4 December 2024

MORNING INDIA

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We request your ballot.

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	80,846	0.7	11.9
Nifty-50	24,457	0.7	12.5
Nifty-M 100	57,509	0.9	24.5
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	6,050	0.0	26.8
Nasdaq	19,481	0.4	29.8
FTSE 100	8,359	0.6	8.1
DAX	20,017	0.4	19.5
Hang Seng	7,072	0.9	22.6
Nikkei 225	39,249	1.9	17.3
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	75	2.6	-3.4
Gold ($/OZ)	2,643	0.2	28.1
Cu (US$/MT)	9,010	1.5	6.5
Almn (US$/MT)	2,585	0.7	10.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	84.7	0.0	1.8
USD/EUR	1.1	0.1	-4.8
USD/JPY	149.6	0.0	6.1
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.7	0.00	-0.5
10 Yrs AAA Corp	7.2	0.03	-0.5
Flows (USD b)	**3-Dec**	**MTD**	**CYTD**
FIIs	0.4	0.88	-1.6
DIIs	-0.03	0.36	59.3
Volumes (INRb)	**3-Dec**	**MTD***	**YTD***
Cash	1,237	1156	1266
F&O	1,33,090	1,32,277	3,76,293

Note: Flows, MTD includes provisional numbers. *Average

Today's top research idea

SBI Cards and Payments: Spends outlook steady; AQ pain to continue in the near term

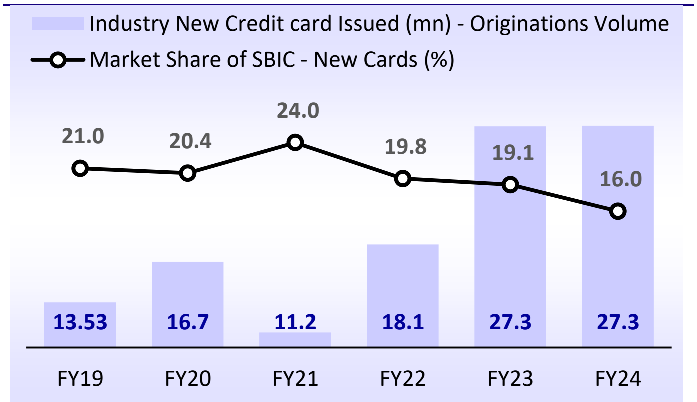
- SBICARD is the second-largest player in the card industry with an 18.5% share in CIF and a 15.7% share in total industry spends. However, the market share in spends has declined over the recent period, mainly due to the moderation in corporate spends, while growth in retail spends has remained healthy.
- SBICARD is well-positioned to capture growth in India's expanding credit card market, driven by rising consumer spending, digital adoption, and new business opportunities such as credit on UPI. Notwithstanding near-term headwinds, we expect earnings to gain traction from FY26, supported by expansions in margins, asset quality, and continued growth in spends.
- We, thus, estimate earnings growth to recover to ~30% CAGR over FY25-27, even as we estimate 15% YoY decline in earnings in FY25. We, thus, estimate RoA/RoE to recover to 4.1%/19.7% by FY27. We maintain a Neutral rating with a TP of INR750 (premised on a 22x Sep'26E EPS).

Research covered

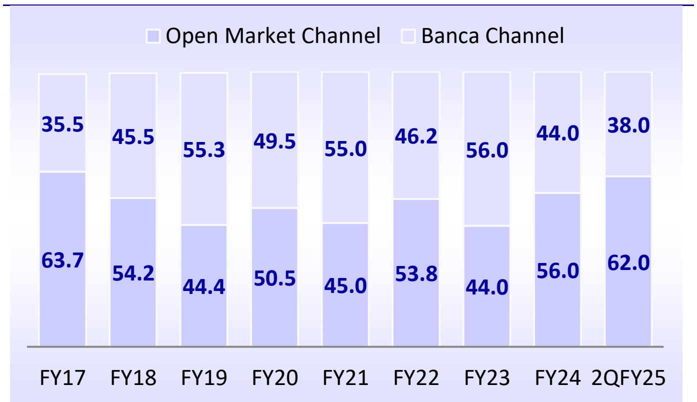
Cos/Sector	Key Highlights
SBI Cards and Payments	The Corner Office: Spends outlook steady; AQ pain to continue in the near term
Swiggy	An appetizing start
Granules India	OAI at Gagillapur breaks the sound compliance track record
India Strategy	The Eagle Eye: India market moderates from highs amid global volatility and weak corporate earnings

Chart of the Day: SBI Cards (Spends outlook steady; AQ pain to continue in the near term)

Growth in new card issuance moderated across the industry while SBICARD's share in new cards declined sharply in FY24



New card sourcing: Mix of open market channel has increased to 62% (%)



Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

No proposal under consideration for adding new sectors in PLI scheme: MoS Jitin Prasada

The government on Tuesday said it is not considering any proposal to include new sectors under the production linked incentive (PLI) scheme.

2

ONGC hikes stake in subsidiary OPaL to 95.69% via ₹4,906-crore rights issue

OPaL operates a state-of-the-art petrochemical complex spanning five square km, with a production capacity of 1.1 million tonnes per annum (MTPA) of polyethylene, alongside 1,100 KTPA of ethylene and 400 KTPA of propylene.

3

IEX November Update: Electricity trading volume grows 15.7% to 9,689 MU

IEX reported a 15.7% year-on-year increase in electricity trading volumes, reaching 9,689 million units (MU) in November 2024. Despite higher demand, the day-ahead market (DAM) and real-time market (RTM) recorded lower market clearing prices (MCP) due to high liquidity on the supply side.

4

PNB Housing Finance to start LAP vertical from April 2025: MD & CEO

PNB Housing Finance will start Loan Against Property (LAP) as a separate segment from April 2025. This will be the new vertical, which again would help on profitability.

5

TotalEnergies set to acquire renewable energy firm VSB Group for $2.1 bn amid Adani investment halt

Global energy giant TotalEnergies SE is close to acquiring VSB Group from private equity firm Partners Group Holding AG in a deal that values VSB at nearly $2.1 billion.

6

Honasa Consumer promoter Varun Alagh raises stake to 31.93% with ₹4.5-crore investment

Varun Alagh, Co-Founder of Honasa Consumer which owns Mamaearth and The Derma Co increased his stake in the company to 31.93% with a ₹4.5 crore investment, as per filings on the NSE.

7

Swiggy forays into sports and recreation business, incorporates new subsidiary

Food delivery major Swiggy has set up a new subsidiary in the space of sports & recreational activities.

Spends outlook steady; AQ pain to continue in the near term

Estimate earnings to gain traction in FY26

We interacted with the top management team of SBI Cards (SBICARD) represented by Mr. Girish Budhiraja, Chief Sales & Marketing Officer; Ms. Rashmi Mohanty, Chief Financial Officer; Mr. Shantanu Srivastava, Chief Risk Officer; and Mr. Lokesh Pareek, Head IR to discuss the outlook of the credit card industry and the key business metrics of SBICARD. Key insights from the discussion are summarized below:

SBI Cards and Payments

Mr. Girish Budhiraja,
Chief Sales and marketing officer

Mr. Girish Budhiraja is a seasoned business leader in sales and marketing. He currently serves as Chief Sales and Marketing Officer at SBI Card, where he drives revenue growth and product innovation. With prior leadership roles at American Express and GE Money, he brings deep expertise in consumer behavior and digital payment trends. An alumnus of IIM Bangalore and IIT (ISM) Dhanbad, he holds a PGDM and B.Tech.

Retail spends to grow at steady 20-22%; O/s cards to grow at 15-16%

SBICARD has solidified its position as the second-largest credit card player, maintaining an 18.5% market share in CIF and a 15.7% share in total industry spends as of Sept'24. CIF growth has moderated to 10% YoY (O/s Cards: 19.6m), reflecting a moderation in sourcing volumes for the industry as a result of lenders tightening their underwriting criteria and undertaking strategic initiatives to navigate through the challenging period for the industry.

Retail spend growth remains healthy at 24% YoY. However, the sharp fall in corporate spends (~7% of total spends) has dragged total spends growth to 3% YoY during 2QFY25 at INR818.9b. Management guided for steady growth in retail spends at 20-22% CAGR over the next few years, underscoring resilience in consumer discretionary and non-discretionary categories. This is supported by strong demand in Tier-2 and Tier-3 cities and robust pick-up in Rupay cards/UPI spends. The festive season, which began in late September, is anticipated to further boost spending momentum across retail categories. We estimate a 16% CAGR in total spends over FY24-27, led by continued traction in retail spends. Corporate spends are expected to recover gradually with a recovery in travel and entertainment spends.

Margins nearing bottom; potential turn in rate cycle remains a positive catalyst

Margins remain under pressure due to systemic factors and heightened festive season spending, which inflated card receivables without commensurate growth in interest income. This resulted in a sharp 30bp QoQ contraction in NIMs during 2QFY25 to 10.6%, after standing stable in 1QFY25. The EMI+revolver mix also declined 200bp QoQ to 60%, and management anticipates a mild recovery in this segment, which is expected to translate into a slight expansion in margins. CoF has remained stable at 7.4%, aided by softening treasury bill rates. Management anticipates a downward trend in CoF as the interest rate environment improves, with repo rate cuts expected from Feb'25 or afterward. Consequently, margins are projected to recover over 2HFY25, with additional support from asset mix optimization. We estimate a 22% CAGR in NII over FY24-27.

Structural shift toward digital transactions with flywheel effect from RuPay Card expansion

Digital transactions remain a significant growth driver with online spends accounting for 60% of retail spending. This trend aligns with changing consumer preferences and the rapid digitization of payment infrastructure. RuPay credit cards, supported by UPI integration, are witnessing substantial adoption, particularly in underpenetrated Tier-2 and Tier-3 cities, where traditional POS infrastructure is limited. RuPay card spending at UPI terminals grew 40% QoQ during 2QFY25, with prominent spending categories including groceries, utilities, and consumer durables. SBICARD's proactive approach to leveraging the RuPay-India stack positions it well to benefit from higher usage in regions with lower digital adoption, thereby creating new growth opportunities.

Sourcing mix to tilt back with banca channel at 50-55%

SBICARD's sourcing mix for new accounts during 2QFY25 deviated from the targeted mix, with 62% coming from open-market channels and 38% from SBI's banca network. While the open market will continue to remain an important distribution channel, the company simultaneously focuses on reviving the mix of its banca channel, with the goal of bringing its share back to 50-55% from the current 38%. This would help the company source more ETB customers, thus enabling healthy asset quality. The company is leveraging partnerships such as its co-branded travel card with Singapore Airlines to penetrate niche, high-value customer segments. In Tier-2 and Tier-3 markets, the company has capitalized on the lack of traditional infrastructure by driving digital and RuPay card adoption. These regions accounted for a significant portion of incremental growth, further enhancing SBICARD's geographical diversity. As a result, the lender expects the card sourcing growth to continue at 15-16% over the medium term with the aim of maintaining its market share in the industry.

Opex to increase as corporate activity and card sourcing rate pick up

Operating expenses remain elevated due to the festive season, with Cost-to-Income ratio of 53.4% in 2QFY25. The management suggested opex ratios to sustain closer to current levels over the near term as it continues to invest in the business to make it more resilient and maintain market share. Technology investments in areas such as digital underwriting, fraud detection, and customer engagement are likely to yield operational efficiencies and sustain customer acquisition growth. Over the medium term, C/I ratio may increase as corporate activity gains pace and card sourcing run-rate picks up. We currently estimate the C/I ratio at ~52% (benefitting from expanding margins) over FY26-27.

Asset quality stress lingers; credit costs to remain elevated in the near term

SBICARD's credit costs rose to 9% in 2QFY25, reflecting elevated stress in unsecured lending segments, which encompass Credit Cards, Personal Loan, and MFI segments. This increase is attributed to higher household leverage and economic uncertainties impacting repayment capacities. Management remains optimistic about credit costs eventually peaking in coming quarters and starting to moderate thereafter. Strengthened underwriting practices, portfolio monitoring, and proactive collection efforts have contributed to an improvement in early delinquency rates for new acquisitions. Additionally, high-quality sourcing through SBI's banca channel ensures lower delinquency rates compared to open-market channels. SBICARD reported a slight deterioration in asset quality, with GNPA increasing to 3.27% from 3.06% in 1QFY25. The company has witnessed an increase in the mix of open market channel, which has also resulted in higher stress. However, proactive portfolio actions, including targeted reduction of exposure in riskier segments, are yielding results. We expect better recoveries to flow in over the medium term, which, along with a gradual moderation in fresh delinquency, should help ease provisioning pressure. We, thus, factor in a credit cost of 7.8% in FY26 vs. 8.5% in FY25.

Valuation and view: Maintain neutral with a TP of INR750

SBICARD is the second-largest player in the card industry with an 18.5% share in CIF and a 15.7% share in total industry spends. However, the market share in spends has declined over the recent period, mainly due to the moderation in corporate spends, while growth in retail spends has remained healthy. SBICARD is well-positioned to capture growth in India's expanding credit card market, driven by rising consumer spending, digital adoption, and new business opportunities such as credit on UPI. Notwithstanding near-term headwinds, we expect earnings to gain traction from FY26, supported by expansions in margins, asset quality, and continued growth in spends. We, thus, estimate earnings growth to recover to ~30% CAGR over FY25-27, even as we estimate 15% YoY decline in earnings in FY25. We, thus, estimate RoA/RoE to recover to 4.1%/19.7% by FY27. We maintain a Neutral rating with a TP of INR750 (premised on a 22x Sep'26E EPS).

Swiggy

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	SWIGGY IN
Equity Shares (m)	2238
M.Cap.(INRb)/(USDb)	1123.4 / 13.3
52-Week Range (INR)	542 / 391
1, 6, 12 Rel. Per (%)	-/-/-
12M Avg Val (INR M)	13166

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
GOV	293.1	369.3	452.7
Net Sales	148.2	204.3	266.3
Change (%)	31.7	37.9	30.3
EBITDA	-22.3	-4.1	10.3
EBITDA margin (%)	-15.1	-2.0	3.9
Adj. PAT	-23.9	-8.0	4.8
PAT margin (%)	-16.1	-3.9	1.8
RoE (%)	-27.02	-8.42	5.13
RoCE (%)	-29.17	-11.06	1.84
EPS	-10.28	-3.44	2.06
EV/ Sales	7.5	5.5	4.2
Price/ Book	11.5	12.6	11.9

Shareholding Pattern (%)

As On	Sep-24
Promoter	0.0
DII	8.1
FII	5.2
Others	86.7

FII includes depository receipts

CMP: INR502 TP: INR475 (-5%) Neutral

An appetizing start

Decent growth across FD and quick commerce

- Swiggy delivered INR36.1b revenues in 2QFY25, up 11.7% QoQ. The food delivery business's GOV grew 14.6% YoY, whereas the contribution margin stood at 6.6%, posting a slight expansion over the previous quarter. FD's adjusted EBITDA as a % of GOV margin was up 80bp QoQ at 1.6%.
- Instamart's GOV was INR33.8b (GOV up 24.1% QoQ/75.5% YoY), whereas the contribution margin was -1.9%. Adjusted EBITDA as a % of GOV was -10.6%, an improvement of 110bp QoQ.
- Overall, Swiggy reported a net loss of INR6.2b, marking a 4.7% YoY decline.

Our view: FD stable; long Q-commerce runway to decide winners

Decent food delivery growth and strong growth outlook: Swiggy posted decent YoY growth of 14.5% in GOV for 2QFY25 (Zomato's GOV grew 21.4% for the same period). What was interesting, however, was Swiggy's guidance for growing faster than the "category average" (aka Zomato) over the medium term in food delivery. As we have written in our initiation report ("Quick" Commerce, delayed gratification on 18th November), Swiggy's food delivery business is on a strong footing and is part of a stable duopoly. We believe GOV growth in India could be 20%+ in the near term, and a tug-of-war on market share should not meaningfully alter valuations for either of these businesses unless a meaningful change emerges in the growth outlook.

- **Expect stable and expanding margins in FD, barring any major investment push:** Swiggy projects sustainable adjusted EBITDA margins of approximately 5% for its food delivery business in the medium term. We believe this to be broadly achievable as the unit economics are now stable, barring a major investment push toward Bolt, its 10-minute food delivery service.
- **Bolt's impact could be far-reaching; we wait and watch for now:** Swiggy has rolled out Bolt across 400 cities. Within eight weeks of its launch, Bolt achieved 5% of Swiggy's total food delivery orders. While this could be a joker in the pack and could meaningfully impact food delivery volumes, we wait and watch how the AOVs for this service pan out.
- **Q-commerce growth accelerates to 75.5% YoY and AOV expands as well:** Q-commerce's GOV growth of 75.5% YoY and AOV increase of INR499 was encouraging. While the growth was slower than that of Blinkit, Swiggy has outlined measures to accelerate this GOV growth.
- **We are, however, slightly unsure about the mega hubs strategy:** While we are enthused by Swiggy's aggressive approach to expanding its SKU range—tripling the selection in its dark stores over the past year and planning to house up to 20,000 SKUs in larger stores—there are a few concerns. The introduction of mega pods, with an extended capacity of over 50,000 SKUs, could potentially compromise the 10-minute delivery promise, a critical marker in competing against Blinkit and Zepto. Maintaining ultra-fast delivery times amidst such expansions will be a key challenge for Swiggy's Instamart.

- Too early to decide the winners in Q-commerce: That said, we believe it is too early to decide the winners in the Q-commerce race. We will monitor Swiggy's AOV and take rates for quick commerce to gauge the success of its strategy.

Valuation and view

- Swiggy, through its innovation DNA, has played a pivotal role in effectively inventing both food delivery and quick commerce, leading the way in these categories. However, it has seen a decline in its lead in food delivery and is currently trailing behind its key rival, Blinkit, in quick commerce — both in terms of GOV growth and profitability. While the Q-commerce race is only getting started, Swiggy's re-rating depends on accelerating GOV growth, increasing AOVs, and improving execution in the Q-commerce business.
- We expect food delivery orders to grow at 12.5% annually with an AOV growth of 1.4%, leading to a GOV growth of 14.1% over FY24-37 (20.8% GOV CAGR over FY24-29). Q-commerce is expected to grow faster, with orders increasing at 23.6% annually, AOV growth at 3.2%, and GOV growth at 27.6% (59% GOV CAGR over FY24-29). Swiggy is expected to report PAT margin of -16.1%/-3.9%/1.8% in FY25/FY26/FY27. Our adjusted EBITDA remains unchanged; however, PAT has been impacted by increased ESOP expenses. Our DCF-based valuation of INR475 suggests a 5% downside from the current price. We reiterate our Neutral rating on the stock.

Overall decent set of numbers; aims to double dark store capacity by FY25

- Swiggy reported 2QFY25 net revenue of INR36.1b (+11.7% /30.4% QoQ /YoY).
- Food delivery GOV stood at INR71.9b (up 5.6%/14.6% QoQ/YoY). The food delivery business is expected to grow in high-teens for FY25.
- Instamart GOV came in at INR33.8b (up 75.5% YoY). It plans to double the dark store count by FY25 (vs 523 in FY24).
- For food delivery, adjusted EBITDA as a % of GOV margin was up 80bp QoQ at 1.6%. Contribution margin inched up slightly to 6.6% (6.4% in 1Q). Consol. adjusted EBITDA came in at negative INR3410m.
- Instamart reported a contribution margin of -1.9% (-3.2% in 1Q). Contribution margins are expanding and reaching breakeven due to an increase in AOV.
- Swiggy reported a net loss of INR6.2b, marking a 4.7% YoY decline.
- At the consolidated group level, the adjusted EBITDA margin is expected to achieve breakeven by 3QFY26 (Oct-Dec'25).

Key highlights from the management commentary

- Food delivery: Swiggy's flagship product, Bolt, has emerged as a game-changer in the food delivery business. Within just 40 days of its launch, Bolt's volumes accounted for 5% of the total food delivery volumes. The company is focusing on expanding its presence within existing cities, particularly those experiencing an increase in migrant populations (e.g. NCR, Bangalore). Unlocking new use cases: The company caters daily meals to corporate employees. Despite reduced same-store sales reported by QSR companies, Swiggy sees no impact on its business due to the growing preference for online food delivery over retail.
- Instamart: The company added 52 new stores during the quarter, bringing the total to 609 across 54 cities (doubling from FY24's 27 cities). It targets to double

the dark stores capacity by Mar'25 (vs 523 in Mar'24, with the average store size increasing 30-35%. The company believes that the target of 75 cities is optimum for growth. The company is focusing on TAM and differentiating itself in the QC business through a diverse product assortment.

- The company expects to leverage the supply chain and distribution business for Instamart sellers, which will help increase take rates for the Q-commerce business.
- The adjusted EBITDA margin is expected to achieve breakeven at the group level by 3QFY26 (Oct-Dec'25).

Valuation and view

- We expect food delivery orders to grow at 12.5% annually with an AOV growth of 1.4%, leading to a GOV growth of 14.1% over FY24-37 (20.8% GOV CAGR over FY24-29). Q-commerce is expected to grow faster with orders increasing at 23.6% annually, AOV growth at 3.2%, and GOV growth at 27.6% (59% GOV CAGR over FY24-29). Swiggy is expected to report PAT margin of -16.1%/-3.9%/1.8% in FY25/FY26/FY27. Our adjusted EBITDA remains unchanged; however, PAT has been impacted by increased ESOP expenses. Our DCF-based valuation of INR475 suggests a 3% downside from the current price. We reiterate our Neutral rating on the stock.

Consolidated - Quarterly Earning Model (INR Mn)

Y/E march	FY24		FY25				FY24	FY25
	1Q	2Q	1Q	2Q	3QE	4QE		
Revenue (net of delivery)	**23,898**	**27,633**	**32,249**	**36,044**	**38,509**	**41,358**	**1,12,474**	**1,48,160**
YoY Change (%)	NA	NA	34.9	30.4	NA	NA	36.1	31.7
Inventory of traded goods	9,100	11,446	11,954	13,874	14,927	16,045	46,042	56,799
Employee Expenses	4,858	5,367	5,892	6,073	7,000	7,790	20,122	26,755
Delivery expenses	7,490	8,263	10,460	10,949	14,187	15,009	33,511	50,604
Gross Profit	**2,450**	**2,558**	**3,943**	**5,149**	**2,395**	**2,514**	**12,800**	**14,001**
Margins (%)	10.3	9.3	12.2	14.3	6.2	6.1	11.4	9.5
Advertisement and sales promotion	4,871	4,939	4,454	5,371	5,171	5,005	18,508	20,001
Others	3,319	3,851	4,905	5,290	3,415	2,718	16,372	16,328
EBITDA	**-5,740**	**-6,232**	**-5,415**	**-5,512**	**-6,190**	**-5,209**	**-22,080**	**-22,328**
Margins (%)	-24.0	-22.6	-16.8	-15.3	-16.1	-12.6	-19.6	-15.1
Depreciation	913	1,046	1,217	1,309	1,348	1,448	4,206	5,321
Interest	174	155	198	231	200	200	714	829
Other Income	1,198	872	879	848	1,500	1,500	3,870	4,727
PBT before EO expense	**-5,629**	**-6,561**	**-5,951**	**-6,204**	**-6,238**	**-5,357**	**-23,130**	**-23,750**
Extra-Ord expense	-7	-3	-132	-21	0	0	-306	-153
PBT	**-5,636**	**-6,564**	**-6,083**	**-6,225**	**-6,238**	**-5,357**	**-23,436**	**-23,903**
Tax	0	0	0	0	0	0	0	0
Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	NA	NA
Minority Interest & Profit/Loss of Asso. Cos.	5	6	1	1	0	0	66	2
Reported PAT	**-5,641**	**-6,570**	**-6,084**	**-6,226**	**-6,238**	**-5,357**	**-23,502**	**-23,905**
Adj PAT	**-5,634**	**-6,567**	**-5,952**	**-6,205**	**-6,238**	**-5,357**	**-23,196**	**-23,752**
YoY Change (%)	NA	NA	6	-6	NA	NA	-44.4	2.4
Margins (%)	-23.6	-23.8	-18.5	-17.2	-16.2	-13.0	-20.6	-16.0

3 December 2024

Company Update | Sector: Healthcare

Granules India

BSE SENSEX	S&P CNX
80,846	24,457

Stock Info

Bloomberg	GRAN IN
Equity Shares (m)	242
M.Cap.(INRb)/(USDb)	129.5 / 1.5
52-Week Range (INR)	725 / 365
1, 6, 12 Rel. Per (%)	-7/16/15
12M Avg Val (INR M)	1245
Free float (%)	61.1

Financials Snapshot (INR b)

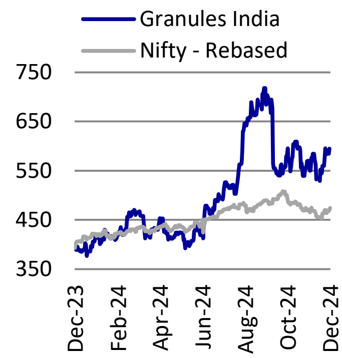
Y/E MARCH	FY25E	FY26E	FY27E
Sales	44.1	50.4	58.4
EBITDA	9.9	11.9	14.3
Adj. PAT	5.2	6.9	8.7
EBIT Margin (%)	17.6	19.2	20.4
Cons. Adj. EPS (INR)	21.6	28.6	36.0
EPS Gr. (%)	24.2	32.8	25.8
BV/Sh. (INR)	153.2	180.7	215.5
Ratios			
Net D:E	0.3	0.3	0.2
RoE (%)	15.1	17.2	18.2
RoCE (%)	12.7	14.3	15.6
Payout (%)	5.4	4.1	3.2
Valuations			
P/E (x)	24.8	18.6	14.8
EV/EBITDA (x)	17.4	14.4	11.8
Div. Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.3	0.8	2.5
EV/Sales (x)	3.9	3.4	2.9

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	38.9	38.9	42.0
DII	14.9	14.1	7.1
FII	19.5	20.4	21.5
Others	26.8	26.6	29.5

FII includes depository receipts

Stock Performance (one-year)



CMP: INR534 TP: INR625 (+17%) Buy

OAI at Gagillapur breaks the sound compliance track record

Limited approvals pending from Gagillapur offer some respite

- **USFDA classified Granules India's (GRAN) gagillapur site as Official Action Indicated (OAI) following the recent inspection.**
- **OAI implies that the remediation measures have some lacuna in addressing issues highlighted by USFDA.**
- **Having said that, there are only three ANDAs pending for approval. Additionally, with the OAI classification, GRAN can continue to supply the approved products.**
- **The temporary disruption in production due to the implementation of remediation measures is already built into our FY25 estimates.**
- **GRAN is not only diversifying its formulation manufacturing capacity at Vizag/Genome Valley/Virginia but also building capabilities to manufacture products in oncology as well as utilizing differentiated technologies such as MUPS.**
- **We expect a 29% earnings CAGR over FY25-27, driven by a) building a niche pipeline in oncology and innovative tech-based products; b) large volume products; and c) backward integration. We lower the PE multiple from 20x to 18x to factor in the escalation of the regulatory issue and arrive at a TP of INR625. Reiterate BUY.**

OAI at Gagillapur to impact new approvals while base business continues

- GRAN was issued a form 483 with six observations for its Gagillapur site after the USFDA inspection on Sept'24.
- The observations were related to cleaning/maintenance, inadequate root-cause analysis, document management, procedures for in-process controls, and air purification units.
- The USFDA has now classified the inspection as OAI.
- The company has only three products pending approval from this site.
- It has responded to all the observations issued by the USFDA.
- To remediate the facility, GRAN has voluntarily paused the manufacturing and distribution at the site. It has also employed an independent third-party consultant for the site's cleaning protocols and cross-contamination controls.
- To date, GRAN has gone through 24 USFDA inspections since 2009. Out of 24 inspections, Gagillapur (Medchal-Malkhajgiri) has been inspected six times. All the inspections received either Voluntary Action Indicated (VAI) or No Action Indicated (NAI) classifications.

De-risking/adding new capabilities/capacities

- The Gagillapur site has a 24k TPA of PFI and 21.6b PA of formulation capacity, which is higher than the combined capacity of Parawada, Chantilly, and Jeedimetla.
- Further, to de-risk the facility, GRAN has commercialized the new 2.5b formulation capacity at Genome Valley and filed new complex products, such as CNS, ADHD, and other products. An additional capacity of 5.5b from Genome Valley is expected to come online by FY26 to support growth.
- Furthermore, GRAN is launching new oncology products from Vizag plants in the near term.

Limited impact on financials

- Post the form 483 issuance by the USFDA on the Gagillapur site, GRAN temporarily paused the production and distribution at this site. This affected revenue and profitability in 2QFY25.
- This impact would also be carried forward in 3QFY25, led by the gradual ramp-up of the plant.
- While GRAN is implementing remediation measures at the plant, it is also filing niche products from alternate sites such as Genome Valley and Vizag, which would offset the impact.
- As such, we have already factored in the impact of classification and remediation measures at the Gagillapur plant in FY25.

Valuation and view

- GRAN has recorded a healthy 10% earnings CAGR over FY19-24. Given GRAN's focus on building a niche pipeline in the oncology space, large-volume products, innovative tech-based products, and backward integration, we estimate a 29% earnings CAGR over FY25-27. However, the regulatory inspection at Gagillapur will be a near-term hurdle for growth in the US markets, and GRAN is working on implementing remediation measures in this plant.
- We await further clarity on the business prospects following the OAI classification at Gagillapur.
- We lower the PE multiple from 20x to 18x to factor in the escalation of the regulatory issue and arrive at a TP of INR625. Reiterate BUY.

Granules USFDA inspection history

Sr No	Site	Inspection end date	Classification
1	Medchal-Malkhajgiri	Sep-24	OAI
2	Parawada Mandal	Apr-24	NAI
3	Chantilly	Dec-23	VAI
4	Chantilly	Aug-23	NAI
5	Visakhapatnam	Jun-23	NAI
6	Secunderabad	Jun-23	NAI
7	Manassas	Mar-23	NAI
8	Chantilly	Jul-22	VAI
9	Medchal-Malkajgiri	Feb-20	VAI
10	Medchal-Malkajgiri	Mar-18	NAI
11	Medchal-Malkajgiri	Oct-16	NAI
12	Medchal-Malkajgiri	Mar-15	NAI
13	Medchal-Malkajgiri	Sep-12	VAI
14	Medchal-Malkajgiri	Nov-09	NAI

VAI: Voluntary Action Indicated, NAI: No Action Indicated, OAI: Official Action Indicated;
Source: MOFSL, Company, USFDA

Granules plant capacity

Segment	Facility	Capacity
FD	Gagillapur	26.8b
	Virginia	1.5b
	Vizag (Unit V)	1.1b
	Granules Life Sciences	2.5b*
PFI	Gagillapur	23200 TPA
	Jeedimetla	1440 TPA

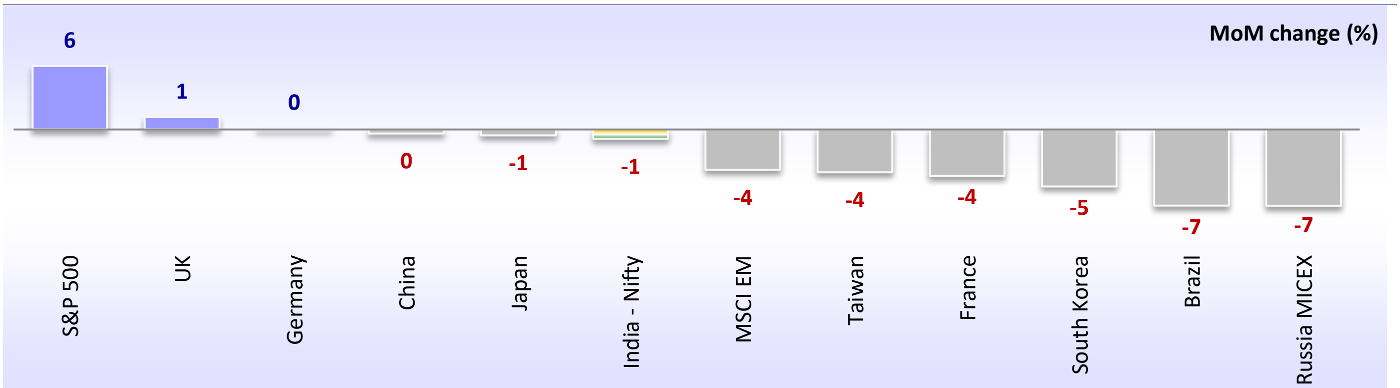
*Note: The remaining 5.5b capacity will come online in FY26;
Source: MOFSL, Company, USFDA

The Eagle Eye: India market moderates from highs amid global volatility and weak corporate earnings

The key highlights of the 'The Eagle Eye' are as follows:

- a) US outperforms global equity indices in Nov'24; b) MSCI US outperforms in Nov'24; MSCI India and China moderate from highs; c) Nifty-50 near-term returns in line with or below its long-period returns; d) Decline in midcaps and smallcaps during market correction narrows historically; e) Key benchmark indices remain flat MoM; Technology outperforms in Nov'24; f) Earnings review – 2QFY25: An insipid quarter; Commodities drag; g) About 78% of Nifty constituents end higher in Nov'24; h) Primary market issuances buoyant, with limited impact on overall market; i) FII selling moderates, DII buying remains strong; j) Monthly average cash volumes down MoM; F&O volumes decline sharply; k) Ownership analysis: DII vs. FII divergence at a multi-year low
- Notable Published reports in Nov'24: a) Swiggy - Initiating Coverage: "Quick" commerce, delayed gratification; b) India Strategy: Embracing India's Magnitude; c) India Strategy: The Winners and Laggards!

US outperforms global equity indices in Nov'24 (%)



Decline in benchmark indices from all-time highs during the period

Date of Nifty High	All-Time Nifty50 High	Closing Date of Over 10% Decline	Drawdown			
			Nifty 50	Nifty 100	Nifty MidCap 100	Nifty SmallCap 100
04-03-2015	9,119	27-04-2015	-10%	-9%	-10%	-13%
04-03-2015	9,119	24-08-2015	-14%	-13%	-12%	-20%
29-01-2018	11,172	19-03-2018	-10%	-10%	-14%	-18%
29-01-2018	11,172	24-03-2018	-11%	-10%	-15%	-20%
28-08-2018	11,760	04-10-2018	-10%	-11%	-23%	-37%
03-06-2019	12,103	05-08-2019	-10%	-10%	-29%	-45%
20-01-2020	12,431	28-02-2020	-10%	-10%	-23%	-41%
19-10-2021	18,604	24-02-2022	-13%	-13%	-19%	-23%
01-12-2022	18,888	28-03-2023	-10%	-12%	-12%	-28%
27-09-2024	26,277	21-11-2024	**-11%**	**-11%**	**-10%**	**-9%**
27-09-2024	24,131*	30-11-2024	**-8%**	**-8%**	**-7%**	**-5%**

Signature Global: Have completed sales worth ₹5,800 cr in H1FY25; Rajat Kathuria, CEO

- Ongoing project ar 15.8 msf; aim to deliver by FY26
- On track to meet FY25 guidance
- Have done ₹9,000 cr if launches vs ₹16,000 cr planned for FY25 in H1
- We own good amount of land, so sustained supply of projects is possible.

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MapMyIndia: Will not be utilizing any of MapMyIndia's funds for B2C; Rohan Verma, CEO

- Both cos to use the retail brand Mappls
- MapyMyIndia will subscribe to ₹35 cr woth of CCDs of the new company
- Will the run the consumer business with my own funds
- Oppurtunity is to have India's own maps app

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VST Tillers Tractors: Expect growth in the range of 15-20% for tractor segment; Antony Cherukara, CEO

- Sales almost halved from July peak, expecting 15-20% growth in tractors
- Expect international business to be 25% of our overall revenue in 3 years
- Doubling the capacity in the power weeder segment
- We retain ₹2000 cr revenue target for FY26
- No decision to sell the 25-acre land still; trying to expand through inorganic opportunities

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Nucleus Software: Bank Muscat is now a beneficiary of our advanced product Finn One Neo; Vishnu R Dusad, Co-Founder & MD

- Co has a long-standing relationship with Bank Must, dating back to 2010
- Co will help the bank transform its collections operations
- Will help to enhance risk management through real-time monitoring and Early Warning signals
- Reducing number people needed on the field due to smarter software

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Atul Auto: Our target is to reach 40,000 units this year and around 50,000 units next year; Hormaz Fatakia, President - Finance

- First target is to achieve the pre-COVID level on sales
- Growth in the first 2 months od Q3 is better than Q1 & Q2
- Likely to achieve the volume target if volumes improve from current levels
- Continue to expand the L-3 category and its reflecting in the performance too

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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