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# Granules India: Scaling operations

Though there will be short-term pressure as the company builds scale, things should improve from 2018-19.

**A**fter several lacklustre quarters, Granules India reported a decent top line growth for the first quarter of 2017-18. Its operating margin also improved on account of a better product mix. The company's net profit, however, fell 6% year on year due to lower other income and a higher tax rate.

Analysts are getting bullish on this counter for several reasons: First, Granules India has started taking steps to improve its operating margin. Margin improvement in the first quarter would have been better had it not been impacted by higher raw material prices. Since the company has already increased prices to offset the rise in raw material prices, operating margin should be better in the second quarter.

Second, Granules India is looking to become a bigger pharma player and is stepping up its capital expenditure. The company's game plan is to increase capacity significantly to benefit from the economies of scale. It spent ₹15 crore in the first quarter and is planning to spend around ₹1,000 crore over the next three years. These expansions will help raise its active pharma intermediaries (API) capacity by 3.5-times. Similarly, the company's metformin capacity will go up by 4.5-times, guaifenesin capacity by 1.6-times and paracetamol capacity 4-times.

Third, regulated markets like North America and Europe account for 67% of the company's overall revenue and it plans to generate more business from these markets. Granules India has acquired a new facility in Virginia, US, for de-

veloping critical products for these markets. Taking into account products from this facility, the company aims to develop around 30 new products for North America and European markets in the next three years.

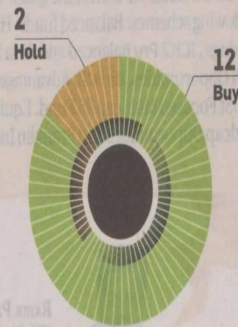
Though there could be a spike in the company's debt due to its increased capital expenditure, it wouldn't necessarily overburden the company as its current debt-equity ratio is

just around 0.07. The company's cash flow situation should also improve, once new facilities start production. With most of them expected to go on stream during 2018-19, Granules India should be able to generate a free cash flow of more than ₹100 crore in 2018-19 and pare down its net debt from ₹610 crore in 2016-17 to 370 crore in 2020-21. The counter is currently trading at discount to its peers and analysts are hopeful that this discount will reduce due to the impending increase in its size.

**Selection Methodology:** We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

## Analysts' views



Improved revenue, capacity expansion, focus on consolidating its overseas presence and valuations at a discount to peers has made Granules India analysts' favourite.

## Fundamentals

	Actual		Consensus estimate	
	2015-16	2016-17	2017-18	2018-19
Revenue (₹ cr)	1,431.18	1,410.57	1,647.52	2,041.91
EBITDA (₹ cr)	278.74	308.76	354.46	457.45
Net profit (₹ cr)	118.47	164.52	198.28	252.67
EPS (₹)	5.63	7.19	8.27	10.89

## Valuation

	PBV	PE	Dividend yield (%)
Granules India	3.04	17.91	0.20
Jubilant Life Sciences	3.17	19.53	0.44
Divi's Laboratories	3.44	19.87	1.44
Natco Pharma	7.60	23.53	0.94
Torrent Pharmaceuticals	4.73	24.81	1.16
Alkem Laboratories	4.78	29.76	0.71
Biocon	4.10	38.17	0.30

## Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
4 Sep '17	Systematrix Shares & Stocks	buy	161
30 Aug '17	Motilal Oswal Securities	buy	200
21 Aug '17	Centrum Broking	buy	180
18 Aug '17	BP Equities	buy	173

## Relative performance



Performance of Granules India compared with the Sensex. Figures are normalised to a base of 100. Source: ETIG Database & Bloomberg