

July 22, 2025

Xanthene for stability; API / CDMO for growth...

About stock: Aarti Pharmalabs Limited (APL) is the leading developer and manufacturer of Xanthine derivatives (~44 % of the business) with global market share of ~15-20%. Additionally, the company also manufactures Generic API which contributes around 44% of the business. Furthermore, APL is also expanding into CDMO services (~13% of the business) by catering to a range of multinational and specialty pharmaceutical companies.

APL owns 6 Manufacturing and 3 R&D facilities located in Dombivli, Vapi, and Tarapur and is also expanding its capacity by building new manufacturing facility in Atali, Gujarat.

Investment Rationale

- Well-thought-out xanthine expansion:** APL is vertically integrated Xanthine manufacturer, with a capacity of 5000 MTPA serving domestic and global markets. Xanthene demand piggybacks on demand for beverages (caffeine) and there is a significant potential from pharmaceuticals as well. APL is spending ₹150 crore to expand its capacity from 5000 MTPA to 9000 MTPA and targeting new geographies and niche pharma applications. This expansion is expected to take APL's Xanthine market share from 15-20% to 20-25%. Being the only non-Chinese player of this scale, APL offers significant alternative to global consumers.
- Seasoned API player & expansion across segments:** The company leverages on the pedigree of Aarti group having experience of more than 25 years in APIs. APL has commercialized about 55 APIs which contribute ~44% of the overall revenues. APL currently has 14 products under development and it also plans to enhance its Intermediates capacities. APL is well-positioned to capitalize on growing demand in anti-diabetic and anti-cancer APIs especially in Regulated/export markets. Additionally, APL proactively develops advanced intermediates for new APIs during their active patent period. Debottlenecking at Tarapur IV facility is also expected to drive sales.
- CDMO business shaping up well:** APL is an emerging CDMO player working with 21 big pharma, innovators and biotech companies in complex chemistries like cyanation, flow chemistry, nucleotides among others on 60 active projects. With new CDMO and intermediate capacity (450 KL) coming in at Atali, conducive business environment driven by emerging global tailwinds of consolidation of main players, China re-balancing, expected improvement in the US funding scenario and emerging blockbuster trends especially in peptides category, we believe APL is well poised to capitalize on incremental opportunities emerging in the sector.

Rating and Target Price

- We have assigned **BUY** rating on APL with a **target price of ₹ 1,185** based on 18x FY27E EBITDA of ₹ 598.7 crore.

Key Financial Summary

₹ Crore	FY23	FY24	FY25	CAGR FY23-25 (%)	FY26E	FY27E	CAGR FY25-27E
Revenues	1945.2	1852.6	2115.1	4.3	2191.1	2570.2	10.2
EBITDA	342.0	386.1	464.4	16.5	522.5	598.7	13.5
EBITDA Margins (%)	17.6	20.8	22.0		23.8	23.3	
Net Profit	193.4	216.9	272.4	18.7	302.8	350.1	13.4
EPS (Adjusted)	21.3	23.9	30.1		33.4	38.6	
PE (x)	44.0	39.3	31.3		28.1	24.3	
EV to EBITDA (x)	25.4	22.6	19.1		17.1	14.2	
RoCE (%)	15.2	14.8	15.2		14.5	15.0	
RoE (%)	12.4	12.4	13.7		13.4	13.6	

Source: Company, ICICI Direct Research



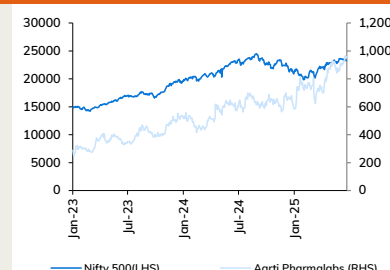
Particulars

	Amount
Market Capitalisation	₹ 8518 crore
Debt (FY25)	₹ 413 crore
Cash (FY25)	₹ 7 crore
EV	₹ 8925 crore
52 week H/L	971/551
Equity capital	₹ 45 crore
Face value	₹ 5

Shareholding pattern

	Sep-24	Dec-24	Mar-25	Jun-25
Promoters	46.1	44.7	44.3	43.7
DII's	7.4	8.6	7.4	7.3
FII's	11.4	10.4	7.5	7.8
Others	35.2	36.4	40.8	41.1

Price Chart



Key risks

- Delay in xanthine and Atali API unit expansion.
- Volatility in CDMO Business

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Company Background

In 2001, APL's parent Aarti Industries commissioned its first API manufacturing Unit in Dombivli (Unit 1) and started Xanthine unit in Tarapur. Thereafter, the company continued expanding its capabilities across segments in Dombivli, Vapi and Tarapur units. In 2022 the pharmaceutical business of Aarti Industries got demerged and listed as separate entity i.e. APL to achieve operational efficiencies.

APL engages in the development of Xanthine Derivatives for use in food beverages (caffeine) and pharmaceuticals, Active Pharmaceutical Ingredients (API) and New Chemical Entities (NCE), API intermediates, Regulatory Starting Materials (RSM), Basic Starting Materials, Key Building Blocks among others. It also operates as a CDMO player and provides stability studies, scale-up and process optimisation, process validations, and commercial manufacturing.

APL operates under three different verticals -

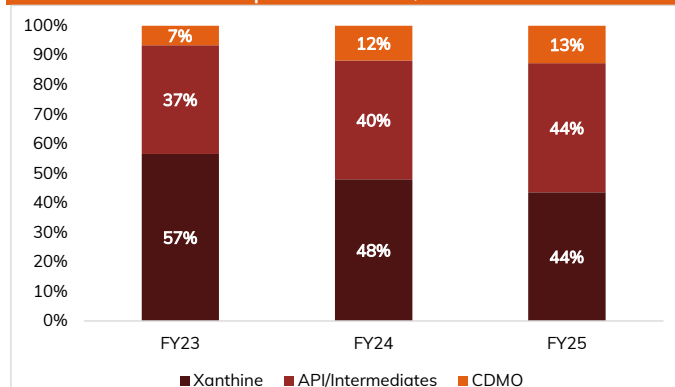
- **Xanthine Derivatives** contribute around 44% of the business. APL is India's largest manufacturer of Xanthine derivatives including Caffeine, Theophylline Anhydrous, Aminophylline and Etophylline among others.
- **API & Intermediates segments** contribute around ~44% of the business. Since inception, APL has commercialized 55 APIs and excels in developing and manufacturing of high potent Active Pharmaceutical Ingredients (HPAPIs), meeting the demand for critical drugs used in oncology, corticosteroids, and cytotoxic medicines.
- **CDMO** – APL offers services for drug substance projects including NCEs, APIs, KSMs, and Intermediates to global innovative pharmaceutical and biotech companies. The Segment at present contributes around ~13% of the business.

APL also has JV with Ganesh Polychem which manufactures specialty fine chemicals used as intermediates for polysulfones, epoxy resins, and adhesive chemicals and has production capacity of ~7200 TPA.

Ganesh Polychem's facility is getting upgraded to move to a lower cost production route of synthesis. Hence the plant is shut down for 3-4 months. The shutdown impacted the Q4FY25 and Management has guided for impact in Q1FY26 as well.

However, the management expects to make up for the lost sales in coming quarters.

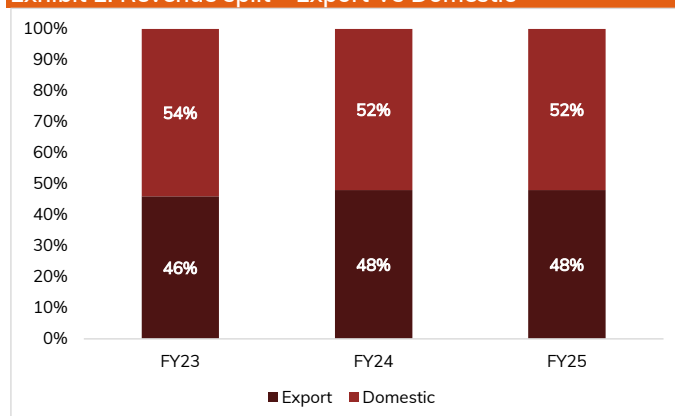
Exhibit 1: Revenues split - Xanthine, API and CDMO



Source: Company, ICICI Direct Research

APL caters to 500+ global customers across 50+ countries. The company has 58 filed patents, 50 US Drug Master Files and 31 Certificates of Suitability.

Exhibit 2: Revenue split – Export Vs Domestic



Source: Company, ICICI Direct Research

APL owns 6 manufacturing facilities, three of which are approved by the USFDA. The company further aims to setting up new API and Intermediate facility in Atali.

Exhibit 3: Manufacturing and reactor capacities

	Location	Manufacturing Units	Capacity	Comments
1	Dombivli*	Unit - I (API, Intermediates, CDMO)	30 KL	USFDA approved and has R&D facility as well
2	Vapi*	Unit - II (API, Intermediates, CDMO) Custom Synthesis Division	550 KL	USFDA approved and also has R&D facility
		Semi commercial block	28 KL	Started in Q2FY25
3	Tarapur	Unit - III (Xanthine Unit)	2000 MTPA	EUGMP CEP filing in Q3FY25
		Unit - IV (API, CDMO-API)	225 KL	USFDA approved
		Unit - V (Xanthine Unit)	2000 MTPA	1200 MT is caffeine capacity
		Unit - VI (Intermediate unit of Xanthine, speciality & allied products)	300 MTPA, 69 KL (for acid products)	
		Additional Xanthene Capacity	1000 MTPA	
		New Brownfield Xanthine	4000 MTPA	To start by H2FY26 in two phases. First phase in Second Half FY26 and Second phase in First half of FY27
4	Atali	(CDMO, Intermediates)	450 KL	To start by end of H2FY26 and ramp up in H1FY27.
5	Nerul	R&D facility		

Source: Company, ICICI Direct Research

Exhibit 4: Key Milestones – Journey from Aarti Organics to Aarti Pharmalabs

Aarti Organic Private Limited was incorporated	Commissioned the first API manufacturing unit in Dombivli (Unit 1) and started the Xanthine unit	Commissioned the first API manufacturing unit in Tarapur for Regulated Markets (Unit 4)	Successfully completed the USFDA & EUGMP audit for Tarapur Unit 4	Successfully completed the USFDA audit at the Intermediate facility (CSD) in Vapi	Received EUGMP approval for Bicalutamide for the Oncology block at Unit 4
1984	2001	2005	2008	2009	2013

2025	2024	2023	2022	2019	2016
Expected Commissioning of Phase 1 at Atali greenfield site with 450+ kL reactor capacity	<ul style="list-style-type: none"> Started 21 MW solar power project at Akola, Maharashtra Expansion of semi-commercial production block at Vapi 	<ul style="list-style-type: none"> Operationalized the third R&D center Secured USFDA approval for Dombivli Unit Commercialized Block V at Tarapur Unit 4 Enhanced Xanthine capacity to 5,000 TPA 	<ul style="list-style-type: none"> Expanded block for CSD in Vapi and API in Tarapur units Acquired land at Atali for future growth Successfully demerged the pharmaceutical business of Aarti Industries Limited to Aarti Pharmalabs Limited 	Successfully completed an audit by EDQM for Bicalutamide for the Oncology block at Unit 4	Commissioned Caffeine production at Unit 5 with a capacity of 100 Metric Tons (MT) per month

Source: Company, ICICI Direct Research

Xanthine and its Derivatives -

APL commissioned the xanthine plant in 2001. Today, it is one of the largest producers of Xanthine derivatives with global market share of ~15-20%. Xanthine derivatives are a group of organic compounds called alkaloids which find application in food & beverage, pharmaceuticals agrochemicals, personal care, dietary supplements etc.

There are four widely used Xanthine derivatives- Caffeine, Theophylline, Etofylline and Aminophylline. APL has capabilities and capacities for all of them besides other derivatives. Caffeine accounts for ~55% of Xanthine derivative market while 29% from Theophylline and the rest from other xanthine derivatives.

The global Xanthine Market is dominated by China which commands ~70% of the market share whereas APL alone (in India APL caters to 80% of domestic caffeine requirements) has about ~15% of global Xanthine market share.

Exhibit 5 lists major players which has Xanthine capabilities -

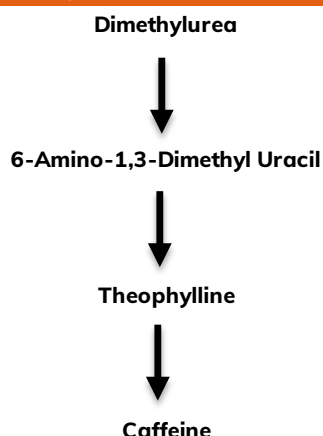
Exhibit 5: Global Players with Xanthine capacities			
Sr. No	Company Name	Country	Estimated Installed Capacities
1	CSPC Pharma Group	China	13000 MT/Year
2	Shandong Xinhua Pharmaceutical	China	10000 MT/Year
3	Hebei Guangxiang Pharmaceutical	China	8000 MT/Year
4	Jilin Shulan Synthetic Pharmaceutical	China	3200 MT/Year
5	BASF SG	Germany	3000 MT/ Year
6	Aarti Pharma labs	India	5000 MT/ Year
7	Bajaj Healthcare	India	450 MT/ Year (Internal consumption for Linagliptin)
8	Bakul Pharmaceuticals	India	350 MT/ Year
9	Others		2000 MT/Year
Total Installed Capacity			~45000 MT/Year

Source: Various Industry Reports, ICICI Direct Research

Xanthine is commonly manufactured using Traube's Method which uses Urea/ Uracil as its key raw material.

In order to backward integrate, APL has developed manufacturing capabilities to produce variety of compounds based on sulphur and sulphonation including sulphuric acid, sulphur trioxide (SO₃), oil, dimethyl sulphate, diethyl sulphate, sodium vinyl sulfonate and dimethyl urea.

Exhibit 6: Xanthine Manufacturing Process



Source: Various Industry Reports, ICICI Direct Research

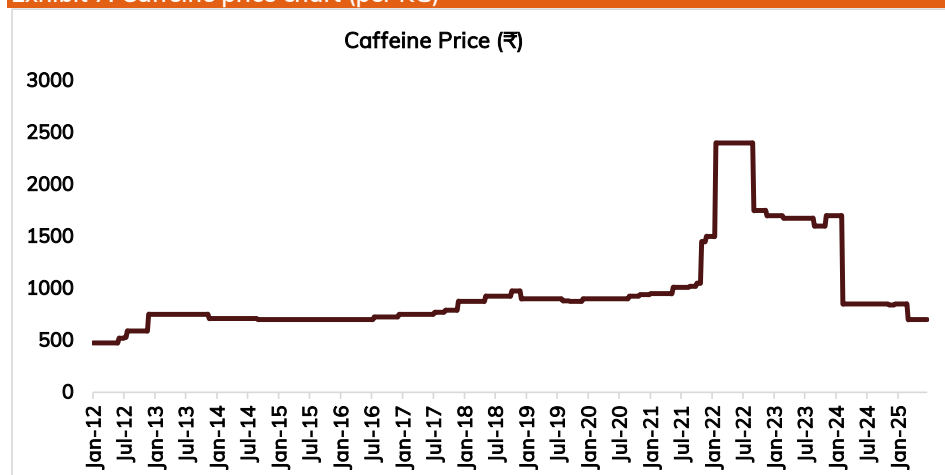
The capacity is spread across two units in Tarapur i.e. Unit III and Unit V with certifications like ISO, GMP, FSSAI, cGMP-FDA, KOSHER & HALAL.

Typically, revenues for APL in the segment can be broadly classified into two groups-

- Long Term Contract – Where the management protects margins by fixing the price of Xanthine derivatives in relation to the cost associated with manufacturing the material. Such contracts at present contribute around 70% to the segment revenues.

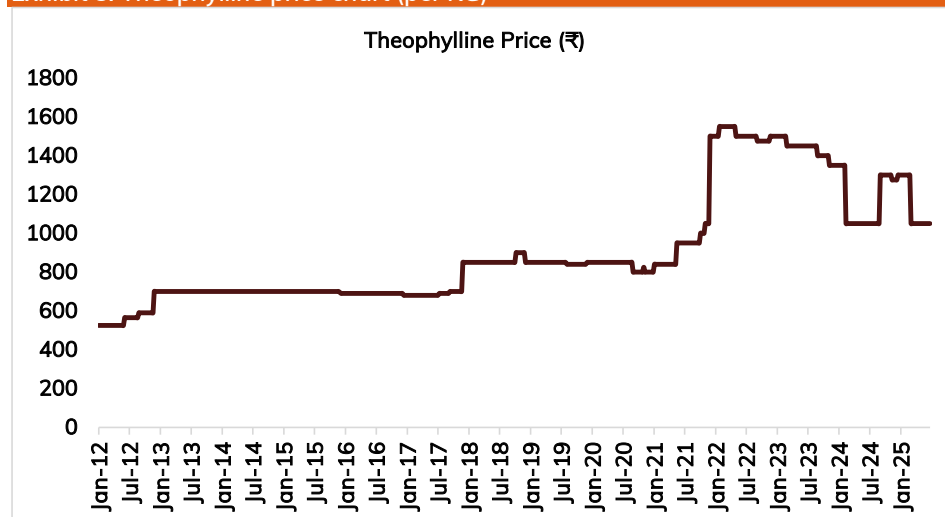
- Spot Market – The prices are strategically derived according to spot demand and supply scenarios. Around 30% of the Xanthine revenues are derived on spot basis.

Exhibit 7: Caffeine price chart (per KG)



Source: Chemical Weekly, ICICI Direct Research

Exhibit 8: Theophylline price chart (per KG)



Source: Chemical Weekly, ICICI Direct Research

API & Intermediates -

APL commissioned its first API manufacturing unit in Tarapur for regulated market in 2005 and over the years it specialised in developing and manufacturing Highly Potent Active Pharmaceutical Ingredients (HPAPIs) critical for various therapeutic segments such as Anti-cancer, Anti-Asthma, Anti-Hypertensive, anti-inflammatory etc.

APL is a leading manufacturer of Corticosteroids which account for approximately 25-30% of APL's API revenue, with oncology, peptide, and other segments following closely.

Over the years APL has commercialised 55 API's whereas 11 APIs are under development/Validation.

The company owns three API manufacturing facilities at Dombivli, Vapi and Tarapur with accreditations from the USFDA, EU GMP, EDQM (European Pharmacopoeia), KFDA (Korea), and COFEPRIS (Mexico).

Geography wise break-up- 49% in the regulated markets, 40% in RoW markets, and 11% non-regulated markets.

APL owns more than 140 generic intermediates in R&D, Pilot and commercial scales which ensures backward integration with steady supply of high-quality materials and data control throughout the production chain. The backward integration of API's helps

APL to maintain a hold on margins and also mitigates risks besides optimising production processes.

Exhibit 9: APIs under research / validation

Therapy	Product	Specs/Status
Cardiovascular	Enalapril maleate	EDMF - Validation 2025
	Ticagrelor	EDMF - Validation 2025
Anti Coagulants	Edoxaban tosylate	Under Research
Anti Asthmatic	Montelukast Sodium	EDMF - Validation 2025
Anti Cancer	Apalutamide	Inhouse, EDMF - Validation 2025
	Ruxolitinib	Inhouse, EDMF - Validation 2025
	Venetoclax	Inhouse, EDMF - Validation 2025
	Olaparib	Inhouse, EDMF - Validation 2025
	Osimertinib	Under Research
	Ribociclib	Under Research
Anti Diabetic	Dapagliflozin propanediol	Inhouse, EDMF - Validation 2025
CNS Agent	Vortioxetine HBr	Inhouse, EDMF - Validation 2025
Arthritis	Tofacitinib Citrate	Inhouse, EDMF - Validation 2025
Endometriosis & Utrin Fibroids	Elagolix	Under Research

Source: Company, ICICI Direct Research

APL holds 31 CEP approval available for sale in European Union across multiple therapeutic areas and 50 USDMF approvals which strengthens APL's presence in regulated markets.

CDMO / CMO Business-

APL offers customised support to global Pharma Innovators for making regulatory filings, providing research and technological support which includes manufacturing NCEs, APIs, RSMs, and Intermediates.

The work encompasses through a blend of product customisation and regulatory strategy to allow market access. The segment offers higher business stability (with improved margins) due to the complex nature of the products thereby leading to high customer stickiness for APL.

At present APL is working with 21 customers across 60 projects of which 33 projects are in commercial stages and 27 projects are at different stages of development. Out of 21, customers 16 are innovators and big Pharma companies where APL provides end-to-end services for small molecule NCEs drug development programs from lab scales to pilot and manufacturing scales focusing on clinical phases (Phase-I/II/III), launch, and commercial phase projects.

Investment Rationale

Well-thought-out xanthine expansion

APL is the only Indian player in India with capabilities to manufacture xanthine as a substitute to Chinese imports. Globally also, the company commands a market share of around 15-20%.

The segment over the years has been a core segment for APL. It started with an initial capacity of 2000 MTPA which, in the due course was raised to 5000 MTPA. At present the capacity runs at an optimum level (~90-95% capacity utilization).

Currently, majority of the APL's xanthine revenues are being derived from caffeine, both via exports and the domestic market. APL caters to ~80% of the domestic caffeine requirement.

Caffeine is used in energy drinks and functional foods. Various industry reports suggest energy drink market itself to be around US\$ 75 billion and growing with CAGR of ~9%.

The market is heavily dependent on synthetic caffeine. Brands like Red Bull, Coca Cola, Pepsi, Monster use caffeine which ultimately increase alertness (activity of brain and nervous system) thus targeting millennials and youths.

Although the beverages market will continue to be the largest Xanthine sub-segment, the management also aims to increase revenues from the pharmaceutical & nutraceuticals segment to regulated markets as these products fetch better realisation (~20% higher than consumer products) and better margins. In this regard, APL has completed the filings for regulated approvals of USDMFs and CEPs for the pharmaceutical scale up.

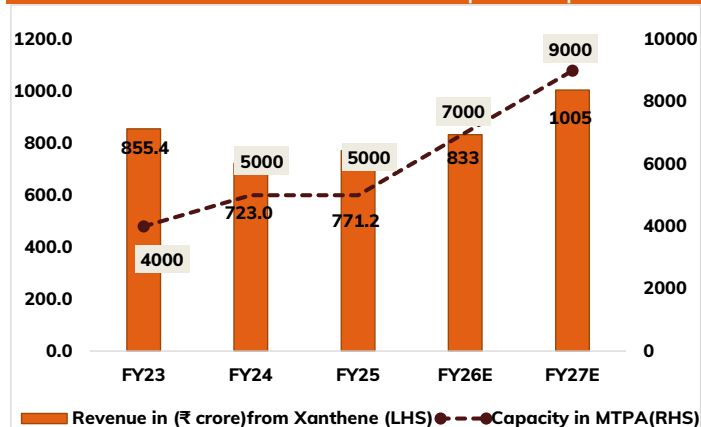
Xanthine derivatives are group of alkaloids that work as mild stimulants and used to treat bronchospasm caused by lung conditions such as asthma and chronic obstructive pulmonary disease (COPD). Xanthine derivatives ease symptoms of bronchospasm and facilitate easier breathing by relaxing the smooth muscles in the respiratory tract and diminishing the airway's hypersensitive response to stimuli. According to 2024 GINA Main Report, Asthma affects around 300 million people globally.

As per Frost & Sullivan Research & Analysis Xanthine derivatives market in India itself is expected to reach ~5,500 MTPA by FY27E, growing at a CAGR of ~9%, majorly driven by 17-18% growth in Theophylline, and 7-8% growth in Caffeine applications. Globally the market for xanthine derivatives is growing at a rate of ~5% driven by 8-9% CAGR in Pharma and 7-7.5% CAGR in Food & Beverage applications.

APL has initiated ~₹ 150 crore of capex to increase xanthine capacity by 4000 MTPA, thus taking total capacity to 9000 MTPA by FY26/27. This expansion has been earmarked to tap global opportunities specially in high growth sub-segments like pharmaceuticals and beverages. Over the next three years the management expects utilisation level (with the added capacities) to reach to 80-90% of the then capacities.

We expect Xanthine revenues to grow at a CAGR of 14.2% during FY25-27E to ₹1005 crore to be driven by volumes. Our assumption is based on 70% utilization in FY26E and ~74% utilization in FY27E (including added capacities). We assume prices to stabilise at the current rate or even decline marginally. We expect sustained demand from food and beverages (caffeine) besides pharmaceuticals foray to be the main catalysts.

Exhibit 10: Xanthine revenues with anticipated capacities



Source: Company, ICICI Direct Research

Steady API traction and strategic chronic presence;

APL has a strong presence across chronic therapy segments in APIs such as Cardiovascular, Anti-Asthmatic, Anti-Cancer, and Anti-Diabetic among others. Nearly 60-70% of the company's portfolio is backward integrated (except for fermentation-based steroid intermediates). The company keeps on targeting new molecules which are about to lose patent protection 3-5 years down the line.

Exhibit 11: APL's API products across therapies

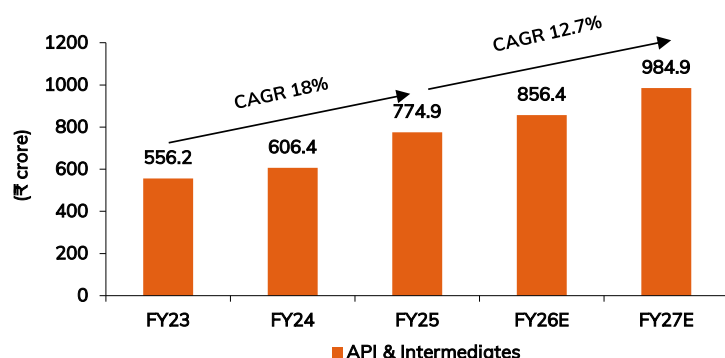
Therapy	No of Products
Cardiovascular	8
Anti Asthmetic	12
Anti Cancer	16
Anti Coagulants	2
Anti Diabetic	6
Overactive Bladder	1
CNS Agent	5
Skin Care	3
Other	15

Source: Company, ICICI Direct Research

APL also undertakes development of advanced intermediates for newly launched APIs well in advance, during the active patent period. This enables generic players to plan their launches accordingly, facilitating a streamlined pathway to market entry. By taking this proactive approach, customers can validate their APIs effectively. APL's strong pedigree foothold in APIs and intermediates, combined with the rising demand for chronic drugs, positions this segment well to tap into incremental opportunities.

We expect API and Intermediate sales to grow at a CAGR of ~13% to ₹985 crore to be driven by new launches in anti-diabetic and anti-cancer APIs especially in Regulated/export markets. Debottlenecking at Tarapur IV facility is also expected to drive sales.

Exhibit 12: API and Intermediates revenues growth forecast



Source: Company, ICICI Direct Research

CDMO Expansion; Re balancing - Opportunities

Over the years, APL has established capabilities across drug development and manufacturing value chain having manufacturing strength from 1KG scale to 500 MT scales per year with 10 - 50 litre reactors in kilo lab and 100 - 500 litre reactors in pilot plant for fast process optimization. Over the years, the capacity utilisation has reached ~70-80%, hence the expansion drive was eminent.

Starting with a small base of ~₹ 30 crore in 2020, the CDMO business has grown nearly 8x in five years reaching ₹ 224 crore in FY25. Currently the company is handling 60 active projects, with focus on small molecule APIs, including oncology.

In order to cash in on growing CDMO opportunities in the CDMO space, the company has recently acquired 80-acre land parcel in Atali for greenfield expansion where it has set up CDMO and Intermediates facility with capacity of 450 KL for a capex of around ₹300 crore which is expected to commence operations from H1FY26. The new facility will also house Intermediates capabilities which will also be used for captive consumption.

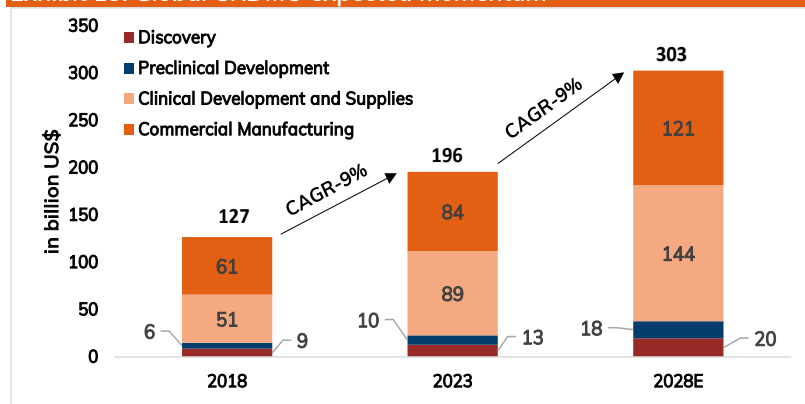
The land parcel has been strategically positioned where company can further expand its capacity from 450 KL to 1200 KL by adding blocks with minimal investments.

Most of the CDMO projects that APL targets confine to Ph. II to Ph. III transitions, where the possibility of long-term engagement with the innovators is fairly sticky as they seek reliable commercial supply partners. It typically enters as one of the multiple suppliers with an eye on commercial supplies in future. As per management, the company is among the top 4 suppliers across ~60 odd projects it is currently working upon. Currently, almost 75% to 80% of overall CDMO sales are derived from Phase-III and commercialization stage and the rest are derived from earlier stages.

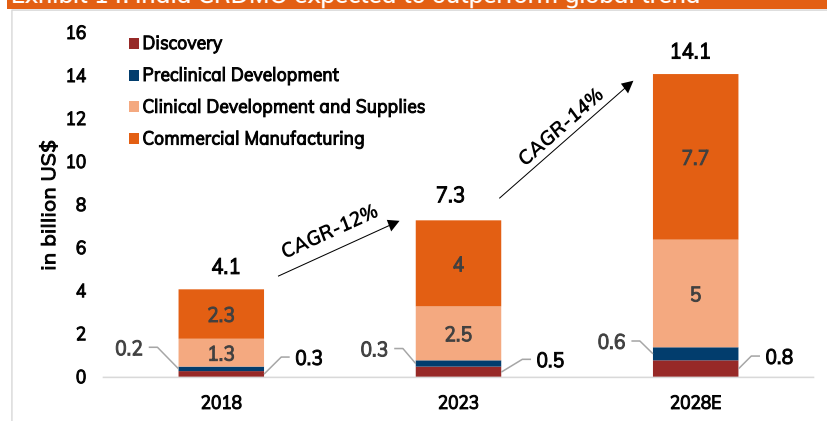
The CDMO segment of APL attracts the highest margins compared to its other businesses. Therefore, we believe that expanding capacity in this segment will help enhancing APL's overall margin profile.

Management's expansion drive stems from the conducive business environment driven by emerging global tailwinds of consolidation main players, China re-balancing, expected improvement in the US funding scenario and emerging blockbuster trends especially in peptides category.

Exhibit 13: Global CRDMO expected momentum

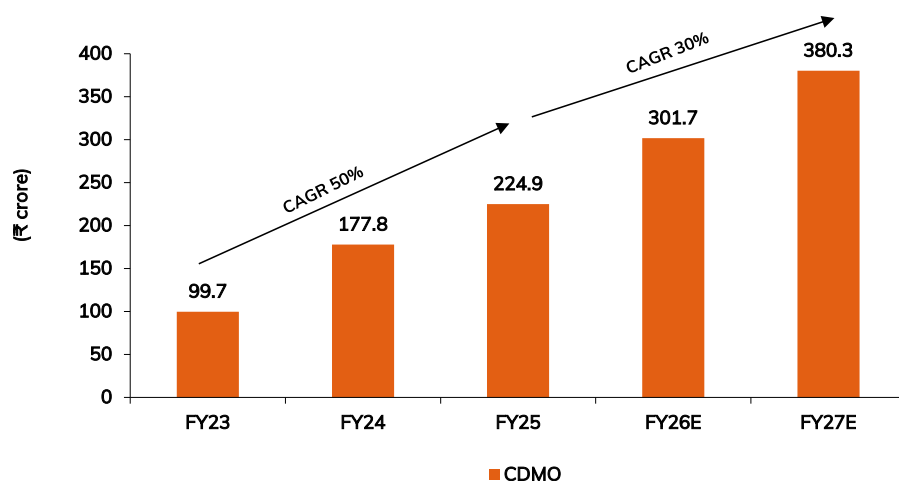


Source: Various Industry Reports, ICICI Direct Research

Exhibit 14: India CRDMO expected to outperform global trend


Source: Various Industry Reports, ICICI Direct Research

We expect the APL's CDMO revenues to grow at a CAGR of 30% during FY25-27E to ~₹380 crore, to be driven by higher capacity utilisation at Atali and order execution momentum from the existing four plants. Our estimates also incorporate management's guidance of 30-40% growth for the next year based on order book visibility.

Exhibit 15: CDMO revenues to grow at CAGR of 30% during FY25-27E


Source: Company, ICICI Direct Research

Key Financial Summary

Revenues likely to be more stable with new Xanthine and CDMO capacities coming live; CDMO to be the main driver

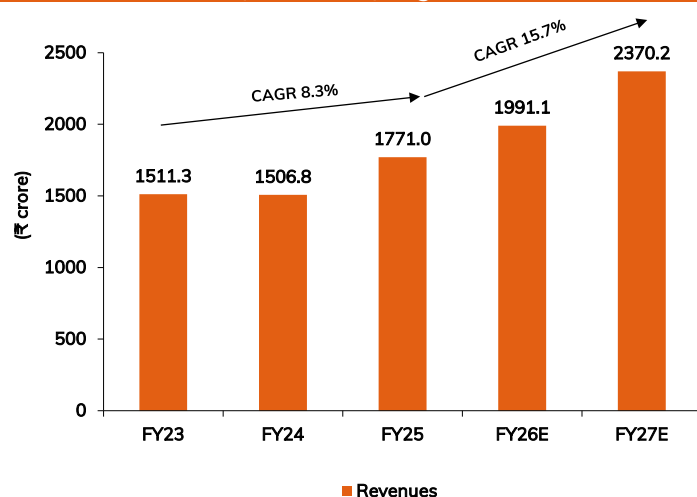
APL at present have a 100% owned subsidiary Aarti USA which is into trading business for Aarti Industries, which eventually will shift to Aarti Industries by Q4FY25, once Aarti Industries sets up its own subsidiary in the US. Thus, viewing consolidated margins and topline will not give correct picture (~₹150 crore revenue dent on account of shifting of Aarti USA to Aarti Industries).

On a standalone basis, APL's revenues during FY23-25 have grown at CAGR of just ~8% primarily due to significant drop in Xanthine realization but going forward with new capacities in CDMO and Xanthine coming in we expect the revenue to grow at a CAGR of ~16% during FY25-27E

In our assumptions, we have built CDMO growth CAGR of 30%, API growth CAGR of ~13% and Xanthine growth CAGR of ~14%.

Note: - Difference between standalone sales and consolidates sales is on account of ₹200 crore revenue assumption from Ganesh Polychem for FY26E and FY27E

Exhibit 16: Revenues (standalone) to grow at 15.7% CAGR during FY25-27E



Source: Company, ICICI Direct Research

EBITDA improvement to be driven by improving operating leverage...

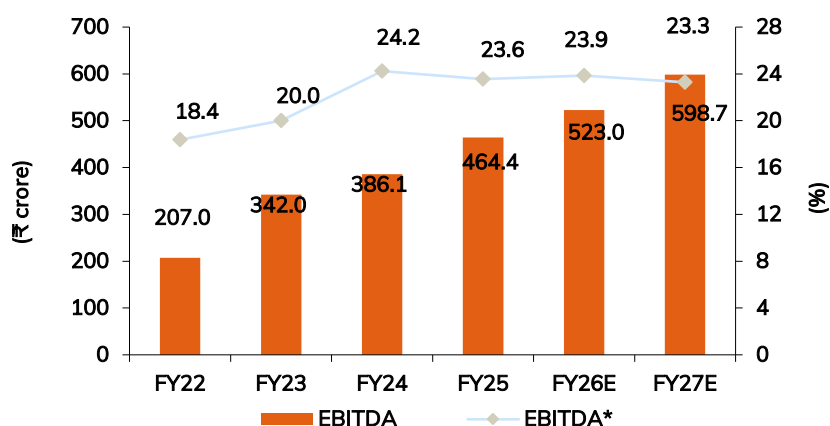
Aarti USA was purely trading business which in consolidated used to be reported in topline but had negligible contribution at EBITDA thus dragging the margins at consolidated level. Now that aarti USA business is being transferred back to Aarti Industries, margins are expected to stabilise.

Typically, the CDMO is the highest margin business followed by API and then Xanthine. Since the fastest growth is expected in CDMO segment, we expect decent traction in margins. We have modelled EBITDA growth at a CAGR of 13.5% during FY25-27E with margins eventually reaching 23% (consolidated basis) by FY27E.

Cost optimization steps

APL is establishing a cutting-edge solar power plant in Akola, Maharashtra, with an investment exceeding ₹80 crore. This project aims to supply one-third of its power needs, thereby lowering operational costs.

Exhibit 17: EBITDA to grow at a CAGR of 13.5% during FY25-27E

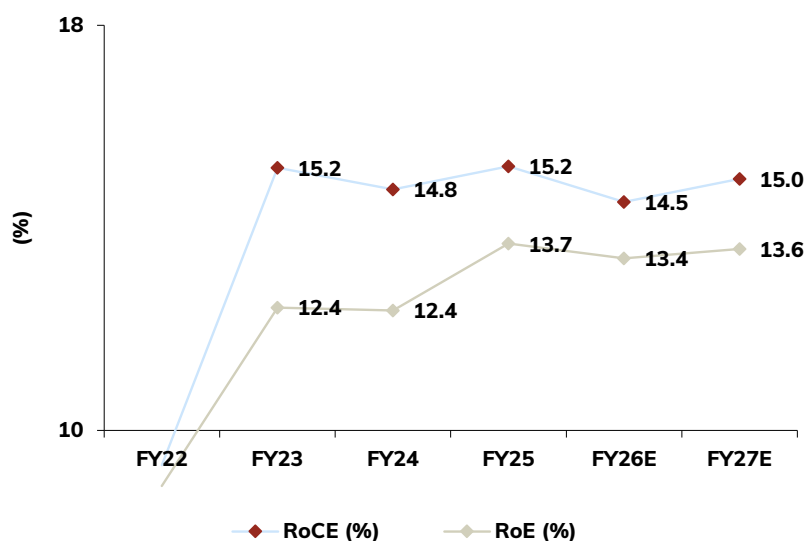


Source: Company, ICICI Direct Research

Return Ratios to come off slightly as the company accelerates capex

The company at present is under Capex mode as it has invested for expanding its Xanthene and CDMO capabilities. Thus, we expect some slowdown in return ratios during FY26E. However, the ratios should get back to normal upon panning of operating leverage.

Exhibit 18: ROCE & ROE trend- Capex effect to kick in



Source: Company, ICICI Direct Research

Valuation

With strong Aarti group pedigree and leadership in Xanthine, APL has emerged as an interesting prospect with a planned expansion in CDMO/ API besides further strengthening of Xanthine capabilities. In the current competitive scenario where B2B players continue to remain in focus due to global supply-chain challenges and geopolitical uncertainties, players like APL are poised to do well with an array of product offerings. We believe APL offers good risk-return profile and is trading at a significant discount to the industry peers. We value APL at 18x FY27E EBITDA of ₹ 598.7 crore and arrive at a target price of ₹ 1185.

Key Risk and Concerns

Regulatory Risk: Although the hitherto track record in terms of USFDA inspection is unblemished, any adverse outcome in any of the facilities could lead to cascading negative implications.

Supply chain disruptions: Periodic uncertainty over the supply chain from China and other geographies due to geopolitical tensions may lead to volatility in earnings as the effect could be both on sales as well as raw material supplies. Q4FY24 weak earnings is a testimony to this risk.

Volatility in CDMO business: The company is relatively new in the dynamic and volatile global CDMO space. Current bandwidth is around ₹ 225 crore with small molecule contracts in hand. Although the funding scenario in the world and especially in the US is crawling back to normal, loss of contract is not an uncommon phenomenon.

Financial Summary

Exhibit 19: Profit and loss statement

₹ crore

(Year-end March)/ (₹ crore)	FY24	FY25	FY26E	FY27E
Total Operating Income	1,852.6	2,115.1	2,191.1	2,570.2
Growth (%)	-4.8	14.2	3.6	17.3
Raw Material Expenses	1,020.7	1,127.9	1,154.6	1,362.2
Gross Profit	831.9	987.2	1,036.5	1,208.0
Gross Profit Margins (%)	44.9	46.7	47.3	47.0
Employee Expenses	138.4	162.0	184.8	205.6
Other Expenditure	307.4	360.9	328.7	403.7
Total Operating Expenditure	1,466.6	1,650.7	1,668.1	1,971.5
EBITDA	386.1	464.4	523.0	598.7
Growth (%)	12.9	20.3	12.6	14.5
Interest	17.2	26.9	30.8	30.8
Depreciation	73.2	86.9	109.3	125.9
Other Income	4.9	10.1	10.5	12.3
PBT before Exceptional Items	300.5	360.7	393.4	454.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	300.5	360.7	393.4	454.3
Total Tax	83.6	88.3	90.2	104.1
PAT before MI	216.9	272.4	303.2	350.1
PAT	216.9	272.4	303.2	350.1
Growth (%)	12.1	25.6	11.3	15.5
EPS (Adjusted)	23.9	30.1	33.5	38.6
Other income as % of (Cash+in	4%	12%	7%	2%

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement

₹ crore

(Year-end March)/ (₹ crore)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	243.6	303.8	303.2	350.1
Add: Depreciation & Amortiza	73.2	86.9	109.3	125.9
Net Increase in Current Assets	-165.2	-29.2	-219.8	-241.0
Net Increase in Current Liabilit	43.4	-56.9	144.0	74.4
Others	21.4	26.9	30.8	30.8
CF from Operating activities	216.4	331.6	367.5	340.2
Investments	-62.6	-19.0	0.0	0.0
(Purchase)/Sale of Fixed Asset	-155.1	-402.0	-350.6	150.0
Others	3.1	7.1	2.1	2.2
CF from Investing activities	-214.6	-413.9	-348.5	152.2
(inc)/Dec in Loan	50.0	127.9	100.0	0.0
Dividend & Dividend tax	-18.1	-31.7	-30.3	-35.0
Other	-22.1	-30.7	-30.8	-30.8
CF from Financing activities	9.7	65.4	38.9	-65.8
Net Cash Flow	11.5	-16.9	57.9	426.6
Cash and Cash Equivalent	12.1	23.6	6.7	64.6
Cash	23.6	6.7	64.6	491.2
Free Cash Flow	61.3	-70.5	16.8	490.2

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Equity Capital	45.3	45.3	45.3	45.3
Reserve and Surplus	1,708.2	1,944.6	2,217.5	2,532.6
Total Shareholders funds	1,753.5	1,989.9	2,262.8	2,577.9
Total Debt	285.3	413.1	513.1	513.1
Deferred Tax Liability	107.9	128.4	131.0	133.6
Long-Term Provisions	6.1	15.8	16.1	16.5
Other Non Current Liabilities	0.0	0.0	0.0	0.0
Source of Funds	2,152.8	2,547.2	2,923.0	3,241.0
Gross Block - Fixed Assets	1,209.4	1,399.6	1,724.6	1,874.6
Accumulated Depreciation	177.9	264.8	374.1	500.0
Net Block	1,031.5	1,134.8	1,350.5	1,374.6
Capital WIP	136.9	374.4	400.0	100.0
Fixed Assets	1,168.5	1,509.1	1,750.5	1,474.6
Investments	107.2	76.8	76.8	76.8
Other non-Current Assets	23.6	36.8	37.5	38.3
Inventory	642.9	587.6	780.4	915.4
Debtors	519.3	575.4	600.3	704.2
Other Current Assets	93.5	114.0	116.1	118.2
Cash	23.6	6.7	64.6	491.2
Total Current Assets	1,279.3	1,283.7	1,561.4	2,228.9
Creditors	378.3	277.8	420.2	492.9
Provisions	6.3	11.7	12.0	12.2
Other Current Liabilities	41.2	69.6	71.0	72.4
Total Current Liabilities	425.8	359.2	503.2	577.5
Net Current Assets	853.5	924.5	1,058.2	1,651.4
Application of Funds	2,152.7	2,547.2	2,923.0	3,241.0

Source: Company, ICICI Direct Research

Exhibit 22: Ratio Sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Reported EPS	23.9	30.1	33.5	38.6
Cash EPS	20.7	27.6	30.1	34.8
BV per share	193.5	219.6	249.7	284.5
Cash per Share	2.6	0.7	7.1	54.2
Dividend per share	3.2	2.5	3.3	3.9
Operating Ratios (%)				
Gross Profit Margins	44.9	46.7	47.3	47.0
EBITDA margins	20.8	22.0	23.9	23.3
PAT Margins	11.7	12.9	13.8	13.6
Cash Conversion Cycle	154.4	152.8	160.0	160.0
Asset Turnover	1.5	1.5	1.3	1.4
EBITDA conversion Rate	56.0	71.4	70.3	56.8
Return Ratios (%)				
RoE	12.4	13.7	13.4	13.6
RoCE	14.8	15.2	14.5	15.0
RoIC	16.3	17.8	17.2	18.2
Valuation Ratios (x)				
P/E	39.3	31.3	28.1	24.3
EV / EBITDA	22.6	19.1	17.1	14.2
EV / Net Sales	4.7	4.2	4.1	3.3
Market Cap / Sales	4.6	4.0	3.9	3.3
Price to Book Value	4.9	4.3	3.8	3.3
Solvency Ratios				
Debt / EBITDA	0.7	0.9	1.0	0.9
Debt / Equity	0.2	0.2	0.2	0.2
Current Ratio	2.9	3.6	3.0	3.0
Quick Ratio	1.4	1.9	1.4	1.4
Inventory days	127	101	130	130
Debtor days	102	99	100	100
Creditor days	75	48	70	70

Source: Company, ICICI Direct Research

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