

Granules India (Granules) is an integrated Indian pharmaceutical company. It manufactures Finished Dosages (FDs), Pharmaceutical Formulation Intermediates (PFIs) and Active Pharmaceutical Ingredients (APIs). It caters to more than 300 clients (including some of the prominent branded and generic players) across 75 nations.

### Key Developments

#### Diversification of product portfolio:

Granules acquired Auctus Pharma, a manufacturer of active pharmaceutical ingredients (APIs) for Rs 120 cr. This acquisition has added 12 more APIs to existing catalogue across different therapeutic segments. It has further helped in diversifying its product portfolio by providing access to potentially high margin products with a focus on development of new APIs (through in-house R&D). Auctus Pharma was a loss-making entity at the time of acquisition. However, Granules changed its product mix towards high margin products.

Granules has 22 regulatory filings under the API division which include 8 European filings, 4 USDMFs (Drug Master File), 3 South Korean DMFs, 3 IDL (Import Drug License) China, 2 Health Canada, 1 Italy and 1 Spain.

#### OTC launches in the US:

With increasing emphasis on finished dosages (FDs), the company has acquired a FD facility in Virginia to introduce value added products and formulate complex molecules. This acquisition will help Granules in filing its own ANDAs in the US market. It has four product approvals for the US market including the recent approval for Ibuprofen ANDA (Abbreviated New Drug Application). This has further strengthened company's core business and enabled it to increase product offerings to customers in the US.

#### Foray into CRAMS through Omnicem JV:

Granules-Omnicem is a 50:50 JV between Granules and Ajinomoto Omnicem of Belgium, which is a 100% subsidiary of Ajinomoto of Japan. This JV has enabled Granules to enter the high-margin CRAMS (Contract Research & Manufacturing Services) market without any major investments in R&D. Omnicem JV has not only enabled it to manufacture high-value intermediates, but also helped in its transition from a commoditised player to a high quality CRAMS player as the partner provides support in quality, engineering and technology transfer related matters. Omnicem, a division of Ajinomoto, works with global pharmaceutical companies and makes patent protected products for regulated markets.

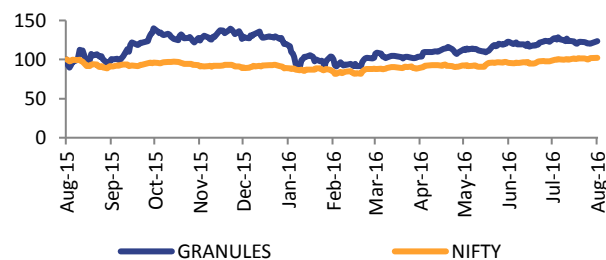
### Market Data

<b>CMP (Rs.)</b>	<b>133</b>
Face Value	1.0
52 week H/L (Rs.)	164/101
Adj. all time High (Rs.)	164
Decline from 52WH (%)	19.3
Rise from 52WL (%)	31.0
Beta	0.9
Mkt. Cap (Rs.Cr)	2,874
Enterprise Value(Rs. Cr)	3,300

### Fiscal Year Ended

	FY14	FY15	FY16
<b>Total revenue (Rs.cr)</b>	1,097	1,294	1,431
<b>Adj. PAT (Rs.cr)</b>	75	91	118
<b>Share Capital (Rs.Cr)</b>	20	20	20
<b>EPS (Rs.)</b>	3.7	4.5	5.5
<b>P/E (x)</b>	35.7	29.8	24.3
<b>P/BV (x)</b>	7.6	6.3	4.5
<b>ROE (%)</b>	23.9	23.1	22.1

### One year Price Chart



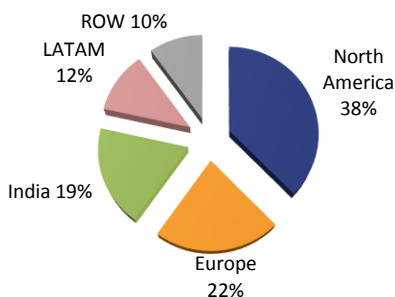
Shareholding	Jun16	Mar16	Diff.
<b>Promoters (%)</b>	51.1	51.2	(0.1)
<b>Public (%)</b>	48.9	48.8	0.1
<b>Others (%)</b>	-	-	-

Established in the year 1991, Granules India is an integrated Indian pharmaceutical company. It is based out of Hyderabad.

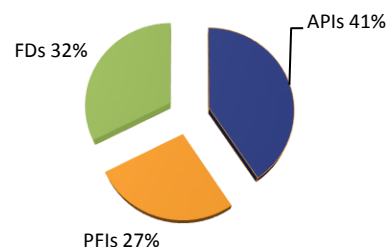
## Granules India Ltd.: Business overview

Based out of Hyderabad, Granules India (incorporated in 1991) is an integrated Indian pharmaceutical company. It manufactures Finished Dosages (FDs), Pharmaceutical Formulation Intermediates (PFIs) and Active Pharmaceutical Ingredients (APIs). It caters to more than 300 customers (including some of the large branded and generics players) across 75 nations. Regulated markets of North America and Europe account for 60% of overall revenue, while the rest comes from Latin America, India and RoW.

Geography wise revenue breakup (FY16)

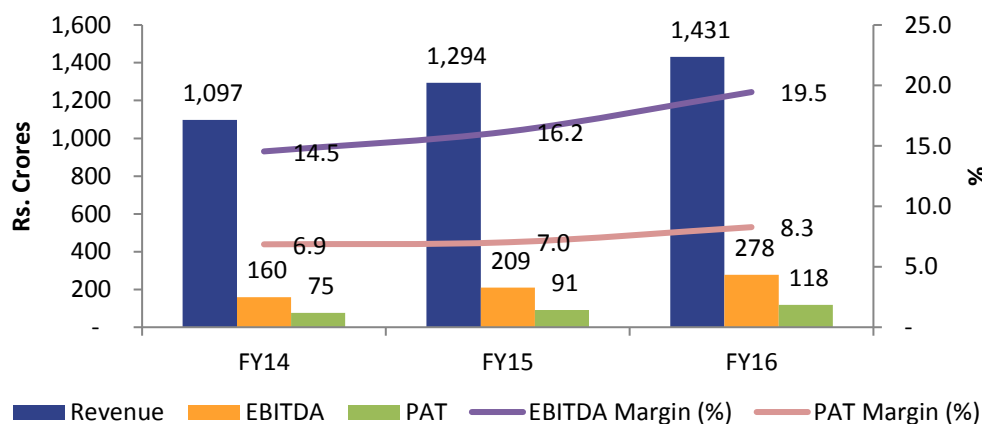


Business break-up



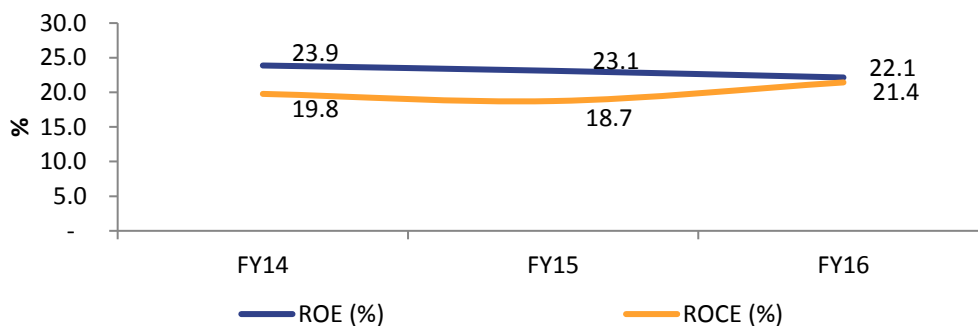
Source: Company, In-house research

Financial snapshot of Granules



Source: Company, In-house research

Return Ratios Trend



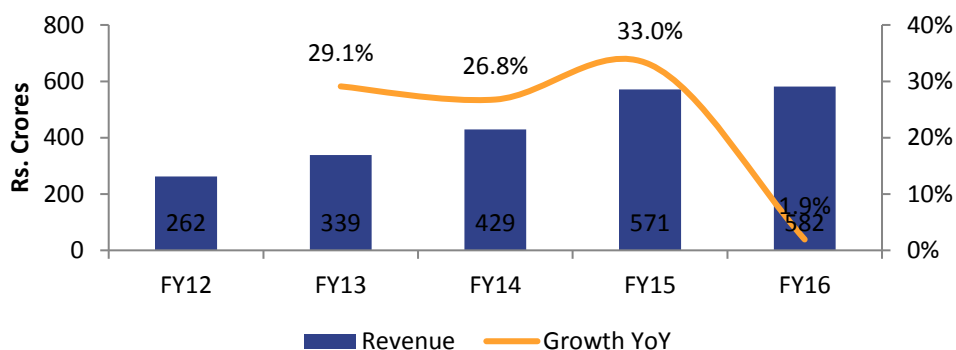
Source: Company, In-house research

## Change in the product mix post Auctus acquisition

Granules is one of the largest producer of APIs and is a global leader in Ibuprofen, Paracetamol, Metformin, Guaifenesin and Methocarbamol. Despite being in a commoditized business, its API business grew at a CAGR of 22% over FY12-16 due to continuous enhancement of manufacturing processes and economies of scale.

In Nov-13, the company acquired Auctus Pharma, a manufacturer of active pharmaceutical ingredients (APIs) for Rs 120cr. This acquisition has added 12 more APIs to existing catalogue across different therapeutic segments. Further, it has helped in diversifying its product portfolio by providing access to potentially high margin products with a focus on development of new APIs through in-house R&D. Auctus Pharma was a loss-making entity at the time of acquisition. However, Granules changed its product mix towards high margin products. The company has 22 regulatory filings under the API division which include 8 European filings, 4 USDMFs, 3 South Korean DMFs, 3 IDL China, 2 Health Canada, 1 Italy and 1 Spain.

### APIs business grew at a CAGR of 22% during FY12-16



Source: Company, In-house research

## Growth in the production of FDs (Finished Dosages)

The manufacture of finished dosages (FDs) represents the apex of the value chain. The company has increased its production from 3.5 bn tablets in FY12 to 6 bn tablets in FY16. The business accounts for 32% of the company's revenue. The FDs segment has grown at a CAGR of 25% over FY12-16 on account of strong contract manufacturing orders from global innovators & large generic players (half of this business was driven by CMO contracts) and product launches in the US. It has four product approvals for the US market including the recent approval for Ibuprofen ANDA for 400 mg, 600 mg and 800 mg tablets. This has further strengthened the company's core business and enabled it to increase product offerings in the US.

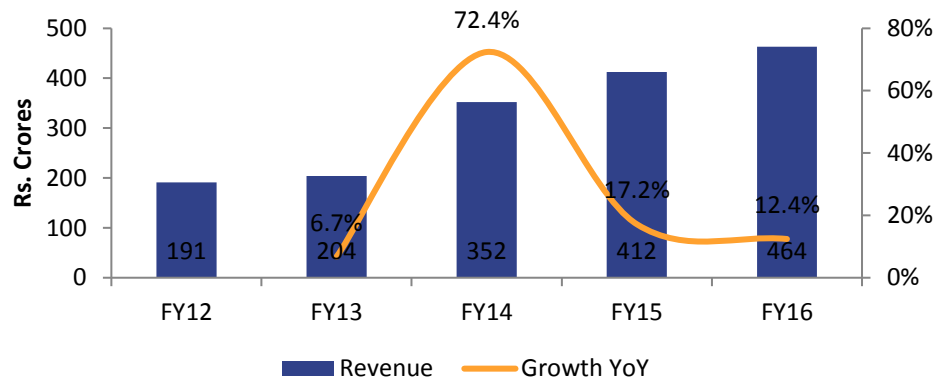
With the increasing emphasis on finished dosages, the company has acquired a FD facility in Virginia to introduce value added products and formulate complex molecules.

## OTC business of the company

Granules has ventured into manufacturing and marketing of OTC products by extending its core business in the North American markets. The company has adopted a focused approach towards marketing of OTC products directly to retail outlets in the US. Importantly, it is continuously increasing product offerings by introducing new OTC products.

Recently, the US subsidiary of Granules entered into an agreement with Par Pharmaceutical to market generic version of OTC omeprazole and sodium bicarbonate in North America.

### Finished Dosage revenue grew at a CAGR of 24.8% during FY12-16



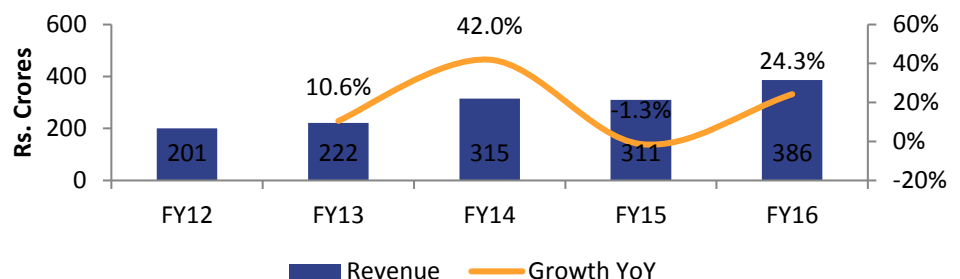
Source: Company, In-house research

## Contribution of the PFI business

Granules has pioneered the concept of commercializing PFIs. It entered this business segment in the early part of the 1990's, since it believed that most of the manufacturers were not efficiently producing PFIs. Earlier, these products had to be tested individually, which raised the expenses for global pharma companies. Sensing huge opportunity in this space, Granules forayed into the PFI segment.

The company has one of the largest PFI facility in the world with a batch size of six tons (one of the largest single-site FD facilities in the world) backed by increased capacity of API over the years. It files its own ANDAs and dossiers which enable customers to quickly enter a market instead of filing their own applications. The company produces PFIs that are taken from drums to hoppers directly and from there, these ingredients are compressed into tablets and delivered to customers. Increasing demand for PFIs is driven by reduction of vendor development cost, lower testing costs and saving of time & technical resources.

### PFI business growth trend



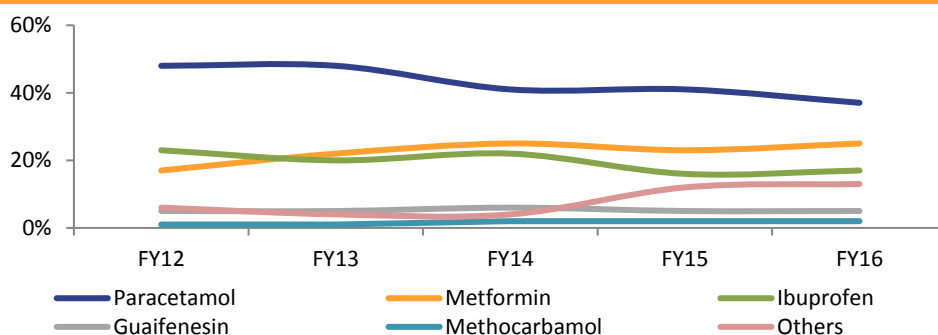
Source: Company, In-house research

## Foray into CRAMS through Omnichem JV

Granules-Omnichem is a 50:50 JV between Granules and Ajinomoto Omnichem of Belgium, which is a 100% subsidiary of Ajinomoto of Japan. This JV has given entry to Granules in the high-margin CRAMS market without any major investments in R&D. Omnichem JV not only allows it to manufacture high-value intermediates, but has also helped in its transition from a commoditised player to a high quality CRAMS player (as partner provides support in quality, engineering and technology transfer related matters). Omnichem, a division of Ajinomoto, works with global pharmaceutical companies and makes patent protected products for regulated markets.

The JV has a dedicated manufacturing facility for high-value active pharmaceutical ingredients (APIs) and has already started commercial operations in FY16. Till the facility gets regulatory approvals it will produce API intermediates for JV partner. Post approvals, the JV will produce APIs for global innovators and branded companies.

### Top molecules revenue share over FY12-16



Source: Company, In-house research

## Enhancing Capacity

The company increased the Paracetamol capacity in FY16 at its Bonthapally plant by 3,000 TPA in order to overcome the capacity constraints at API level. Further, it is enhancing Metformin capacity (contributes around 25% to total revenue) from 2,000 TPA to 9,000 TPA in two phases (first phase is 3,500 TPA and the second phase will go up by another 3,500 TPA, ending in FY19). Moreover, first phase validations will start in Q3FY17.

## Manufacturing Units

Value Chain	Facility Location	Approvals
API	Bonthapally	U.S. FDA, EDQM, WHO GMP, ISO 14001:2004, OHSAS 18001:2007
	Jeedimetla	U.S. FDA, KFDA, TGA, EDQM
	Jingmen, China (Biocause JV)	U.S. FDA, MHRA, EDQM, TGA, KFDA, Health Canada
	Vizag	U.S. FDA, EDQM, KFDA, WHO GMP, Health Canada
	Vizag SEZ (Omnichem JV - CRAMS)	
PFI	Gagillapur	U.S. FDA, EDQM, TGA, GHCA
	Jeedimetla	HHA (Germany)
	Gagillapur	U.S. FDA, TGA, GHCA
	Virginia, the USA	Yet to be applied
API Intermediates	Bonthapally (Auctus)	N.A.

Source: Company, In-house research

## Balance Sheet (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
Share Capital	20	20	22
Reserve and surplus	335	411	617
<b>Net Worth</b>	<b>356</b>	<b>431</b>	<b>639</b>
Minority Interest	-	-	27
Total Debt	442	482	474
Other non-current liabilities	34	53	63
<b>Total Equity &amp; Liabilities</b>	<b>832</b>	<b>967</b>	<b>1,204</b>
Net Fixed Assets	607	679	745
Capital WIP	-	-	-
Goodwill	-	-	-
Investments	-	-	-
Net current assets	217	264	442
Deferred tax assets (net)	-	-	-
Other non-current assets	8	24	16
<b>Total Assets</b>	<b>832</b>	<b>967</b>	<b>1,204</b>

## Cash Flow (Consolidated)

Y/E (Rs. Cr)	FY14	FY15	FY16
<b>Net profit/loss before tax&amp; extraordinary items</b>	<b>112</b>	<b>128</b>	<b>180</b>
Net cashflow from operating activities	108	150	144
Net cash used in investing activities	(255)	(146)	(128)
Net cash used from financing activities	147	19	61
<b>Net inc/dec in cash and cash equivalents</b>	<b>-</b>	<b>24</b>	<b>77</b>

## Financial performance snapshot

Net sales of the company stood at Rs. 1,431 Crores in FY16, a growth of 10.6% as compared to Rs. 1,294 Crores in FY15. The operating expenses of the company increased by 6.3% YoY to Rs. 1,153 Crores from Rs. 1,084 Crores during the year. The company's EBITDA grew by 33.0% YoY to Rs. 278 Crores in FY16 from Rs. 209 Crores in FY15. EBITDA margin expanded by 327 bps to 19.5% in FY16 from 16.2% in FY15. Net profit increased by 30.3% to Rs. 118 Crores in FY16 from Rs. 91 Crores in FY15. PAT Margin expanded by 125 bps to 8.3% from 7.0% during the period under review.

## Profit & Loss Account (Consolidated)

(Rs.Cr)	FY14	FY15	FY16
<b>Net revenue</b>	<b>1,097</b>	<b>1,294</b>	<b>1,431</b>
Expenses	938	1,084	1,153
<b>EBITDA</b>	<b>160</b>	<b>209</b>	<b>278</b>
Depreciation	30	53	64
<b>EBIT</b>	<b>130</b>	<b>157</b>	<b>214</b>
Interest cost	20	32	40
Other Income	3	4	6
<b>Profit Before Tax</b>	<b>112</b>	<b>128</b>	<b>180</b>
Tax	37	37	62
<b>Profit After Tax</b>	<b>75</b>	<b>91</b>	<b>118</b>
Minority Interest	-	-	-
P/L from Associates	-	-	-
<b>Adjusted PAT</b>	<b>75</b>	<b>91</b>	<b>118</b>
E/o expense / (income)	-	-	-
<b>Reported Profit</b>	<b>75</b>	<b>91</b>	<b>118</b>

## Key Ratios (Consolidated)

	FY14	FY15	FY16
EBITDA Margin (%)	14.5	16.2	19.5
EBIT Margin (%)	11.8	12.1	15.0
NPM (%)	6.9	7.0	8.3
ROCE (%)	19.8	18.7	21.4
ROE (%)	23.9	23.1	22.1
EPS (Rs.)	3.7	4.5	5.5
P/E (x)	35.7	29.8	24.3
BVPS(Rs.)	17.5	21.1	29.5
P/BVPS (x)	7.6	6.3	4.5
EV/EBITDA (x)	19.4	14.9	11.6



Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

**Disclaimer**

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.