

BUZZING

STOCK

# Granules India Ltd

CMP – Rs.88

**Analyst**

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**Key Stock Data**

Sensex	13708
Nifty	3941
Sector	Pharmaceuticals
Bloomberg	NA
Reuters	GRAN.BO
No. of shares (m)	12
Market Cap (Rs m)	1076.40
Market Cap (US\$ m)	24.16
52-week H/L	Rs.130/64

**Shareholding Pattern (%)**

Promoters	30.24
FII's	22.41
Corporate Bodies	10.26
Pubic & Others	30.24

Granules India Ltd. is a Hyderabad based pharmaceutical company manufacturing APIs and Pharmaceutical Formulation Intermediates (PFI). The PFIs are pre-processed blends of single or multiple APIs, ready to be compressed into tablets or filled into capsules. This is an intermediate stage between API and formulation. It is also the only company in India to manufacture a number of multiproduct PFIs and combinations. The company sources 70% of its export revenues from regulated markets like USA, UK, Australia and Germany while the rest of the revenue comes from semi-regulated and unregulated territories. The company has commissioned its new plant at Bonthapally, Andhra Pradesh in March 2006 and it also received customer validations from big pharmaceutical players like Pfizer, Perrigo, Ranbaxy and Sun Pharma for API.

**PharmaMatch Agreement:** Granules has entered into a memorandum of understanding with PharmaMatch of the Netherlands recently to develop, manufacture and market formulations in the European market jointly. The product pipeline would constitute the candidates like paracetamol. Under this agreement, PharmaMatch would be transferring its marketing rights to Granules from the European territory. The formulations will be sourced from Granule's new facility at Hyderabad, which would be commissioning its operations in May 2007. It is supposed to have a capacity of producing 6 billion tablets per annum.

**Joint Venture with Hubei Biocause:** In another agreement earlier in October, Granules signed a pact with Hubei Biocause Helien Pharmaceutical Company of China. Under this agreement, Granules acquired a 50% stake in the joint venture to manufacture and sell pharmaceutical APIs in the regulated markets like USA. It will be starting off with Ibuprofen, as Hubei Biocause is one of the leading manufacturers and exporters of Ibuprofen in the world. The Ibuprofen manufacturing facility at Jingmen, China would be transferred to the joint venture entity while Granules would be taking the onus for the growth and development of the market.

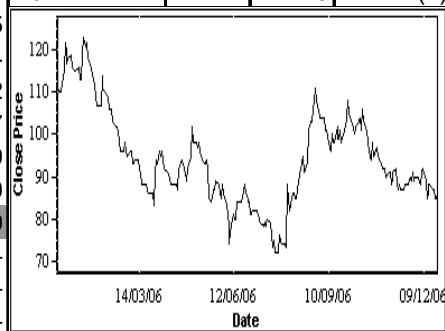
**Granules in OTC Segment:** The market size of the non-prescription drug is slated to increase at 2.45 per annum and is expected to reach \$18.6bn in 2010. This growth is aided by different factors like ageing populations, self medication, prescription to OTC switches, network of retail outlets, changing lifestyles and higher disposable income available to be spent on products like hair loss treatment, smoking cessation aids, health drinks etc. Granules India has a prominent presence in the manufacture and development of OTC products and is present in every level of the OTC pyramid.

**Research and Development:** Research and development at Granules India is focused on in-house product development requirements for both PFI and finished dosage. The R&D team of company comprises of 16 qualified professionals. The new R&D lab set would also be looking for outsourcing opportunities. The company has got plans to consolidate its position on OTC ANDA products like Ranitidine, Famotidine and Loratadine. It has also worked on OTC monograph initiatives like acetaminophen, guaifenesin and OTC ANDA initiatives like Ibuprofen and Ibuprofen-pseudo.

**Valuation:** The FY06 results of Granules put up robust numbers on behalf of good performance of its different divisions. The Q1FY07 also showed prominent figures where the sales grew by 15% YoY at Rs.479 m. The EBIDTA grew by 31% YoY at Rs.77m. The operating margin improved by 218 bps with raw material costs remaining stable and favorable stock adjustment. However, the PAT took a beating due to financial charges, increased depreciation owing to new facilities as well as tax to show a growth of only 2% YoY at Rs.20.4m. The stock is currently trading at 12x the TTM EPS of Rs.7.66.

## Financial Snapshot

Granules India Ltd.				Rs.m			Ratios (%)			
	Q1 FY07	Q1 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
<b>Financial Year End: June</b>										
Net Sales	454	398	14	1755	1344	31	Debt -Equity	1.4	1.6	(10)
Other Income	1	2	(61)	5	8	(39)	PBIDTM	15	15	(0)
Total Income	455	400	14	1760	1353	30	PBDTM	9	8	9
Total Expenditure	378	341	11	1492	1149	30	RoCE	12	13	(10)
PBIDT	77	59	31	268	204	32	RoNW	12	13	(7)
Interest	31	23	34	102	89	15				
PBDT	46	36	29	166	115	44				
Depreciation	21	11	93	52	32	62				
Tax	0	4	(95)	3	3	7				
Reported Profit After Tax	20	20	2	93	67	39				
Extra -ordinary Items	0	0	0	0	0	0				
Adj. Profit After Extra-ordinary item	20	20	2	93	67	39				
No. of shares (m)	12	12	-	12	12	-				
EPS (annualised.) (Rs.)	6.6	6.5	-	7.5	5.4	-				
P/E	13.4	13.6	-	11.8	16.4	-				



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