Company Name: Aarti Pharmalabs Ltd

Quarter under review: Q1-FY27

Aarti Pharmalabs Ltd – Q1-FY27 Concall Highlights:

Aarti Pharmalabs Ltd (Consolidated)					
INR In Mn	**Q1-FY27**	**Q1-FY26**	**Y-o-Y**	**Q4-FY26**	**Q-o-Q**
Operational Income	5,358	3,862	38.7%	5,826	-8.0%
EBITDA	1,326	952	39.3%	1,301	1.9%
EBITDA M (%)	24.75%	24.66%	9 bps	22.34%	241 bps
PAT	761	460	65.4%	611	24.5%
PAT M (%)	14.20%	11.91%	229 bps	10.49%	371 bps
Diluted EPS	8.39	5.08	65.2%	6.74	24.5%

Operational Highlights:

- Xanthine Derivatives contributed 57% of turnover and recorded its highest-ever quarterly sales.
- Volume mix for Xanthine stood at 74% from beverage customers and 26% from other customers, while exports contributed 79% of sales vs. 21% domestic.
- API & Intermediate contributed 30% of turnover, with 58% from regulated markets, 14% from rest-of-world markets and 28% from non-regulated markets.
- Pricing pressure continues in existing molecules, while a process intensification and cost-reduction programme has been initiated to improve competitiveness and margins.
- CDMO/CMO contributed 7% of turnover, with 22 active customers and 57 active projects, including 37 commercial-stage projects and 20 projects under development.
- Added 1 new customer and 3 new projects in the CDMO/CMO business.
- Revenues from CDMO/CMO to be skewed towards second half of the year.
- The remaining turnover of 6% is categorized as others that include trading sales, export incentives and other sales.
- Cortico-steroids API capacity at Unit 4, Tarapur was debottlenecked by 33% during Q1 FY27.
- The new Xanthine capacity has been commercialized, with trial production underway for the final product. The incremental capacity will be ramped up over the next few quarters, with 80%+ utilization targeted by FY28.
- Atali Block 1, with 440 KL reactor capacity, is expected to become fully operational in Q2 FY27. The facility is primarily focused on CDMO/CMO intermediate manufacturing.
- INR 149 crore capex has been announced for Atali Block 2, with 400+ KL reactor capacity focused towards CDMO & CMO clients.
- Groundbreaking for the new Block 2 is expected in Q3 FY27, with completion targeted in 12–15 months.
- The dedicated block is expected to be more cost-effective than a multipurpose block and supports the INR 1,000 crore CDMO/CMO revenue ambition.

Key Questions & Answers discussed during the Concall:

- **What is the outlook for Xanthine volumes, pricing and market share?** Xanthine volume grew 25% YoY in Q1. Realization per kg is expected to decline as supply chains normalize, but higher volumes from the expanded capacity should offset the impact. The business is targeting 22–25% global market share over the next two years, with China accounting for an estimated 80–90% of global competitive capacity currently.

- **What is the expected Xanthine revenue for FY27?** Given the normalization of raw material prices and uncertainty around pricing, the FY27 Xanthine revenue outlook can be expected at around INR 900–1,100 crore.

- **What is the outlook for the API & Intermediate business?** The API business was impacted by a shutdown related to debottlenecking during Q1, which should normalize going forward. Further debottlenecking of the anti-cancer block, new product launches and successful commercialization of intermediates are expected to support revenue and gross-margin improvement.

- **Can the API business return to the FY24 revenue level?** The internal target is to approach the FY24 revenue level of around INR 780 crore, although the current market environment and timing of launches make a full recovery beyond that level unlikely but it will be somewhere near that mark.

- **What is the concentration of the API portfolio, and what is the market share across key molecules?** The top 10 API products contribute around 60–70% of API sales, with sales spread across both domestic and international markets. Across these key molecules, the market share ranges between 10% and 50%.

- **How much further capex is required to reach INR 1,000 crore revenue in API?** No major additional capex is currently required. The existing steroid debottlenecking, planned anti-cancer debottlenecking and the additional line at Block 5 are considered sufficient to support INR 1,000 crore+ API revenue potential.

- **What is the expected growth trajectory for CDMO/CMO in FY27?** The 40–50% growth guidance for FY27 has been retained, with revenue expected to remain heavily weighted towards H2. The number of commercial projects has increased from 21 to 37 over the last three years, while Q1 saw three additional projects and one new customer.

- **What is the expected EBITDA margin for FY27?** Standalone EBITDA margin guidance remains at 22–25% for FY27. Higher CDMO revenue, which carries stronger gross margins, is expected to help offset normalization in Xanthine margins and the impact of pre-operative expenses from new capacities.

- **Why is CDMO revenue lower in Q1 despite the strong project pipeline?** The lower Q1 revenue was primarily a matter of project timing and delayed deliveries, rather than weaker demand. Some sales were postponed due to non-deliveries and are expected to build up over the next three quarters, supporting the 40–50% full-year growth guidance.

- **How will the dedicated Atali block be utilized?** The INR 149 crore dedicated block is designed around three to four commercial projects across multiple customers. Dedicated manufacturing should free up the multipurpose block for newer projects, while the dedicated asset allows more efficient reactor and equipment configuration for repetitive commercial production.

- **What is the expected ramp-up and asset turnover from the new CDMO capex?** Civil construction has commenced and equipment ordering is largely complete, with operations expected in FY28. Since the products are already commercial, some manufacturing stages can be shifted immediately after commissioning. Asset turnover is expected to be around 1x or slightly above, with meaningful utilization expected within 1–1.5 years of commissioning.

- **What is the current R&D and talent investment supporting CDMO expansion?** More than 250 scientists are currently spread across three R&D centres, with dedicated expertise in small molecules, peptides, oligonucleotides, scale-up and process intensification. A geographically distributed BD structure has also been established across Europe, the US and Japan.

Key Participants:

Raj Agarwal — Niveshaay Asset Management
Yash — Unifi Capital
Ankit Gupta — Bamboo Capital
Kenil Mehta — Boring AMC
Pratesh Chheda — Lucky Investment Managers