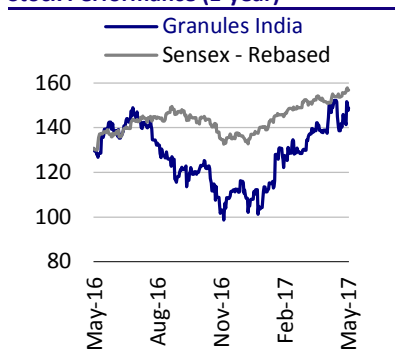
Y/E Mar	2017	2018E	2019E
Net Sales	14.4	17.4	23.9
EBITDA	3.0	3.7	5.2
PAT	1.7	2.1	2.9
EPS (INR)	7.3	8.1	11.4
Gr. (%)	32.7	12.3	39.9
BV/Sh (INR)	43.5	60.4	69.1
RoE (%)	20.0	16.4	17.6
RoCE (%)	17.0	14.7	16.8
P/E (x)	20.5	18.3	13.1
P/BV (x)	3.4	2.5	2.2

## Shareholding pattern (%)

As On	Mar-17	Dec-17	Mar-16
Promoter	53.5	51.9	51.1
DII	1.6	1.2	1.2
FII	10	6	6.4
Others	35	40.9	41.3

FII Includes depository receipts

## Stock Performance (1-year)



## Combination of strong growth and multiple re-rating

From being one of the largest Paracetamol API manufacturers for regulated markets, Granules India (GRAN) has now ventured into CRAMS and US Rx business, where it can leverage its competitive advantage of being a high-quality, low-cost producer. Despite delivering ~40% PAT CAGR over last five years, we expect GRAN to deliver ~35% PAT CAGR till FY20E. This will be led by (1) capacity expansion in the base business, 2) doubling of revenues (INR2.3b in FY20E from INR1.0b in FY17) and expansion in EBITDA margin (>30% in FY20E from ~21% in FY17) in Omnicem CRAMS JV, and 3) new US generic business sales of ~USD85m in FY20 v/s nil currently.

## Base business – augmented capacity to fuel growth; focus on formulations to boost margins

- GRAN is among the largest manufacturers of Paracetamol and Ibuprofen APIs for the regulated markets. Along with this, it has been supplying Metformin, Guaifenesin and Methacarbamol API/PFI/formulations. Until FY17, ~85% of its business has come from these five base molecules. A higher focus on formulations over past 4-5 years (revenue contribution up >10%) has helped GRAN expand its EBITDA margin from 11% in FY13 to ~21% in FY17.
- Currently, API is running at 100% capacity and PFI at 73% utilization. The company had planned to increase its API capacity by ~40% and PFI capacity by >20% by March 2017, which will also help fuel growth in formulations (as the company is dependent on backward integration). This will help grow the base business at mid-to-high teens till at least FY20 (~16% CAGR over FY17-20E v/s ~7% in FY17).

## US business – plans niche foray into Rx business

- GRAN is planning to file ~25-30 ANDAs in the US till FY19E. Of these, ~10 complex ANDAs will be filed from its US-based Virginia facility and the rest from its India-based facility in Gagilapur. The company has already filed two complex generic ANDAs from its Virginia facility in March/April-17 (market size of USD660m), where it expects to be 3<sup>rd</sup>/4<sup>th</sup> player at the time of launch (2HFY19). We expect own new filings for GRAN to contribute USD50-60m in FY20E.
- The company has also acquired the marketing rights from US Pharma for its four ANDAs (scheduled to be launched from late FY18E to FY19E). The market size for these products is >USD4b, and revenue potential could be USD30-35m in FY19E.
- Although we are already building in R&D spend of ~USD12m for FY19E, full-year revenue from own filings will start only FY20 onward. Despite this, we estimate an improvement in the consolidated EBITDA margin by 100bp due to traction in the base business and a shift in product mix toward formulations.

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## Our Initiating coverage report on Granules India



## Omnichem CRAMs JV: FDA approval expected in FY18; margins to reach >30% in FY19E

- Granules-Omnichem is a 50:50 JV between GRAN and Ajinomoto-Omnichem, Belgium. Omnichem would be transferring large-scale production of intermediates and APIs to Granules-Omnichem JV. It will also provide full support for quality, engineering, tech transfer, procurement, sales and management-related matters.
- Revenue is likely to grow rapidly beyond FY18 post site approvals for customers (US FDA inspection complete). We expect the EBITDA margin to reach >30% from ~21% currently, as API supply to innovators will start FY19E onward. Besides de-risking, it will provide a steady revenue stream with healthy margins. We see revenue potential of INR450m by FY20E.

## Return from investments visible; adding legs to growth

- GRAN plans to invest INR10.5b over three years starting FY16. Over FY16 and FY17, it incurred capex of ~INR1.3b and INR3.4b, respectively. Although full-scale benefit of these investments will be visible from FY19/20E, FY18E will be a critical year as 1) revenue contribution from capacity expansion in traditional business will kick in, 2) filings from the US (already done 2 and ~8 by FY18-end) will provide visibility on areas of investment in the US, 3) FDA approval for the Omnichem JV plant will provide visibility on API sales (and in turn lead to margin improvement to >30% from ~21% currently) and 4) oncology plant should be ready.
- The company plans to incur capex of INR5.5-6.0b in FY18. It intends to invest ~INR4.5b in the US (USD10m in FY16, USD18m in FY17 and ~USD40m in FY18), mainly toward R&D (~60-65% of total) and the rest toward expanding capacity/buying equipment. Capex of INR2.1b has been incurred on traditional business capacity expansion (revenue to start 2QFY18 onward), while INR2.6b will be spent on developing oncology API/formulations plant (to get commissioned by FY19 beginning).

## PAT CAGR of ~35% till FY20, despite full R&D expensing

- We expect PAT CAGR of ~35% over FY17-20E. This is after assuming R&D expense of USD12m (5.5% of FY17E sales). This strong growth will be driven primarily by ramp-up of the base business (led by capacity expansion), a shift in product mix, and Omnichem JV and OTC business expansion. Although FY19 will be the first year of US business sales, the full impact of investments in that country will be visible from FY20.

## Trades at ~13x FY19E PER; US business ramp-up an option value

- GRAN trades at ~13x FY19E EPS (despite assuming >10% equity dilution). We believe the stock has the potential to deliver >50% return over next 12-18 months, led by multiple re-rating (to >18x forward earnings) and a strong EPS CAGR of ~35% till FY20. At 18x FY19E PER, fair value of the stock is INR200.
- **Key risks to our estimates:** (1) Higher competition in products like Metformin and Paracetamol. (2) Delay in ramp-up of the US business. (3) Regulatory risk for its manufacturing facility.

## Legacy business: Capacity expansion to fuel growth

- GRAN plans to expand its API capacity by ~40% and PFI capacity by >20% by mid-FY18.
- This will help it meet growing demand for Paracetamol/Metformin/Guaifenesin molecules across the globe. At present, the top five molecules contribute 85% of its total sales.

### Strong base business; augmented capacity to fuel growth

- GRAN is among the largest manufacturers of Paracetamol and Ibuprofen APIs for the regulated markets. Along with this, it has been supplying Metformin, Guaifensin and Methacarbamol APIs. Until FY17, ~85% of its business has come from these five base molecules. Currently, API is running at 100% capacity and PFI at 73% utilization.
- The company is increasing its API capacity for Metformin, Paracetamol and Guaifensin by 15,000 TPA, and PFI capacity by >20%. Paracetamol supply will commence from 2QFY18, while Metformin supply to developed markets will start from FY19 (as clinical trial will be required). This capacity expansion in PFI/API will also help fuel growth in formulations (as the company is dependent on backward integration). This will help grow the base business at high-teens till at least FY20.
- GRAN's base business covers 75% of the analgesics market (Paracetamol, Ibuprofen) and ~50% of the diabetes market (Metformin). Paracetamol, Ibuprofen and Metformin have maintained their status as the first line of defense in their respective segments, and have no direct replacements in the pipeline.

Exhibit 1: Molecule-wise share (%)

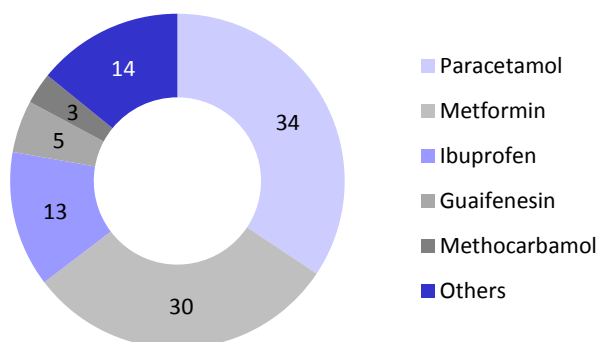


Exhibit 2: Geography-wise share (%)

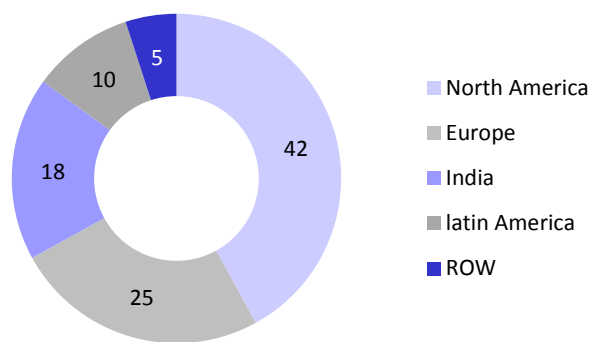
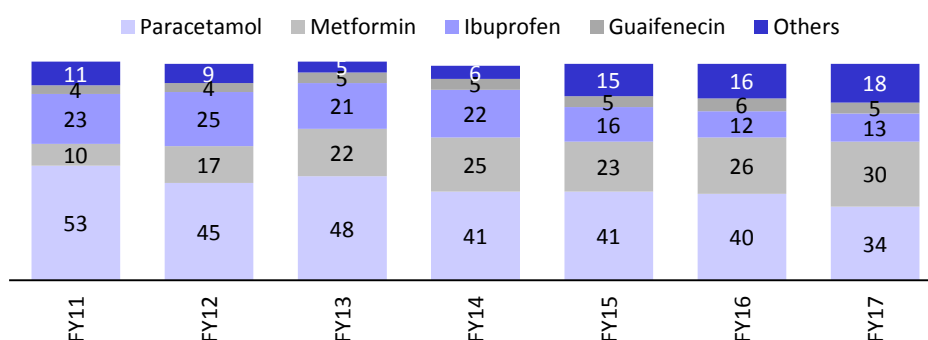


Exhibit 3: Product mix changing (%)



Source: Company, MOSL



**API capacities:** GRAN's existing API business is primarily driven by higher capacities, which augment production yield for the five APIs and improve profitability.

Over the years, GRAN has increased Paracetamol capacity from 8,000MTPA to 18,000MTPA, becoming the second largest Paracetamol producer in the world for the regulated markets (behind Mallinckrodt). Due to growing demand for internal and external consumption of Paracetamol in the regulated markets, GRAN has expanded its API capacities via de-bottlenecking.

Similarly, it intends to expand Metformin capacities in two phases (from 2,000MTPA to 9,000MTPA) by FY19E. Post expansion, GRAN would become one of the top three Metformin API producers in the world. The Metformin API market is growing at 8-10%/year, reflecting healthy demand for Metformin molecules due to combination products.

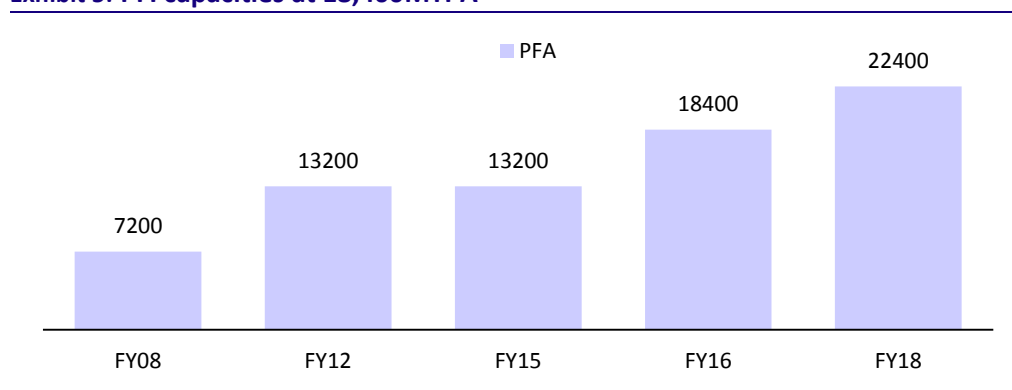
**Exhibit 4: Growing API capacities**

	FY08	FY12	FY15	FY16	FY18E
Paracetamol	8,000	10,000	14,400	18,000	24,000
Metformin	960	2,000	2,000	2,000	9,000
Ibuprofen	3,600	4,800	4,800	4,800	4,800
Guanfenesin	640	1,200	1,200	1,200	3,200
Methocarbamol	96	180	360	360	360

Source: Company, MOSL

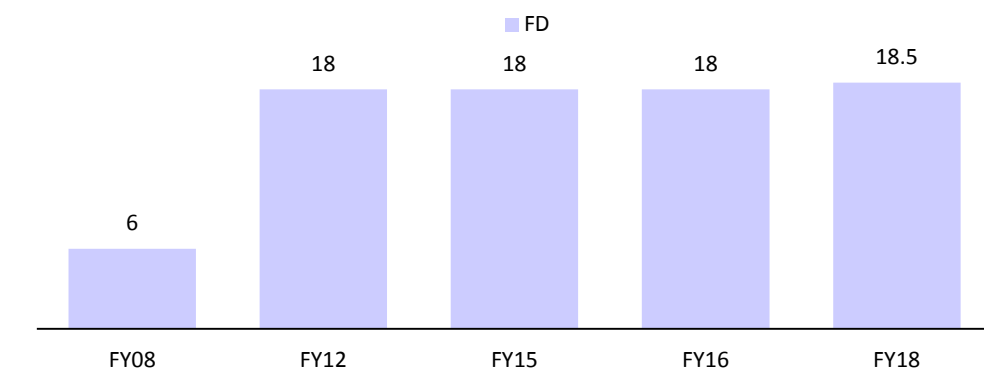
**PFI capacities:** GRAN has one of the largest PFI capacities globally at Gagilarpur in Andhra Pradesh, India. It is the only company in the world with capacity to handle 6MT PFI batch size. This gives GRAN a significant edge over competitors in terms of scale and profitability. GRAN already expanded its PFI capacity to 18,400MTPA in FY16 from 13,200MTPA in FY15. These PFI capacities are operating at 70-75% utilization, which is enough to support 17-18% growth in the existing PFI business over next two years.

**Exhibit 5: PFI capacities at 18,400MTPA**

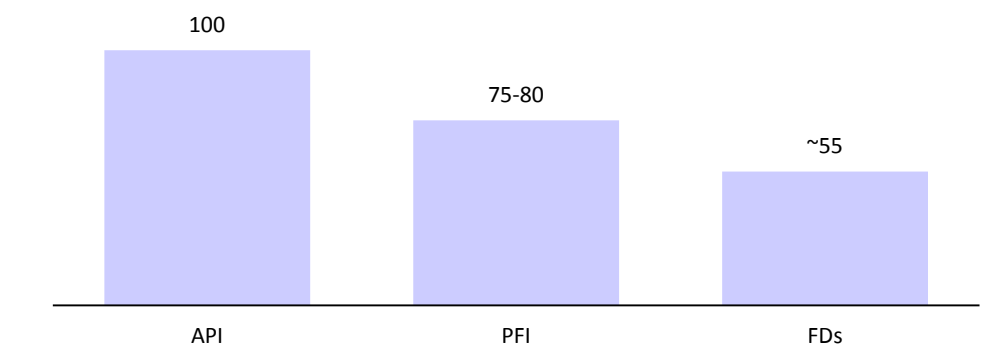


Source: Company, MOSL

**Finished dosages capacity:** GRAN had set up its first formulations facility in FY08, with annual capacity of 6b tablets. In FY12, it tripled this capacity to 18b tablets. It is still operating at 50-55% utilization and can comfortably support 26-30% revenue CAGR in the existing formulations business over next two years.

**Exhibit 6: Finished dosage capacity at 18b tablets**

Source: Company, MOSL

**Exhibit 7: Utilization levels of the base business (%)**

Source: Company, MOSL

**Exhibit 8: API capacities of top five molecules**

<b>Paracetamol Regulated Market Suppliers (MTPA)</b>	
<b>Mallinckrodt</b>	<b>25,000</b>
Granules	18,000
Novocel	6,000
<b>Ibuprofen Suppliers (MTPA)</b>	
Shasun	6,000
IOL Chemicals	6,000
Albemarle	5,200
BASF	5,000
Granules Biocause	4,800
<b>Metformin Suppliers (MTPA)</b>	
Granules	2,000
USV Ltd	10,100
Wanbury	9,000
Harman	6,000
<b>Methocarbamol Suppliers (MTPA)</b>	
Granules	360
Synthochem	250
<b>Guaifenesin Suppliers (MTPA)</b>	
Granules	1,200
Synthochem	800

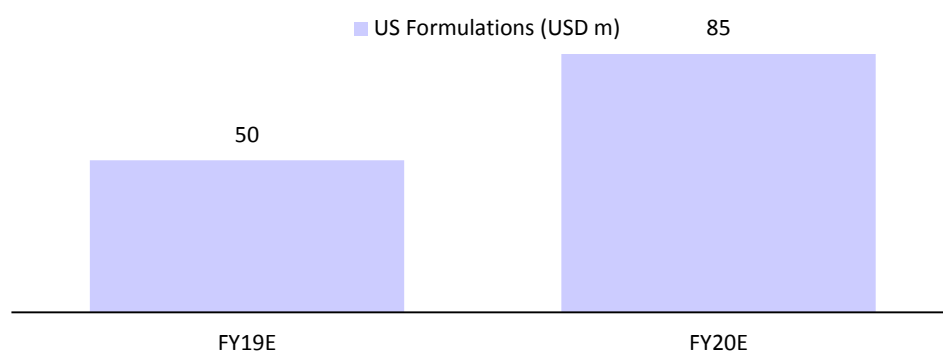
Source: Company, MOSL

## US business: Plans niche foray into Rx business

### Full potential will be visible in FY20

- GRAN is planning to file ~25-30 ANDAs in the US till FY19. Of these, ~10 complex ANDAs will be filed from its US-based Virginia facility and the rest of them from the India-based facility in Gagilapur. In FY18, GRAN plans to file 10-12 ANDAs, of which six will be filed from Gagilapur and the rest from Virginia.
- **Virginia facility – focus on complex filings:** GRAN acquired the Virginia-based facility for a consideration of USD1.5m. Through this plant, GRAN can focus on products with specific release properties, ODTs and DEA-controlled substances. The company plans to invest ~USD70m in this facility toward capacity expansion (currently capacity of 0.5b tablets), R&D and employee addition.
- The company has already filed two complex generic ANDAs from its Virginia facility in March/April-17 (market size of USD660m), where it expects to be 3<sup>rd</sup>/4<sup>th</sup> player at the time of launch (2HFY19). We expect own new filings for GRAN to contribute USD50-60m in FY20E.
- **US Pharma product acquisition to drive growth from FY19:** GRAN has also acquired marketing rights from US Pharma for four ANDAs (scheduled to be launched from late-FY18 to FY19). The market size of these products is >USD5b, with revenue potential of USD30-35m in FY19E.
- **Costs to be built in P&L from FY19E, but revenue potential to be visible from FY20:** Although we are already building in R&D spend of ~USD12m for FY19E, full-year revenue from own filings will start only FY20 onward. Despite this, we estimate an improvement in the consolidated EBITDA margins of 100bp due to traction in the base business and a shift in the product mix toward formulations.

### Revenues from US formulation business will start contributing from FY19 (~20% of sales)



Source: Company, MOSL

## Omnichem CRAMs JV – entry into high-value APIs

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**Partner profile:** Hubei Biocause is a public listed company involved in the pharmaceuticals, chemicals and new energy fuel businesses. Biocause's pharmaceuticals business involves contract research, contract manufacturing and production of APIs, intermediates and formulations, including tablets, granules and capsules. Biocause is one of the leading pharmaceutical product producers and exporters to China, with a strong production, R&D and quality system. The company has eight APIs registered with the FDA and four APIs with CEP.

**Joint venture details:** The JV between Biocause and GRAN had set up a facility in Wuhan, China to manufacture Ibuprofen for the regulated markets. Currently, it is operating at 4,800MTPA capacity, making it among the five largest Ibuprofen suppliers in the world.

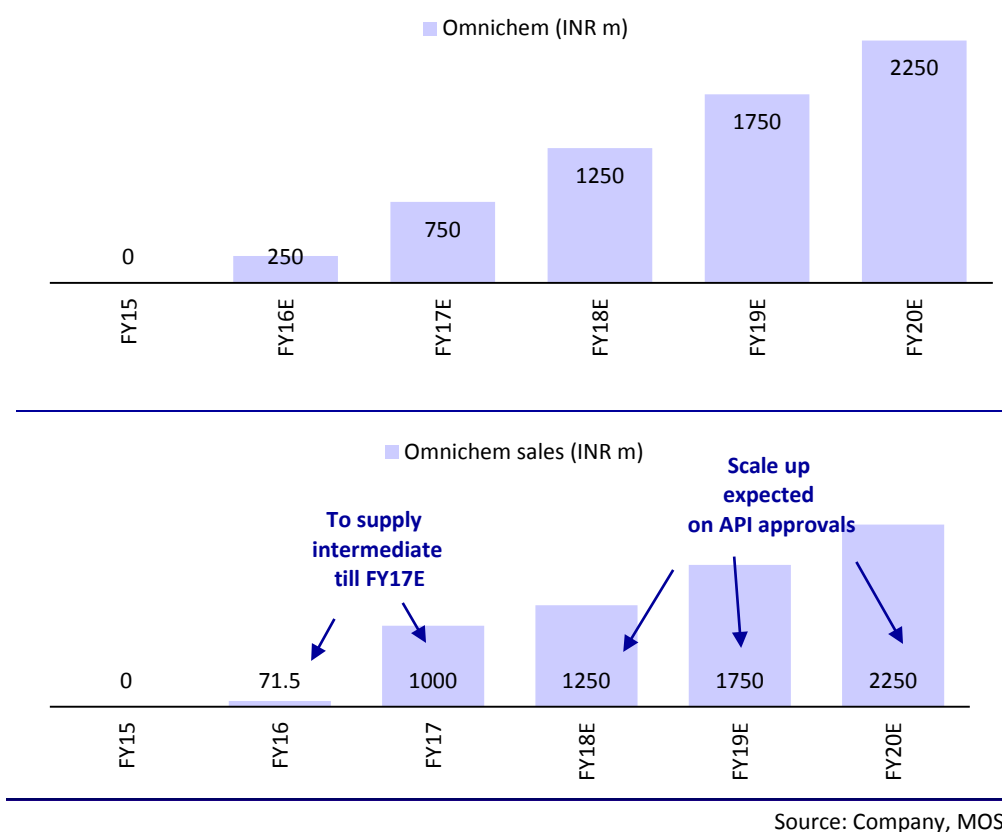
### Granules-Omnichem JV: Established in FY15

**Partner profile:** Ajinomoto-Omnichem is a Belgium-based company specializing in the manufacture of pharmaceutical products and fine chemicals. It is a wholly owned subsidiary of Japan-based Ajinomoto Co Inc (known for amino acids and food products). Omnichem, a division of Ajinomoto-Omnichem, focuses on development and manufacture of intermediates and active ingredients for the pharmaceutical industry (CRAMs). Each project is supported by an R&D team of ~80 people, who work on integrating the first lab experiments and pilot trials to full industrial production while maintaining confidentiality.

### Omnichem JV sales expected to reach INR4.5b by FY20

Granules-Omnichem is a 50:50 JV between GRAN and Ajinomoto-Omnichem, Belgium. Omnichem would be transferring large-scale production of intermediates and APIs to Granules-Omnichem JV. It will also provide full support for quality, engineering, tech transfer, procurement, sales and management-related matters. Inspection at this facility is already completed in 3QFY17, and we expect EIR to come in 1HFY18. API supply to developed markets will start from FY19. Till the time FDA approval is not granted, the JV will continue to manufacture various intermediates for Omnichem. Once approvals are in place, the JV would start manufacturing high-value APIs for Omnichem's CRAMs customers. These APIs are likely to be sold to innovators and MNCs, helping them compete with generic players.

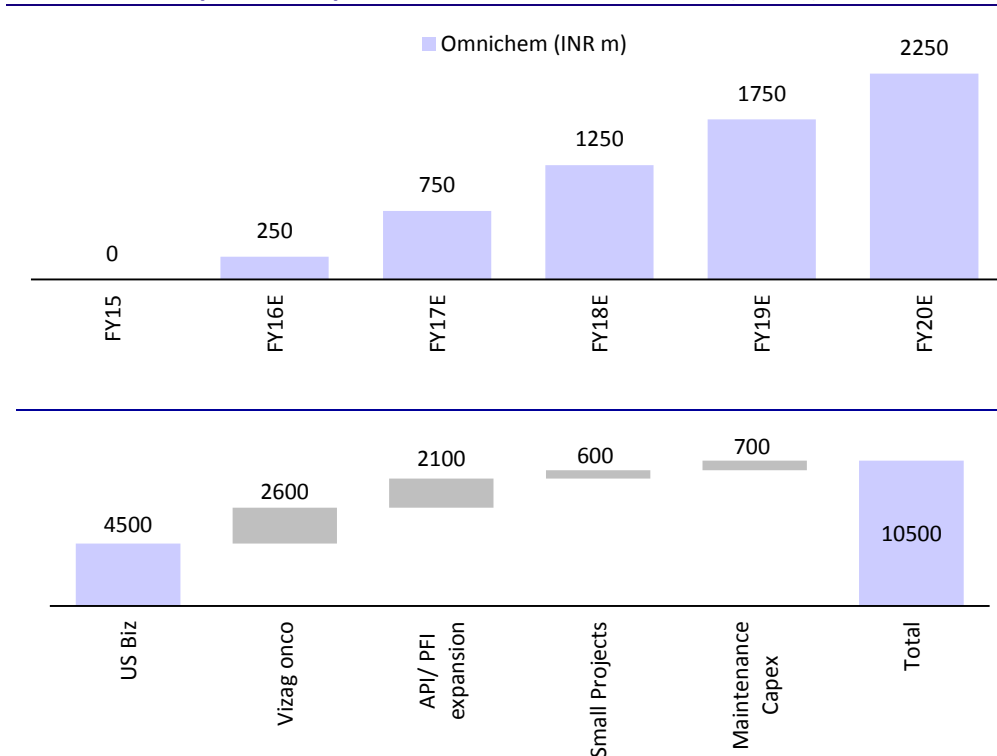
In FY17, this business generated revenue of ~INR2b. However, upon required regulatory approvals for products, Omnichem JV sales are expected to reach a peak of INR4.5b by FY20. These product approvals should kick in from FY18. Until then, the JV would continue supplying intermediates to Omnichem from this facility, which reported sales of INR1,000m in FY17. It is likely to achieve >30% EBITDA margin by selling high-value APIs (Oncology, CVS, etc.) to innovators.

**Exhibit 9: Expect significant ramp-up in FY19**

## Return from investments visible; adding legs to growth

- GRAN plans to invest INR10.5b over three years starting FY16. In FY16 and FY17, it incurred capex of ~INR1.3b and INR3.4b, respectively. Although full-scale benefits of these investments will be visible from FY19/20E, FY18E will be a critical year as: 1) revenue contribution from capacity expansion in traditional business will kick in, 2) filings from the US (already done 2, and ~8 by FY18E-end) will provide visibility on areas of investment in that country, 3) FDA approval to Omnicem JV plant will provide visibility on API sales from this plant (and, in turn, lead to margin improvement to >30% from ~21% currently) and 4) oncology plant should be ready.
- The company plans to incur capex of INR5.5-6.0b in FY18. It plans to invest ~INR4.5b in the US (USD10m in FY16, USD18m in FY17 and ~USD40m in FY18), mainly on R&D (~60-65% of total) and the rest on expanding capacity and buying equipment. Capex of INR2.1b has been incurred on traditional business capacity expansion (revenue contribution to start from 2QFY18), while INR2.6b will be spent on developing the oncology API/formulations plant (to get commissioned by FY19 beginning).

**Exhibit 10: Total planned capex of ~INR10.5b over FY16-19E (INR m)**



Source: Company, MOSL

### Already secured line of credit to fund investments; equity raising is another option:

GRAN plans to invest ~INR5.5-6.0b in FY18E and ~INR2.5b in FY19E. It will generate ~INR3.5b through internal accruals, while the rest can be funded via debt/equity. The company has already has a line of credit of ~USD60m at an attractive rate of EURIBOR+2%.



## Strong regulatory history

- At present, the company conducts business via six API/intermediate facilities, two PFI facilities and two formulation facilities. There is also one API facility under construction for multi-product APIs in Vizag.
- Historically, GRAN has demonstrated a strong regulatory record, with no warning letter or import alert for any facility in last eight FDA inspections.

### Exhibit 11: List of plants and recent inspections outcome

Locations	Products	Approvals
<b>API facilities</b>		
Jeedimetla	Metformin,	USFDA, KFDA, TGA, EDQM
Bothapally 1	Paracetamol	USFDA, WHO, GMP, EDQM, Infarmed (EU) approved
Bothapally 2	Intermediate (Auctus)	
Wuhan	Ibuprofen	USFDA, EDQM, TPD – Canada, MCC approved
Vizag 1	Multiproduct (Auctus)	US FDA approved
Vizag 2	Oncology (Omnichem JV)	Yet to approve
Vizag 3	Multiproduct (Granules)	Under Development
<b>PFI facilities</b>		
Jeedimetla	Multiproduct small scale	USFDA, Australian TGA, German HA approved
Gagilapur	Multiproduct large scale	USFDA, German HA, Australian TGA approved
<b>FD facilities</b>		
Gagilapur	Tablets	Informed (EU), USFDA
US	Complex product filings	

Source: Company, MOSL

## Building a strong management team

**Granule is building a strong management team as it enters the US generic space.**

Name	Designation	Hired in	Previous Company
Mr. Sreekanth Muttineni	COO	16-Sep	Aurobindo Pharma
Mr. Ganesh K	CFO	17-May	Dr. Reddy
Mr M Gopi Reddy	Sr. VP - Quality	16-Sep	Cipla
Mr. Jaishokan Velusami	Hear - R&D (Granules Pharma Inc.)	16-Apr	Actavis & Par Pharma Inc.

## Management team profile

### Mr C. Krishna Prasad – Chairman and Managing Director

Mr Prasad is the founder of Granules and has three decades of experience in the pharmaceutical industry. In 1984, he set up a Paracetamol manufacturing facility, focused on capital and process efficiency. Pharmaceutical Formulations Intermediates (PFIs) as a cost-efficient product for global formulations manufacturers is a concept pioneered and popularized by him.

### Dr. Prasada Raju – Executive Director

Dr Raju has over two decades of techno commercial experience in the global pharmaceutical space. His previous experience at Dr Reddy's encompasses new product development, fostering strategic partnerships, driving synergies between Industry and Academia, expanding into newer geographies, IP-driven early product portfolio development and program management.

### Mr Sreekanth Muttineni – Chief Operating Officer

Mr Muttineni joined Granules India in September 2016. During his nine-year tenure at Lupin Ltd, he was responsible for manufacturing operations. Prior to that, Mr Muttineni worked at Aurobindo Pharma as general manager – operations, and led the establishment of generic pharmaceutical facilities and commercialization.

### Mr. Ganesh K – Chief Financial Offer

Mr. Ganesh joined Granules India in May 2017. Before joining Granules, he was associated with Dr Reddy's for a span of 12 years as senior vice president – corporate finance. Mr Ganesh is a chartered accountant, having professional experience of more than 27 years. He specializes in leading large-scale M&A and treasury operations, with skills in executing business/financial management strategies and strengthening fiscal efficiency.

### Mr M Gopi Reddy – Sr. Vice President (Quality)

Mr Reddy joined Granules India in September 2016. He started his career 1995 as assistant manager production at GSK Pharma, where he worked for six years. He has 21 years of experience in corporate quality assurance, working with some of the biggest pharma companies in India. In his previous stint in Cipla as head quality compliance, he was responsible for developing systems and skills to ensure compliance at all the company's manufacturing sites globally.

**Mr Jaishokan Velusami – Head R&D (Granules Pharmaceuticals Inc.)**

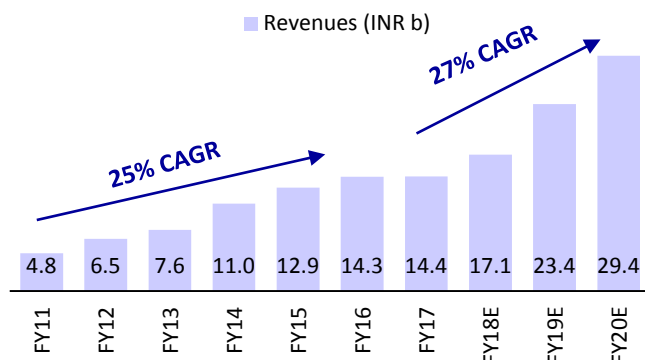
Mr Velusami has over 15 years of extensive multi-disciplinary expertise in drug development and portfolio management across a broad range of therapeutic areas, drug delivery systems and novel platform technologies. His extensive experience includes technology transfer, commercializing R&D assets, strategic planning and optimizing operation strategy across cross-functional teams. Prior to Granules, he led R&D programs at Actavis and Par Pharmaceutical Inc., and has also laid the foundation for successful start-ups (Novel and Kali Laboratories) in drug development and operational strategy.

**Mr. Stefan Lohle – Chief Marketing Officer**

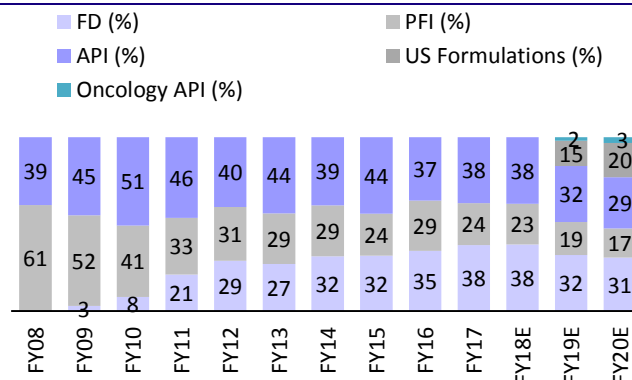
Mr Lohle has over two decades of experience in the pharmaceutical industry. He has been associated with Granules since 2001, and previously was head of Latin American operations, where he primarily focused on the PFI business. Mr Lohle has also served at Kimberly Clark Corporation for new project development.

## Story in charts

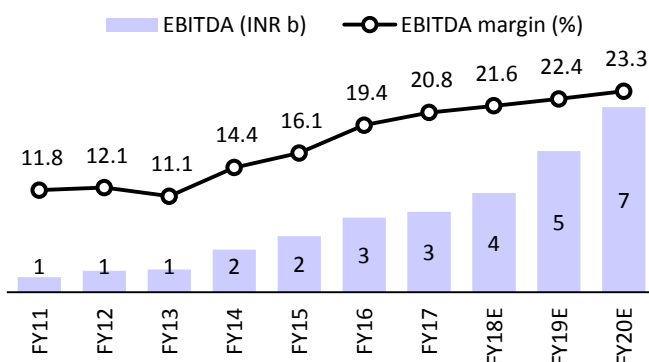
**Exhibit 12: Revenues to exhibit 27% CAGR over FY17-20E**



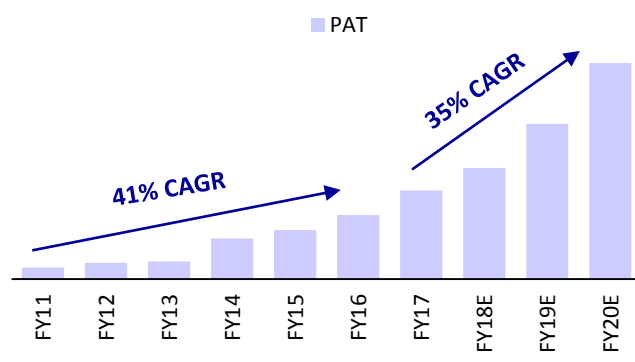
**Exhibit 13: Revenues from US biz to drive growth**



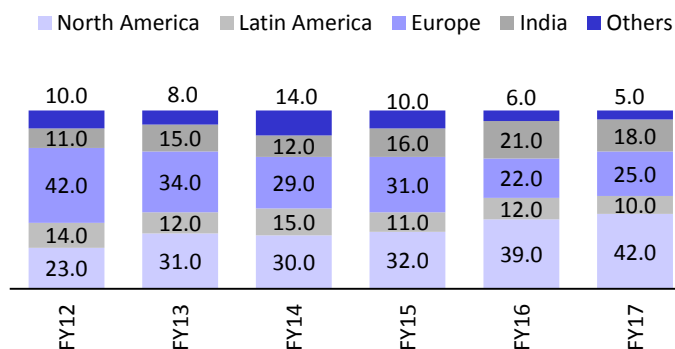
**Exhibit 14: EBITDA margins to expand to 23% by FY20E**



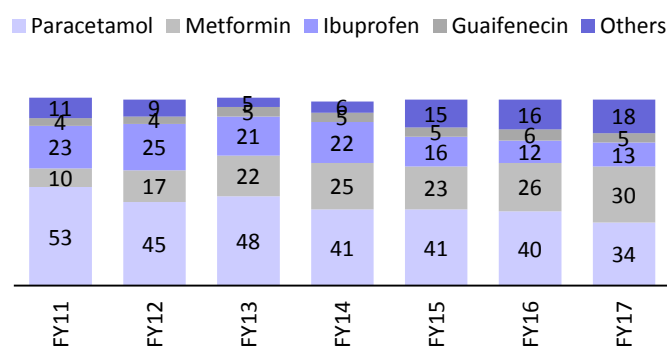
**Exhibit 15: PAT to exhibit 35% CAGR over FY17-20E**



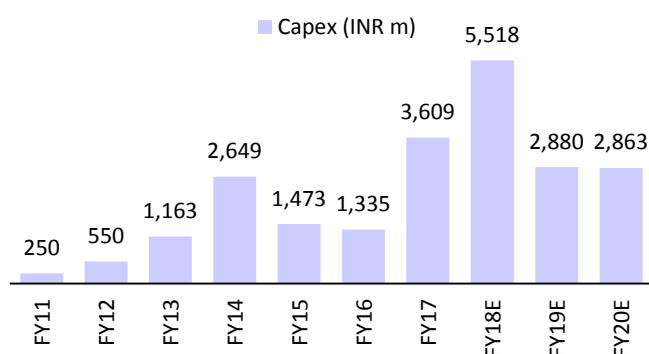
**Exhibit 16: Geograph- wise revenue break-up**



**Exhibit 17: Product mix changing (%)**

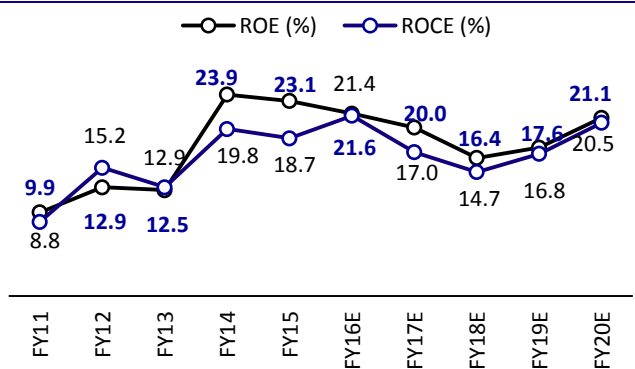


**Exhibit 18: Capex needs to continue with growth**



Source: Company, MOSL

**Exhibit 19: Return ratios to improve post FY18**



Source: Company, MOSL

## Valuation and view

Over last six years, GRAN reported a 39% earnings CAGR, led by improved profitability, higher operating leverage and a superior business mix. The company expanded its finished dosages business at a CAGR of 36% over FY11-16, leading to higher profitability and improved utilization of the existing capacity of 18b tablets. Profitability of the PFI business has also improved substantially, with the implementation of 6MT order capacity. As a result, GRAN has expanded its EBITDA margin from 11.8% in FY11 to ~21% in FY17.

We expect ~35% PAT CAGR to continue till FY20E, supported by ~27% revenue CAGR and ~250bp margin expansion. Our target price of INR200 discounts FY19E EPS at 18x, which (a) is at a 5-10% premium to peers and (b) implies a PEG of 0.5x (FY17-20E EPS CAGR of ~30%).

GRAN is trading at ~13x FY19E EPS. We argue for a P/E re-rating for GRAN, given (a) strong PAT growth outlook and (b) expansion in its high-margin CRAMs and US generic business.

**Exhibit 20: Peer comparison**

	CMP	Mkt. CAP (USD m)	P/E		EV/EBITDA		RoE (%)	
			FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
<b>Granules India</b>	<b>149</b>	<b>535</b>	<b>13.1</b>	<b>9.4</b>	<b>8.9</b>	<b>6.6</b>	<b>16.3</b>	<b>17.2</b>
Marksans Pharma	50	314	25.4	17.7	14.2	10.6	16.0	19.8
Shilpa Medicare	718	889	32.9	22.8	22.2	16.5	19.2	23.0
Dishman Pharma	299	743	18.6	14.8	11.1	9.6	14.1	15.9
IPCA	530	1040	21.0	15.8	11.8	9.5	12.4	14.4
Suven	184	363	20.2	17.6	13.2	11.4	16.2	16.5
Neuland	1450	199	24.7	16.8	11.9	9.0	23.4	27.1

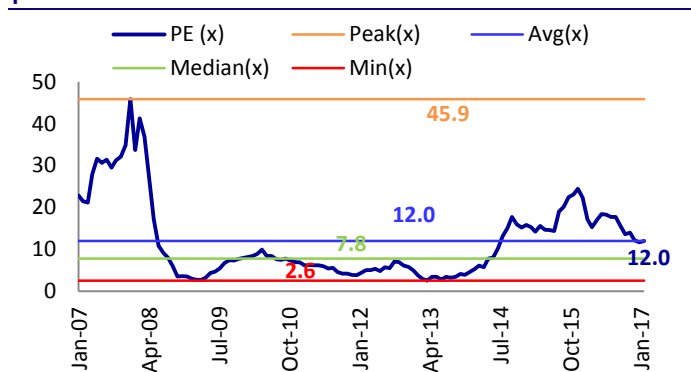
### Key catalysts to drive stock performance over medium term

- Finished dosage product approvals from regulated markets
- Commercialization of new capacity
- Higher-than-expected realizations from Omnicem JV

### Risks to our investment thesis

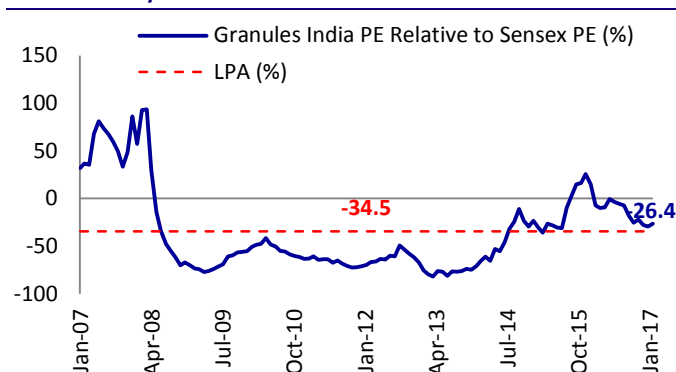
- Pricing pressure on existing products
- Regulatory risks related to already approved manufacturing facilities

**Exhibit 21: P/E band – significant re-rating over past 30 months**



Source: MOSL, Company

**Exhibit 22: P/E relative to Sensex**



Source: MOSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Net Sales</b>	<b>6,540</b>	<b>7,644</b>	<b>10,959</b>	<b>12,929</b>	<b>14,295</b>	<b>14,353</b>	<b>17,051</b>	<b>23,390</b>
Change (%)	37.6	16.9	43.4	18.0	10.6	0.4	18.8	37.2
<b>EBITDA</b>	<b>793</b>	<b>851</b>	<b>1,583</b>	<b>2,086</b>	<b>2,767</b>	<b>2,988</b>	<b>3,683</b>	<b>5,239</b>
EBITDA Margin (%)	12.1	11.1	14.4	16.1	19.4	20.8	21.6	22.4
Depreciation	207	231	298	527	643	715	1,018	1,481
<b>EBIT</b>	<b>586</b>	<b>620</b>	<b>1,285</b>	<b>1,560</b>	<b>2,124</b>	<b>2,273</b>	<b>2,664</b>	<b>3,759</b>
Interest	170	177	204	323	399	323	326	541
Other Income	14	21	43	43	77	99	140	140
Extraordinary items	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>430</b>	<b>464</b>	<b>1,124</b>	<b>1,280</b>	<b>1,802</b>	<b>2,050</b>	<b>2,479</b>	<b>3,358</b>
Tax	130	138	371	371	617	643	793	1,074
Tax Rate (%)	30.3	29.7	33.0	29.0	34.2	31.4	32.0	32.0
Min. Int. & Assoc. Share	0	0	0	0	0	-247	-375	-600
<b>Reported PAT</b>	<b>300</b>	<b>326</b>	<b>753</b>	<b>909</b>	<b>1,185</b>	<b>1,654</b>	<b>2,060</b>	<b>2,883</b>
<b>Adjusted PAT</b>	<b>300</b>	<b>326</b>	<b>753</b>	<b>909</b>	<b>1,185</b>	<b>1,654</b>	<b>2,060</b>	<b>2,883</b>
Change (%)	43.3	8.8	130.8	20.8	30.3	39.6	24.6	39.9

Balance Sheet							(INR Million)	
Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Share Capital	201	201	203	204	217	228	253	253
Reserves	2,250	2,547	3,357	4,107	6,444	9,683	15,035	17,241
<b>Net Worth</b>	<b>2,451</b>	<b>2,749</b>	<b>3,560</b>	<b>4,312</b>	<b>6,660</b>	<b>9,911</b>	<b>15,288</b>	<b>17,494</b>
Debt	2,036	2,705	4,417	4,872	4,767	6,517	6,517	7,017
Deferred Tax	230	245	303	493	580	580	580	580
<b>Total Capital Employed</b>	<b>4,717</b>	<b>5,698</b>	<b>8,280</b>	<b>9,676</b>	<b>12,008</b>	<b>17,008</b>	<b>22,386</b>	<b>25,092</b>
Gross Fixed Assets	3,545	3,874	6,539	8,438	9,622	12,992	18,492	20,992
Less: Acc Depreciation	1,041	1,240	1,714	2,272	2,941	3,656	4,674	6,155
<b>Net Fixed Assets</b>	<b>2,504</b>	<b>2,635</b>	<b>4,825</b>	<b>6,166</b>	<b>6,681</b>	<b>9,336</b>	<b>13,818</b>	<b>14,837</b>
Capital WIP	293	1,088	1,246	620	766	1,005	1,023	1,403
Investments	2	97	2	2	2	2	2	2
<b>Current Assets</b>	<b>2,914</b>	<b>3,007</b>	<b>3,848</b>	<b>5,184</b>	<b>7,080</b>	<b>9,120</b>	<b>10,398</b>	<b>12,539</b>
Inventory	1,099	1,365	1,742	2,245	3,071	2,802	3,296	4,475
Debtors	950	710	1,109	1,326	1,526	3,932	4,671	6,088
Cash & Bank	320	417	418	653	1,419	1,317	1,160	233
Loans & Adv, Others	545	515	580	959	1,065	1,069	1,270	1,742
<b>Curr Liabs &amp; Provns</b>	<b>996</b>	<b>1,128</b>	<b>1,640</b>	<b>2,295</b>	<b>2,521</b>	<b>2,455</b>	<b>2,854</b>	<b>3,689</b>
Curr. Liabilities	934	1,061	1,517	2,120	2,399	2,167	2,373	2,984
Provisions	62	68	123	175	122	288	481	706
<b>Net Current Assets</b>	<b>1,918</b>	<b>1,879</b>	<b>2,208</b>	<b>2,888</b>	<b>4,559</b>	<b>6,665</b>	<b>7,543</b>	<b>8,850</b>
<b>Total Assets</b>	<b>4,717</b>	<b>5,698</b>	<b>8,280</b>	<b>9,676</b>	<b>12,008</b>	<b>17,008</b>	<b>22,386</b>	<b>25,092</b>

## Financials and Valuations

### Ratios

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
<b>Basic (INR)</b>								
EPS	1.5	1.6	3.7	4.5	5.5	7.3	8.1	11.4
Cash EPS	2.5	2.8	5.2	7.0	8.4	10.4	12.2	17.2
Book Value	12.2	13.7	17.6	21.1	30.7	43.5	60.4	69.1
DPS	0.2	0.2	0.4	0.5	0.6	1.0	1.5	2.2
Payout (incl. Div. Tax.)	15.6	14.4	11.0	13.6	13.9	16.2	22.2	23.5
<b>Valuation(x)</b>								
P/E				33.4	27.2	20.5	18.3	13.1
Price / Book Value				7.0	4.8	3.4	2.5	2.2
EV/Sales				2.4	2.1	2.2	1.9	1.4
EV/EBITDA				15.0	11.0	10.8	8.8	6.5
Dividend Yield (%)				0.3	0.4	0.7	1.0	1.5
<b>Profitability Ratios (%)</b>								
RoE	12.9	12.5	23.9	23.1	21.6	20.0	16.4	17.6
RoCE	15.2	12.9	19.8	18.7	21.4	17.0	14.7	16.8
RoIC	10.8	10.6	15.9	14.6	15.2	12.7	10.3	11.7
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	1.4	1.3	1.3	1.3	1.2	0.8	0.8	0.9
Debtors (No. of Days)	52	33	36	36	38	98	98	93
Inventory (No. of Days)	61	65	58	63	78	71	71	70
Creditors (No. of Days)	67	72	77	92	86	84	75	67
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	0.7	0.8	1.1	1.0	0.5	0.5	0.4	0.4

### Cash Flow Statement

(INR Million)

Y/E Mar	2012	2013	2014	2015	2016	2017	2018E	2019E
Adjusted EBITDA	793	851	1,583	2,086	2,767	2,988	3,683	5,239
Non cash opr. exp (inc)	7	8	29	29	25	0	0	0
(Inc)/Dec in Wkg. Cap.	-436	146	-310	-363	-915	-2,208	-872	-2,030
Tax Paid	-115	-112	-238	-317	-490	-652	-793	-1,074
Other operating activities	7	19	16	18	51	0	-163	-203
<b>CF from Op. Activity</b>	<b>256</b>	<b>912</b>	<b>1,080</b>	<b>1,453</b>	<b>1,438</b>	<b>128</b>	<b>1,855</b>	<b>1,932</b>
(Inc)/Dec in FA & CWIP	-550	-1,163	-2,649	-1,473	-1,335	-3,609	-5,518	-2,880
<b>Free cash flows</b>	<b>-294</b>	<b>-251</b>	<b>-1,570</b>	<b>-20</b>	<b>103</b>	<b>-3,481</b>	<b>-3,663</b>	<b>-948</b>
(Pur)/Sale of Invt	2	-95	95	0	0	0	0	0
Others	3	-20	8	17	53	99	140	140
<b>CF from Inv. Activity</b>	<b>-545</b>	<b>-1,278</b>	<b>-2,546</b>	<b>-1,456</b>	<b>-1,281</b>	<b>-3,510</b>	<b>-5,378</b>	<b>-2,740</b>
Inc/(Dec) in Net Worth	0	6	11	11	1,059	1,873	3,775	0
Inc / (Dec) in Debt	691	682	1,709	628	191	1,750	0	500
Interest Paid	-168	-178	-205	-319	-406	-323	-326	-541
Divd Paid (incl Tax) & Others	-35	-47	-47	-83	-234	-21	-83	-77
<b>CF from Fin. Activity</b>	<b>489</b>	<b>463</b>	<b>1,467</b>	<b>238</b>	<b>609</b>	<b>3,280</b>	<b>3,367</b>	<b>-119</b>
<b>Inc/(Dec) in Cash</b>	<b>200</b>	<b>97</b>	<b>0</b>	<b>236</b>	<b>766</b>	<b>-102</b>	<b>-157</b>	<b>-927</b>
Add: Opening Balance	120	320	417	417	653	1,419	1,317	1,160
<b>Closing Balance</b>	<b>320</b>	<b>417</b>	<b>417</b>	<b>653</b>	<b>1,419</b>	<b>1,317</b>	<b>1,160</b>	<b>233</b>

## NOTES



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INDUSTRY	PHARMA
CMP (as on 16 Aug 2017)	Rs 127
Target Price	Rs 185
Nifty	9,897
Sensex	31,771
KEY STOCK DATA	
Bloomberg	GRAN IN
No. of Shares (mn)	229
MCap (Rs bn) / (\$ mn)	29/451
6m avg traded value (Rs mn)	254
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 157/91
	3M 6M 12M
Absolute (%)	(16.6) (0.8) (5.3)
Relative (%)	(21.4) (13.7) (18.1)
SHAREHOLDING PATTERN (%)	
Promoters	53.4
FIs & Local MFs	1.4
FPIs	12.2
Public & Others	33
Source : BSE	

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## Encouraging quarter

After several quarters of muted top-line growth, GRAN reported 10.2% growth in 1QFY18. Top-line came in at Rs 3.78bn, 5% ahead of estimates. The EBITDA margin at 20.3% was up 40bps YoY, in-line with expectations. While the gross margin expanded ~330bps YoY owing to the improving business mix, higher operating expenses prevented further expansion in the EBITDA margin. PAT was Rs 368mn, down ~5%YoY, largely owing to lower other income (Rs 4mn vs Rs 30mn YoY) and a higher tax rate.

We continue to believe that strong top-line growth will kick in starting 2HFY18. Mgt expects ~15-20% top-line growth, and ~25% profit growth in FY18, on the back of expected ANDA approvals for the US market, core business capacity expansion kicking in and a continued ramp-up in the Omnicem JV. However, the full impact of these factors is likely to be visible only from FY19. Overall, we expect GRAN to report ~17% revenue CAGR, ~21% EBITDA CAGR and ~24% PAT CAGR over FY17-20E. Maintain BUY with a revised TP of Rs 185 (16x June19E EPS).

- **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.

- **API and PFIs:** Growth in the API and PFI segments was less impressive at 2% and 10% YoY respectively. Going ahead, we expect a pick-up in PFI sales, owing to increased capacities. 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 us to forecast only a ~225bps expansion over FY17-20E.

### Financial Summary

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)	FY17	FY18E	FY19E	FY20E
Net Sales	3,787	3,437	10.2	3,553	6.6	14,106	16,277	19,850	22,369
EBIDTA	769	685	12.3	774	(0.5)	2,988	3,525	4,464	5,237
APAT	368	390	(5.5)	457	(19.4)	1,645	1,975	2,484	3,130
Diluted adj. EPS (Rs)	1.61	1.70	(5.5)	2.00	(19.4)	7.2	8.6	10.9	13.7
P/E (x)						17.6	14.7	11.7	9.2
RoE (%)						21.0	20.0	21.2	22.6

Source: Company, HDFC sec Inst Research # Consolidated

HDFC securities Institutional Research is also available on Bloomberg HSLB &lt;GO&gt; &amp; Thomson Reuters

*After several quarters of muted top-line growth, GRAN delivered 10% growth*

*There were certain higher operating expenses during the quarter, such as higher freight outward costs, certain one-time expenses in R&D projects*

*EBITDA margin remained largely flat, owing to the offsetting of the improved gross margin by certain non-recurring operating expenses*

### Quarterly Financials Snapshot (Consolidated)

Particulars	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
<b>Net Sales</b>	<b>3,787</b>	<b>3,437</b>	<b>10.2</b>	<b>3,553</b>	<b>6.6</b>
Material Expenses	1,800	1,746	3.1	1,562	15.2
Employee Expenses	390	339	15.2	362	7.8
Other Expenses	828	667	24.1	855	(3.2)
<b>EBITDA</b>	<b>769</b>	<b>685</b>	<b>12.3</b>	<b>774</b>	<b>(0.5)</b>
Depreciation	176	163		180	
<b>EBIT</b>	<b>593</b>	<b>522</b>	<b>13.8</b>	<b>594</b>	<b>(0.0)</b>
Other Income	3.8	30.3		12	
Interest Cost	82	79		77	
<b>PBT</b>	<b>515</b>	<b>472</b>	<b>9.0</b>	<b>529</b>	<b>(2.6)</b>
Tax	177	154		166	
Minority Interest	(30)	(71)		(94)	
<b>RPAT</b>	<b>368</b>	<b>390</b>	<b>(5.5)</b>	<b>457</b>	<b>(19.4)</b>
EO Items (Adj For Tax)	-	-		-	
<b>APAT</b>	<b>368</b>	<b>390</b>	<b>(5.5)</b>	<b>457</b>	<b>(19.4)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Material Expenses % Net Sales	47.5	50.8	(328)	44.0	356
Employee Expenses % Net Sales	10.3	9.9	45	10.2	12
Other Expenses % Net Sales	21.9	19.4	245	24.1	(221)
EBITDA Margin (%)	20.3	19.9	39	21.8	(146)
Tax Rate (%)	34.4	32.5	189	31.4	305
APAT Margin (%)	9.7	11.3	(162)	12.9	(314)

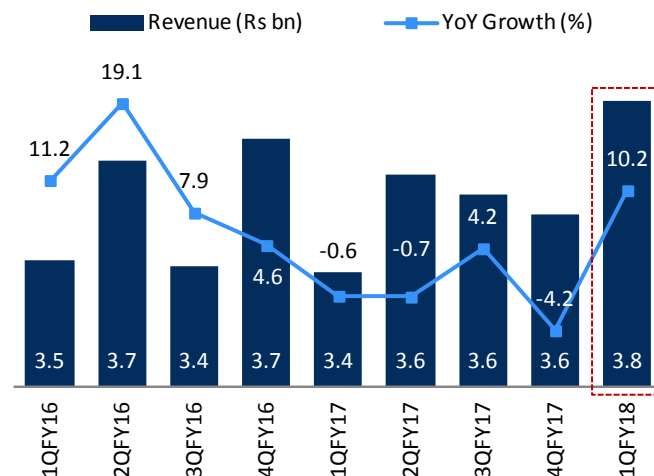
Source: Company, HDFC sec Inst Research

*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*

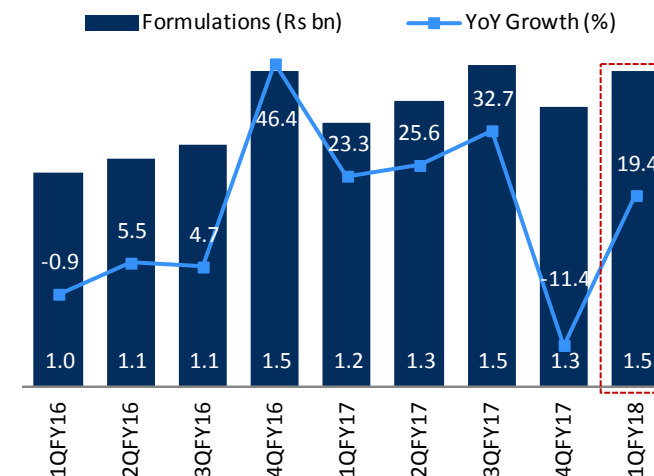
*Higher freight outward costs and certain one-time expenses on R&D projects restricted EBITDA margin expansion during the quarter. Mgt is confident of controlling these costs in coming quarters*

### Growth Revival In 1QFY18



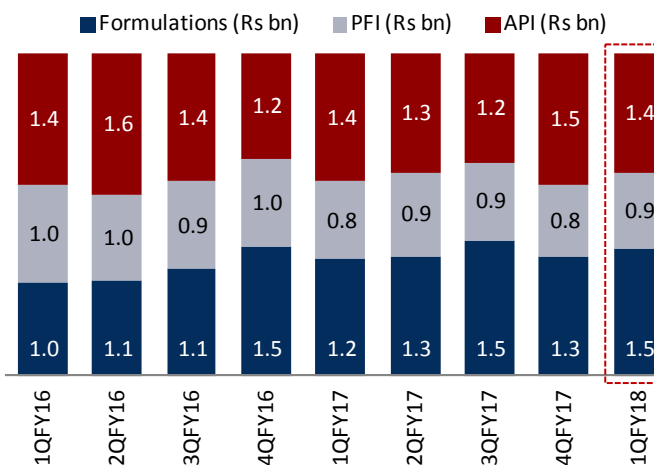
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### Formulations Continue To Scale Up



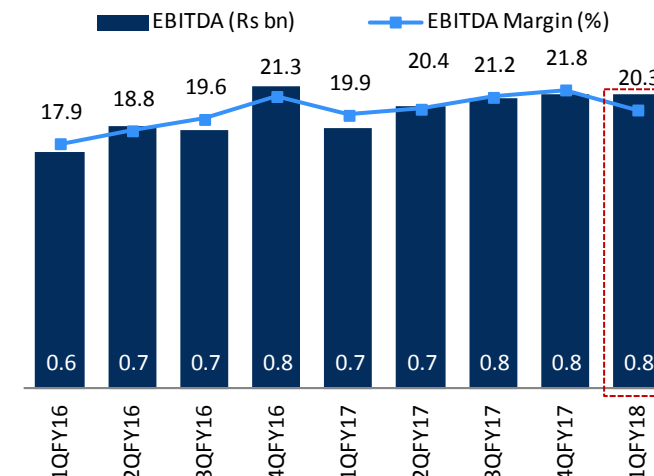
Source: Company, HDFC sec Inst Research

### Contribution From Formulations Rising



Source: Company, HDFC sec Inst Research

### EBITDA Margin: Opex Restricts Expansion



Source: Company, HDFC sec Inst Research

*API growth is likely to be stunted owing to increased captive consumption*

### Segmental Quarterly Performance

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Finished Dosages	1,477	1,237	19.4	1,314	12.4
PFIIs	909	825	10.2	782	16.3
APIs	1,401	1,375	1.9	1,457	(3.8)
<b>Total</b>	<b>3,787</b>	<b>3,437</b>	<b>10.2</b>	<b>3,553</b>	<b>6.6</b>

Source: HDFC sec Inst Research

### Assumptions

	FY16	FY17	FY18E	FY19E	FY20E
Finished Dosages	4,417	5,408	6,489	9,215	10,873
<i>Growth (%)</i>	<i>7.0</i>	<i>22.4</i>	<i>20.0</i>	<i>42.0</i>	<i>18.0</i>
PFIIs	3,843	3,415	3,825	4,284	4,712
<i>Growth (%)</i>	<i>24.0</i>	<i>(11.1)</i>	<i>12.0</i>	<i>12.0</i>	<i>10.0</i>
APIs	5,737	5,400	5,963	6,351	6,783
<i>Growth (%)</i>	<i>0.6</i>	<i>19.0</i>	<i>10.4</i>	<i>6.5</i>	<i>6.8</i>
<b>Total</b>	<b>14,248</b>	<b>16,422</b>	<b>18,801</b>	<b>22,848</b>	<b>25,892</b>
<i>Growth (%)</i>	<i>10.2</i>	<i>15.3</i>	<i>14.5</i>	<i>21.5</i>	<i>13.3</i>

Source: HDFC sec Inst Research

## Peer Valuations

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E	FY17	FY18E	FY19E	FY20E
Sun Pharma	1,169	486	NEU	455	26.0	16.0	23.1	30.5	18.7	30.4	21.0	15.9	17.9	10.1	13.3	15.5
Cadila Healthcare	495	483	BUY	590	14.5	15.1	19.1	26.3	33.2	32.0	25.3	18.4	23.5	19.9	20.6	23.3
Cipla	474	590	NEU	490	12.5	17.8	24.4	31.3	47.2	33.2	24.2	18.8	8.4	10.9	13.4	15.1
Lupin	432	961	BUY	1,650	57.0	51.6	70.0	87.7	16.9	18.6	13.7	11.0	20.9	16.2	19.0	20.1
Aurobindo Pharma	418	714	BUY	790	39.3	42.0	48.2	52.0	18.2	17.0	14.8	13.7	27.6	23.4	21.7	19.3
Dr Reddy's Labs	340	2,005	SELL	2,275	72.7	77.2	123.4	165.2	27.6	26.0	16.2	12.1	9.5	10.0	14.5	17.0
Torrent Pharma	224	1,324	BUY	1,450	51.2	48.4	67.3	88.4	25.9	27.4	19.7	15.0	22.1	18.3	22.6	24.7
Alkem Labs	217	1,815	BUY	2,000	74.6	67.1	89.7	110.5	24.3	27.0	20.2	16.4	21.9	16.8	19.5	20.5
Glenmark Pharma	175	622	BUY	1,035	29.6	31.3	47.4	58.3	21.0	19.8	13.1	10.7	18.1	16.1	20.0	20.3
Divis Labs	174	656	NEU	680	39.9	33.2	41.1	47.0	16.4	19.8	16.0	14.0	22.0	15.6	17.4	17.9
Alembic Pharma	97	515	BUY	635	21.4	23.6	29.7	37.8	24.1	21.8	17.4	13.6	23.0	21.6	22.7	23.8
<b>Granules India</b>	<b>29</b>	<b>127</b>	<b>BUY</b>	<b>185</b>	<b>7.2</b>	<b>8.6</b>	<b>10.9</b>	<b>13.7</b>	<b>17.6</b>	<b>14.7</b>	<b>11.7</b>	<b>9.2</b>	<b>21.0</b>	<b>20.0</b>	<b>21.2</b>	<b>22.6</b>

Source: HDFC sec Inst Research

***After the recently correction in the stock price, GRAN trades at extremely attractive valuations***

## Income Statement (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Revenues</b>	<b>13,572</b>	<b>14,106</b>	<b>16,277</b>	<b>19,850</b>	<b>22,369</b>
<b>Growth (%)</b>	<b>5.0</b>	<b>3.9</b>	<b>15.4</b>	<b>22.0</b>	<b>12.7</b>
Material Expenses	7,250	6,796	7,975	9,667	10,782
Employee Expenses	1,176	1,402	1,563	1,846	2,125
Other Expenses	2,383	2,919	3,213	3,873	4,225
<b>EBITDA</b>	<b>2,763</b>	<b>2,988</b>	<b>3,525</b>	<b>4,464</b>	<b>5,237</b>
<b>EBITDA Margin (%)</b>	<b>20.4</b>	<b>21.2</b>	<b>21.7</b>	<b>22.5</b>	<b>23.4</b>
<b>EBITDA Growth (%)</b>	<b>32.4</b>	<b>8.2</b>	<b>18.0</b>	<b>26.6</b>	<b>17.3</b>
Depreciation	584	715	823	1,058	1,158
<b>EBIT</b>	<b>2,179</b>	<b>2,273</b>	<b>2,702</b>	<b>3,406</b>	<b>4,079</b>
Other Income (Incl EO Items)	52	99	33	40	45
Interest	371	323	387	584	599
<b>PBT</b>	<b>1,860</b>	<b>2,050</b>	<b>2,348</b>	<b>2,862</b>	<b>3,525</b>
Tax (Incl Deferred)	611	652	704	830	987
<b>RPAT</b>	<b>19</b>	<b>247</b>	<b>332</b>	<b>452</b>	<b>593</b>
Minority Interest	<b>1,268</b>	<b>1,645</b>	<b>1,975</b>	<b>2,484</b>	<b>3,130</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>1,268</b>	<b>1,645</b>	<b>1,975</b>	<b>2,484</b>	<b>3,130</b>
<b>APAT Growth (%)</b>	<b>39.4</b>	<b>29.8</b>	<b>20.1</b>	<b>25.8</b>	<b>26.0</b>
<b>Adjusted EPS (Rs)</b>	<b>5.5</b>	<b>7.2</b>	<b>8.6</b>	<b>10.9</b>	<b>13.7</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	217	228	228	228	228
Reserves	6,399	8,807	10,483	12,530	14,773
<b>Total Shareholders Funds</b>	<b>6,616</b>	<b>9,035</b>	<b>10,711</b>	<b>12,758</b>	<b>15,001</b>
Long Term Debt	1,842	1,242	4,356	4,431	7,581
Short Term Debt	3,929	4,738	5,125	5,550	2,400
<b>Total Debt</b>	<b>5,771</b>	<b>5,981</b>	<b>9,481</b>	<b>9,981</b>	<b>9,981</b>
<b>Net Deferred Taxes</b>	<b>479</b>	<b>541</b>	<b>541</b>	<b>541</b>	<b>541</b>
<b>Other Non-current Liabilities &amp; Provns</b>	<b>47</b>	<b>39</b>	<b>45</b>	<b>60</b>	<b>797</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>12,912</b>	<b>15,596</b>	<b>20,778</b>	<b>23,340</b>	<b>26,320</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	5,599	6,443	11,120	11,562	11,904
CWIP	766	2,605	2,500	2,500	2,500
Investments	761	1,157	1,200	1,250	1,250
Other Non-current Assets	235	184	250	320	320
<b>Total Non-current Assets</b>	<b>7,360</b>	<b>10,389</b>	<b>15,070</b>	<b>15,632</b>	<b>15,974</b>
<b>Cash &amp; Equivalents</b>	<b>1,303</b>	<b>498</b>	<b>483</b>	<b>1,550</b>	<b>4,026</b>
Inventories	2,537	2,760	3,166	3,820	4,254
Debtors	3,753	4,177	4,013	4,894	5,516
Other Current Assets	586	915	1,056	1,287	1,451
<b>Total Current Assets</b>	<b>6,877</b>	<b>7,852</b>	<b>8,235</b>	<b>10,002</b>	<b>11,220</b>
Creditors	1,811	2,160	2,477	2,989	3,328
Other Current Liabilities & Provns	817	984	533	855	1,572
<b>Total Current Liabilities</b>	<b>2,628</b>	<b>3,144</b>	<b>3,010</b>	<b>3,844</b>	<b>4,900</b>
<b>Net Current Assets</b>	<b>4,249</b>	<b>4,708</b>	<b>5,225</b>	<b>6,158</b>	<b>6,320</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>12,912</b>	<b>15,596</b>	<b>20,778</b>	<b>23,340</b>	<b>26,321</b>

Source: Company, HDFC sec Inst Research



## Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	1,860	2,050	2,348	2,862	3,525
Non-operating & EO items	716	-	-	-	-
Interest expenses	318	223	354	544	554
Depreciation	584	715	823	1,058	1,158
Working Capital Change	(735)	(467)	(510)	(918)	575
Tax Paid	(611)	(652)	(704)	(830)	(987)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,132</b>	<b>1,869</b>	<b>2,310</b>	<b>2,715</b>	<b>4,825</b>
Capex	(1,735)	(3,131)	(5,395)	(1,500)	(1,500)
Free cash flow (FCF)	397	(1,261)	(3,084)	1,215	3,325
Non-operating Income	27	(777)	(11)	(10)	45
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,708)</b>	<b>(3,908)</b>	<b>(5,405)</b>	<b>(1,510)</b>	<b>(1,531)</b>
Debt Issuance/(Repaid)	30	210	3,500	500	-
Interest Expenses	(371)	(323)	(387)	(584)	(599)
FCFE	84	(2,151)	19	1,121	2,695
Share Capital Issuance	805	1,345	-	-	-
Dividend	(169)	(246)	(300)	(437)	(887)
Others	35	247	267	382	593
<b>FINANCING CASH FLOW ( c )</b>	<b>331</b>	<b>1,234</b>	<b>3,080</b>	<b>(139)</b>	<b>(893)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>755</b>	<b>(805)</b>	<b>(15)</b>	<b>1,067</b>	<b>2,401</b>
<b>Closing Cash &amp; Equivalents</b>	<b>1,303</b>	<b>498</b>	<b>483</b>	<b>1,550</b>	<b>3,951</b>

Source: Company, HDFC sec Inst Research

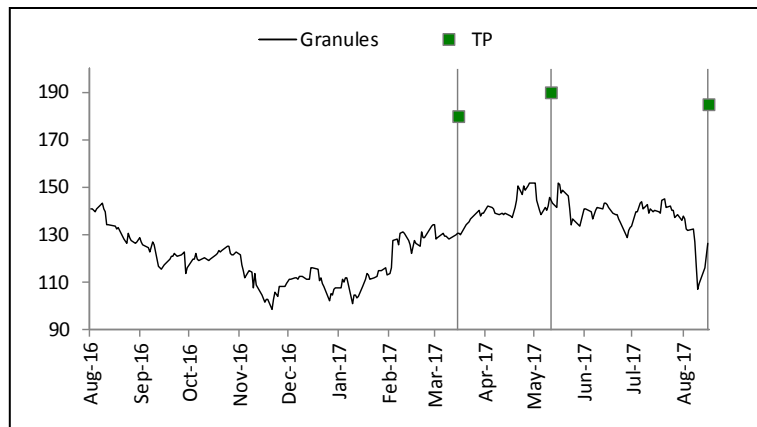
## Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	46.6	51.8	51.0	51.3	51.8
EBITDA Margin	20.4	21.2	21.7	22.5	23.4
APAT Margin	9.3	11.7	12.1	12.5	14.0
RoE	23.2	21.0	20.0	21.2	22.6
RoIC (or Core RoCE)	14.8	12.7	11.6	12.4	14.3
RoCE	13.0	13.1	12.3	13.1	14.3
<b>EFFICIENCY</b>					
Tax Rate (%)	32.9	31.8	30.0	29.0	28.0
Fixed Asset Turnover (x)	1.6	1.5	1.1	1.2	1.2
Inventory (days)	68.2	71.4	71.0	70.2	69.4
Debtors (days)	100.9	108.1	90.0	90.0	90.0
Other Current Assets (days)	15.8	23.7	23.7	23.7	23.7
Payables (days)	48.7	55.9	55.6	55.0	54.3
Other Current Liab & Provns (days)	22.0	25.5	12.0	15.7	25.6
Cash Conversion Cycle (days)	114.3	121.8	117.2	113.2	103.1
Debt/EBITDA (x)	2.1	2.0	2.7	2.2	1.9
Net D/E (x)	0.7	0.6	0.8	0.7	0.4
Interest Coverage (x)	5.9	7.0	7.0	5.8	6.8
<b>PER SHARE DATA (Rs)</b>					
EPS	5.5	7.2	8.6	10.9	13.7
Dividend	0.6	0.9	1.1	1.6	3.2
Book Value	28.9	39.5	46.8	55.8	65.6
<b>VALUATION</b>					
P/E (x)	22.8	17.6	14.7	11.7	9.2
P/BV (x)	4.4	3.2	2.7	2.3	1.9
EV/EBITDA (x)	11.8	11.2	10.7	8.4	6.6
EV/Revenues (x)	2.4	2.4	2.3	1.9	1.6
OCF/EV (%)	6.6	5.6	6.1	7.3	13.9
FCF/EV (%)	1.2	(3.8)	(8.1)	3.3	9.6
FCFE/Mkt Cap (%)	0.3	(7.7)	0.1	3.9	9.3
Dividend Yield (%)	0.5	0.7	0.9	1.3	2.6

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
15-Mar-17	129	BUY	180
12-May-17	146	BUY	190
17-Aug-17	127	BUY	185

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**BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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