

Performance levers intact despite quarterly gyrations....

About the stock: Aarti Pharmalabs Limited (APL) is the leading developer and manufacturer of Xanthine derivatives (~43 % of the business) with global market share of ~15-20%. Additionally, the company also manufactures Generic APIs which contribute around 44% of the business. Furthermore, APL is also expanding into CDMO services (~13% of the revenues) 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 also expanded its capacity by building new manufacturing facility in Atali, Gujarat.

Result performance & Investment Rationale:

- Q2FY26 – Mixed set of numbers; Changes in structure also impacted reported numbers–** Revenues for the quarter declined 9% YoY to ₹418.3 crore due to the exclusion of Aarti USA and Ganesh Polychem from the consolidated numbers. EBITDA for the quarter declined by 20.2% YoY to ₹74.7 crore, a 259 bps decline in margins to 17.9% despite 129 bps YoY improvement in GPM to 49.9%. PAT for the quarter stood at ₹27.9 crore. On standalone basis the revenue grew by 11% YoY. The growth was primarily driven by 24% YoY growth in Xanthine (51% of the Business) and 207% growth on smaller base of CDMO segment to ₹40.5 crore (10% of the business). The growth was offset by 15% decline in API segment (39% of the business).
- Capacity expansion across segments to steer growth beyond FY26–** Xanthine segment primarily witnessed the growth on account of capacity debottlenecking of ~1000 MTPA thereby taking overall capacity to 6000 MTPA from 5000 MTPA. The company remains on track to expand its capacity to 9000 MTPA by Q4FY26. Prices of xanthine remained stable, as per management. We believe APL to focus more on grabbing the larger wallet share across Pharma and beverage customers (higher margin opportunities). On the CDMO front, the management is confident of achieving its guidance of 30-40% growth on back of strong order book besides 7-8 molecules which have moved to commercialisation phase from the development phase. The company used some of its API intermediate capacity for CDMO opportunities which resulted in weak margins for API business and API Business during the quarter also witnessed margin pressure as sales mix was skewed towards lower margin APIs. However, with the commencement of all-important Atali facility, which would also free up intermediate capacities for captive consumption, we believe the margins should return to normalcy. On the Ganesh Polychem JV front, the management expects gradual pick up in the next few quarters as the business has undergone upgradation work during H1FY26.

Rating and Target price

- Our target price is ₹ 970 valuing Aarti Pharmalabs at 17x FY27E EBITDA of ₹ 553 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	1930.6	2291.3	4.1
EBITDA	342.0	386.1	464.4	16.5	453.5	553.0	9.1
EBITDA Margins (%)	17.6	20.8	22.0		23.5	24.1	
Net Profit	193.4	216.9	272.4	18.7	231.7	284.4	2.2
EPS (Adjusted)	21.3	23.9	30.1		25.5	32.4	
PE (x)	36.1	32.2	25.6		30.2	23.8	
EV to EBITDA (x)	20.8	18.6	15.8		16.8	13.7	
RoCE (%)	15.2	14.8	15.2		12.5	14.0	
RoE (%)	12.4	12.4	13.7		11.3	12.7	

Source: Company, ICICI Direct Research



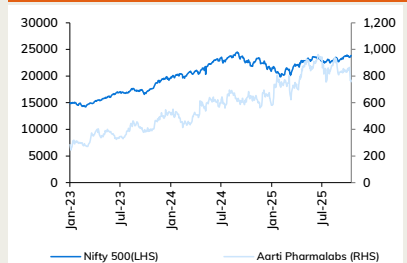
Particulars

Particulars	Amount
Market Capitalisation	₹ 6978 crore
Debt (FY25)	₹ 413 crore
Cash (FY25)	₹ 7 crore
EV	₹ 7384 crore
52 week H/L	972/550
Equity capital	₹ 45 crore
Face value	₹ 5

Shareholding pattern

Shareholder	Dec-24	Mar-25	Jun-25	Sep-25
Promoters	44.7	44.3	43.7	42.9
DIs	8.6	7.4	7.3	8.0
FIs	10.4	7.5	7.8	7.0
Others	36.4	40.8	41.1	42.2

Price Chart



Key risks

- i) Delay in xanthine and Atali API unit expansion. (ii) Volatility in CDMO Business

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Exhibit 1: Quarterly Summary

(₹ crore)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	YoY (%)	QoQ (%)
Net Sales	531.2	471.6	485.1	458.4	439.8	448.7	505.8	555.5	458.0	537.8	563.8	386.2	418.3	-8.7	8.3
Variable Cost of Sales	335.7	270.7	295.0	270.9	252.3	244.4	253.1	338.2	235.6	275.3	278.8	169.4	209.8	-11.0	23.8
% of Revenue	63.2	57.4	60.8	59.1	57.4	54.5	50.0	60.9	51.4	51.2	49.4	43.9	50.1	-129 bps	628 bps
Gross Profit	195.5	200.9	190.1	187.4	187.6	204.3	252.7	217.3	222.4	262.5	285.0	216.8	208.6	-6.2	-3.8
Gross Profit Margin (%)	36.8	42.6	39.2	40.9	42.6	45.5	50.0	39.1	48.6	48.8	50.6	56.1	49.9	129 bps	-628 bps
Employee Expenses	31.3	34.8	33.2	33.3	31.6	36.2	37.4	39.2	37.7	41.6	43.4	41.3	43.4	15.1	5.2
% of Revenue	5.9	7.4	6.9	7.3	7.2	8.1	7.4	7.1	8.2	7.7	7.7	10.7	10.4	214 bps	-31 bps
Other Expenditure	74.4	79.9	76.9	69.3	68.0	72.4	97.7	81.6	91.0	92.2	96.0	80.3	90.4	-0.7	12.6
% of Revenue	14.0	16.9	15.8	15.1	15.5	16.1	19.3	14.7	19.9	17.2	17.0	20.8	21.6	174 bps	83 bps
Total Expenditure	441.4	385.4	405.1	373.5	351.8	353.0	388.3	459.0	364.4	409.2	418.2	290.9	343.6	-5.7	18.1
% of Revenue	83.1	81.7	83.5	81.5	80.0	78.7	76.8	82.6	79.5	76.1	74.2	75.3	82.1	259 bps	680 bps
EBITDA	89.8	86.2	80.0	84.9	88.0	95.7	117.5	96.5	93.7	128.6	145.6	95.2	74.7	-20.2	-21.5
EBITDA Margin (%)	16.9	18.3	16.5	18.5	20.0	21.3	23.2	17.4	20.5	23.9	25.8	24.7	17.9	-259 bps	-680 bps
Depreciation	16.6	16.3	16.0	17.2	18.1	18.8	19.1	20.2	20.9	23.0	22.8	22.8	24.8	18.6	8.7
Interest	5.6	5.3	5.9	4.2	3.9	4.5	4.7	4.8	5.5	10.0	6.6	6.8	10.7	93.7	57.0
Other Income	1.3	0.3	0.7	0.5	1.0	1.4	2.0	2.2	4.5	5.0	-1.6	1.6	0.1	-98.9	-96.8
PBT	99.4	97.0	89.3	97.4	101.3	108.6	129.9	109.6	104.6	136.6	163.5	109.6	88.8	-15.1	-19.0
Total Tax	17.8	17.4	16.0	16.9	15.2	21.1	30.5	18.2	17.1	26.6	26.3	16.0	10.8	-37.2	-32.5
Tax rate (%)	17.9	17.9	17.9	17.3	15.0	19.4	23.5	16.6	16.4	19.5	16.1	14.6	12.1	-426 bps	-242 bps
PAT	51.1	47.7	42.9	47.1	51.8	52.8	65.3	55.5	54.6	74.0	88.3	49.5	27.9	-48.9	-43.6
PAT Margin (%)	9.6	10.1	8.8	10.3	11.8	11.8	12.9	10.0	11.9	13.8	15.7	12.8	6.7	-525.1	-614.3

Source: Company, ICICI Direct Research

Q2FY26 Conference Call highlights

Xanthine Business –

- APL has added 1000 MTPA capacity during the quarter and ramp up to 9000 MTPA is expected by Q4FY26.
- The extended capacity is expected to get utilized within 2-3 years of commercialization.
- As per management the Xanthine prices have bottomed up.
- Company is increased its share in Beverage segment during the quarter.

API Business –

- API Business during the quarter witnessed High Margin Pressure and the sales mix was skewed towards lower margin APIs.
- Company is focusing on Lifestyle and Cancer API's and plans for few launches every year.
- The API business faced stiff competition in few products where margins got squeezed.
- Company will transfer more intermediates to Atali to free up existing capacities.
- The business is seeing delay in inventory procurement at customer end.
- The API intermediate capacities were used for CDMO business which resulted in lower margin in API business. Nevertheless, the management anticipates a recovery in these margins in the upcoming quarters as they intend to shift Intermediate production to the Atali Unit.

CDMO Business –

- Company is preparing to work on R&D in mid-size peptides like Liquid phase,
- Company has witnessed 7-8 Product shift from development to commercial pipeline.
- Company is currently working with 21 customers on 59 active projects, of which 39 are in the commercial stage and 20 are under different stages of development, both at customer's end
- Company expects to exceed CDMO guidance of 30-40% for FY26.
- Atali facility was inaugurated in September and Trail batches are currently going on for 3 projects.
- Atali facility is expected to commercialize the operations from Q2FY27.

Other aspects

- The quarter was negatively impacted due to a forex loss of Rs. 7.4 crores

- The management has revised EBITDA growth guidance to 8-12%(standalone) for FY26 from 10-12%.
- Ganesh Polychem Business is expected to remain lumpy during FY26 and pickup is expected from FY27 onwards.

Financial Tables

Exhibit 3: Profit and loss statement ₹ crore				
(Year-end March)/ (₹ crore)	FY24	FY25	FY26E	FY27E
Total Operating Income	1,852.6	2,115.1	1,930.6	2,291.3
Growth (%)	-4.8	14.2	-8.7	18.7
Raw Material Expenses	1,020.7	1,127.9	896.2	1,041.0
Gross Profit	831.9	987.2	1,034.4	1,250.3
Gross Profit Margins (%)	44.9	46.7	53.6	54.6
Employee Expenses	138.4	162.0	197.3	229.1
Other Expenditure	307.4	360.9	383.7	468.2
Total Operating Expenditure	1,466.6	1,650.7	1,477.1	1,738.3
EBITDA	386.1	464.4	453.5	553.0
Growth (%)	12.9	20.3	-2.4	22.0
Interest	17.2	26.9	37.2	39.5
Depreciation	73.2	86.9	97.1	118.1
Other Income	4.9	10.1	1.8	2.1
PBT before Exceptional Items	300.5	360.7	320.9	397.5
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	300.5	360.7	320.9	397.5
Total Tax	83.6	88.3	89.2	113.1
PAT before MI	216.9	272.4	231.7	284.4
PAT	216.9	272.4	231.7	284.4
Growth (%)	12.1	25.6	-14.9	22.7
EPS (Adjusted)	23.9	30.1	25.5	32.4
Other income as % of (Cash+inve	4%	12%	1%	1%

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore				
(Year-end March)/ (₹ crore)	FY24	FY25	FY26E	FY27E
Profit/(Loss) after taxation	243.6	303.8	231.3	293.2
Add: Depreciation & Amortizatio	73.2	86.9	97.1	118.1
Net Increase in Current Assets	-165.2	-29.2	63.6	-355.4
Net Increase in Current Liabilitie:	43.4	-56.9	47.6	156.5
Others	21.4	26.9	37.2	39.5
CF from Operating activities	216.4	331.6	476.8	251.9
Investments	-62.6	-19.0	-110.5	0.0
(Purchase)/Sale of Fixed Assets	-155.1	-402.0	-351.7	-150.0
Others	3.1	7.1	-22.5	1.7
CF from Investing activities	-214.6	-413.9	-484.8	-148.3
(inc)/Dec in Loan	50.0	127.9	245.7	0.0
Dividend & Dividend tax	-18.1	-31.7	-23.1	-29.3
Other	-22.1	-30.7	-37.2	-39.5
CF from Financing activities	9.7	65.4	185.3	-68.9
Net Cash Flow	11.5	-16.9	177.3	34.7
Cash and Cash Equivalent	12.1	23.6	6.7	32.2
Cash	23.6	6.7	184.0	66.9
Free Cash Flow	61.3	-70.5	125.1	101.9

Source: Company, ICICI Direct Research

Exhibit 5: 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	2,000.9	2,264.8
Total Shareholders funds	1,753.5	1,989.9	2,046.2	2,310.1
Total Debt	285.3	413.1	658.8	658.8
Deferred Tax Liability	107.9	128.4	131.5	134.2
Long-Term Provisions	6.1	15.8	22.6	23.1
Other Non Current Liabilities	0.0	0.0	0.0	0.0
Source of Funds	2,152.8	2,547.2	2,859.1	3,126.1
Gross Block - Fixed Assets	1,209.4	1,399.6	1,879.9	2,029.9
Accumulated Depreciation	177.9	264.8	361.9	480.0
Net Block	1,031.5	1,134.8	1,518.0	1,549.9
Capital WIP	136.9	374.4	245.7	245.7
Fixed Assets	1,168.5	1,509.1	1,763.7	1,795.6
Investments	107.2	76.8	187.3	187.3
Other non-Current Assets	23.6	36.8	69.2	70.6
Inventory	642.9	587.6	620.6	816.1
Debtors	519.3	575.4	470.1	627.8
Other Current Assets	93.5	114.0	122.9	125.2
Cash	23.6	6.7	32.2	66.9
Total Current Assets	1,279.3	1,283.7	1,245.8	1,636.0
Creditors	378.3	277.8	285.4	439.4
Provisions	6.3	11.7	12.0	12.2
Other Current Liabilities	41.2	69.6	109.4	111.6
Total Current Liabilities	425.8	359.2	406.8	563.2
Net Current Assets	853.5	924.5	839.0	1,072.7
Application of Funds	2,152.7	2,547.2	2,859.3	3,126.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Reported EPS	23.9	30.1	25.5	32.4
Cash EPS	20.7	27.6	23.0	29.1
BV per share	193.5	219.6	225.8	254.9
Cash per Share	2.6	0.7	3.6	7.4
Dividend per share	3.2	2.5	2.6	3.2
Operating Ratios (%)				
Gross Profit Margins	44.9	46.7	53.6	54.6
EBITDA margins	20.8	22.0	23.5	24.1
PAT Margins	11.7	12.9	12.0	12.8
Cash Conversion Cycle	154.4	152.8	152.2	160.0
Asset Turnover	1.5	1.5	1.0	1.1
EBITDA conversion Rate	56.0	71.4	105.1	45.5
Return Ratios (%)				
RoE	12.4	13.7	11.3	12.7
RoCE	14.8	15.2	12.5	14.0
RoIC	16.3	17.8	13.8	15.5
Valuation Ratios (x)				
P/E	32.2	25.6	30.2	23.8
EV / EBITDA	18.6	15.8	16.8	13.7
EV / Net Sales	3.9	3.5	3.9	3.3
Market Cap / Sales	3.8	3.3	3.6	3.0
Price to Book Value	4.0	3.5	3.4	3.0
Solvency Ratios				
Debt / EBITDA	0.7	0.9	1.5	1.2
Debt / Equity	0.2	0.2	0.3	0.3
Current Ratio	2.9	3.6	3.0	2.8
Quick Ratio	1.4	1.9	1.5	1.3
Inventory days	127	101	117	130
Debtor days	102	99	89	100
Creditor days	75	48	54	70

Source: Company, ICICI Direct Research

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