



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
489	536	10%

**MARKET DATA**

No. of Shares	9.26 Cr
Market Cap	Rs 4,480 Cr
52-week High / Low	645/431
BSE Code	524348
NSE Code	AARTIDRUGS

**Why Aarti Drugs Ltd?**

- ✓ **Industry tailwinds in API**
- ✓ **Strong presence in niche segments**
- ✓ **Margins expansions due to fall in raw material prices**

**About the Company**

Aarti Drugs Limited is a key player in the pharmaceutical industry, particularly in manufacturing Active Pharmaceutical Ingredients (APIs), Pharma Intermediates, and Specialty Chemicals. With an extensive range of over 50 compounds covering various therapeutic categories, it stands as a market leader in APIs. The company's strong focus on exports, with 39% of revenue coming from overseas markets, indicates a robust global presence. A significant portion of their exports goes to North America, Latin America, and Africa, underscoring its commitment to serving diverse markets. Additionally, the emphasis on regulated market exports, comprising 64% of their export portfolio, reflects the company's adherence to stringent quality standards and regulatory requirements, which is essential for penetrating and sustaining markets in regions like North America and Europe.

**Investment Rationale:**

- A. **Anti-diabetic in the API segment and Specialty Chemicals to support incremental growth:** The company has augmented new capacities in Anti-diabetics and Specialty Chemicals, expected to add incremental revenue of Rs 400 Cr to Rs 500 Cr over the next three years. Growth is already supported by newly launched niche products like Chlorosulphonation in FY24. Revenue contributions are diversified across several therapeutic categories: antibiotics (~45%), antiprotozoals (~16%), anti-inflammatories (~12%), anti-diabetics (~16%), antifungals (~8%), and others (~3%). API saw moderation in realizations for most products, alongside a reduction in input costs.
- B. **Capex Plans:** In FY24, the company invested a total of Rs 226 Cr in capital expenditures. A Greenfield project for dermatology products has been initiated at the Tarapur facility, with operations expected to ramp up through the first half of FY25. Additionally, the Greenfield project for specialty chemicals in Gujarat is on track, with operations planned to commence by Q1FY25.
- C. **Specialty Chemicals:** The industry has experienced weak demand visibility globally, particularly due to the absence of a few campaign-based products in H1 FY24, which impacted this segment. Additionally, the execution of certain campaign-based specialty products has spilled over into the next quarter.
- D. **Industry Outlook:** Amidst challenges such as heightened interest rates, dollar shortages, destocking, supply chain hurdles, and conservative ordering, export demand faced difficulties in select regions during FY24. However, there is an anticipation of a positive shift in the export landscape in the near future. This optimism is driven by expectations of interest rate reductions, low stock levels, and an upswing in demand.
- E. **Recommendation:** We recommend a BUY rating on the stock with a target price of Rs 536/share, implying an upside of 10% from CMP

**Financial Summary**

Y/E Mar (Rs Cr)	NetSales (Rs Cr)	EBITDA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PER (x)	EV/EBIDTA (x)	ROE (%)	ROCE (%)
FY24	2,599	325	175	18.9	25.9	15.5	12.9	13.0
FY25E	2,950	392	223	24.0	20.3	12.8	14.2	14.9
FY26E	3,288	450	268	28.9	16.9	10.8	14.6	15.6

 Source: Axis Securities; CMP as on 18<sup>th</sup> May, 2024

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