PICK OF THE WEEK

28th November, 2026

Aarti Drugs Ltd

Sector: Pharmaceutical

BUY

CMP	Target Price	Upside
487	536	10%

CMP as on 27th November, 2026 | Time horizon: 6-9 Months

Why Aarti Drugs Ltd.

- Capacity expansion & Strategic Capex
- Targeted Intermediate Integration & Downstream Salicylates
- Petrochemical Cost Tailwinds & API Realisations

About the Company

Aarti Drugs Limited is a leading Indian pharmaceutical and chemical company that makes bulk raw materials for medicines. Established in 1984, Aarti Drugs Limited supplies essential pharmaceutical ingredients to leading drug manufacturers across more than 100 countries, rather than selling medicines directly to consumers. The company operates advanced manufacturing facilities and research centres across India, producing essential pharmaceutical ingredients used in medicines for pain relief, infections, diabetes, and other health conditions. It also makes speciality chemical products and finished tablets through its subsidiary companies.

Investment Rationale

A. Capacity Expansion & Strategic Capex

The company has undertaken significant capital expenditure projects worth Rs 600 Cr, substantially expanding its overall installed manufacturing capacity. Key projects, including greenfield expansion in speciality chemicals at Sayakha, dedicated intermediate production lines, and capacity additions in formulation facilities, have raised overall volume capabilities. As plant utilisation rates scale up across these modernised facilities, operating leverage is expected to drive top-line growth.

B. Targeted Intermediate Integration & Downstream Salicylates

Aarti Drugs is strengthening margins by replacing external raw material sourcing with targeted internal manufacturing. Its Sayakha plant allocates ~50% of capacity to in-house Metformin intermediates, set to meet 80–90% of captive demand and add ~100 bps to gross margins as Metformin scales to 2,200 TPM. To counter Chinese dumping in pure Salicylic Acid, ADL integrated downstream into value-added derivatives like Methyl Salicylate via a new 350–400 TPM Tarapur plant to recover profitability.

C. Petrochemical Cost Tailwinds & API Realisations

Rising crude oil prices increase the cost of petrochemical feedstocks, driving up the cost of key raw materials used across the generic API industry. Supported by its backward integration, Aarti Drugs passed through these input costs, driving a 16%–17% YoY realisation gain in Q1FY27. Geopolitical disruptions and supply chain uncertainties are prompting global buyers to favour integrated and reliable manufacturers over spot-market pricing, potentially enabling ADL to protect margins and strengthen its market share.

Outlook & Valuation

Aarti Drugs entered FY27 on a stable operational footing, supported by the completion of key capital expenditure initiatives, strategic backward integration, and the expansion of formulation capacities through Pinnacle Life Science. Operating leverage and procurement efficiencies will drive steady volume growth and margin recovery, led by key catalysts like the Sayakha speciality chemical plant ramp-up, anti-diabetic API expansions, and new export filings. We value Aarti Drugs on a P/E relative basis, assigning higher multiples to its fast-growing formulations and speciality chemical segments.

Analyst Insights

We recommend a **BUY** on the stock with a TP of Rs 536/share, implying an upside of 10% from the CMP.

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Financial Summary

(Rs Cr)	FY27E	FY28E	FY29E
Net Sales (Rs Cr)	2,941	3,374	3,870
EBITDA (Rs Cr)	382	455	522
Net Profit (Rs Cr)	208	261	309
EPS (Rs.)	23	29	34
PER (x)	21.4	17.0	14.4
EV/EBITDA (x)	13.0	10.7	9.0
P/BV (x)	2.5	2.2	1.9
ROE (%)	11.9	13.0	13.4

Market Data

No. of Shares	9.13 Cr
Market Cap (Rs Cr)	4,445
52-week High	527
52-week Low	319
PER(x)	19.3
BSE Code	524348
NSE Code	AARTIDRUGS

Source: Axis Securities Research

About Pick of the Week

| Product Objective

The Pick of the Week (POW) is our flagship high-conviction weekly investment recommendation, designed to identify companies that offer an attractive combination of **earnings visibility, strong business fundamentals, reasonable valuations, and identifiable near-to-medium-term catalysts.** The objective is to provide investors with **timely, actionable, and high-conviction investment ideas** that can generate superior risk-adjusted returns while maintaining a disciplined investment approach.

| Why Pick of the Week?

Markets constantly create opportunities through earnings upgrades, valuation mismatches, sector rotation, policy developments, and company-specific catalysts. While hundreds of listed companies compete for investors' attention, only a select few offer the right balance of quality, growth, valuation, and timing.

Our **Pick of the Week** aims to simplify this selection process by identifying those companies where:

- Earnings visibility has materially improved.
- Business fundamentals continue to strengthen.
- Valuations remain attractive relative to growth prospects.
- Multiple positive catalysts are expected over the next few quarters.
- The risk-reward profile appears favourable versus peers and the broader market.

Each recommendation is therefore intended to represent one of our **highest-conviction investment ideas** available at that point in time.

| Investment Horizon

The recommended investment horizon for **Pick of the Week** ideas is **6–9 months**, allowing sufficient time for business fundamentals and identified catalysts to be reflected in stock prices. However, depending on market conditions, earnings announcements, or company-specific developments, some recommendations may achieve their target returns over a shorter period.

| Risk–Return Profile

Pick of the Week recommendations represent our **highest-conviction research ideas** and are selected based on an attractive balance between expected returns and investment risk.

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward-looking estimates for the stock, but we refrain from assigning a valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events.
NO STANCE	We do not have any forward-looking estimates, valuations or recommendations for the stock.

Note: Returns stated in the rating scale are our internal benchmark.