Expanding Horizons via Formulations & High-Margin Oncology

Est. Vs. Actual for Q2FY27: Revenue – BEAT; EBITDA – BEAT; PAT – BEAT

Changes in Estimates Post Q2FY27

FY27E/FY28E: Revenue: 0%/0%; **EBITDA**: 0%/0%; **PAT**: 0%/0%

Recommendation Rationale

- **Strong growth across business segments**: Aarti Drugs reported healthy growth across APIs, specialty chemicals, and formulations. API revenue grew 17% YoY, specialty chemicals increased 92%, while formulations registered strong growth of 58%, supported by higher exports and entry into new markets.
- **Improving operational efficiencies and backward integration:** The Saykha Methylamine facility operated at 72% utilization, with captive consumption for the anti-diabetic portfolio increasing to 85%. This is expected to improve cost efficiencies, raw material security, and margins over the long term.
- **Expanding presence in regulated markets:** The company is strengthening its USFDA-approved manufacturing capabilities through capacity expansion at Tarapur and Sarigam. This, along with its expanding formulations and oncology portfolio, is expected to improve its presence in higher-margin regulated markets.
- **Strong formulations growth and oncology opportunity**: Formulations' revenue grew 58% YoY, driven by exports and commercialization in newer markets. The company has 25–30 oncology molecules at various stages of development and filings, providing a significant growth opportunity over the medium term.

Focus on product mix and cost optimization: Energy optimization, process improvements, and backward integration are expected to support sustainable margins, while increasing exposure to niche APIs and regulated markets could further improve the business mix.

Sector Outlook: Positive

Company Outlook & Guidance: Management projects stable near-term API and specialty chemical pricing with FY27 volume growth targeted at 5–10% as inventory normalizes, while sustaining consolidated EBITDA margins around 15% (standalone >14%, formulations in the early-20% range). Revenue momentum will be driven by export orders, geographical expansion, and an accelerated Rs 1,000 Cr formulation target powered by oncology, where US revenues are set to ramp up over 3–6 months following an upcoming ANDA approval and 4–5 planned filings, aiming for a 30–40% formulation revenue share by FY30. Manufacturing capacity is expanding via three multipurpose plants at the USFDA-approved Tarapur site (commercial by late FY29) and scaling Sarigam Metformin capacity to 1,700 TPM by early FY28 alongside an additional 500 TPM USFDA block by late FY28, with management outlining a capex roadmap in 4–5 months to pursue niche APIs, CDMO capabilities, and R&D.

Current Valuation: PE 18x for FY29E earnings (Earlier Valuation: PE 18x FY28E)

Current TP: Rs 610/share (Earlier TP: 515/share)

Recommendation: BUY

Financial Performance

Aarti Drugs delivered a strong financial performance in Q2FY27, beating broker estimates across all key metrics. Net Sales grew to Rs 826 Cr, up 17.6% QoQ and 26.6% YoY, beating the estimated Rs 761 Cr by 8.5%. Operating performance saw sharp acceleration, with EBITDA rising 37.9% QoQ and 60.6% YoY to Rs 135 Cr (a 10.8% beat against Rs 122 Cr), while EBITDA margins expanded by 241 bps QoQ and 347 bps YoY to 16.4%. Robust operational execution flowed down to the bottom line, where Net Profit surged 65.1% QoQ and 83.3% YoY to Rs 83 Cr, outperforming the Rs 72 Cr estimate by 15.5%.

Key Financials (Consolidated)

(Rs Cr)	Q2FY27	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	826	17.6	26.6	761	8.5
EBITDA	135	37.9	60.6	122	10.8
EBITDA Margin	16.4%	241	347	16.0%	34.0
Net Profit	83	65.1	83.3	72	15.5
EPS (Rs)	9.1	65.1	83.3	7.9	15.5

Source: Company, Axis Securities Research

(CMP as of 4th November, 2026)

CMP (Rs)	456
Upside /Downside (%)	34%
High/Low (Rs)	534/319
Market cap (Cr)	4,166
Avg daily vol. (6m) Shrs.	325,249
No. of shares (Cr)	9.13

Shareholding (%)

	Mar-26	Jun-26	Sep-26
Promoter	55.0	54.4	54.1
FIIs	1.6	1.5	2.3
MFs / UTI	10.1	10.1	10.0
Others	33.3	34.0	33.7

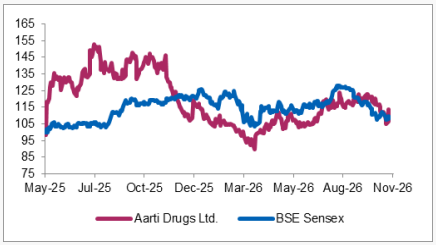
Financial & Valuations

(Rs Cr)	FY26	FY27E	FY28E
Net Sales	2,565	2,941	3,374
EBITDA	309	382	455
Net Profit	195	208	261
EPS (Rs.)	21	23	29
PER (x)	15.0	20.0	15.9
EV/EBITDA (x)	11.3	12.3	10.0
P/BV (x)	1.9	2.4	2.1
ROE (%)	12.6	11.9	13.0

Change in Estimates (%)

Y/E Mar	FY27E	FY28E
Sales	0%	0%
EBITDA	0%	0%
PAT	0%	0%

Relative Performance



Source: ACE Equity, Axis Securities Research

Result Gallery
Q1FY27
Q3FY26
Q2FY26
Q1FY26

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Outlook & Valuation

Aarti Drugs is witnessing broad-based growth, supported by favourable API pricing, improving operational efficiencies, and strong traction in formulations. Sustained EBITDA margins of around 15%, increasing backward integration, and planned capacity additions provide visibility on medium-term growth. However, volume recovery and the sustainability of elevated API pricing remain key monitorables. Management expects API pricing to remain stable in the near term and guides for overall volume growth of 5–10% in FY27.

Consolidated EBITDA margins of around 15% are expected to be sustainable, with formulation margins likely to remain in the early-20% range, supported by export orders and new market entries. The formulations business is targeting Rs 1,000 Cr revenue ahead of its earlier timeline, driven by capacity expansion and oncology launches. The company plans to expand its USFDA-compliant capacities at Tarapur and Sarigam, with additional capacity at Baddi to support long-term growth. Over the medium term, management is also focusing on niche APIs, regulated markets, CDMO opportunities, and R&D investments to improve product mix and profitability.

Concall Highlights

- **Strong API Growth Outlook:** API growth is supported by 17%–18% improvement in realizations and improving pricing conditions. Expected 5%–10% volume growth in H2 provides further growth visibility as customers adapt to the pricing environment.
- **Sustainable Margin Improvement:** Improved realizations, favourable product mix and operating leverage supported margin expansion to 16.6%. Management expects to sustain EBITDA margins above 15%, reflecting confidence in improved profitability.
- **Specialty Chemicals as an Emerging Growth Driver:** Specialty chemicals revenue nearly doubled to Rs. 72 Cr, supported by the Saykha facility. Improving capacity utilisation and scale-up offer scope for higher segment contribution.
- **Formulations Business Driving Future Growth:** Strong export traction, with exports growing 73% YoY, supports the formulations business. The Rs. 1,000 crore revenue target is expected to be achieved ahead of schedule, while the oncology pipeline could contribute 35%–40% of sales by FY30.
- **Backward Integration Enhancing Cost Efficiency:** Saykha's Methylamines facility is operating at 72% utilisation, meeting nearly 85% of captive requirements for the anti-diabetic portfolio, reducing external procurement dependence and improving cost competitiveness.
- **Capacity Expansion Supporting Long-Term Growth:** Metformin capacity at Sarigam will increase to 1,700 tonnes/month by FY28, alongside a new 500-tonne/month USFDA block. Baddi's oral solid dosage capacity is also expected to double, supporting future volume growth.
- **Tarapur Expansion Strengthening Manufacturing Capabilities:** Three new multipurpose plants are expected to more than double Tarapur's USFDA-approved block capacity by FY29, creating scope for higher-value product opportunities.
- **Anti-Dumping Duty Providing Potential Upside:** The Salicylic Acid anti-dumping duty application is progressing, with DGTR initiation expected before year-end. A favourable outcome could strengthen domestic pricing and competitive positioning.

Key Risks to our Estimates and TP

- Volatility in API and specialty chemical pricing may impact revenue realizations.
- Slower-than-expected volume recovery due to continued customer destocking.
- Margin pressure from rising input costs and moderation in formulation margins.
- Delays in capacity expansion, regulatory approvals, and oncology product commercialization.

Q2FY27 Result Review

Particulars (INR Crore)	Q2FY26	Q3FY36	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
Net Sales	653	602	720	703	826	26.6	17.6
Growth (%)	9.1%	8.1%	6.4%	19.0%	26.6%		
Total Expenditure	569	547	625	605	691	21.5	14.3
Raw Material Consumed	385	335	427	469	477	24.0	1.7
Purchase of stock in trade	31	23	33	21	33		
Stock Adjustment	-7	30	-10	-63	-11		
% of sales	62.5%	64.3%	62.5%	60.8%	60.4%		
Gross margins (%)	**37.5%**	**35.7%**	**37.5%**	**39.2%**	**39.6%**	**215**	**44**
Employee Expenses	33	33	32	37	37	12.3	1.7
% of sales	5.1%	5.5%	4.5%	5.2%	4.5%		
Other Expenses	127	127	142	140	155	21.7	10.1
% of sales	19.5%	21.1%	19.7%	20.0%	18.7%		
EBITDA	**84**	**55**	**96**	**98**	**135**	60.6	37.9
EBITDAM (%)	**12.9%**	**9.1%**	**13.3%**	**14.0%**	**16.4%**	**347**	**241**
Interest	8	9	8	9	10		
Depreciation	16	18	18	18	19	16.9	2.9
Other Income	0	1	1	1	3		
Exceptional Items	0	0	0	2	0		
PBT	**60**	**29**	**70**	**69**	**109**	80.9	57.8
Tax	15	-12	15	19	27		
Tax (%)	25.2%	-39.7%	21.5%	27.6%	24.3%		
Reported PAT	**45.2**	**40.6**	**55.3**	**50.1**	**82.8**	83.3	65.1

Source: Company, Axis Securities Research

Segment Performance

Particulars (INR Crore)	Q2FY26	Q3FY36	Q4FY26	Q1FY27	Q2FY27	YoY (%)	QoQ (%)
APIs	516	454	551	510	605	17.2	18.4
Formulations	82	76	92	86	130	58.1	50.8
Specialty Chemicals	37	51	57	83	72	93.0	-13.1

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY26	FY27E	FY28E	FY29E
Net Sales	**2,565**	**2,941**	**3,374**	**3,870**
Growth (%)	**7.5%**	**14.6%**	**14.7%**	**14.7%**
Total Expenditure	2,256	2,559	2,918	3,348
Raw Material Consumed	1,619	1,823	2,092	2,399
Gross margins	**36.9%**	**38.0%**	**38.0%**	**38.0%**
Employee Expenses	129	147	169	194
% of sales	5.0%	5.0%	5.0%	5.0%
Other Expenses	508	588	658	755
% of sales	19.8%	20.0%	19.5%	19.5%
EBITDA	**309**	**382**	**455**	**522**
EBITDAM (%)	**12.1%**	**13.0%**	**13.5%**	**13.5%**
Depreciation	67	80	88	91
EBIT	242	303	367	432
EBITM (%)	9.4%	10.3%	10.9%	11.2%
Interest	34	34	29	29
Other Income	2	9	10	10
PBT	**211**	**277**	**348**	**412**
Tax Rate (%)	25.0%	25.0%	25.0%	25.0%
Tax	16	69	87	103
Reported PAT	**195**	**208**	**261**	**309**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E Mar, Rs. Cr	FY26	FY27E	FY28E	FY29E
Share Capital	91.3	91.3	91.3	91.3
Reserves & Surplus	1,458	1,657	1,909	2,209
Shareholders Fund	**1,549**	**1,748**	**2,000**	**2,300**
Total Debt	577	569	489	489
- Deferred Tax (Net)	81	81	81	81
- Trade Payables	478	548	628	721
Provisions	13	13	13	13
Others	110	110	110	110
Total Liabilities	**2,815**	**3,076**	**3,329**	**3,721**
Gross Block	**1,768**	**1,898**	**1,958**	**2,018**
Depreciation	700	780	868	959
% of GB	39.6%	41.1%	44.3%	47.5%
Net Block	1,068	1,119	1,090	1,060
CWIP	214	214	214	214
- Fixed Assets	**1,300**	**1,350**	**1,322**	**1,292**
Investment	27	27	27	27
- Deferred Tax (Net)	0	0	0	0
Loans & Advances	1	1	1	1
Others	158	157	157	157
- Inventories	491	563	645	740
- Trade Receivables	830	951	1,091	1,252
- Cash	7	25	83	251
Total Assets	**2,815**	**3,076**	**3,329**	**3,721**

Source: Company, Axis Securities Research

Cash Flow **(Rs Cr)**

Y/E Mar, Rs. Cr	FY26	FY27E	FY28E	FY29E
PBT	211	277	348	412
Add: Depreciation	67	80	88	91
Add: Interest	34	34	29	29
Cash flow from operations	314	382	455	522
Change in working capital	(64)	(123)	(142)	(163)
Taxes	4	(69)	(87)	(103)
Miscellaneous expenses	0	0	0	0
Net cash from operations	254	190	226	256
Capital expenditure	(173)	(130)	(60)	(60)
Change in Investments	(2)	0	0	0
Net cash from investing	(173)	(121)	(50)	(50)
Increase/Decrease in debt	(27)	(8)	(80)	0
Dividends	(18)	(9)	(9)	(9)
Proceeds from equity	0	0	0	0
Interest	(32)	(34)	(29)	(29)
Others	0	0	0	1
Net cash from financing	(77)	(51)	(118)	(37)
Net Inc./(Dec.) in Cash	3	18	58	169
Opening cash balance	5	7	25	83
Closing cash balance	7	25	83	252

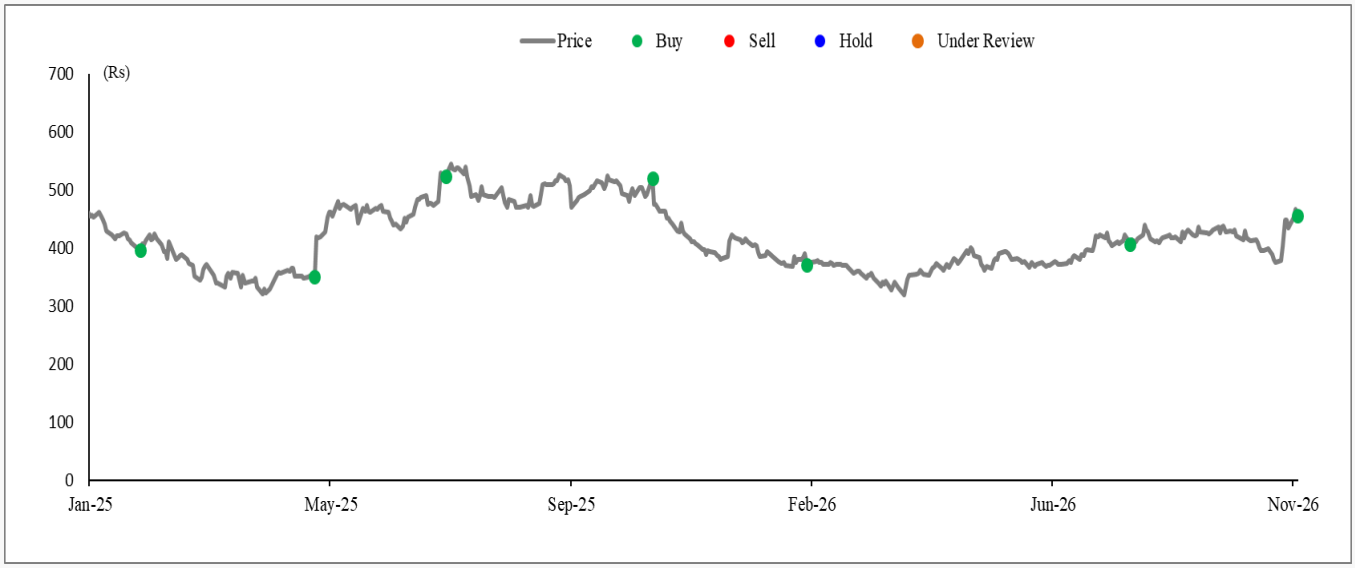
Source: Company, Axis Securities Research

Ratio Analysis **(%)**

Y/E March	FY26	FY27E	FY28E	FY29E
Sales growth	**7.5**	**14.6**	**14.7**	**14.7**
OPM	**12.1**	**13.0**	**13.5**	**13.5**
Oper. profit growth	7.7	23.6	19.1	14.7
COGS / Net sales	63.1	62.0	62.0	62.0
Overheads/Net sales	24.8	25.0	24.5	24.5
Depreciation / G. block	3.8	4.2	4.5	4.5
Effective interest rate	25.0	25.0	25.0	25.0
Net wkg.cap / Net sales	0.3	0.3	0.3	0.3
Net sales / Gr block (x)	1.5	1.5	1.7	1.9
RoCE	**11.4**	**13.1**	**14.8**	**15.5**
Debt/equity (x)	0.4	0.3	0.2	0.2
Effective tax rate	25.0	25.0	25.0	25.0
RoE	**12.6**	**11.9**	**13.0**	**13.4**
Payout ratio (Div/NP)	19.9	9.9	9.9	9.9
EPS (Rs.)	**21.4**	**22.8**	**28.6**	**33.9**
EPS Growth	16.0	6.7	25.4	18.5
CEPS (Rs.)	28.7	31.5	38.2	43.8
DPS (Rs.)	2.0	1.0	1.0	1.0

Source: Company, Axis Securities Research

Aarti Drugs Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-25	BUY	470	Result Update
07-May-25	BUY	475	Result Update
21-Jul-25	BUY	610	Result Update
11-Nov-25	BUY	610	Result Update
05-Feb-26	BUY	480	Result Update
04-Aug-26	BUY	515	Result Update
05-Nov-26	BUY	610	Result Update

Source: Axis Securities Research

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