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Generating Wealth

IR Interaction Note

29th June 2026

Aarti Pharmalabs Ltd.

Capacity is in; utilization is the wait. CDMO carries FY27, EBITDA conversion is an FY28 story.

CMP: INR 674

Stock Info	
BSE	543748
NSE	AARTIPHARM
Bloomberg	AARTIPHARM:IN
Sector	Pharmaceutical
Face Value (INR)	5
Mkt Cap (INR Mn)	61,110
52w H/L (INR)	972 / 584
Avg Yearly Vol (in 000')	268

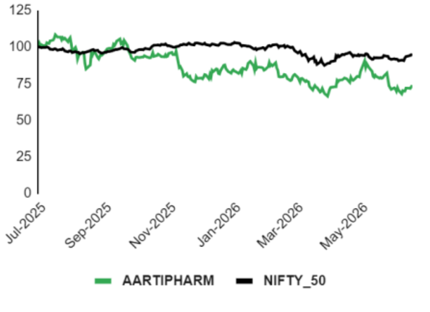
Shareholding Pattern %

(As on March 2026)

Promoters	43.08
Public & Others	56.92

Stock Performance (%)	1m	6m	12m
Aarti Pharmalabs	6.91	-7.48	-23.96
Nifty	1.69	-7.69	-6.16

Aarti Pharmalabs Vs Nifty



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Key Takeaways

- **FY26 was a digestion year, not a structural break.** Standalone revenue was effectively flat (+1.5% YoY), EBITDA fell ~4.8% and PAT fell ~31%. The EBITDA softness is being attributed to West Asia–driven input/logistics inflation; the much sharper PAT drop is a function of heavy capex flowing into depreciation and finance cost, plus a one-off forex loss - i.e. the operating base held, the below-EBITDA lines did the damage.
- **The growth narrative is front-loaded into FY27–FY29 as new capacity ramps.** Capacity is in place across all three legs (Xanthine 9,000 MTPA, Atali Phase 1, Tarapur debottle-necking); the lag is utilisation, which management frames as a 1-year-plus ramp before EBITDA normalizes.
- **CDMO is the designated near-term engine** (40–50% growth guided for FY27) with a~INR 1,000 cr aspiration over 3- 4 years; Xanthine is the cash/margin anchor benefiting from a China-pricing tailwind; API is in recovery mode after a soft FY26.
- **Headline guidance: 15–18% revenue AND EBITDA CAGR over the next 3–4 years(standalone).** Management is deliberately avoiding pointed annual numbers because CDMO project timing slips between quarters/years.
- **Watch item: the ">20% margin floor."** IR reiterated margins won't dip below 20%, but explicitly conditioned this on how the West Asia situation and the rupee evolve - so it is a soft floor, not a hard commitment.

1. Xanthine derivatives - the legacy cash engine, with a pricing tailwind

Positioning relayed: Largest Indian manufacturer; supplies ~80% of domestic caffeine requirement; described as the 3rd-largest xanthine derivatives manufacturer globally. Product set = caffeine, theophylline, aminophylline, etophylline (caffeine into colas/energy drinks/nutraceuticals/pharma; the rest into respiratory - asthma/COPD).

Capacity & share:

- Capacity expanded **6,000 to 9,000 MTPA** (brownfield, Tarapur; ~INR 210 cr); incremental capacity going live around Q1FY27, ramping over the next few quarters.
- Target global market share **15–20% to 20–25%** post ramp.

The China dislocation (core driver):

- China holds ~70% of the xanthine market and has **removed an export rebate (~11–13%)**; the US has layered **20–25% tariffs** on Chinese xanthine/caffeine.
- The US is the largest caffeine market - so this hands Aarti both a price umbrella and a share-gain opening, especially in the US.

Mix & realization strategy:

- Xanthine ~ **47% of revenue**; split ~**57% export / 43% domestic**; volume mix ~**68% beverages / 32% pharma & nutra**.
- Strategic intent: shift toward a **~50:50 beverage : pharma-nutra mix** because pharma/nutra carries higher realisation. Aarti has fi**led for US and Europe approvals** to access regulated pharma/nutra grade demand — but this is gated by customer qualification/audit cycles and is a multi-quarter effort.

Revenue trajectory (as relayed vs reported):

- IR framed current Xanthine at "~INR 800 cr," scaling to **INR 1,200–1,300 cr** at full utilisation; full ramp to 85–90% utilisation takes **1–2 years.**
- Reconciliation: reported FY26 Xanthine -> **INR 792 cr** (Q4 INR 227 cr), so "~INR 800 cr" is consistent. Management on the call separately said the new + existing Xanthine can be "**well beyond INR 1,000 cr**," which is a touch more conservative than the INR 1,200–1,300cr the IR floated - worth holding the lower end as base case.

Pricing pass-through: Strongest of the three segments. Contracts are quarterly/half-yearly, so cost inflation passes through on renewal. RM (urea, methanol & methanol derivatives) reportedly up ~2x, other inputs +30–40%; customers are being asked for proportionate increases and pass-through is described as largely achievable here.

2. API & Intermediates - soft FY26, recovery guided for FY27

Positioning: High-value, low-volume HPAPIs across oncology/anti-cancer, corticosteroids, cardiovascular, anti-asthmatic, CNS, anti-diabetic, overactive bladder, etc. Backward-integrated; dedicated country approvals (EU, Japan, Korea, Brazil, China).

Portfolio (as relayed):

- **61 commercialized APIs**, **140+ intermediates.**
- Commercialized mix described as: anti-cancer 16, anti-asthmatic 12, cardiovascular 7,anti-diabetic 6, anti-coagulant 3, CNS 5, derma 3, plus single products in overactive bladder / calcimimetic / decongestant.
- **11 APIs under development (7 in anti-cancer).**
- Regulatory: **60 US DMF, 44 CEP** approvals.
- Strategy = target molecules going off-patent in 3–4 years, while developing advanced intermediates during the active patent window.

FY26 - first weak year for API:

- Driven by FY25 blockbuster launches that clients then **destocked**, plus **price +volume erosion** from competition; one customer reportedly had a regulatory/quality issue (details not disclosed).
- Some intermediate capacity was also redeployed to the CDMO business.

FY27 recovery levers:

- **Tarapur Unit-4 steroid/corticosteroid block debottlenecked ~30%** - incremental volume.
- General-category and anti-cancer products coming off patent; some R&D anti-cancer APIs may commercialize; client launches in US/Europe.
- Management guidance: API to **grow YoY in FY27 and surpass the FY25 base.**

Important number reconciliation (flag for the model):

- IR / client framed the FY25 API base as **~INR 770 cr**, to be exceeded in FY27.
- On the earnings call, management clarified the split they work with is closer to **FY25 ≈INR 700 cr, FY26 ~ INR 600 cr** — and a CFO/PPT reconciliation pegged **FY25 API ~ INR 772 cr falling to ~ INR 647 cr in FY26**, with ~INR 50 cr of undistributable "trading" sales explaining the gap between PPT segment % and absolute figures.
- **Net:** treat the FY25 API base as **~INR 770 cr (reported)** but recognise management sometimes quotes a ~INR 700 cr "working" figure. The "surpass FY25" guidance should be benchmarked against ~INR 770 cr to be conservative.

Pricing: Pass-through is harder than Xanthine. On orders already on hand (high-value drugs, often campaign-based, 1–2x/year), customers resist re-pricing; relief is expected only on future/new orders quoted on a revised cost basis. Structural price erosion as products age is an accepted feature of the business, to be offset by new launches.

New chemistry optionality (Tides): R&D initiated in FY27 for **peptides & oligonucleotides** (and linkers). Explicitly not GLP-1 today. Early-stage - no revenue contribution expected for the next 2–3 years; optionality, not a near-term driver.

3. CDMO / CMO — the designated growth engine

Model & differentiation: Small-molecule CDMO; end-to-end (KSM/RSM/intermediates/GMP APIs for NCEs, lab scale -> clinical -> launch -> commercial). Key differentiator = **late-stage skew: ~75–80% of revenue (management said "nearly all") from Phase-3 and commercial molecules -** i.e. higher revenue visibility, lower lumpiness than peers who sit in early phase. Complex chemistries: cyanation, flow chemistry, nucleotides.

Engagement base: 21 customers, 54 active projects (35 commercial / 19 in development). Customer count has been static at 21 for several quarters; management says engagement is deepening with existing customers on new projects plus newer customers, and expects the count to grow in FY27. Inquiry funnel reportedly improving as 2025 tariff/geography uncertainty stabilises (China+1; US/UK customers diversifying out of China). Some projects are sub-contracted where the innovator wants onshore manufacturing.

Growth & ambition:

- **FY27 guidance: 40–50% revenue growth** (this is the segment leading near-term growth).
- **INR 1,000 cr aspiration over 3-4 years** / a "line of sight of ~USD 100 mn" in CDMO; targeted timeframe FY28, max FY29 - but explicitly not a firm-dated commitment (depends on customer product approvals/launch timing).
- Reported CDMO trajectory: INR 32 cr (FY22) -> INR 93 -> INR 161 -> INR 208 -> **INR 276 cr (FY26)**; **FY26 growth ~32% YoY** (4-yr CAGR ~70%). Q4FY26 was a record quarter at **INR 155 cr**, aided by a large order delivery /spillover from the prior quarter (otherwise the prior two quarters were ~INR 100 cr each).

Margin profile: Highest-margin segment (35–40% range relayed). Management targets CDMO reaching **~20% of total revenue** over the next few years, which should be mix-accretive - but cautioned that as commercial products scale, **volume/value can grow faster than margin** (lower margin on commercialized products until cost efficiencies —solvent recycling, dedicated-block design - kick in). So don't straight-line CDMO mix-up into proportional EBITDA expansion.

Working capital caveat: Large CDMO orders are 1–2 deliveries/year, customers do **not pay advances**, and inventory is self-financed across multiple quarters → the rising finance cost is largely CDMO working-capital borrowing. Working capital intensity expected to rise with CDMO scale-up (quantum not given).

4. Capex, Atali & the dedicated-block story

Spend cadence:

- FY25 capex ~INR 200 cr; FY26 ~INR 400 cr; **FY27 guided ~INR 400 cr** (broadly four buckets —Xanthine completion, Atali Phase-1 capitalisation + Phase-2 start, Tarapur debottlenecking, and replacement/normal capex; ±20% spread; plus R&D).
- Last 3 years cumulative ~ INR 1,300–1,400 cr. Atali greenfield (~INR 450 cr) and Xanthine were the heavy, first-time spends.

- **Capex intensity expected to step down from FY28**, shifting toward cheaper brownfield/dedicated blocks (faster ramp, lower D&A) -> supportive of EBITDA-to-PAT conversion from FY28.

Atali (greenfield, Gujarat): INR 400 cr / ~440- 450 KL Phase-1 multipurpose reactor capacity,80 acres, **scalable 8–10x of Phase-1.** Startup issues largely resolved; customer audits cleared; fully operational ~Jun'26. Supplies intermediates + CDMO (not seeking USFDA -supplies intermediaries; innovators have approved the site).

Dedicated CDMO block (the key new disclosure):

- Capex ~**INR 100 cr (±20)** per block; **revenue potential INR 250–300 cr** from a single block; **asset turn 1.5–2x** (vs earlier ~1–1.2x guidance for multipurpose Atali - an upgrade).
- Rationale: move commercial / post–Phase-3 / launched molecules with **5–10 year visibility** into dedicated blocks, freeing multipurpose capacity for newer projects (the standard large-CDMO playbook).
- Cadence: aiming for **one block per year for the next 3–4 years**; FY27 is design/planning stage, ~12-month build (brownfield). Not yet tied to a single named molecule — management is still firming customer volume visibility.

Operating-cost step-up to watch: ~440 KL (Atali) + ~250 KL (leased) **~700 KL added vs~1,000 KL prior base (~70% increase)**; man-hours up ~50–60% YoY. Cost is being absorbed ahead of revenue. Management flagged a **further step-up in opex from Q2FY27**(Xanthine + remaining Atali block fully capitalised) - but, when pushed, **denied margins would fall below 20%.**

Below-EBITDA drivers of the PAT drop: D&A +31.9% (INR 104 cr), finance cost +83.2% (INR 47cr, mostly CDMO WC), and a **net forex loss of ~INR 33 cr** (notional; on FX loans/forward contracts; management excludes forex from its EBITDA guidance - a gain of ~INR 22 cr on operations netted against ~INR 33 cr loss on FC loans; the INR 17 cr P&L line is the net forex for the quarter). Net debt/equity 0.32x (up from 0.19x). Final dividend INR 2/share; total FY26 INR 3.50/share.

5 . Guidance summary

Metric	Guidance
Revenue & EBITDA CAGR(standalone)	**15–18% over next 3–4 years**
CDMO growth, FY27	**40–50%**
CDMO scale ambition	**~INR 1,000 cr / ~USD 100 mn**, FY28–FY29 (not firm-dated)
API, FY27	Grow YoY, **surpass FY25 (~INR 770 cr) base**
Xanthine	Toward **INR 1,000 cr+** (IR floated INR 1,200–1,300 cr); 85–90%utilisation in 1–2 yrs
Margin floor	**>20%** - conditioned on West Asia/FX
Capex, FY27	**~INR 400 cr**; intensity falling from FY28

6. Watchpoints

- **EBITDA vs revenue growth symmetry.** Management guides 15–18% for both lines despite mix shifting toward higher-margin CDMO/Xanthine — because (a) new Xanthine volume increasingly chases lower-margin spot market, and (b) commercialising CDMO products carries lower margin until cost efficiencies arrive. So, the obvious margin-expansion thesis is being actively tempered by management. Can't model EBITDA growing faster than revenue in the near term.
- **The 20% floor is soft.** Repeatedly tied to West Asia conflict trajectory and INR/USD. A worsening of either is the realistic stress scenario.
- **API base ambiguity (~INR 700 vs ~INR 770 cr).** Pin the FY25 base before sizing the FY27"surpass" claim; ~INR 50 cr trading/undistributable sales distorts the PPT % → absolute bridge.
- **CDMO lumpiness & WC.** Record Q4 was order-timing driven (otherwise ~INR 100 cr/qtr run-rate); self-financed inventory means WC and finance cost rise with scale — a dragon the PAT recovery even as topline accelerates.
- **EBITDA "normalisation" lag.** Management explicitly said it takes **~1 year from now** for the Q1FY27 capacity additions to meaningfully contribute to EBITDA — i.e. FY27 is a cost-absorption year, FY28 is the conversion year. PAT recovery is back-half FY27at the earliest, more visibly FY28.
- **Optionality not yet in numbers:** TIDES/peptides (2–3 yr out) and the dedicated-block cadence (INR 250–300 cr/block) are upside levers, not base case.

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