

Margin Gains & Expansion Plans Fuel Optimism for H2

Est. Vs. Actual for Q1FY26: Revenue – **INLINE**; EBITDA Abs.– **BEAT** PAT – **BEAT**

Changes in Estimates post Q1FY26

FY26E/FY27E: Revenue: 0.0%/0.0%; EBITDA: 0.0%/0.0%; PAT: 0.0%/0.0%

Recommendation Rationale:

- **Uptick in Revenue and Profitability:** Revenue, EBITDA, and Adjusted PAT increased by 6.3%, 13.9%, and 14% YoY, respectively, driven by strong demand in API, leading to volume growth of 9% and negative variance of ~5%.
- **Encouraging Segment-Wise Performance:** The Formulations business saw a significant jump of 14% annually, while the API reported muted growth of 3.5%. The company is now focused on expanding into more international markets.
- **Capex Investments for Future Growth:** During Q1FY26, the company incurred a Capex of ~Rs 49 Cr, primarily for capacity expansion, backward integration, and new product launches. For FY26, planned capex is expected to be around Rs 150-200 Cr.

Sector Outlook: Positive

Company Outlook & Guidance: In the API sector, prices have bottomed out and are now stable. The export landscape is expected to improve in the near future, driven by optimal capacity utilisation, low stock levels, and an upswing in demand. According to the management, it has a potential standalone revenue of over ~Rs 3,000 Cr for FY27E, with the company targeting 12–15% volume growth for FY26. From H2FY26 onward, stable to improved pricing is anticipated.

Current Valuation: PE 24x to FY27E earnings (Earlier Valuation: PE 19x)

Current TP: Rs 610/share (Earlier TP: Rs 475/share)

Recommendation: **BUY**

Financial Performance

Aarti Drugs reported revenue of Rs 591 Cr, marginally below our estimate of Rs 598 Cr, yet broadly in line with expectations. Revenue grew by 6.3% YoY, supported by a recovery in demand and volume growth, particularly in the API segment. EBITDA stood at Rs 74 Cr, exceeding our estimate of Rs 69 Cr, registering a 13.9% YoY increase. The EBITDA margin improved to 12.5%, driven by a 154 bps expansion in gross margin, resulting in an 83 bps YoY expansion in EBITDA margin. Adjusted PAT stood at Rs 38 Cr, up 14% YoY, while reported PAT came in at Rs 54 Cr, benefiting from earlier tax advantages.

API Segment witnessed volume recovery and improved demand, although annual revenue growth remained muted. Formulations Segment reported robust growth of 14%, outpacing the Indian Pharmaceutical Market (IPM) of 7-8%. Speciality Chemicals and Intermediates delivered strong growth of 24% and 22%, respectively.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	591	-12.7	6.3	598	-1.3
EBITDA	74	-20.6	13.9	69	7.0
EBITDA Margin	12.5%	-124	83	11.6%	
Net Profit	54	-14.0	61.9	37	46.1
EPS (Rs)	5.9	-14.0	61.9	4.0	46.1

Source: Company, Axis Securities Research

(CMP as of 21st July, 2025)

CMP (Rs)	544
Upside /Downside (%)	12%
High/Low (Rs)	635/312
Market cap (Cr)	4,960
Avg. daily vol. (6m) Shares.	15,000
No. of shares (Cr)	9.13

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	55.4	55.5	55.2
FIIIs	2.3	2.3	2.3
MFs/UTI	7.8	8.8	9.9
Banks/FIs	0.0	0.0	0.0
Others	34.6	33.4	32.7

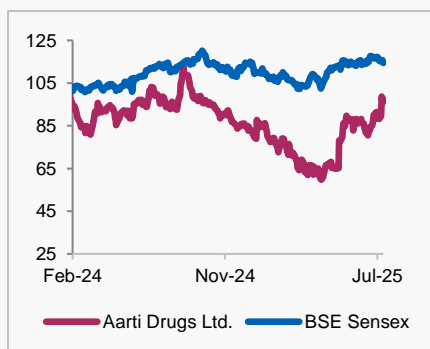
Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
Net Sales	2,387	2,717	3,043
EBITDA	287	345	399
Net Profit	168	192	230
EPS (Rs)	18	21	25
PER (x)	29.5	25.7	21.5
P/BV (x)	19.4	15.8	13.4
EV/EBITDA (x)	3.6	3.2	2.8
ROE (%)	12.3	12.4	13.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0.0%	0.0%
EBITDA	0.0%	0.0%
PAT	0.0%	0.0%

Relative Performance



Source: ACE Equity

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Financial Performance (Cont'd)

During Q1FY26, Aarti Drugs incurred a Capex of ~Rs 49 Cr, primarily towards capacity expansion, backward integration, and new product launches. A key development during the quarter was the commencement of trial production at the company's new greenfield manufacturing facility in Sayakha, Gujarat, which has been established mainly for backward integration into anti-diabetic products and their intermediates. This facility is expected to cater largely to internal requirements, helping the company reduce dependence on external suppliers, improve profit margins, and mitigate input cost volatility. Additionally, the new greenfield Salicylic Acid plant at Tarapur is progressing well and is expected to begin contributing to the company's financials from Q3FY26. While the plant initially faced some start-up issues—typical for in-house developed technologies—these have been effectively resolved and are being implemented at plant scale. The company is now executing a calibrated scale-up plan, aiming to ramp up production to over 800 tonnes per month, with a roadmap to expand capacity to ~1,600 tonnes per month by the end of FY26. For the full year, Aarti Drugs has guided for a planned Capex of Rs 150–200 Cr, reinforcing its commitment to growth, vertical integration, and supply chain de-risking.

Outlook

The pharma API manufacturing industry is evolving, and the company has focused on maintaining a competitive edge by expanding capabilities and investing in new technologies to enhance efficiency. Despite short-term challenges, the company remains committed to adapting and achieving long-term growth. Growth is anticipated across both API and non-API segments, with ongoing projects and increased exports in the formulations segment supporting future expansion.

Key Highlights of Concall

- **Commissioning and Ramp-Up:** Aarti Drugs' new salicylic acid plant at Tarapur is a key Greenfield expansion. The plant has commenced operations and is in the process of ramping up production. The current output is below 200 tonnes per month, with plans to scale to 800 tonnes in the near term and eventually to 1,600 tonnes per month as full capacity is realised, overcoming early start-up issues, and is expected to contribute meaningfully from Q3FY26. These expansions support volume growth, supply chain security, and margin improvement, with the company targeting to be among the world's largest metformin API manufacturers.
- **Outlook and Management Guidance:** Management is optimistic about the rest of FY26, guided by volume ramp-up, higher regulated market sales, and further gains from backward integration. EBITDA margins are projected to improve further, potentially exceeding 14.5% as capacity utilisation rises and newer assets stabilise. Despite near-term pricing headwinds, the company is on track for double-digit revenue growth with substantial margin upside expected from H2FY26 onward, aided by increased internal sourcing, a superior product mix, and focus on operational efficiency and cost control.
- **Oncology Facility Approvals & Expansion:** Aarti Drugs has achieved a significant milestone in its formulations segment with the USFDA approval for its oncology manufacturing facility. In addition, it also received UKMHRA approval for its oral solid dosage plant. This regulatory success enables the company to address highly regulated and higher-margin export markets, positioning it for a meaningful presence in global oncology markets.

Key Risks to Our Estimates and TP

- Global Economic slowdown may lead to low demand for APIs.
- A fall in realisation may impact the profitability of the company.
- An increase in debt levels may impact the profitability of the company

Change in Estimates

	New		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Sales	2,717	3,043	2,717	3,043	0.0%	0.0%
EBITDA	345	399	345	399	0.0%	0.0%
PAT	192	230	192	230	0.0%	0.0%

Source: Company, Axis Securities Research

Q1FY26 Results Review

Particulars (Rs Cr)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
Net Sales	555	598	557	677	591	6.3	-12.7
Growth (%)	-16.0%	-6.7%	-8.1%	9.2%	6.3%		
Total Expenditure	490	531	495	583	516	5.3	-11.5
Raw Material Consumed	348	346	370	375	357	2.7	-4.8
Purchase of stock in trade	18	30	14	23	29		
Stock Adjustment	-6	19	-33	39	-12		
% Of Sales	64.8%	65.8%	63.1%	64.6%	63.2%		
Gross margins (%)	35.2%	34.2%	36.9%	35.4%	36.8%	154	133
Employee Expenses	26	27	28	31	31	16.5	-1.8
% of sales	4.8%	4.4%	5.0%	4.6%	5.2%		
Other Expenses	104	111	116	115	112	7.8	-2.6
% of sales	18.8%	18.5%	20.8%	17.0%	19.0%		
EBITDA	65	67	62	93	74	13.9	-20.6
EBITDAM (%)	11.7%	11.2%	11.1%	13.8%	12.5%	83	-124
Interest	9	9	9	9	9		
Depreciation	13	14	14	15	15	10.0	-1.1
Other Income	1	1	12	2	0		
Exceptional Items	0	0	0	0	0		
PBT	44	46	51	71	51	16.1	-28.2
Tax	11	11	14	8	-3		
Tax (%)	24.3%	23.8%	26.9%	11.8%	-5.6%		
Reported PAT	33.3	35.0	37.1	62.8	54.0	61.9	-14.0

Source: Company, Axis Securities

Revenue Breakup

Particulars (Rs Cr)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	YoY (%)	QoQ (%)
APIs	443	485	460	555	458	3.5	-17.4
Formulations	71	66	48	61	80	13.9	31.9

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Sales	2,387	2,717	3,043	3,492
Growth (%)	-5.6%	13.8%	12.0%	14.8%
Total Expenditure	2,100	2,372	2,644	3,017
Raw Material Consumed	1,542	1,745	1,947	2,225
Gross margins	35.4%	35.8%	36.0%	36.3%
Employee Expenses	112	125	137	157
% of sales	4.7%	4.6%	4.5%	4.5%
Other Expenses	446	503	560	636
% of sales	18.7%	18.5%	18.4%	18.2%
EBITDA	287	345	399	475
EBITDAM (%)	12.0%	12.7%	13.1%	13.6%
Depreciation	56	66	75	79
EBIT	231	280	324	396
EBITM (%)	9.7%	10.3%	10.6%	11.3%
Interest	36	31	26	22
Other Income	16	8	9	10
PBT	212	257	307	384
Tax Rate (%)	25.0%	25.0%	25.0%	25.0%
Tax	44	64	77	96
Reported PAT	168	192	230	288

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Share Capital	91.3	91.3	91.3	91.3
Reserves & Surplus	1,278	1,461	1,682	1,962
Shareholders Fund	1,369	1,553	1,774	2,053
Total Debt	615	515	434	359
- Deferred Tax (Net)	78	78	78	78
- Trade Payables	420	476	525	603
Provisions	4	4	4	4
Others	87	82	91	105
Total Liabilities	2575	2709	2907	3203
Gross Block	1,489	1,639	1,969	2,079
Depreciation	633	699	774	853
% of GB	42.5%	42.6%	39.3%	41.0%
Net Block	856	941	1,196	1,227
CWIP	330	330	130	80
- Fixed Assets	1,196	1,281	1,336	1,317
Investment	22	22	22	22
- Deferred Tax (Net)	0	0	0	0
Loans & Advances	1	1	1	1
Others	124	128	157	177
- Inventories	473	506	542	641
- Trade Receivables	751	745	817	976
- Cash	8	25	33	69
Total Assets	2,575	2,709	2,907	3,203

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
PBT	212	257	307	384
Add: Depreciation	56	66	75	79
Add: Interest	36	31	26	22
Cash flow from operations	303	353	408	485
Change in working capital	16	(19)	78	187
Taxes	44	64	77	96
Miscellaneous expenses	0	0	0	0
Net cash from operations	244	308	253	202
Capital expenditure	(209)	(150)	(130)	(60)
Change in Investments	(2)	0	0	0
Net cash from investing	(211)	(150)	(130)	(60)
Increase/Decrease in debt	51	(100)	(81)	(75)
Dividends	(9)	(9)	(9)	(9)
Proceedings from equity	(1)	0	0	0
Interest	(36)	(31)	(26)	(22)
Others	(38)	(0)	0	0
Net cash from financing	(33)	(140)	(116)	(106)
Net Inc./(Dec.) in Cash	(0)	18	7	36
Opening cash balance	9	8	25	33
Closing cash balance	9	25	33	69

Source: Company, Axis Securities Research

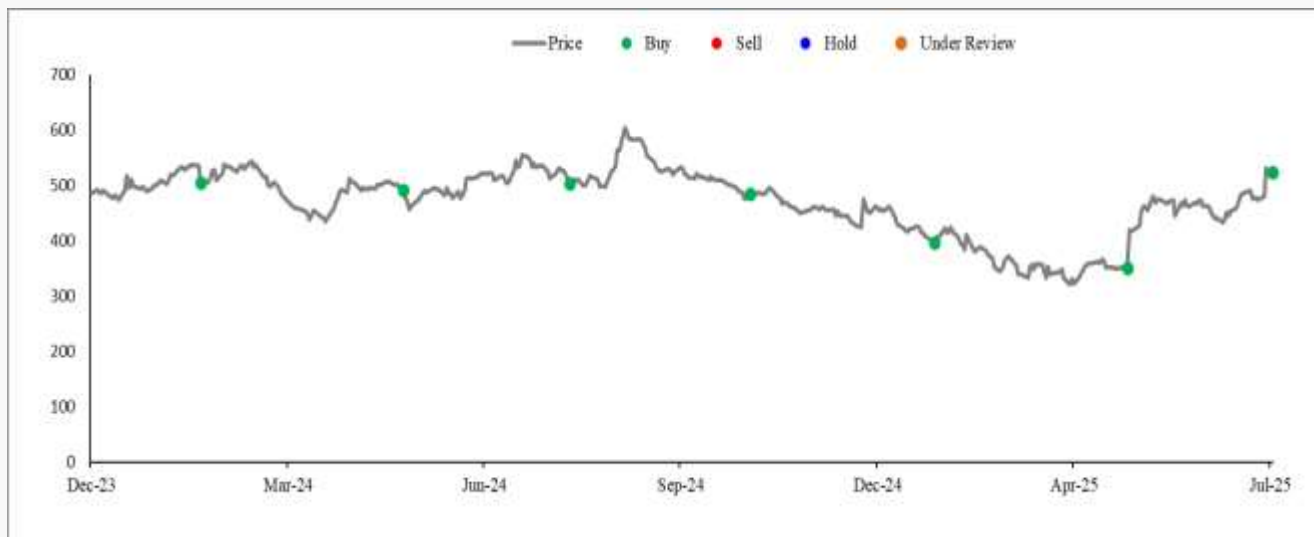
Ratio Analysis

(%)

Y/E March	FY25	FY26E	FY27E	FY28E
Sales growth	(5.6)	13.8	12.0	14.8
OPM	12.0	12.7	13.1	13.6
Oper. profit growth	(9.4)	20.2	15.5	19.2
COGS / Net sales	64.6	64.2	64.0	63.7
Overheads/Net sales	23.4	23.1	22.9	22.7
Depreciation / G. block	3.7	4.0	3.8	3.8
Effective interest rate	25.0	25.0	25.0	25.0
Net wkg. cap / Net sales	0.4	0.3	0.3	0.3
Net sales / Gr block (x)	1.6	1.7	1.5	1.7
RoCE	11.7	13.5	14.7	16.4
Debt/equity (x)	0.4	0.3	0.2	0.2
Effective tax rate	25.0	25.0	25.0	25.0
RoE	12.3	12.4	13.0	14.0
Payout ratio (Div/NP)	9.9	9.9	9.9	9.9
EPS (Rs.)	18.4	21.1	25.2	31.6
EPS Growth	(2.2)	14.5	19.5	25.3
CEPS (Rs.)	24.5	28.3	33.4	40.2
DPS (Rs.)	1.0	1.0	1.0	1.0

Source: Company, Axis Securities Research

Aarti Drugs Price Chart and Recommendation History



Date	Reco	TP	Research
29-Jan-24	BUY	570	Result Update
07-May-24	BUY	570	Result Update
30-Jul-24	BUY	555	Result Update
29-Oct-24	BUY	535	Result Update
30-Jan-25	BUY	470	Result Update
07-May-25	BUY	475	Result Update
21-Jul-25	BUY	610	Result Update

Source: Axis Securities Research

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