

CMP: ₹ 765

Target: ₹ 965(26%)

Target Period: 12 months

February 11, 2026

BUY

Quarterly gyrations in numbers but growth story intact....

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%. The company also manufactures Generic APIs which contribute around 44% of the business. Besides these, APL is 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:

- Q3FY26– Sequential improvement driven by CDMO despite postponement of one shipment–** Revenues for the quarter improved 3.3% QoQ to ₹432.3 crore. EBITDA for the quarter grew by 36.9% QoQ to ₹102.3 crore and margins to 23.7% mainly driven by 1020 bps QoQ improvement in GPM to 60.1%. PAT for the quarter stood at ₹48 crore. The growth was subdued in Xanthine and API/ Intermediates segments which reported almost flat numbers sequentially ₹208 crore and ₹165 crore respectively. The CDMO segment reported 30% growth QoQ to ₹53 crore on lower base despite postponement of ~₹49 crore worth of sales which were in transit and could not be booked in Q3FY26 revenues.
- Capacity expansion across segments to steer growth beyond FY26–** Xanthine segment is expected to witness growth on account of capacity debottlenecking of additional ~3000 MTPA thereby taking overall capacity to 9000 MTPA from 6000 MTPA. The company remains on track to expand its capacity to 9000 MTPA by Q4FY26. Prices of xanthine have improved in spot market by 5%, as per management. We believe APL to focus more on grabbing the larger wallet share across Pharma and beverage customers (higher margin opportunities). We also keep tab on the opportunities emanating from China's anti-involution drive especially on the pricing front. 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 saw some operational challenge in Atali. However, the validations are expected to get completed by next quarter, which would also free up intermediate capacities for captive consumption. On the Ganesh Polychem JV front, the management expects to maintain the momentum as the business has undergone upgradation work during H1FY26.

Rating and Target price

- We roll forward our estimates to FY28 and maintain BUY with Target Price of ₹ 965 valuing Aarti Pharmalabs at 15x FY28E EBITDA of ₹ 615.5 crore.

Key Financial Summary

₹ Crore	FY23	FY24	FY25	CAGR FY23-26E(%)	FY26E	FY27E	FY28E	CAGR FY26E-27E
Revenues	1945.2	1852.6	2115.1	-2.2	1819.0	2237.9	2557.2	18.6
EBITDA	342.0	386.1	464.4	16.5	429.5	538.7	615.5	19.7
EBITDA Margins (%)	17.6	20.8	22.0		23.6	24.1	24.1	
Net Profit	193.4	216.9	272.4	18.7	204.3	257.6	303.5	21.9
EPS (Adjusted)	21.3	23.9	30.1		23.2	29.8	35.2	
PE (x)	35.8	32.0	25.4		32.9	25.7	21.7	
EV to EBITDA (x)	20.7	18.5	15.7		17.6	14.0	12.0	
RoCE (%)	15.2	14.8	15.2		11.4	12.9	13.7	
RoE (%)	12.4	12.4	13.7		10.3	11.8	12.4	

Source: Company, ICICI Direct Research



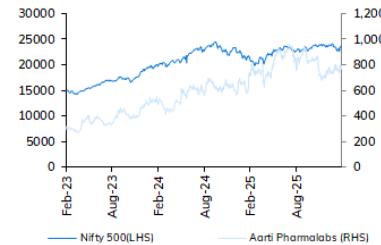
Particulars

Particulars	Amount
Market Capitalisation	₹ 6932 crore
Debt (FY25)	₹ 413 crore
Cash (FY25)	₹ 7 crore
EV	₹ 7339 crore
52 week H/L	971/611.5
Equity capital	₹ 45 crore
Face value	₹ 5

Shareholding pattern

Shareholder	Mar-25	Jun-25	Sep-25	Dec-25
Promoters	44.3	43.7	42.9	43.1
DILs	7.4	7.3	8.0	7.7
FILs	7.5	7.8	7.0	7.7
Others	40.8	41.1	42.2	41.6

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)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	YoY (%)	QoQ (%)
Net Sales	471.6	485.1	458.4	439.8	448.7	505.8	555.5	458.0	537.8	563.8	386.2	418.3	432.3	-19.6	3.3
Variable Cost of Sales	270.7	295.0	270.9	252.3	244.4	253.1	338.2	235.6	275.3	278.8	169.4	209.8	172.7	-37.3	-17.7
% of Revenue	57.4	60.8	59.1	57.4	54.5	50.0	60.9	51.4	51.2	49.4	43.9	50.1	39.9	-1125 bps	-1020 bps
Gross Profit	200.9	190.1	187.4	187.6	204.3	252.7	217.3	222.4	262.5	285.0	216.8	208.6	259.6	-1.1	24.5
Gross Profit Margin (%)	42.6	39.2	40.9	42.6	45.5	50.0	39.1	48.6	48.8	50.6	56.1	49.9	60.1	1125 bps	1020 bps
Employee Expenses	34.8	33.2	33.3	31.6	36.2	37.4	39.2	37.7	41.6	43.4	41.3	43.4	43.4	4.2	-0.1
% of Revenue	7.4	6.9	7.3	7.2	8.1	7.4	7.1	8.2	7.7	7.7	10.7	10.4	10.0	229 bps	-34 bps
Other Expenditure	79.9	76.9	69.3	68.0	72.4	97.7	81.6	91.0	92.2	96.0	80.3	90.4	113.9	23.5	26.0
% of Revenue	16.9	15.8	15.1	15.5	16.1	19.3	14.7	19.9	17.2	17.0	20.8	21.6	26.4	921 bps	474 bps
Total Expenditure	385.4	405.1	373.5	351.8	353.0	388.3	459.0	364.4	409.2	418.2	290.9	343.6	330.0	-19.4	-4.0
% of Revenue	81.7	83.5	81.5	80.0	78.7	76.8	82.6	79.5	76.1	74.2	75.3	82.1	76.3	25 bps	-581 bps
EBITDA	86.2	80.0	84.9	88.0	95.7	117.5	96.5	93.7	128.6	145.6	95.2	74.7	102.3	-20.5	36.9
EBITDA Margin (%)	18.3	16.5	18.5	20.0	21.3	23.2	17.4	20.5	23.9	25.8	24.7	17.9	23.7	-25 bps	581 bps
Depreciation	16.3	16.0	17.2	18.1	18.8	19.1	20.2	20.9	23.0	22.8	22.8	24.8	28.6	24.2	15.5
Interest	5.3	5.9	4.2	3.9	4.5	4.7	4.8	5.5	10.0	6.6	6.8	10.7	12.6	26.1	17.9
Other Income	0.3	0.7	0.5	1.0	1.4	2.0	2.2	4.5	5.0	-1.6	1.6	0.1	-0.4	-107.4	-838.0
PBT	97.0	89.3	97.4	101.3	108.6	129.9	109.6	104.6	136.6	163.5	109.6	88.8	118.7	-13.1	33.7
Total Tax	17.4	16.0	16.9	15.2	21.1	30.5	18.2	17.1	26.6	26.3	16.0	10.8	14.9	-44.0	38.5
Tax rate (%)	17.9	17.9	17.3	15.0	19.4	23.5	16.6	16.4	19.5	16.1	14.6	12.1	12.6	-693 bps	43 bps
PAT	47.7	42.9	47.1	51.8	52.8	65.3	55.5	54.6	74.0	88.3	49.5	27.9	48.0	-35.2	71.7
PAT Margin (%)	10.1	8.8	10.3	11.8	11.8	12.9	10.0	11.9	13.8	15.7	12.8	6.7	11.1	-266.4	441.9

Source: Company, ICICI Direct Research

Q3FY26 Conference Call highlights

Xanthine Business –

- Company expects overall utilization of 50-60% on expanded capacity during FY26 and ramp up the utilization to 80-85% by FY28.
- In spot level company has witnessed 5% increase in Xanthine prices.
- China has withdrawn rebate benefit on caffeine and its salts (13% benefit to Chinese manufacturers is expected to vanish) which according to the management is expected to push the Xanthine prices by 8-10%.
- In the spot market, Xanthine Prices have increased by 5%.
- In the US while Chinese products attract 20% duty, Indian products are in the exempted list.

API Business –

- API business continued to see some margin pressure but the management expects some recovery in the coming quarter.
- Atali Phase 1 is facing operational challenges, impacting production ramp-up; expected to get resolved by end of Q4FY26.
- Company is planning to file new Oncology APIs in the current year.
- Company aspires to clock ₹200 crore per quarter.

CDMO Business –

- Within CDMO / CMO business, ₹ 49 crore worth of goods were in transit as of 31-Dec-25 and could not be booked in Q3FY26 revenue (impact on PBT- ~₹19 crore), as per accounting standards requirement.
- Company is working with 21 customers on 59 active projects, of which 40 are in the commercial stage and 19 are under different stages of development, both at customer's end.
- Management expects to increase customer number in CDMO projects during CY26.

Other aspects

- Net Debt for FY26 is expected to be ~₹650 crore.
- Management plans to add at least 1 block in FY27.

Financial Tables

Exhibit 3: Profit and loss statement				
(Year-end March)/ (₹ crore)	FY25	FY26E	FY27E	₹ crore
Total Operating Income	2,115.1	1,819.0	2,237.9	2,557.2
Growth (%)	14.2	-14.0	23.0	14.3
Raw Material Expenses	1,127.9	813.8	1,017.5	1,162.6
Gross Profit	987.2	1,005.2	1,220.4	1,394.6
Gross Profit Margins (%)	46.7	55.3	54.5	54.5
Employee Expenses	162.0	186.3	223.8	255.7
Other Expenditure	360.9	389.4	458.0	523.3
Total Operating Expenditure	1,650.7	1,389.6	1,699.2	1,941.7
EBITDA	464.4	429.5	538.7	615.5
Growth (%)	20.3	-7.5	25.4	14.3
Interest	26.9	39.9	39.5	39.5
Depreciation	86.9	104.8	138.4	150.6
Other Income	10.1	0.8	1.0	1.1
PBT before Exceptional Items	360.7	285.5	361.7	426.4
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	360.7	285.5	361.7	426.4
Total Tax	88.3	81.2	104.1	123.0
PAT before MI	272.4	204.3	257.6	303.5
PAT	272.4	204.3	257.6	303.5
Growth (%)	25.6	-25.0	26.1	17.8
EPS (Adjusted)	30.1	23.2	29.8	35.2
Other income as % of (Cash+inve	12%	0%	0%	0%

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
(Year-end March)/ (₹ crore)	FY25	FY26E	FY27E	₹ crore
Profit/(Loss) after taxation	303.8	210.6	269.8	318.8
Add: Depreciation & Amortizatic	86.9	104.8	138.4	150.6
Net Increase in Current Assets	-29.2	63.6	-321.8	-203.5
Net Increase in Current Liabilitie	-56.9	47.6	146.2	63.7
Others	26.9	39.9	39.5	39.5
CF from Operating activities	331.6	466.5	272.2	369.1
Investments	-19.0	-110.5	0.0	0.0
(Purchase)/Sale of Fixed Assets	-402.0	-359.4	-200.0	-150.0
Others	7.1	-22.5	1.7	1.7
CF from Investing activities	-413.9	-492.5	-198.3	-148.3
(inc)/Dec in Loan	127.9	245.7	0.0	0.0
Dividend & Dividend tax	-31.7	-21.1	-27.0	-31.9
Other	-30.7	-39.9	-39.5	-39.5
CF from Financing activities	65.4	184.7	-66.5	-71.4
Net Cash Flow	-16.9	158.7	7.4	149.5
Cash and Cash Equivalent	23.6	6.7	32.2	39.6
Cash	6.7	32.2	39.6	189.1
Free Cash Flow	-70.5	107.1	72.2	219.1

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
(Year-end March)	FY25	FY26E	FY27E	₹ crore
Equity Capital	45.3	45.3	45.3	45.3
Reserve and Surplus	1,944.6	2,000.9	2,243.7	2,530.7
Total Shareholders funds	1,989.9	2,046.2	2,289.1	2,576.0
Total Debt	413.1	658.8	658.8	658.8
Deferred Tax Liability	128.4	131.5	134.2	136.8
Long-Term Provisions	15.8	22.6	23.1	23.5
Other Non Current Liabilities	0.0	0.0	0.0	0.0
Source of Funds	2,547.2	2,859.1	3,105.1	3,395.1
Gross Block - Fixed Assets	1,399.6	1,887.6	2,087.6	2,237.6
Accumulated Depreciation	264.8	369.6	508.0	658.6
Net Block	1,134.8	1,518.0	1,579.6	1,579.0
Capital WIP	374.4	245.7	245.7	245.7
Fixed Assets	1,509.1	1,763.7	1,825.3	1,824.7
Investments	76.8	187.3	187.3	187.3
Other non-Current Assets	36.8	69.0	70.4	73.8
Inventory	587.6	620.6	797.1	910.8
Debtors	575.4	470.1	613.1	700.6
Other Current Assets	114.0	122.9	125.2	117.4
Cash	6.7	32.2	39.6	189.1
Total Current Assets	1,283.7	1,245.8	1,575.0	1,926.0
Creditors	277.8	285.4	429.2	490.4
Provisions	11.7	12.0	12.2	12.4
Other Current Liabilities	69.6	109.4	111.6	113.8
Total Current Liabilities	359.2	406.8	553.0	616.7
Net Current Assets	924.5	839.0	1,022.0	1,309.3
Application of Funds	2,547.2	2,859.1	3,105.1	3,395.1

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY25	FY26E	FY27E	FY28E
Per share data (₹)				
Reported EPS	30.1	23.2	29.8	35.2
Cash EPS	27.6	20.9	26.8	31.7
BV per share	219.6	225.8	252.6	284.3
Cash per Share	0.7	3.6	4.4	20.9
Dividend per share	2.5	2.3	3.0	3.5
Operating Ratios (%)				
Gross Profit Margins	46.7	55.3	54.5	54.5
EBITDA margins	22.0	23.6	24.1	24.1
PAT Margins	12.9	11.6	12.1	12.5
Cash Conversion Cycle	152.8	161.6	160.0	160.0
Asset Turnover	1.5	1.0	1.1	1.1
EBITDA conversion Rate	71.4	108.6	50.5	60.0
Return Ratios (%)				
RoE	13.7	10.3	11.8	12.4
RoCE	15.2	11.4	12.9	13.7
RoIC	17.8	12.6	14.2	15.7
Valuation Ratios (x)				
P/E	25.4	32.9	25.7	21.7
EV / EBITDA	15.7	17.6	14.0	12.0
EV / Net Sales	3.4	4.2	3.4	2.9
Market Cap / Sales	3.3	3.8	3.1	2.7
Price to Book Value	3.5	3.4	3.0	2.7
Solvency Ratios				
Debt / EBITDA	0.9	1.5	1.2	1.1
Debt / Equity	0.2	0.3	0.3	0.3
Current Ratio	3.6	3.0	2.8	2.8
Quick Ratio	1.9	1.5	1.3	1.3
Inventory days	101	125	130	130
Debtor days	99	94	100	100
Creditor days	48	57	70	70

Source: Company, ICICI Direct Research

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