

## Result Snapshot

| <u>Amt. in Rs. Crs.</u>  | <b>Q1FY21</b> | <b>Q4FY20</b> | <b>Q-o-Q(%)</b> | <b>Q1FY20</b> | <b>Y-o-Y(%)</b> |
|--------------------------|---------------|---------------|-----------------|---------------|-----------------|
| <b>Revenue</b>           | 735.60        | 599.88        | 22.62%          | 595.27        | 23.57%          |
| <b>Other Income</b>      | 5.63          | 22.52         |                 | 1.85          |                 |
| <b>Total Income</b>      | 741.23        | 622.40        | 19.09%          | 597.13        | 24.13%          |
| <b>EBITDA</b>            | 183.59        | 99.95         | 83.68%          | 118.62        | 54.77%          |
| <b>EBIDTA (%)</b>        | 24.96%        | 16.66%        |                 | 19.93%        |                 |
| <b>EBIT</b>              | 149.51        | 60.98         | 145.19%         | 89.95         | 66.21%          |
| <b>Profit/Loss in JV</b> |               |               |                 | 25.49         |                 |
| <b>Exceptional Item</b>  |               | 59.77         |                 |               |                 |
| <b>PBT</b>               | 149.19        | 136.70        | 9.14%           | 110.43        | 35.10%          |
| <b>PAT</b>               | 111.45        | 92.34         | 20.70%          | 83.24         | 33.88%          |
| <b>PAT%</b>              | 15.15%        | 15.39%        |                 | 13.98%        |                 |

## Result / Con-call Highlights:

### 1) Result Update:

Granules India reported a 24.13% growth on Y-o-Y basis in revenue to Rs. 741.23 cr for the quarter ended June, 2020 mainly on account of growth in PFI (pharmaceutical formulation intermediates) and FD (finished dosage) segment. The company reported EBITDA of Rs. 183.59 cr with EBITDA margins improving 503 bps on Y-o-Y basis to 24.96% in Q1 FY21. Net profit for the quarter was at Rs. 111.45 cr resulting in a growth of 33.88% compared to same period last financial year. Granules India also declared an interim dividend of Rs. 0.25 per share for the quarter ended June, 2020.

| <b>Revenue by Region (Rs. Cr.)</b>    | <b>Q3 FY20</b> | <b>Q4 FY20</b> | <b>Q1 FY21</b> |
|---------------------------------------|----------------|----------------|----------------|
| North America                         | 372.6          | 345.0          | 381.4          |
| Europe                                | 149.1          | 86.4           | 140.5          |
| Latin America                         | 50.9           | 50.5           | 86.2           |
| India                                 | 27.9           | 100.4          | 84.2           |
| RoW                                   | 103.4          | 17.5           | 43.3           |
| <b>Total</b>                          | <b>703.9</b>   | <b>599.8</b>   | <b>735.6</b>   |
| <b>Revenue Prodcut Wise (Rs. Cr.)</b> | <b>Q3 FY20</b> | <b>Q4 FY20</b> | <b>Q1 FY21</b> |
| API                                   | 209.1          | 177.7          | 212.2          |
| PFI                                   | 115.5          | 78.1           | 137.9          |
| FD                                    | 379.4          | 344.0          | 385.6          |
| <b>Total</b>                          | <b>703.9</b>   | <b>599.8</b>   | <b>735.6</b>   |

## Result / Con-call Highlights: (Continued)

### 2) Con Call Highlights

#### Business Outlook

Top five core molecules (Paracetamol, Ibuprofen, Metformin, Methacarbamol and Guaifenesin) contribute to ~85% of Q1 FY21 revenue. As Granules produces these molecules in large volumes with more efficiency they continue to dominate the product portfolio. Management has guided for these 5 molecules to account for 70% - 75% of the topline for next 3 – 4 years along with 30% PAT growth in FY21 and 25% PAT growth in FY22.

However, free cash flow generation from the company still remains a concern. Over the past 4 years the company has generated free cash of -160.2 cr, - 492 cr, -38.2 cr and 264.5 cr in FY17, FY18, FY19 and FY20 respectively. Free cash flow generation in Q1 FY21 also remained subdued at Rs. 37.3 cr due to stretched working capital cycle on account of increase in sales. Management has reiterated their focus on generating better free cash flow generation and reduction in gross debt level which is positive.

#### Expansion

With capacities running at 130% - 140% level against same period last year, the company is planning for an expansion for multi-purpose sustained release (SR) facility as well as increasing its API capacities. Accordingly the management has increased the CAPEX guidance for this year to be ~ Rs. 400 cr in FY21 and ~ Rs. 300 cr in FY22. The entire CAPEX is to be funded by internal accrual and would focus on increasing the EBITDA margins and bottom line more than topline.

The SR facility would help granules to add new molecules like Omeprazole whereas API facility would help backward integrate and improve EBITDA margins. Along with increasing API facility, the same plant would also enhance the oncology facility and would pave the way for next 3 – 4 years of growth.

#### Pledge

The promoter pledge has reduced from ~13% to ~3.4% during the quarter and the management has guided to completely remove the pledge in the coming few months thereby de-risking the uncertain share price movements.

### 3) Outlook

Granules has started focusing on higher margin business like PFI and FD and has laid out a roadmap for capacity expansion to help aid future growth. As the company becomes one of the key players in manufacturing high volume molecules and shifts its focus to continuously improving its free cash flow generation we believe re-rating is on card. We opine to Buy on Dips as the company trades at fair valuation of 18.7x TTM earnings.

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