

Aarti Pharmalabs

26 May 2026

Operator: Good day and welcome to Aarti Pharmalabs Limited Q4 FY26 earnings conference call hosted by Yes Securities Limited. Please note all participants are currently in listen-only mode. There will be an opportunity for you to ask questions following the conclusion of the management's opening remarks. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Jain from Yes Securities. Thank you and over to you, sir.

Siddharth Jain – Yes Securities Limited: Hi, good evening everyone. I am Siddharth Jain from Yes Securities Limited. It gives me immense pleasure to hold the Q4 and the FY26 Aarti Pharmalabs Limited conference call. From the management team we have Mr. Rashesh Gogri, Chairman, Mrs. Hetal Gogri Gala, Vice Chairperson and Managing Director, and Mr. Pioush Lakhani, Chief Financial Officer. Before we proceed with the call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website. Without further ado, I would like to hand over the call to Rashesh sir for his opening remarks and then we can open the floor for Q&A. Thank you and over to you, sir.

Management: Good evening everyone, I would like to welcome you to the Aarti Pharmalabs earnings call covering the fourth quarter and the full financial year concluded in March 2026. I appreciate your participation today. I will start with a high-level review of our financial health followed by an update on our key business development and a brief look at our growth outlook for the coming quarters.

Let me start with a summary of our standalone financials for Q4 FY26 and full financial year FY26. The revenue was 580 crores for Q4, which was 530 crores a year back, an increase of 9% year-over-year. On a full-year basis, FY26 revenue came in at 1,798 crores versus 1,771 crores in FY25. The EBITDA was 134 crores as compared to 141 crores in the corresponding period of the previous year for Q4. For the full year FY26, we achieved the annual EBITDA of 406 crores versus 428 crores a year back. The profit after tax for Q4 FY26 was 62 crores as compared to 89 crores a year back and for the full year FY26, the profit after tax stood at 176 crores versus 257 crores in FY25. It is noteworthy to mention that in the profit and loss account for the financial year FY26, there was a net foreign exchange loss of 33 crores. I am pleased to inform you that the board has declared a final dividend of 2 per share and this brings the total dividend of FY26 to 3.50 per share.

Now let me present a few business highlights for each business segment. The xanthine derivative segment recorded the highest ever quarterly revenue and contributed to 43% of our turnover in Q4 FY26. The volume split was 74% beverages customers and 26% other. In terms of geographical split, the export sales were 63% and the rest 37% was local sales. The API and intermediate business stood at 28% of the turnover. The sub-segment wise breakup is 53% regulated market, 30% ROW, and 17% non-regulated market. Looking ahead to FY27, we anticipate year-over-year growth for this business; however, it is important to recognize that persistent competitive pressure and market headwinds are affecting our product portfolio.

The third segment, CDMO-CMO, has contributed to 29% revenue in this quarter. This segment also logged the highest ever quarterly revenue of 155 crores as of FY26 end. We are working with 21 customers and the number of active projects is 54, out of which 35 projects are in the commercial

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stage and 19 are under different stages of development at our customers' ends. For the full year FY26, the CDMO-CMO segment has shown a robust revenue growth of 32% year-over-year. Nearly all of our revenue came from Phase 3 and commercial molecules, reiterating our clear focus on late-phase projects.

The impact of ongoing war and geopolitical tension in West Asia has caused significant raw material shocks, including logistics hurdles and rising energy costs. These inflationary pressures have strained profitability and supply chain operations, particularly in the intermediate segment where competitive pricing makes cost passing difficult. However, our two other business units have reasonably been able to pass cost hikes in our customer pricing.

Let me now discuss the updates on the expansion projects. We have invested approximately 400 crores capital during the financial year 2026 and we plan to maintain a similar level of spending for FY27. The budget includes ongoing xanthine expansion, debottlenecking at Tarapur Unit 4, and a possible new production block at Atali. Atali is now largely past the startup issues which were encountered during the ramp-up of Phase 1. With the corrective actions majorly in place, we are progressing well with the production scale-up and Phase 1 is likely to become completely operational by the end of this current quarter. Having cleared the customer audits, the site is well positioned to support CDMO and intermediate production in coming months.

Phase 1 of Atali, which comprises 440 KL of reactor capacity, is a multipurpose block. Given the current visibility within the CDMO segment, we are assessing to put up a dedicated manufacturing block tailored to specific projects. This dedicated asset offers superior operational efficiency and requires lower capital expenditure. Currently, we are in the preliminary design and planning stage of this block, and the completion timeline could be expected to be 12 months from the construction commencement, as it is a brownfield project.

The xanthine derivatives expansion is progressing as planned with current capacity being 6,000 metric tons per annum, and the incremental capacity will be available for production at the end of the current quarter. The ramp-up to 9,000 metric tons per annum will happen gradually over the next few quarters. Recently, the steroid block at Tarapur Unit 4 has undergone debottlenecking, resulting in a capacity increase of about one-third of existing capacity. Similarly, there are a few more brownfield expansion initiatives planned at our Tarapur Unit 4 USFDA-approved API facility in FY27 to increase the capacity of anti-cancer and other blocks.

We have decided to invest in the R&D of peptides and oligonucleotides. This investment in new R&D technologies will not yield immediate results but has good potential in the future, and we would like to explore these newer technologies. Looking forward, we are confident that our recent investments and expanded capacities will drive significant momentum across our businesses. Based on current project visibility and the operational ramp-up, we are targeting 15-18% growth in both revenue and EBITDA for the next 3-4 years. For FY27, we expect the CDMO-CMO business to lead the growth with a projected sales growth of 40-50%. Moving forward, we remain focused on driving operational rigor, expanding market reach, and investing in the talent and technology essential to our long-term success. The moderator may now open the forum for the Q&A session. Thank you.

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Operator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may click on the Raise Hand icon from the participants tab on your screen. We request participants to restrict themselves to two questions only and then return to the queue for more questions. We'll wait for a few minutes until the question queue assembles. We have our first question coming from the line of Ankit Gupta from Bamboo Capital. Ankit, please go ahead with your question now.

Ankit Gupta – Bamboo Capital: Am I audible?

Operator: Yes, please.

Ankit Gupta – Bamboo Capital: Thanks for the opportunity, sir. On the CDMO side, if you can elaborate on this dedicated block that you are planning for the CDMO project at Atali. Is it for the molecule which recently got approval for hot flashes, or is it for the molecule which is under Phase 3 for lowering LDL, or some other new molecule? If you can elaborate a bit more on this project and upon completion, what could be the revenue potential from this new block and when do you expect to reach that?

Management: We are exploring putting up this dedicated block which can manufacture several of these potential long-term projects for us. We are working on overall capacity and working with the customers on what kind of visibility they are able to give us in the coming quarters. Once we have a strong understanding of that, I think in a future quarter we will let you know. But as you know, we have a very strong pipeline of these products, and these products can have very good revenue in the future. That is how we have a projected line of sight of close to \$100 million in the CDMO segment going forward.

Ankit Gupta – Bamboo Capital: Sure. And what can be the potential from this block and this molecule when we start operations from this new block?

Management: We are assessing all the possible options and working with the customer over their demand. Basis that, while the current Atali site is capable of manufacturing in a multipurpose block, in the future, I think a dedicated block would be prudent so that we keep freeing our multipurpose capacity for newer projects. This is how we are going to work. All the projects that enter into this commercial phase post Phase 3 or launch, where customers have higher visibility, those products will move to a dedicated block where we have 5–10 years of visibility. We will start with this kind of approach, which is what the larger CDMOs also do and it can give us higher visibility. Depending on how we configure this, it can have a potential of close to 250–300 crores in top-line for a single block.

Ankit Gupta – Bamboo Capital: Sure. On our overall guidance for the CDMO, if you look at our FY26 performance, we also had some spillover of CDMO revenue from Q4 FY25. With Atali commencing operations in a full-fledged way by June 2026 and audits being completed, shouldn't we expect higher growth in FY27 given our lower base in FY26? And overall in the CDMO segment, with us starting dedicated blocks, are we on track to reach 1,000 crores in revenue from the CDMO segment in FY28 or by FY29 at the latest, as you highlighted in the earlier calls?

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Management: The traction is to reach this goal as soon as possible. Of course, it depends on customer projections and how the products get launched. We have some visibility on approved products, but there are a few products which are still going to get this approval. That is why we do not have a firm number on how or when we will reach this number of \$100 million, but that number is there and we are pretty sure that we will reach that number going forward. That is what I can share with you for now.

Ankit Gupta – Bamboo Capital: Sure, and just one last question on the API segment before I come back in the queue. The API segment last year saw a significant degrowth. You highlighted price erosion and inventory destocking that was happening for some of our newly launched products in FY25. We have some decent launches planned on the oncology side in FY27. You did highlight growth in the segment in FY27, so what kind of growth are we looking at in the API segment? If you can also elaborate a bit more on the launches planned for FY27 and FY28.

Management: For FY27, as you rightly mentioned, FY26 was a soft year. It was marred by inventory issues and issues at our customers' end. We are looking at growth in FY27 going forward because we actually degrew last year compared to the earlier year. We will definitely be able to surpass that number and further grow our API business beyond the FY25 number. That is what we are looking at. It should be in that line.

Ankit Gupta – Bamboo Capital: So we will be surpassing the FY25 numbers that we did, or are we looking at just a recovery?

Management: We will be able to surpass the FY25 numbers for API intermediates.

Ankit Gupta – Bamboo Capital: We were around 770 crores, so we should be able to surpass that in FY27?

Management: I think it was 700 crores; that is the split I have. This year we did 600 crores.

Ankit Gupta – Bamboo Capital: Sure. Thank you and wish you all the best. I will come back in the queue.

Operator: Thank you. We will take our next question from Meet Katrodia from Niveshay. Meet, you can unmute your microphone.

Meet Katrodia – Niveshay: Good evening, sir. My question is regarding our EBITDA guidance of 15–18%. If I reconcile the EBITDA math, you are guiding that your CDMO vertical will grow 40–50% next year and xanthine is also ramping up. Can we expect much higher growth in FY27? I am not asking for specific guidance, but directionally if you can share anything on this.

Management: We do not want to give pointed guidance for this specific year. We are giving general guidance of 15–18% because projects keep shifting by a quarter and that can really hamper our numbers overall. As you rightly mentioned, there are a lot of different plants which are going to do the ramp-up and we will have to absorb those costs while the production ramp-up takes more time. You have to be a little patient about how the profits will ramp up in the future.

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Meet Katrodia – Niveshay: Got it, sir. And another question on the xanthine part. Crude prices have gone up, so I want to understand if we are able to pass on the prices. Is there any lag? Second, China is also removing rebates, so pricing of xanthine is increasing. I want to understand how much peak revenue we can do from xanthine as the total new capacity goes live.

Management: As you rightly mentioned, costs have gone up because of the Middle East conflict. We have been pushing our customers for price increases and we have had some success with that. It is quite logical that we cannot absorb the full cost of the Middle East conflict, which for certain products is quite heavy. In terms of overall revenue, we feel that with this current new capacity expansion, it can be well beyond 1,000 crores from the newly added capacity and what we are already doing. In this current quarter, we have been able to do close to 227 crores, which represents a significant percentage of sales.

Meet Katrodia – Niveshay: Got it. On our CDMO positioning as compared to our peers, most Indian CDMOs work on early-phase molecules, whereas our model is a little different; we work on more commercial-stage molecules. I want some understanding of how our margin profile differs compared to our CDMO peers. Their revenue is quite lumpy because they only have two or three commercial CDMOs, whereas ours is structurally good and less lumpy. I wanted your view on lumpiness and the margin profile compared to our peers.

Management: Aarti Pharmalabs and the entire Aarti Group have a focus on chemical and pharmaceutical manufacturing. Our genesis is manufacturing and that is where we specialize and get our core value. Now we have R&D centers which can do more complex R&D. As I mentioned in my opening remarks, we are going to enter into new areas like peptides, oligonucleotides, and linkers. That is where we will also try to do early-phase work with our customers. Currently, there was a lot of traction toward moving away from China because US customers wanted products from a differentiated geography. We found lot of opportunities there and that is how we could get projects from our customers. We have been concentrating there until now, but we are open to doing work even at early phases, and we have certain projects which are in Phase 1 or Phase 2 moving to Phase 3.

Meet Katrodia – Niveshay: Got it, sir. Can I have a follow-up on this?

Operator: Meet, I am sorry. Would you like to rejoin the queue? We have other participants as well.

Meet Katrodia – Niveshay: Sure, I am done. Thank you.

Operator: Thank you, Meet. We have our next question from Yash Doshi of Unify. Yash, please go ahead.

Yash Doshi – Unify: Regarding xanthine, you said we have done a turnover of 227 crores this quarter. Was it more volume-led or price-led, since prices have gone up for xanthine in the last 2-3 months? Along with that, what has been the capacity utilization for xanthine this quarter?

Management: Currently we are operating at 6,000 metric tons per annum capacity before the current new block comes into operations, and we are fully utilizing this capacity. Overall sales were led by both quantity and the overall rate changes that we have effected in this product.

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Yash Doshi – Unify: Another thing regarding the statement that we will surpass the FY25 numbers for API intermediates. Which products give us the confidence that we will be able to surpass it? Is there any specific product pipeline?

Management: We operate in the steroids space where we have recently debottlenecked our capacity by almost 30%, which will show some growth. We also have certain products where patents are expiring in this financial year in the general category and the anti-cancer category. Certain products have been launched by our customers in the US and European markets. All of these will give us higher sales than the last year.

Yash Doshi – Unify: On the Atali project which has just been commercialized, can you quantify the operating expense hit we have taken?

Management: We are not sharing these granular details now.

Yash Doshi – Unify: And there are no one-offs in the operating expenses, right? It is basically the project cost of the Atali project being commercialized.

Management: There is no one-off from the Atali plant.

Yash Doshi – Unify: And have we got approval from USFDA and EU GMP for the Atali plant?

Management: No. The Atali plant is going to supply intermediates, so it is not going to get any inspection for the FDA. However, we have started doing work for innovators there, and several innovators have come and approved our site.

Yash Doshi – Unify: I will join back the queue.

Operator: Thank you, Yash. We are taking our next question from T Manish of CRISIL Limited. Manish, please proceed.

T Manish – CRISIL Limited: Am I audible now?

Operator: Yes, please go ahead.

T Manish – CRISIL Limited: Thanks for the opportunity. I want to know about the EBITDA margins which contracted this quarter. Is this largely because of the rise in raw material prices and logistical issues due to the West Asia crisis? How are you seeing things for Q1 FY27?

Management: Overall, the expenses have been nearly similar to what we had in the previous year.

Management: Quarter-on-quarter, the EBITDA margins have remained almost flattish. Are you asking compared to last year?

T Manish – CRISIL Limited: Yes.

Management: Last year, obviously, we added a few facilities so those will take time to ramp up, but we are incurring costs at full capacity. That is where the cost has gone up a little compared to last year and that is what is impacting the margin.

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T Manish – CRISIL Limited: Regarding the rise in costs, are you planning for any pass-through of these costs to your buyers for API and intermediates or for the CDMO players? The cost increase is significant.

Management: As I mentioned in my opening remarks, we are already able to do some pass-through in CDMO. In the API segment, for the orders we have on hand, it is difficult to change those orders because these are high-value drugs. But in the future, we will try to get some increases. It depends on the competitive scenario for each product, but there are a few strong products where we can get price increases as well.

Operator: Thank you. We will take our next question from Rahul Jain of Credence Wealth. Rahul, please go ahead.

Rahul Jain – Credence Wealth: Since the CFO is here, there is some confusion on the numbers spoken in the current call and the numbers in the presentation. If I take the presentation itself, the standalone numbers mentioned and the percentages, we have always said these percentages are to be applied on standalone revenues. Based on that, the FY25 API number is 772 crores, which came down to roughly 650 crores or 647 crores to be precise. When you told a previous participant that we will come back to our FY25 revenue in FY27 for API intermediates, are we talking about going back from 647 crores to around 770 crores or you mentioned 700 crores?

There is another confusion on the CDMO and xanthine side. Based on the presentation proportions, xanthine Q4 revenue is roughly 244 crores and CDMO revenue is about 169 crores. For the full year, the presentation mentions 276 crores and 155 crores for CDMO. You just mentioned xanthine was 227 crores. If you can clarify these numbers.

Management: There are some undistributable sales which are trading activity sales or numbers which get knocked off. Overall, you are correct. The CDMO sales for this quarter are 155 crores and for the entire year, it is 276 crores for your clarification. Xanthine sales for this financial year are 792 crores and for this quarter, it is 227 crores. Please note these numbers.

Rahul Jain – Credence Wealth: Can we get what the trading turnover is?

Management: It is around 50 crores, which changes this percentage, but that is not very significant. It has an impact of a few crores here and there.

Rahul Jain – Credence Wealth: Okay. To understand, you mentioned that we can do 1,000 crores of xanthine revenue in FY27 and we have spoken about 40-45% growth in CDMO revenue. With regard to API, do we feel that the guidance given for both revenue and EBITDA is a conservative number as far as FY27 is concerned?

Management: First of all, my guidance is for 3-4 years. Pointpointing FY27 numbers becomes difficult because of the nature of CDMO and CMO and the kinds of approvals our customers get. Depending on that, revenue can move from one quarter to another or from the first half to the second half. That is why we decided to give longer-term guidance. Looking at the current scenario, top-line growth is possible. On the EBITDA, we have to look at the overall West Asia crisis and how that war situation moves ahead and when things normalize. We also have to consider the exchange

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rate of the rupee. All these factors have a bearing on EBITDA. We will have to wait and see.

Rahul Jain – Credence Wealth: Thank you.

Operator: Thank you. We have our next question coming from Dhwani Desai of Turtle Capital. Dhwani, please go ahead.

Dhwani Desai – Turtle Capital: In the last 3 years, we have spent 1,300–1,400 crores on capital expenditure. As you mentioned, including FY27, we are catching up in terms of the ramp-up, which will take time. Should we look at the capital intensity coming down from next year onwards, with the ramp-up in revenue catching up and EBITDA to PAT conversion getting better? Will we continue to invest this level of capital going forward?

Management: Last year we spent 400 crores and the year before that we spent roughly 200 crores. This year we plan to spend another 400 crores. The Atali investment itself was close to 450 crores and the xanthine expansion was also significant. Atali was a greenfield project where we had to do a lot of initial capital expenditure. Now, the newer blocks which can double the capacity will be at a much lower cost going forward. We have finished the first round of higher capital expenditure in Atali. As far as other capital expenditures are concerned, we are trying to do more brownfield expansions, such as the API facility in the steroid block and the anti-cancer block in the future.

With the current year's planned capacity expansion, we mentioned earlier that we want to add one block at Atali every year going forward. We will stick to that as our projects move to the commercialization phase. To meet our long-term revenue growth of 15–18%, we have to grow our manufacturing footprint and ensure the availability of volumes beforehand.

Dhwani Desai – Turtle Capital: Looking at FY28 onwards, because most of this expansion will be brownfield, generally the ramp-up is faster and the capital expenditure outlay is lower, so the depreciation and amortization is much lower. Is that how the equation will pan out from FY28 onwards?

Management: Yes, from FY28 onwards that is what will happen, but we had to do more greenfield capital expenditure this year. The ramp-up of capacity for xanthine also required some greenfield and brownfield investment.

Dhwani Desai – Turtle Capital: So capital expenditure intensity will come down from FY28.

Management: Yes.

Dhwani Desai – Turtle Capital: Second question. We have guided for 15–18% revenue and margin growth over the next 3–4 years. You previously mentioned that CDMO is the highest margin, followed by xanthine and API. The large capital expenditures have been on the CDMO and xanthine side. The proportion of revenue from xanthine and CDMO will go up, which ideally should lead to margin improvement and much better EBITDA growth than revenue growth. What am I missing?

Management: In xanthine, we are currently trying to capture all the marquee customers. As higher capacities come in, we will have to go after the spot market where we have to compete and get those volumes. That is where top-line growth will come, but the overall EBITDA growth may not

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catch up to that level. In CDMO-CMO, as we commercially ramp up products, volume and value can grow faster, but we have lower margin expectations as we increase sales for commercialized products. Once we catch up on manufacturing and commercializing, we are looking at doing dedicated expansion for these projects so that the plants are designed for what they manufacture. This can get more yields and more recycling of solvents in the future, which is when the cost efficiencies can come in. That remains to be seen, but that is where we are in terms of EBITDA and revenue.

Operator: Thank you. We will take our next question from Preeth Jain of Nivesha Investments. Preeth, please go ahead.

Preeth Jain – Nivesha Investments: My question is on the Atali plant capital expenditure. I want to know the block-level economics of the Atali plant. Now that the common utilities are in place, what is the incremental capital expenditure and timeline per additional block at Atali? Should we expect asset turns to step up in the subsequent phase? Earlier your guidance was 1.2x for Atali; are you still intact with that guidance?

Management: For the dedicated blocks, we anticipate an asset turn of 1.5–2x. Of course, it depends on the number of stages we are doing; if we are doing quite a bit of stages, then this turn can reduce, but the margins can grow. For the near future, given our current visibility, we are looking at 1.5–2x turnaround on the capital expenditure.

Preeth Jain – Nivesha Investments: My other question is on the impact of raw material costs on margins. For xanthine, sulfur and urea have a raw material impact. For API raw material costs, there is a pass-through of logistics costs. Can you quantify the margin impact in value terms?

Management: In xanthine, we have several raw materials like urea and methanol-based derivatives where prices have gone up by 2x. In certain other raw materials, prices have gone up by 30–40%. We are requesting our customers to take a proportionate price increase. In the case of API, because we are into high-value, low-volume APIs, the impact is largely on solvents. Aarti Pharmalabs has lot of solvent recycling capability which is being fully utilized. Even our Atali plant has a solvent recycling facility. Wherever permissible as per GMP, we try to recycle these solvents to minimize the impact. But the impact remains, including the logistics impact. We are seeing an overall impact of 5–7% from solvents and other cost escalations.

Preeth Jain – Nivesha Investments: Your active CDMO customers have stayed at 20–21 for the last five consecutive quarters. With players shifting from the China plus one value chain, are you in active engagement at the RFP stage with new customers that have not yet translated to commercial projects? What does your inquiry pipeline look like today versus 12 months ago?

Management: In 2025, there was an overall slowdown because of global uncertainties and tariffs regarding where manufacturing should happen. That situation has stabilized a little bit and we are seeing more inquiries getting generated now. While the number of customers is 21 currently, we are engaging with the same customers on newer projects as well. We are also engaging with newer customers. We expect to see this number grow in this current financial year.

Operator: Thank you, Preeth. We will take Yash Sinha of MIPL with his question now.

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Yash Sinha – MIPL: This quarter we saw a slightly muted performance in the intermediates business because of the feedstock inflation you mentioned. How has that evolved so far in Q1 FY27, given those key raw materials are still inflated? What kind of communication have you had with your clients about passing on some of this expense? Do we expect the performance in the intermediates business to be muted for the rest of the year?

Management: There was a lot of price increase due to the Middle East crisis and for the orders we already had on hand, customers have resisted giving price increases because these are high-value, low-volume projects. However, they remain committed to giving us some increase in the future. Normally these projects are campaign-driven, so we have orders once a year or once every two quarters. This is not a regular item, so we have to see what will happen in the future and how raw material pricing will remain. On any new inquiry, we are able to quote at a revised cost basis, so the new orders we accrue will have improved pricing.

Yash Sinha – MIPL: Lastly, a bookkeeping question. This quarter we saw a 33 crore one-time forex-led loss. Do we have any other forward contracts currently on our books that can potentially lead to a hit like this in FY27?

Management: Everything has been accounted for. We do not have anything unaccounted for beyond 6–8 months forward. Of course, we have term loans.

Management: Yash, this 33 crores comprises the gain on operations—which is exports minus imports—representing a gain of about 22 crores. 23 crores of this 33 crores is the foreign currency loss or notional loss that I incur on my foreign currency loans.

Yash Sinha – MIPL: Just to confirm, this is not a cash loss?

Management: No, it is not a cash loss.

Yash Sinha – MIPL: Got it. Thank you so much.

Operator: Thank you. We will take our next question from Shubham Agarwal of Burman Capital. Shubham, please go ahead.

Shubham Agarwal – Burman Capital: I wanted to understand that your operating costs have gone up by 43% year-on-year and about 13% quarter-on-quarter. What is the largest driver of this increase and should we expect operating costs to remain at this level going forward? Will margins come under pressure in FY27?

Management: We have operationalized an additional 440 KL capacity at Atali plus another 250 KL at our Lote site. So, almost 700 KL capacity has come onto our books from Q1 FY27, which is a very large multipurpose capacity compared to our earlier capacity of around 1,000 KL. It is almost a 70% increase compared to previous years. Our man-hours have also increased significantly, almost 50–60% over and above the earlier year. As we expand our manufacturing footprint for these multipurpose projects, the costs are increasing. As the ramp-up happens, the revenue increase will also come in.

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Shubham Agarwal – Burman Capital: You mentioned that your capacity increases have largely gone in Q1. Should we expect another step jump in your operational costs from Q4 FY26 to Q1 FY27?

Management: From Q2 we will have a step jump because, as we mentioned, we are finishing our xanthine expansion and also increasing final product capacity. We are also completing Phase 1 of Atali. With both of these coming in, next quarter onwards we will have full operations on all the expanded assets.

Shubham Agarwal – Burman Capital: Due to these increases from Q2 onwards, can we expect the margins for the company to go below 20%?

Management: No.

Shubham Agarwal – Burman Capital: Lastly on xanthine prices, can you just clarify how much price increases we have seen due to Chinese rebates going away and the war conflict?

Management: I think the Chinese rebate was close to 13%, and overall prices increased because of that. Apart from that, in the US, there is a 25% tariff on China. Considering those benefits, we have been able to get those price increases, particularly for the US market.

Operator: Thank you, Shubham. We have Tushar of Omega Portfolio Advisors. Tushar, please go ahead with your question now.

Tushar – Omega Portfolio Advisors: If we convert our revenues into dollar-adjusted terms for the 55% of your export revenue, we see that there is a 5% degrowth in revenue. I wanted to know your view on the API front and the pass-through of prices. How do you see the growth coming in adjusting for dollar terms for the next 1–2 years? Second, you said that capital expenditure costs are front-loaded. When can we expect the EBITDA contribution from that capital expenditure to start materializing in terms of margin expansion?

Management: The rupee-dollar exchange rate has moved significantly over the last couple of quarters. Earlier in the year, there was not that big of a change. We mentioned that in the API intermediate segment, there was definitely a degrowth which resulted in muted growth in our top-line in rupee terms. In terms of overall capacity and the EBITDA catch-up, it will take at least one year from now for the current capital expenditures coming on stream in Q1 to meaningfully contribute to the EBITDA and for normalization to happen.

Tushar – Omega Portfolio Advisors: Post this CDMO scale-up, do you see working capital increasing?

Management: We have to work out the working capital increase because most of these projects have one or two deliveries in a year. As we grow the sales of single projects and if they are large projects, we end up carrying lot of inventory for many quarters until we deliver. We have to see how it goes. Unfortunately, these large customers do not pay us advances, so we have to finance this inventory ourselves.

Operator: Thank you. We are taking our next question from Bhavika Singhvi of CJ Shah. Bhavika, please proceed.

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Bhavika Singhvi – CJ Shah: In Q4, the CDMO mix was very high, yet our gross margin was lower quarter-on-quarter. Was it a one-time event or did you experience major raw material pricing pressure in any division?

Management: This quarter we had 155 crores in revenue, with a consignment from the last quarter moving into this quarter. Otherwise, the last two quarters would have been 100 crores each in CDMO sales. As we mentioned, over the previous year we have had more operational assets to finish, which resulted in higher manufacturing costs. As we do more meaningful production from these assets, revenues will increase and they will compensate for the cost increase in the future.

Bhavika Singhvi – CJ Shah: When a global innovator shortlists CDMO partners, does Aarti Pharmed Labs' financial strength specifically help? We have a unique balance sheet as we self-fund capital expenditure from the xanthine cash flow. Does that play in our favor? For the Atali unit specifically, do you have full customer commitment in place for the capacity being built? I want to understand if you only commit to build capacity after a customer is signed or if you sometimes build speculatively.

Management: For the CDMO, we are definitely doing capital expenditure with a long-term plan in mind. There is a mix of multipurpose capital expenditure and custom-built manufacturing facilities that we plan to do for several projects. We have a near long-term understanding from customers on what kind of volumes these drugs can reach once approved. Once we have that greater visibility, we put up these assets to meet innovator customers' demand. Custom-built facilities are largely based on the forecasts we have from those customers. Of course, these customers cannot be held at gunpoint if they don't buy from us, but we have to use our judgmental call for our capital expenditure.

These custom-built facilities have stirred tank reactors which can also be made multipurpose in the future if there are any issues with those customers. But we are following their guidance and as long as we meet expectations on quality and deliverables, we will continue to get more revenue from these customers.

Bhavika Singhvi – CJ Shah: Does our unique balance sheet help in being shortlisted by CDMO partners?

Management: Yes, I think so. Why we get shortlisted is due to our manufacturing capabilities, our unique ability to scale up production from kilo labs and put up assets, and our unique ability to do a backward integrated play where China dependence is reduced. Apart from the balance sheet, these are the factors that play a part. Chemistry also plays a big part. Now with our R&D and the addition of our Chief Scientific Officer along with the rest of the team, those are factors why we can get more projects.

Operator: Thank you. We take our next question from Deep Gandhi of I-Thought PMS. Deep, please proceed.

Deep Gandhi – I-Thought PMS: You guided that this year you will do 400 crores in capital expenditure, but I do not think you shared a breakup. In what areas will this be spent? Does this include the capital expenditure for the dedicated block?

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Management: It is a mix of capital expenditure where we will be completing the xanthine project in this current quarter. We will also be finishing our capitalization of Atali Phase 1. We will be starting Phase 2 there as well. There is also the debottlenecking project. Those are the three large buckets. The fourth bucket will be maintenance or replacement capital expenditure. It is more or less equally spread out among all four, plus or minus 20%. We will also spend on R&D. The dedicated block has been factored into the 400 crores.

Deep Gandhi – I-Thought PMS: How much will be the capital expenditure for the dedicated block?

Management: We are still working that out. Once we have a number, we will guide you.

Deep Gandhi – I-Thought PMS: On the xanthine side, can you call out the volume and value growth for this quarter on a year-over-year basis?

Management: We are operating fully and utilizing our plant at 500 tons per month. We have given you the revenue numbers.

Operator: Thank you. We have Vikas Sharda of NT Asset Management. Vikas, please go ahead.

Vikas Sharda – NT Asset Management: A clarification on the foreign currency loss. In the profit and loss account, there is a line item of 17 crores and in the notes it says 13 crores. Are these overlapping numbers and how does the overall foreign exchange impact the results this quarter?

Management: 17 crores is the total forex loss for the quarter and 13 crores is on one of the contracts, which is where the difference is. The 17 crores comprises my gain on operations—which is export receivables less payables on imports—plus a loss on the foreign currency contracts that we enter into. The third portion is the increase on my foreign currency loans. The net effect is 17 crores.

Vikas Sharda – NT Asset Management: When you guide for EBITDA, do you exclude this line item?

Management: We exclude it.

Operator: Thank you. Ladies and gentlemen, due to paucity of time, this will be the last question for today. I will now hand it over to the management for their closing remarks.

Management: I would like to thank everyone who took the time to attend this call. Thank you.

Operator: As there are no further questions, on behalf of Aarti Pharmalabs Limited, this concludes today's conference call. Thank you all for joining us and you can now click on the leave icon to exit the meeting. Thank you for your participation.

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