

News monitored for: Granules India

# Granules India: Growing bigger

This mid-cap pharma company is expected to maintain its high growth in the coming years.

**G**ranules India's result for the third quarter of 2015-16 was a mixed bag. Even as the company reported a muted 8% year-on-year (y-o-y) revenue growth, its net profit grew handsomely at 15% y-o-y, due to better margins. Improved operational efficiency and increased high-margin product sales through its active pharmaceutical ingredient (API) business, Auctus Pharma, are the main reasons for this margin improvement.

This mid-cap pharma company has a presence across the entire pharmaceutical manufacturing value chain—from API to pharmaceutical formulation intermediates (PFI) and finished dosages (FD). In the third quarter, around 40% of the company's sales came from API, 27% from PFI and 33% from FD. Since FD and PFI are high margin businesses compared to API, Granules India is planning to move up the value chain. And with this in mind, its management is focusing on in-house development of new complex products and has established a 10,000 sq. ft R&D cell in Hyderabad that currently has a team of more than 50 scientists.

Auctus Pharma, a loss-making API business acquired by Granules India in 2014, reported sales of ₹31 crore in the third quarter. Though sales fell compared to the second quarter, it was on account of discontinuation of low-margin products. Also, Granules India plans on using Auctus Pharma's output for its own use—in the PFI and FD businesses. The company's 50:50 joint venture with Ajinomoto Omnicem has also started yielding results and generated ₹12 crore in revenue in the third quarter. This facil-

ity is expecting some international regulatory approvals and analysts are hopeful that revenues from this JV will zoom to ₹200 crore in 2016-17.

Granules India has a high exposure to regulated markets. North America and Europe account for around 60% of its overall revenue. Though the company has received US FDA notice for its Jeedimetla facility, it is mainly related to procedural aspects and, therefore, should the issue should be resolved in a few months. Since the notice is not disturbing existing business, Granules fundamentals remain intact. According to the consensus estimates, its revenue and net profit are expected to report an annualised growth of 16% and 32% between 2014-15 and 2016-17.

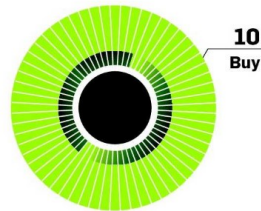
More analysts are getting attracted to this counter because the recent correction has brought down its valuations to reasonably levels—it is quoting at a reasonable discount to large-cap peers.

**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 ana-

lyst 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



Strong fundamentals, better revenue and profit growth estimates, and reasonable valuations have made Granules analysts' pick of the week.

## Fundamentals

	Actual		Consensus estimate	
	2013-14	2014-15	2015-16	2016-17
Revenues (₹ cr)	1095.86	1292.92	1462.21	1744.04
Operating profit (₹ cr)	158.68	209.29	273.52	346.38
Net profit/ loss (₹ cr)	75.23	90.91	119.66	158.56
EPS (₹)	3.72	4.46	5.58	7.24

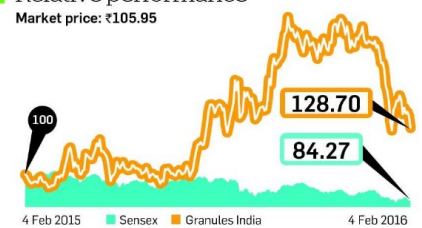
## Valuation

	PBV	PE	Dividend yield (%)
Granules India	4.82	20.63	0.47
Alembic Pharmaceuticals	14.32	17.08	0.55
Torrent Pharmaceuticals	8.44	17.38	0.83
Dr.Reddy's Laboratories	5.21	21.02	0.67
Cadila Healthcare	7.06	23.20	0.77
Aurobindo Pharma	8.08	25.90	0.61

## Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
30 Jan '16	Anand Rathi Securities	buy	166
29 Jan '16	Emkay Share & Stock Brokers	accumulate	162
29 Jan '16	Nirmal Bang Securities	buy	152
29 Jan '16	Systematix Shares & Stocks	buy	149
29 Jan '16	India Infoline	buy	145
28 Jan '16	Centrum Broking	buy	180

## Relative performance



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